THE GATEWAY PROJECT

ASSESSMENT OF THE EMPLOYMENT AND INVESTMENT POTENTIAL

Alan Roe and Mark Symes

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About the Authors

Alan Roe is a professional economist with more than 45 years' experience as both an academic economist and as a policy adviser. This has included more than 30 years of teaching at the University of Warwick where he was also for a period the Chairman of Department. He has also spent some eight years as a Principle Economist at the World Bank where we worked on the reform agenda and major projects in the former Soviet Union. He joined Oxford Policy Management (OPM) as Principal Economist and a Board Director in 2000. In this capacity he has provided advice to a number of governments and large private companies in more than 20 countries, He has written extensively in books, academic journals and for other outlets.

Mark Symes is the Managing Director of Wills and Gambier (UK) Ltd which is part of Samson Holdings - a major world-wide manufacturer and distributor of furniture. As such he has a close personal knowledge of the commercial situation in large scale warehousing both in the UK and internationally.

Abbreviations

CPRE	Campaign to Protect Rural England
CWDP	Coventry and Warwickshire Development Partnership
ES	Environmental Statement
ESIA	Economic and Social Impact Assessment
HCA	Home and Community Agency
JLR	Jaguar Land Rover
LEP	Local Enterprise Partnership
OffPat	Office of Project & Programme Advice and Training
RFH	Rigby Family Holdings
UWSP	University of Warwick Science Park

Executive Summary

This Report provides an objective and evidence-based assessment of the claims made by the Gateway developers about the ***job numbers*** (up to 14,000 new jobs) and ***investment volumes*** (£250 million) that this large project might produce. These two potential benefits represent the core of the "the very special circumstances" that could conceivably justify the overturning of the very tight restrictions on the development of Green Belt land. Other subsidiary benefits that are referred to by the developers – such as a new country park – are mainly ***necessitated by*** the creation of Gateway.

New Jobs

The evidence here presented on jobs is significantly more comprehensive than that provided in the technical submissions of the developers. It combines (i) hard evidence on ***actual*** warehouse employment numbers with (ii) the government (HCA) guidelines as used by the developers and (iii) evidence based on the ***actual job creation successes*** of the Coventry are in the recent past.

The hard data is partly from 28 ***actual*** UK warehouses as surveyed in 2010 by Prologis – the UK's largest provider of warehouse/logistics facilities. This evidence indicates that, there is a 50% probability of less than 3,000 jobs and a 10% chance of less than 1,000 jobs even assuming that there is a 90% take-up of the capacity of the Logistics Park. This compares with the 6,000 jobs that are claimed. Data on the actual warehouse site managed near Peterborough by one of the authors of this Report indicates that if scaled up to the size of the proposed Logistics Park, it would employ less than 600 persons at 90% capacity and only around 300 persons at 50% capacity: ***at most one tenth of the job numbers claimed***. Reference to one actual modern and automated warehouse unit in Asia indicate job numbers even lower than this: circa 300 even at full capacity. Closer to home the new national distribution centre of Network Rail (announced in September 2012) for the nearby Ryton site has a job: land ratio of only 20% of that claimed for the Logistics Park: and most of the 100 jobs involved represent mere movements of personnel from other UK depots – not ***new*** jobs.

The 2012 HCA Guideline data as mainly used by the developers, show job densities for two types of warehouse development. For "General Warehousing" they indicate ***a range*** of job densities where the highest density is no less than 4.6 times the lowest. This confirms the inherently ***huge uncertainties*** regarding the likely job numbers for this type of activity. For "Large Scale and High Bay Warehousing" HCA does not provide a numerical range merely the statement that "wide variations (in job densities) exist arising from scale and storage duration". This suggests even greater variability (than 4.6:1) around any average for this type of more modern warehousing: so even greater uncertainty about the jobs that could arise in any given development. This huge variability as spelled out by the HCA guidelines is fully consistent with the data from the 28 Prologis warehouses as already cited. But the technical submissions of the developers make no reference to either a ***range*** of possible job outcomes or to the ***inherent uncertainties*** that therefore arise in relation to numbers: e.g. the 6,000 jobs at the Logistics Park. ***Hence the results on job numbers that they cite can claim no credibility: they are an unsound basis on which to judge the job creating potential of Gateway.***

This Report also examines the recent history and the established dynamic of job creation in the Coventry area. Manufacturing activities remain important to the area but the major technological advances of the past decades mean that manufacturing is no longer a ***job-intensive*** activity. Accordingly, recent job growth has been seen primarily in service activities and especially in the

areas of health and education. Further, no individual organisation in the Coventry area (except the City Council) today employs anything like the 14,000 jobs claimed for the Gateway. Indeed only three organisations provide more than the 6,000 jobs that are claimed for the Logistic Park alone.

Easily the most successful new entrant to the list of Coventry area employees in the past ***fifty years*** has been the University of Warwick. It remains a ***labour and skill intensive activity*** that today employs around 6,000 persons. So the Gateway job claims are tantamount to saying ……..that the Logistics Park alone will somehow produce the same job numbers as the University and ***that Gateway as a whole will be able to produce job numbers that are 230% higher (14,000 versus 6,000) than the numbers achieved cumulatively by the (highly successful and labour-intensive) University of Warwick over a period of fifty years!*** This is not a credible claim!

A similar common-sense logic can also be applied to the proposed Technology Hub of the Gateway. The long established and successful Science Park of the University of Warwick is an obvious and appropriate comparator. The developers' job claims for that hub are tantamount to saying ….. ***that the Gateway Technology Hub will somehow be able produce job numbers that are 220% higher (4,000 versus 1,800) than the numbers achieved cumulatively by the (highly successful) University Science Park over a period of almost thirty years!*** This statement too lacks credibility!

The clear conclusion from this body of evidence is that the ***Gateway job numbers will be very much lower than those claimed by the developers and also that there is huge and inherent uncertainty*** about the actual job numbers in the type of development activities that Gateway proposes.

Investment

The highly publicised figure of £250 million receives only very limited attention and technical or financial explanation in the actual planning submissions of the developers. ***Indeed the headline number has become almost invisible in the actual planning application as submitted.*** So in conducting the assessment for this present Report it has been necessary to use other public domain information to try to infer something about the claimed investment benefit of £250 million. Three main inferences have so far been drawn.

The first inference relates to the ***availability of private finance*** and is based on the evidence of the corporate balance-sheets available from Companies House. This suggests that neither the Coventry and Warwickshire Development Partnership (CWDP); nor the two 50:50 parties to that joint venture (Roxhill (Coventry) and Rigby Family Holdings (RFH) have significant funds immediately available to contribute more than ***a small part*** of the proposed £250 million. The family of Roxhill companies all have small balance-sheets – especially Roxhill (Coventry) at least as of March 2012. RFH is much stronger financially but that company too has its existing resources heavily committed in other (non-Gateway) investments. So insofar as Gateway is to be a privately-financed project, the bulk of the funding seems likely to come from a variety of ***third party sources*** including a variety of investment vehicles including the new sources of equity capital available to Roxhill , and possibly also the 60% owner of the Roxhill – FRXL Holdings – a company registered in the Cayman Islands. ***This organisational and financial structure is complex and invokes many questions about the true lines of control and decision-making involved in the project and also about where the commercial benefits arising from the project will eventually reside.***

Certainly, the lack of transparency about these third party sources of finance compounds the other uncertainties about job numbers. The additional ***financial*** uncertainties relate to (i) the motivations that will induce the third party funders to support Roxhill which is a company founded ***only two years ago*** and that has already spread its financial and managerial resources extremely thinly over 15 other land development sites elsewhere in the UK, (ii) the actual parts of the investment that they will be willing to support and (iii) on what terms. Clearly the precise nature and the terms of this funding are critical to any viable commercial/ business case for Gateway. But in the absence of specific detail, it is difficult for anyone including the planners to make an informed assessment.

A second inference relates to ***public sector financing*** using tax payers money. The Gateway project is attractive to politicians because it seems to offer the benefits of jobs and investment without much use of tax-payers money. But given the uncertainties just referred to, the two local councils need to be alert to the possibility that ***any failures of the private finances could impose an unexpected charge on the public finances.*** Such an outcome has been quite common in public private finance schemes in recent years. For the moment, there seem to be few firm commitments about hard money on the table from the two councils – even the prospect of Whitehall funding from a second round of so-called "City Deals" is unlikely to be firmed up before the main planning decisions on Gateway are needed.

These comments and uncertainties relate above all to the two types of ***upfront investment*** needed by Gateway: items A and B below.

A. The Highway and related investments in buildings that are the subject of the full planning application of September 12th

B. The investments required to honour the developers' commitment on a wide range of environmental and related matters as listed in the planning application.

In addition there is a third source of contribution to the investment total namely:

C. The "speculative" investments to be made by the as-yet unknown industrial and service firms that may be attracted as tenants to the Whitley Site, the Technology Hub and the Logistic Park.

Only £30 million for Highways is explicitly mentioned in the planning documents.[1] Even more serious for the decision about the Green Belt is that the planning documents provide no cost data for component B above: the environmental works and the other up-front works needed to make the Gateway sites reasonably attractive to potential new tenants.

A ***third*** inference is that this lack of detailed documentation about on the costings, the sources of financing (both private and public) and also the timing of the A and B components creates an additional ***uncertainty about the likelihood of their full and timely delivery***. This in turn raises real questions about whether the C components of investment (which need the other investments as prior conditions) can be delivered in reasonable amounts and in a timely fashion.

Finally this Report has looked at the ***competitive market conditions*** in which Gateway will need to find and sign up real tenants to support the C category investments of Gateway. This has been based

[1] An independent CPRE study has assessed this as probably inadequate.

again on evidence from the actual contemporary market place especially for warehouse and logistics developments. The conclusions from this are (i) that this competitive market is geographically ***nationa***l in reach (not narrowly local as the technical assessment of the developers maintain) and (ii) is characterised by intense cut-throat pricing. For a variety of reasons the Gateway will be at a competitive disadvantage in that market mainly because of the large type B investments that will raise its costs and the rents and lease periods that it will need to extract from prospective tenants.

There is no hard evidence in the developers' analysis to provide the planners with any confidence that the tenants can indeed be found in reasonable time and in sufficient numbers. The headline figure of £250 million of total investment seems to be a notional number that has been publicised merely to increase interest in the Gateway project. ***A long drawn out period of partly developed Green Belt with limited investment and jobs seems to be a very likely scenario.***

Suggestions

This Report is mainly concerned to provide a technical sifting and synthesis of such evidence as is available publicly to assess the headline jobs and investment claims of Gateway. Overall its conclusions cast serious doubts over both the two headline numbers that seem so politically seductive. Although the Report did not set out to be a source of recommendations, there are various issues that can usefully be flagged for the decision-makers based on the findings.

First, if they accept nothing else, the decision makers in this process must recognise the ***inherently huge uncertainty*** regarding the size of the economic benefits that may accrue from the Gateway. This in turn suggests the need for considerably more analytical work to try to firm up the numbers. Second, the considerable uncertainties evidenced by this Report give rise to massive ***risks***. Decision-maker should acknowledge that ***the risks of the project lie almost entirely with the local communities and the two Councils.*** The developers have only limited upfront money at risk: for example they need not pay Coventry City Council for the long term lease until such time as planning approval is granted. But at that point, the potential capital gain associated with the land development is already in the bag for them. The third party funders are in a similarly secure position – a prospectively large capital gain for little financial risk - and none of the prospective tenants for the Gateway sites need have any upfront money at risks.

By stark contrast, the local village communities will ***instantly*** lose a huge tract of Green Belt. The two Councils, if they have committed any up-front money to the project face the risk of very long delays before they recoup this investment through increased local tax revenues. If they have borrowed funds to finance their participation then they face the additional risk of needing to service increased debt without those extra tax revenues yet in place. These are evident dangers.

This balance of risk-bearing between the private developers (limited risk) on the one hand and the communities plus the councils on the other (high risk) seems wholly unreasonable. In addition to the normal covenants on planning approvals, the planners would be well advised to develop a clear programme (e.g. of requiring additional information and financial guarantees) that can redress this imbalance if only in part. The Report also offers some suggestions that could deliver a slightly better deal and lower risks for the local areas and the local governments than a passive acceptance of the situation as it now seems to exist.

1. Introduction

This Report has been prepared at the suggestion of Bubbenhall Parish Council following earlier presentations to them at extraordinary general meetings held in August and September 2012.

The proposed Gateway Project will involve a huge physical transformation of the area north of Bubbenhall, the elimination of a vast tract of Green Belt land, and fundamental changes that are viewed with great concern not only by residents of Bubbenhall but also by residents in the other impacted villages of Bagington, Stoneleigh, Finham, Cheylesmore and Styvechale. The planning application of the developers notes that ……"*The application site lies wholly within the Green Belt and is submitted before the local planning authorities have put in place Core Strategies to address the current economic difficulties. It is therefore contrary to the provisions of the current Development Plan and* ***very special circumstances*** *need to be shown to allow development to proceed".*

In spite of this apparently major issue, the project has obtained political support from influential local bodies notably the Local Enterprise Partnership (LEP) and Coventry City Council, mainly based on the supposition that the project will bring ***very tangible economic benefits*** to the local area – broadly defined. These economic benefits in turn have been presented both by the developers and by some of their supporters in terms of **two main headline numbers**[2] that have been widely publicised in the press, on radio and TV and in locally distributed fliers, namely:

1. Employment – up to 14,000 new jobs for the area
2. Investment – investment in new economic activities of £250 million

There is no dispute about the importance of some new job creation in the areas governed by Coventry City Council and Warwick District Council. Nor is there any real argument that (mainly) private investment is clearly a good way to achieve potential job creation in an era of fiscal austerity. So the headline numbers have an obvious appeal to both national and local politicians!

However, before either Council makes the irreversible decisions to sacrifice large tracts of Green Belt and other aspects of the area's cultural and social heritage in the interests of the project, **it is essential to have a reality check on the two economic benefits that have been claimed to constitute *"the very special circumstances*" that might justify this. Are these truly likely to be realised on the scale that has been claimed and within a reasonable time frame?** It is the main purpose of the present report to provide this reality check.

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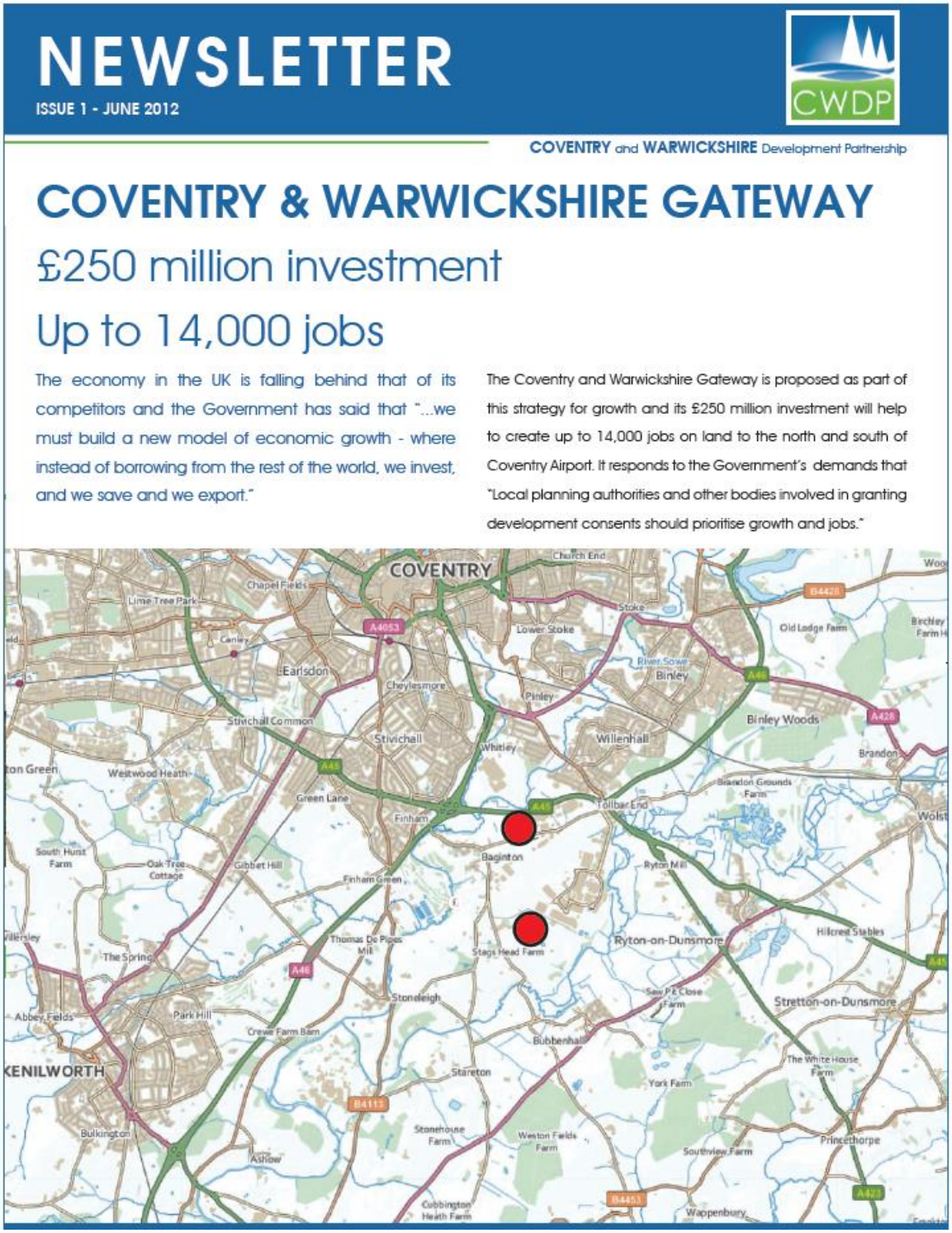
[2] The planning application itself makes reference to a number of benefits that together could be argued to constitute the *"very special circumstances"* needed to overcome the prohibition on using Green Belt land for development. In addition to the main benefit of job creation, the mentioned benefits include (i) reclamation of despoiled land; (ii) improvements in the highways infrastructure; and (iii) the construction of a new country park. However, these are developments that are largely ***necessitated by*** the construction of the Gateway and the need to mitigate its adverse environmental effects. They are not ***of themselves*** benefits that could justify the pre-emption of large amounts of Green Belt. (See the transmittal letter that accompanied the planning application dated Sept 12th).

Figure 1 The Gateway Newsletter – Issue 1



NEWSLETTER

ISSUE 1 - JUNE 2012

CWDP

COVENTRY and WARWICKSHIRE Development Partnership

COVENTRY & WARWICKSHIRE GATEWAY

£250 million investment

Up to 14,000 jobs

The economy in the UK is falling behind that of its competitors and the Government has said that "...we must build a new model of economic growth - where instead of borrowing from the rest of the world, we invest, and we save and we export."

The Coventry and Warwickshire Gateway is proposed as part of this strategy for growth and its £250 million investment will help to create up to 14,000 jobs on land to the north and south of Coventry Airport. It responds to the Government's demands that "Local planning authorities and other bodies involved in granting development consents should prioritise growth and jobs."

The writing of the report has been necessitated by the fact that until very recently, little or no hard evidence had been provided by either the developers or their supporters to justify the two headline

numbers on jobs and investment.[3] This is surprising given that the two numbers in question seem to have been so influential in forming political stances on the project. The hard evidence that we ourselves were able to assemble (prior to the submission of the planning application on September 12th) led us at an early stage **to suggest that both the job numbers and the investment totals were seriously unrealistic.**

The publication of the work by Savills on this matter (in the planning application documents and the accompanying Environmental Statement (ES)) has not led to any change in these conclusions. Indeed the evidence presented in this present report is more comprehensive, more substantive and technically more legitimate than that which appears in the planning documents and the associated environmental statement (ES). Our own evidence fundamentally challenges the results that were made public in mid-September in the Savills' report that forms part of the Environmental Statement (ES).[4]

This document has four further sections.
Section 2 examines the evidence regarding likely job creation in the logistics activities that will form the basis of the proposed new Logistics Park immediately adjacent to Bubbenhall.
Section 3 presents other evidence on the Coventry area's record of job creation more generally. This analysis serves to reinforce the point that the Gateway supporters have seriously exaggerated their case as regards the job-creating potential of the project. It also considers the type and quality of likely jobs that will be created by the project.
Section 4 examines the financing arrangements that are in place and that will be needed to produce an investment of £250 million.
Section 5 offers some brief conclusions and suggestions to decision-makers in Coventry, Warwick and Whitehall.

2. Jobs in the Logistics Park

There are **three** main development components in the Gateway project as a whole namely:

- Whitley Business Park – already substantively approved and claimed to be able to produce up to 4,000 new jobs on around 1 million sq. ft. of land[5]. The planning application claims that the previously unsuccessful Whitley Park will become significantly more successful in job terms ***just because of*** the road improvements included in Gateway.

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[3] The authors sought an early sight of the work that Savills Consultants were undertaking on these matters on behalf of the developers. However, this was not available to us (nor indeed to any of the consultation meetings held by the developers) until after the planning application was submitted on September 12th 2012.

[4] A major technical challenge to the other Savills report on alternative available sites is comprehensively presented in a recent paper by the CPRE. See CPRE, *False Economics*, CPRE Response to Coventry Gateway - Planning Applications W/12/1143 and OUT/2012/1791, October 2012

[5] This is not formally part of the recent planning application

- Technology Hub – claimed to produce up to 4,000 new jobs on land of 83,594 sq. m. (0.9 million sq. ft.) of mixed employment and ancillary uses focused primarily on automotive, aerospace and digital technologies
- Logistics Park – claimed to produce up to 6,000 new jobs on 343,740 sq. m. (3.7 million sq. ft.) of B2/B8 floor space.

The area between the new Technology Hub and the new Logistics Park comprises mainly the site of the existing Coventry Airport and some other smaller business parks/industrial estates. Although the project involves some new building and the re-siting of some existing buildings at the Airport, the project makes no obvious claims for new employment at the Airport itself. **The Logistics Park is easily the largest claimed source of new jobs for the area.** Hence, the focus in this document on this component.

In order to test the credibility of the 6,000 new jobs claimed for the Logistics Park site, various hard evidence was sought and obtained.

First, reference was made to the evidence assembled in a series of studies by Prologis (the largest logistics provider in the UK) and Cranfield University School of Management as published in September 2011.[6] The 2010 survey of job numbers conducted for that study contacted 28 different warehouse units. Comparisons with an earlier 2006 Prologis survey[7] and with the earlier work of Cranfield University also enabled the research team to make some assessments about how job numbers and structures in warehousing were evolving over time. This source was referenced in the work of Savills but not apparently used in their own calculations. **Second**, further evidence was obtained about actual current warehouse job numbers based partly on the direct personal experience of one of the authors of this paper. **Third**, we sought to replicate the Savill's calculations in the ES by consulting government guidelines about job numbers in different sectors including warehousing and in particular the most recent Employment Densities Guide of OffPat [8]

The Prologis Data[9]

The results from the Prologis 2010 data are given in full in Annex Table 1. Since the 28 warehouses they reviewed are of different sizes (from 45,000 sq. ft. to 530,000 sq. ft.), the job numbers in each warehouse unit were scaled up ***pro-rata***[10] to the size of the new Logistics Park.[11] [12] Using these data

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[6] *Do Distribution Warehouses Deliver Jobs*? Technical Notes from Prologis, September 2011

[7] *Not Just Stacking Shelves* published by Prologis in Spring 2006.

[8] Home and Community Agency (HCA), Office of Project & Programme Advice and Training (OffPat), E*mployment Densities Guide,* 2nd Edition, 2010

[9] In the UK, Prologis owns and manages approximately 18 million square feet of industrial and distribution space in prime locations across the country. World-wide it offers no less than 584 million sq. ft. of distribution space in 22 countries.

[10] This assumption seriously **overstates** job numbers – a point that is evidenced later.

[11] The Logistics Park is intended for both B8 and B2 uses but the former is the major use and could be the entire use. This is assumed here. B2 use is explicitly limited to an upper limit in the planning documents – the introduction of some limited manufacturing would change results only slightly.

we then examined the job creation potential assuming capacity utilisation at the new Logistics Park of (a) 10% (b) 50% and (c) 90%. It is noted that 10% capacity utilisation would probably represent the most likely outcome for Gateway in the initial years of operation (perhaps to 2015). Higher levels of capacity utilisation might follow after several more years. The resulting likely job numbers for each of these three different assumptions about capacity utilisation are presented graphically in Figure 2 below.

These basic results clearly indicate that very few of the 28 warehouses would achieve the 6,000 job target even if their job numbers were scaled pro-rata to the size of the new Logistics Park. Only 6 of the 28 units reach this level of employment at 90% capacity and only 3 reach it at 50% capacity. More than 50% of the 28 units surveyed provide job numbers of less than 3,000 even at 90% capacity utilisation and provide less than 1,700 jobs at 50% capacity utilisation. Based on the developer's own experiences at the Roxhill Peterborough site (see below) the likely numbers for the next few years when the economic recession still faces Coventry would be around the 10% capacity level - 300-400 jobs only. Using the same Prologis numbers to define probabilities and using even the 90% capacity levels, there is a 50% probability of less than 3,000 jobs and a 10% chance of less than 1,000 jobs even in the longer term. ***The headline number of 6,000 jobs is inconceivable based on this evidence.***

The over-time comparisons that Prologis also provide in their paper evidences a very significant change in the types of jobs involved even in the short period between their surveys from 2006 to 2010. Specifically, the proportions of all jobs accounted for by warehouse staff and drivers have diminished very significantly. Warehouse staff numbers have gone from 68% of all jobs in 2006 to only 43% of all jobs in 2010. This is a reflection of the increasing mechanisation and computerisation of modern logistic facilities. Even more significantly, it tells us that the pro-rata scaling up assumption used to generate the figures in Figure 1 above is not likely to be valid. Indeed, as job types such as administration and management become ever more dominant in the warehousing job totals, ***economies of scale in these functions will ensure a far lower than pro-rata need for increases in job numbers as warehouses get bigger***. So, even the relatively modest job potential evidenced by Figure 1 is overstated. Further evidence on this point follows.

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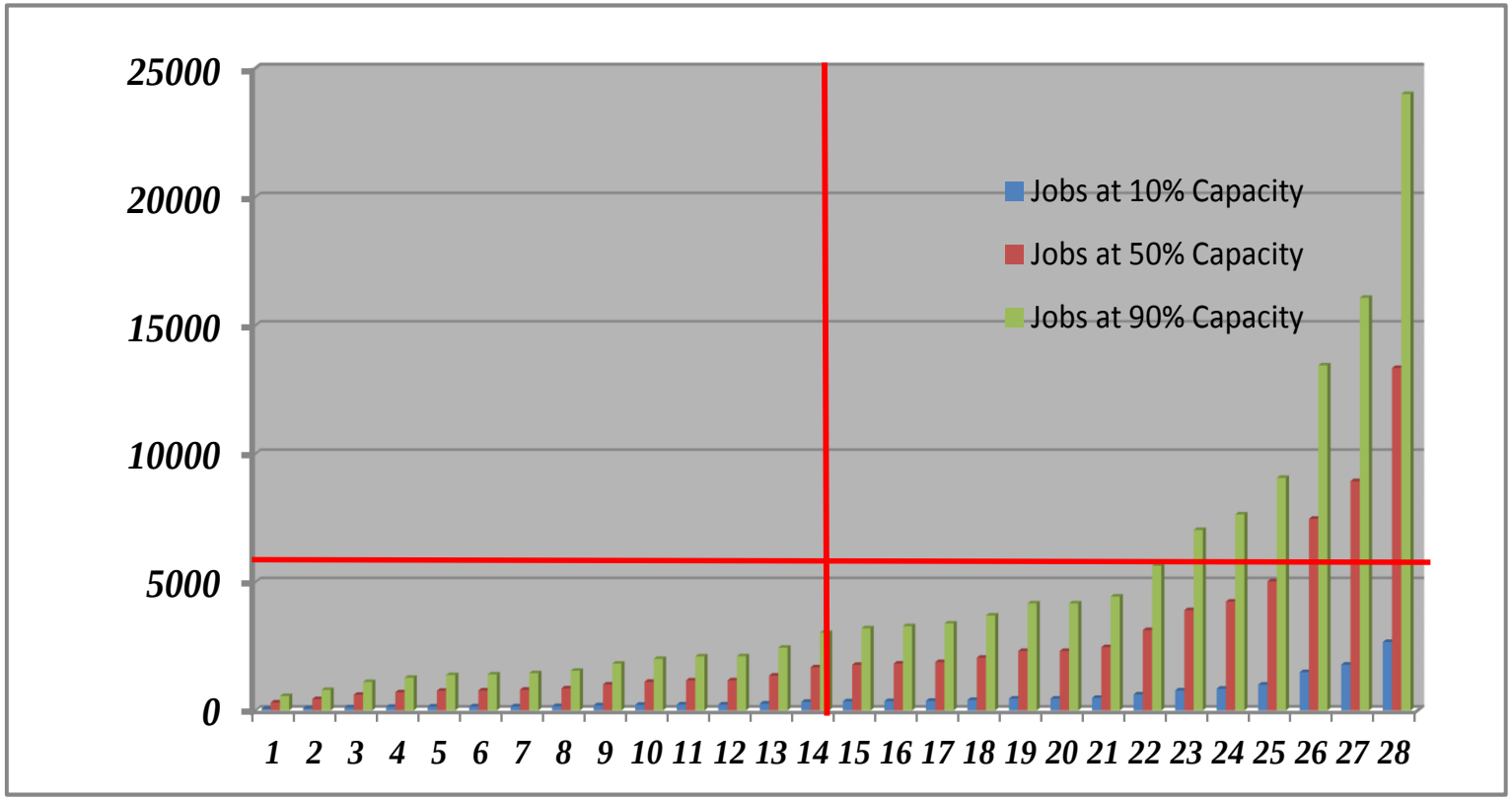
[12] This pro-rate assumption will inevitably ***overstate*** the true job numbers because of the significant economies of scale that occur with any scaling-up (this point is evidenced in later sections of this Report).

Figure 2 Job Numbers in 28 Warehouses at Different Capacity Levels (Source: Prologis 2010)



The Kingston Park (Peterborough) Data

Data from a 29th warehouse has been provided by one of the authors of this paper whose company (Willis & Gambier (UK) Ltd) now occupies the Kingston Park site. The unit is of 187,000 sq. ft. near Peterborough. It engages 57 staff. If this unit were to be scaled up pro rata using the same approach as applied to the Prologis data then it would employ around 700 people at 50% capacity and about 1,200 people at 90% capacity. However, a detailed examination of the structure of employment among the existing 57 staff tells us very clearly that the pro-rata assumption is NOT justified. Specifically, around half the present employment numbers comprise administrative and financial personnel, a figure that would not need to increase significantly in number were the unit to expand. Only additional drivers and staff engaged in the physical movement of goods in the warehouse would need to be scaled up pro-rate. ***So the TRUE numbers of jobs at the scale of the Logistics Park would be less than 600 persons at 90% capacity and only around 300 persons at 50% capacity.*** This would be the long term position if Kingston Park were typical of modern warehousing. **But IT IS INDEED likely to be typical of the type of unit attracted to the Gateway. It is only 2 years old and uses state of the art mechanisation and automation of material handling.**

Direct evidence from a sister company of Kingston Park provides even more telling evidence that job numbers could be very small indeed. Willis & Gambier is a part of Samson Holding, a major worldwide manufacturer and distributor of furniture. Samson Holding operate a state of the art storage and retrieval facility of 1.5million sq. ft. (2.5 of these facilities would ***completely fill*** the Logistics Park of Gateway). It can hold 4,000 containers of finished goods, through the use of fully automated warehousing systems and it operates this site with **just 80 employees. Furthermore this facility is located in a low wage economy area in Asia – not in a high wage economy – the UK.!**

Closer to home, in September 2012 there was an announcement by ***Network Rail*** of a £25m national road haulage distribution centre to be built on the former Peugeot site at Ryton. This new ***national*** distribution centre will occupy 300,000 sq. ft. of the site and will employ 100 workers many of whom will move from existing depots in Lichfield, Worcester and Ludgershall. So the actual number of new jobs will be even lower than 100 persons. Even 100 persons represents a job per sq. ft. ratio of only 0.33 which is only ***one fifth*** of that being claimed for the Gateway Logistics Park.

The Government (HCA) Guidelines on Job Numbers [13]

The Savills Report in the ES that accompanied the planning application relies almost exclusively on the HCA government guidelines on job densities to calculate the job numbers that are claimed to be associated with the Gateway. There is nothing inherently wrong with using these guidelines. However, if the results are to be credible, the use of guidelines must recognise two key points. First, they must acknowledge that guidelines are merely "guidelines" and not a basis for ***predicting*** future outcomes when so many other factors (besides the availability of floor space) can intervene to affect job utcomes: e.g. financing constraints. Second, if the guidelines state explicitly that there is

[13] Home and Community Agency (HCA), Office of Project & Programme Advice and Training (OffPat), Employment Densities Guide, 2nd Edition, 2010. Specifically, they indicate the floor area typically involved in creating one full-time equivalent job (FTE). This is done for 21 different types of economic activity two of which relate to warehousing.

uncertainty around the job densities associated with a particular economic activity then any use of the Guidelines must of course recognise and report this.

Savills in their reported results in Chapter 4 of the ES fail to recognise either of these key points. **Hence the results on job numbers that they cite can claim no credibility. They are clearly using an unsound basis on which to judge the job creating potential of Gateway.**

In our own use of the HCA Guidelines (this work preceding any sight of the Savills' report), it seemed useful to use a number that was quoted by developers in the various consultation meetings. For example, at the Development Forum meeting held on August 13th, when the developers were asked

…. "What evidence has been used to support the claim that 14,000 jobs will be created?"

they answered

…. "The Government's methodology and the Developers own experience (they quoted a figure of 1.6 jobs per 1,000 sq. ft. in the Logistic Park)".

We are now able to locate the source of this number (or one quite close to it) in Chapter 4 of the ES. Specifically, Table 4.1 of the Savills report in the ES quotes the exact figure from the HCA Guidelines for the full time employment (FTE) per sq. m. of space associated with Warehousing: specifically 80 FTE per sq. m. If we translate this into a number of jobs per sq. ft., we get a number of 1.16 jobs per sq. ft. Savills have adjusted this by allowing for both shift working and multiplier effects which serves to increase job numbers, and for factors such a job displacement which reduces job numbers. So the bottom line is that the Logistics Park with 343,740 sq. m. (3.7 million sq. ft.) - mainly to be used for warehousing/logistics activities - can produce the much cited 6,000 new jobs: equivalent to 1.62 jobs per sq. ft.

But now for a reality check that looks at ***real*** warehouses rather than guidelines. If we examine this approach in relation to warehouses alone, it is significant that only a small minority of the 28 warehouses surveyed in 2010 by Prologis show numbers anywhere near the 1.60 jobs per 1,000 sq. ft. that was quoted in that answer above and that emerges from Savills' own work. In fact only 7 units from the 28 achieve that level of job density. A much larger number, 18 units, show ***less than 1 job per 1,000 sq. ft.*** and 9 units show ***less than 0.5 jobs per 1,000 sq. ft.***

Although these Prologis numbers are clearly out of line with those presented by Savills***, they are NOT out of line with the present Government (HCA) Guidelines on job densities***. For the category labelled "General Warehousing", the job density **range** cited in the HCA Guidelines is 25-115 sq. m. per FTE with a mid-point of 70 sq. m. per FTE. (See Figure 3 below) This translates into a range of between 0.6 jobs per 1,000 sq. ft. and 3.72 jobs per 1,000 sq. ft. **Since Savills' report gives no recognition to the fact that the HCA guidelines even cite such a range, their own results based on these guidelines also fail to do so.**

But the situation is even more problematic than this because Savills' Table 4.1 shows 80 FTE per sq. m. and this is actually the HCA guideline number for what HCA term "Large Scale and High Bay Warehousing" (See Figure 3). For that category the HCA range of job densities is stated as *"wide variations exist arising from scale and storage duration"*. In other words, the width of the potential job density range in this category is simply too large for any ***numerical*** guidelines to be defined. It is

a reasonable presumption therefore that the actual range of job densities, if known, would be wider than the 25-115 FTE per sq. m. cited by the HCA for General Warehousing. But that is already a variation of almost 5:1 from the uppermost possibility to the lowest possibility! The true variation for the larger type of warehouses will be even larger than this. This would lead to more ***uncertainty*** about job numbers,

Figure 3 The HCA Guidelines on Job Densities

	Use Class	Use Type	Area per FTE (m²)	Floor Area Basis	Comment on potential variation
	Industrial				
1	B2	General	36	GIA	Range of 18 - 60 m²
2	B1(c)	Light Industry (Business Park)	47	NIA	
	Warehouse & Distribution				
3	B8	General	70	GEA	Range of 25 - 115 m² The higher the capital intensity of the business, the lower the employment density
4	B8	Large Scale and High Bay Warehousing	80	GEA	Wide variations exist arising from scale and storage duration
	Office				
5	B1(a)	General Office	12	NIA	Includes HQ, Admin and 'Client Facing' office types
6	B1(a)	Call Centres	8	NIA	
7	B1(a)	IT/ Data Centres	47	NIA	
8	B1(a)	Business Park	10	NIA	A blended rate of the above B1(a) uses where they are found in out of town business park locations
9	B1(a)	Serviced Office	10	NIA	Densities within separately let units are c.7 m² per workstation but 30% of a facility's total NIA for shared services reduces the overall density
	Retail				
10	A1	High Street	19	NIA	Town/ City Centre
11	A1	Food Superstores	17	NIA	
12	A1	Other Superstores/ Retail Warehouses	90	NIA	
13	A2	Financial & Professional Services	16	NIA	Includes the back office function area as well as the customer facing areas
14	A3	Restaurants & Cafes	18	NIA	Range of 10 - 30 m²

Because Savills' approach makes only a ***partial*** use of what the HCA Guidelines actually state, they clearly made no attempt to provide any assessment of exactly ***where*** the Logistics Park job potential is most likely to be located within the wide range of possibilities indicated by the Guidelines. The earlier Prologis data tells us that ***lower job numbers are far more likely than larger ones*** and also confirms the size range of the possibilities (see Figure 2 above). The use of the midpoint of the range is not justified.

Box 1: What Job Density Guidelines can and CANNOT be used for

Job density guidelines can be credibly used in a situation where a building or a building site has a realistic chance of being occupied by a specific activity or by a range of possible activities. Even in those cases the HCA Guidelines state that "*when development-specific information is available it should be used in preference to the indicative figures in this Guide*". The job densities **cannot** be used **credibly** for a large new development site with a range of multiple future occupants, none of whom are identified with any certainty even as to their precise sector of activity. In this situation at ***least three uncertainties*** multiply together to create a cumulative imprecision that is large to the point of rendering the methodology useless. These uncertainties relate to (i) whether the site will be occupied, to what level and in what time frame (ii) in what sectors exactly the occupants will fall and (iii) with what type of technology they will likely operate in those unknown sectors. The 4.6:1 ratio between the job densities at the top and the bottom of the range listed in the HCA Guidelines is merely an indication of how large is the uncertainty relating to point (iii). That uncertainty is compounded when uncertainties (i) and (ii) are also factored in.

The major conclusion that we can obtain from the HCA Guidelines is that ***there is huge and inherent uncertainty about the job potential of new warehousing/distribution development*** such as at the new Logistic Park (and especially so for large scale and high bay developments). The developer's number of 1.62 based on these Guidelines certainly does not represent anything like a complete use of the Guidelines. If planners and other decision-makers need a "correct" number for this aspect of the Gateway's supposed project's benefits, they must consult a range of evidence in order to narrow down the extraordinarily high uncertainty that surrounds this matter. ***(The high end of the range of possible job densities even for General Warehousing is almost FIVE times the low end and even greater than this for larger warehousing***). The evidence presented in this present report has avoided this error of the Savill's approach. It is remarkable that Savills' report for the ES has merely assumed away the uncertainty around this matter, and similarly alarming, that it has not sought to use the Prologis data (that it cites) on ***actual real world warehouses*** to try to narrow down that uncertainty.

Is Warehousing a Good Source of New Jobs?

This is a question to which the HCA Guidelines provide a very clear and unambiguous answer. If planners are using scarce land (especially Green Belt land where the criteria are much stricter) and have as their main objective the creation of new jobs, then ***building warehousing is amongst the least efficient of the activities that they can support.***

To evidence this, Table 1 below summarises the floor areas needed to create one job in each of the 21 economic activities identified in the HCA Guidelines. The first data column of that table shows the activities (for which the data are available) ranked by their job creating potential. The two categories of warehousing rank very near the bottom - 13 and 15 out of the 18 activities that are ranked. This result uses the mid-point evidence (col 2). Use of the low point evidence (col. 4) might even worsen this position!

As the real world examples given above, clearly illustrate, Warehouses – especially those using modern automated and computerised movements of products - ***are not an effective sources of job***

creation in general. Only superstores and cinemas do worse! This fact about warehousing is especially pertinent as the very high productivity warehousing of the type used by companies such as Amazon and also Samson Holding (cited above) come into greater prominence over time.

Table 1 Ranking of Economic Activities by Job Potential (per unit of floor area)

	Rank -job potential per m.sq.	**m.sq per FTE (mid point)**	**m.sq per FTE (high point)**	**m.sq per FTE (low point)**
Industry -Light	8	36	18	60
Industry- Business Park	10	47	18	60
Warehousing - General	13	70	25	115
Warehousing- Large and High Bay	15	80	wide variations	
Office - General	4	12	na	na
Call Centres	1	8	na	na
IT/Data Centres	10	47	na	na
Business Park	2	10	na	na
Serviced Office	2	10	densities of c.7 m. sq. per workstation	
Retail-High Street	7	19	na	na
Food Superstores	6	17	na	na
Other Superstores	16	90	na	na
Financial and Professional Services	5	16	na	na
Restaurants and Cafes	7	18	10	30
Budget Hotels		1 employee per three bedrooms plus casual staff		
General Hotels		1 employee per 2 bedrooms		
4/5 Star Hotels		1 employee per 1.25 bedrooms		
Cultural Attractions	8	36	wide variations	
Cinemas	16	90	90	120
Amusement Centres	13	70	40	100
Sports Centres and Clubs	12	65	30	100
Source: OffPAT 2010				
"na" indicates no data available				

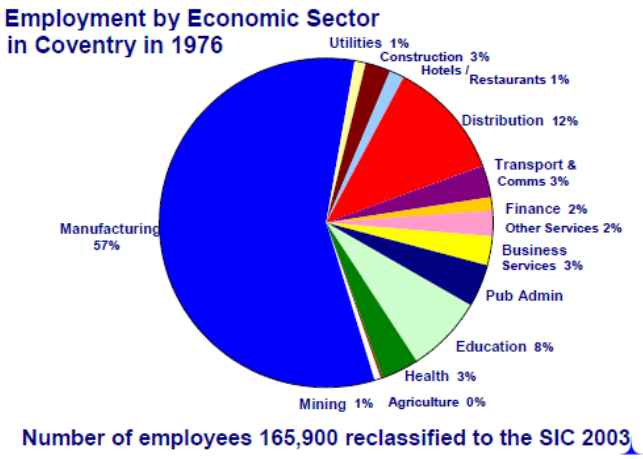
3. Other Evidence on Job Potential

Coventry Area - Job History in Brief

In considering the possible contribution of the Gateway project, it is important to factor in the recent history of Coventry in terms of the quantity and types of jobs that it has managed to produce. In brief, and in spite of continuing high rates of unemployment, the Coventry area has achieved a significant transformation in the past 30 - 40 years. In the 1970s the area's employment was dominated by large scale and labour-intensive manufacturing. 57% of the area's jobs in 1976 were in

manufacturing and as of that date, there had been no significant structural change in Coventry's economic structure since the War. The structure of employment in 1976 is shown in Figure 4 below. Three large firms together accounted for no fewer than 39,000 manufacturing jobs – British Leyland, Rolls Royce and Alfred Herbert Machine Tools.

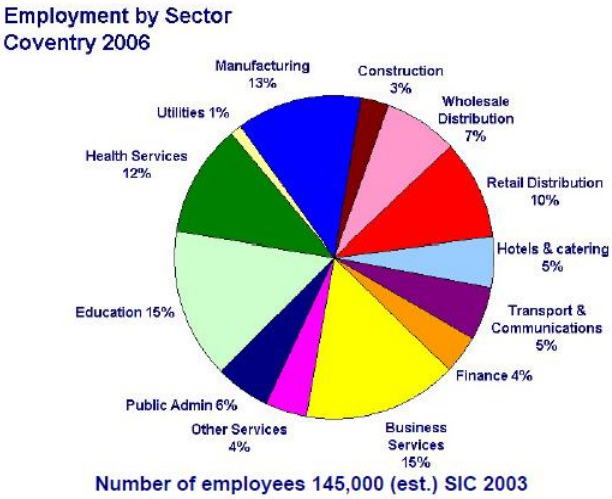
Figure 4 Coventry's Economic Structure 1976 (source: Coventry City Council)



The financial failure and restructuring of these major firms and many other related firms caused manufacturing employment to collapse. It also became increasingly evident that investment levels and technological upgrading in much of Coventry manufacturing had failed to keep pace with global trends especially in automotive engineering. Massive job retrenchment and large-scale unemployment followed in the late 1970s and the 1980s.

In the next 30 years a successful transformation of economic structure occurred. The manufacturing that remained in the area become much more technologically sophisticated and so *less* labour intensive and new activities, especially in the education, health and other service areas, emerged to address would otherwise have been huge unemployment. By 2006 the structure of employment had transformed out of all recognition to become that described in Figure 5 below.

Figure 5 Coventry's Economic Structure 2006 (source: Coventry City Council)



It can be clearly seen that employment in the Coventry area by 2006 was no longer dominated by jobs in manufacturing. M**anufacturing is not even the area's major employer of labour any more**. Indeed, manufacturing has not occupied that role since the turn of the century! Instead education, business services and health service have grown their employment numbers to match the level of manufacturing jobs. These broad patterns of evolution are likely to continue. In particular any new manufacturing that is attracted to Coventry in future is unlikely to be labour intensive – the LEP itself recognises this via its prioritisation of high tech activities.

Relevance to Gateway

The Gateway publicity has claimed that up to 14,000 jobs will be created in its three component sites. This is an incredible number given that after the transformation just described, ***no individual organisation in the Coventry area (except the City Council) now employs anything like that number.*** Indeed only three organisations provide more than the 6,000 jobs that are claimed to be likely to result at the new Logistics Park of Gateway. A listing of the current top ten employers in the Coventry area is presented in Table 2 below.

Table 2 Top Twelve Employers in the Coventry Area - 2011

Coventry City Council	15,617
University Hospital Coventry & Warwickshire	6,500
University of Warwick	6,000
Coventry University	4,600
Coventry & Warwickshire NHS Trust	3,500
Jaguar Cars	2,570
Barclays Bank plc	2,400
Royal Mail Group	2,000
Severn Trent Laboratories and Centre	2,000
Admenata UK plc (pharmaceuticals)	1,800
Tesco Stores Ltd	1,668

Source: Coventry City Council

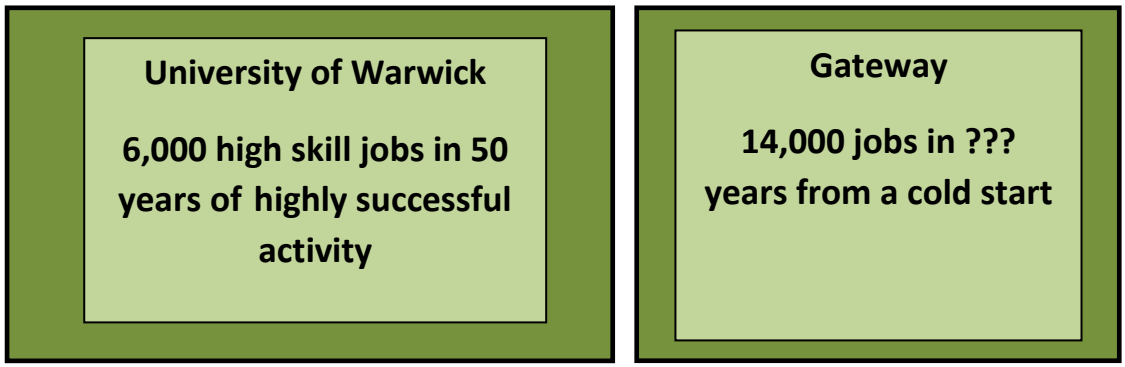
Among the top five organisations listed in the table, three are wholly in the public sector and two are the area's major institutions of higher education, Warwick and Coventry Universities. Jaguar Cars, with less than 3,000 jobs, is the first manufacturing firm in the list but it ranks only 6th in spite of its recent successes and most of its activities in the Coventry area are not manufacturing ones: this is now done elsewhere in the UK.

Easily the most successful ***new entrant*** to the list of Coventry area employees in the past ***fifty years*** has been the University of Warwick. Like Gateway, it is located across the jurisdictions of Coventry City and Warwick District. The University operates on a large site of over 700 acres (more than 31 million sq. ft.). Its total asset resource is circa £500 million and its turnover is over £400 million per annum. Over a period of almost 50 years, it has built its student body to more than 20,000 students. Unlike the proposed Gateway activities, its work is ***inherently labour-intensive and also high-skill.*** As a result, one important consequence of its undoubted national and international success has been a large number of new jobs in total (6,000) with a high proportion of these being in areas of high skill and high value-added. The site that it occupies is FIVE times the size of that proposed for the Logistics Park.

The headline proposition about job creation made by the Gateway developers can be recast to make a direct comparison with the development of the University. Specifically, that proposition can be read as saying that in a relatively short number of years, the **Gateway Logistic Park will somehow produce the same job number as the University. Gateway as a whole will be able to produce job numbers that are 230% higher (14,000 versus 6,000) than the numbers achieved cumulatively by the (highly successful and labour-intensive) University of Warwick over a period of fifty years! This is not a credible claim!** It is shown stylistically in Figure 6. The boxes broadly represent the land areas involved and also juxtapose the job numbers, actuals in the case of the University and claimed numbers in the case of Gateway.

Similar statements could be made by comparing Coventry University and Gateway.

Figure 6 Land Areas and Jobs: A Comparison



The Technology Hub and the University Science Park

The second new component included in the Gateway proposal is the proposed Technology Hub on the northern side of Bagington. Although its site area is a bit smaller than that of the University of Warwick Science Park, its high-tech aspirations means that it is wholly appropriate to examine the claims for new jobs on that new site with what has been achieved already by the Science Park at the University of Warwick.

Box 2: Indirect Economic Contributions of the University of Warwick

Direct job creation has been only one of the University's important contributions to Coventry's economic transformation alongside its brother institution namely Coventry University. In addition the universities have made crucial game-changing ***indirect*** contributions to the technological upgrading that has enabled the Coventry area to modernise the out-dated manufacturing technologies of the 1970s and also to attract a wide range of new productive and service activities – and so jobs - into the region. (Note the contrast between Figures 4 and 5 above).

Particularly significant in this regard has been the University of Warwick Science Park that was established in the 1984 and has gone on to become, today, one of the most successful science parks anywhere in Europe. The Science Park in turn has undoubtedly benefitted from its links with the Warwick Manufacturing Group (WMG) at the University spear-headed by Kumar Bhattacharya. WMG over 30 years of its life has worked with many and varied industrial partners in the UK and abroad especially in the areas of automotive products, aerospace, defence, ICT utilities, and pharmaceuticals. This advantage, as well as the tie-in with the University's exceptional teaching capabilities in advanced technologies, has helped the WMG and the Science Park to become integrally significant in the technological upgrading of the Coventry area's economy. The Science Park site adjacent to the University has attracted large numbers of specialised high technology firms and has helped in the expansion of others. It has become a Centre of Excellence in ICT. Bhattacharya himself is a close and trusted adviser of Ratan Tata the Chairman of Tata Industries who became the owners of Jaguar Land Rover (JLR) in 2008. Ralf Speth the CEO of JLR has called WMG the "hub" of JLR's research efforts; their 170 person advanced research group has moved to WMG.[14] There is, in addition, little doubt that the extensive international technological collaborations of the WMG in particular (with centres in and many students from, India, China, Malaysia, Russia, Singapore and Thailand) have been critical influences in attracting new high tech industries – including Tata the owner of Jaguar Land Rover - to settle in the Coventry/Warwick area.

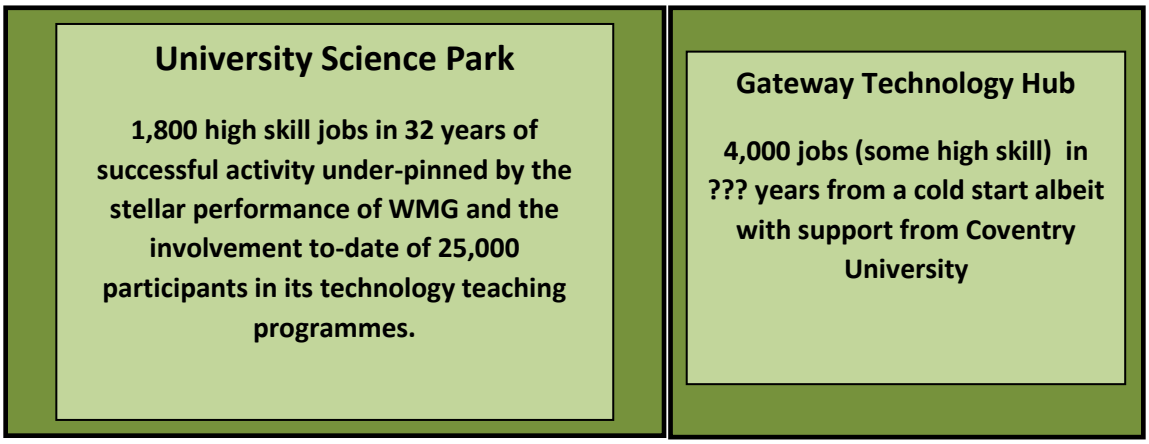
The Science Park operates on some 42 acres (some 1.8 million sq. ft.) of land on its main site adjacent to the University and on a number of satellite sites in the locality of Coventry and Warwick[15]. Its physical footprint is somewhat larger than that of the new Gateway Technology Park which proposes 65,000 sq. m. (700,000 sq. ft.) of B1 land and an additional 2,300 sq. m. of ancillary space. The Science Park has had an extremely distinguished track record over more than 30 years. That track record includes an impressive record on job creation. If its 145 companies were combined they would rank 10th on the list of the area's largest employers as shown in Table 2 above. In spite of that, its 145 resident companies today employ some 1,800 persons – ***less than half the number***

[14] Speech by Lord Bhattacharya, April 27th 2012

[15] These are the Business Innovation Centre in Binley, Warwick Innovation Centre on Warwick Technology Park and Blythe Valley Innovation Centre near Solihull. All provide the same support to businesses as the Venture Centre on the main site.

indicated for the new Gateway Technology Park. The claim from the developers regarding the new Gateway Technology Hub is **that this new hub will somehow be able produce job numbers that are 220% higher (4,000 versus 1,800) than the numbers achieved cumulatively by the (highly successful) University Science Park over a period of almost thirty years**! The wholly incredible nature of this claim is shown stylistically in Figure 7.

Figure 7 Land Areas and Jobs – a Comparison



The lessons from the experience of the University Science Park are twofold. First, success is rooted in the intellectual capital and leading edge knowledge of technologies based at the University and does ***not*** emerge merely because of the presence of appropriate ***physical infrastructure***. Second, even when the intellectual resources (including the ability to teach advanced technologies to thousands of students) is available in spades, the job creating potential of such a Park is measured in ***hundreds*** and not thousands.

Jobs at the Whitley Business Park

Planning permission for the Whitley Business Park has already been granted and so it has not been included in the planning application for Gateway. Nonetheless it has appeared regularly in the publicity materials for Gateway and so it's claimed job numbers (4,000) have influenced thinking about the overall job potential.

The original planning application for that site was based on a claim of 2,500 jobs and included the construction of new on-site roads. Admittedly its third phase of development is also dependent on an obligation to develop new highway access but the first two phases could proceed before this obligation is met and significant job numbers were initially claimed for these. So there are two key points to make about this component. First, the Gateway proposal is **not** needed to 'unlock' much of the claimed job creating potential that may (or may not) be associated with the Whitley site. Second, it is not at all clear why the 2,500 jobs that were initially claimed have now jumped to 4,000 jobs. Once again an additional investment in physical infrastructure is being cited as the ***only factor*** needed to turn a presently unsuccessful site into a stellar success.

Job Numbers and the Skill Characteristics of those jobs

The evidence presented here fundamentally challenges the credibility of the job **numbers** that the developers claim especially for the new Logistics Park and for the new Technology Hub. These

numbers are seriously out of line with the evidence based on both the hard numbers on real warehouse/distributional facilities and on what two highly successful Coventry area developments of the past 30 years have shown to be possible.

But some comments also need to be made about the ***skill characteristics*** and the ***income-generating potential*** that are likely to be associated with any new Gateway jobs. IF the **Technology Hub** can attract a number of new firms of the Science Park type over the next few 5-10 years, it seems conceivable that a few hundred jobs (but certainly not the 4,000 claimed[16]) could be attracted to that part of the Gateway. Those jobs would for the most part be relatively high-skill and so high wage. This is exactly the type of job creation that Coventry needs and that is emphasised in the strategies articulated by the LEP. By contrast, whatever the numbers of jobs created at the new Gateway Logistic Park, it is clear that the majority of these jobs will be low skill or semi-skilled jobs only. As the recent announcement by Network Rail regarding its new ***national*** distribution centre at the Ryton site makes clear many of these jobs would likely be redirected from other parts of the UK.

It is a puzzle in itself that the largest single component of the Gateway proposal (the Logistics Park) should involve future job creation that is basically of the low skill and low value-added variety*. This is radically out of line both with the focus for future economic change in the Coventry-Warwick area that the LEP itself has so clearly articulated, and also with the very successful process of technological upgrading of the local workforce that has already been evident for many years and is continuing without any need for huge new property developments.* [17]

4. The Investment of £250 million

Introduction

The second of the two headline numbers used in the publicity for the Gateway project (See Figure 1 above) is for new investment of £250 million. ***Significantly that number is almost invisible in the actual planning application as submitted on September 12th 2012.***[18]

As noted before, this investment figure is very attractive to politicians, both local and national, given that a significant part of the money will supposedly come from ***private***[i] sector sources at a time when an unusually tight fiscal situation is seriously restraining public sector spending. It is also

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[16] It is noted that a September 11 announcement by the large Chinese telecoms firm Huawei of new investment in the UK of £1.3 billion is associated with the creation of only 700 jobs. BBC September 11th 2012

[17] The LEP Strategy of March 2012 attaches high priority to *"high-skill, high value manufacturing and engineering"* with a sharpened focus on four key sectors *namely Intelligent Mobility, Advanced Engineering, Low Carbon Vehicles and Digital Technologies.*

[18] In para 4.6.7 of the Planning Statement, it reads*…" The proposal will require an investment of over £250m by the private sector,* ***much of which*** *would be required to 'unlock the site' through reclamation and infrastructure provision"* (emphasis added). On pg. 72 of the same document it states one of the benefits of the project as *…..."direct investment in infrastructure and construction of over £250 million".* Nether statement makes it clear what the balance might be as between the up-front infrastructure and environmental investments and the subsequent construction of buildings as actual tenants are identified and signed up.

clearly a ***necessary*** condition to create the "very special circumstances" that could justify the sacrifice of Green Belt. In spite of this, the planning documents themselves provide no hard data to back up this figure **and there is certainly nothing in those documents that resembles a Financing Plan** for the project. The developers have not chosen to reveal much about the ***business case*** that could be motivating their own and their supporters' investment This being the case **the number of £250 million has to be regarded with extreme caution**. Furthermore, the job numbers already discussed, and the investment levels, obviously live or die together. **Without the appropriate investment, there are no jobs to be gained.**

In the absence of a Financing Plan, it is necessary to try to INFER something about the financing arrangements of the Gateway project. This necessity is confirmed by the categorical statement made in the Economy and Society chapter of the Environmental and Social Impact Assessment (ESIA). It says in its section on job numbers:

"*However, as the project is for the speculative development these job numbers should be considered to be illustrative"* (section 4.5.1 of Chapter 4).

It is obvious that if the job numbers depend on a speculative development, then so too do the investment numbers. But how speculative is speculative? The Planning documents seem to contradict the earlier statement just cited by also stating that "*Demand has principally been for speculatively developed new units but the supply of these units has been diminishing and is now very limited as* ***developers can no longer obtain finance on this basis*** *(emphasis added). It is therefore important that demand is met by the provision of suitably located, serviced sites in order to ensure that it is not diverted to other locations*." This seems to imply that there will be a need for investment finance delivered up-front to provide ***serviced sites*** as well as the basic infrastructure of highways etc.!

The Ambiguity – A Speculation or Something more solid?

The first inference that can nonetheless reasonably be drawn is that ***Gateway is in large part a speculative land development project***.[19] The planning application submitted on September 12th is an application in outline; only the highways works and the movements of some airport buildings are "*submitted now for approval in detail*". So approval will mean that some road and other related infrastructure will be established on Green Belt land. That is, the project will open up Green Belt land for development but it will not in any sense guarantee to deliver investments that will populate that land.

But what else will or should happen?

The answer is that there are a whole range of commitments made by the developers in their planning application that will call for significant investment outlays *in addition* to the highways investments. These include:

[19] A recent press release by Roxhill developments stated explicitly that *"Roxhill's objective is to acquire, control and develop prime UK logistics land, enhancing value by planning, constructing and pre-letting and selling the developments."*

1. The reclaiming and cleaning of the despoiled land that constitutes a substantial part of the site that was occupied by a sewage works and former landfill areas.
2. Conversion of 45% of the whole site to become a new publicly accessible Country Park
3. The planting of over 30,000 trees
4. The creation of 9.5 km of cycle, bridleway and footpaths
5. The creation of 5,000 meters of new native hedgerows
6. Establishment of grassland, pasture and meadow habitats
7. The construction of a new mounded and landscaped platform around the southern and western perimeters of the site to limit damage to existing views.

In addition the developers will need to invest in serviced sites in order to try to attract a ***further investment response*** from a wide range of private sector companies and other organisations to eventually populate the site,.

In short, there are basically THREE types of investments involved in the project namely:

A. Those Highway and related investments in buildings that are the subject of the full planning application of September 12th
B. Those investments that are required to honour the developers' commitment on the environmental and other matters listed above and some further ***up-front*** investments in site development that are needed in order to attract any private investment in new warehousing and industrial units
C. The "speculative" investments to be made by the as-yet unknown industrial and service firms that may in time be attracted to the Whitley Site, the Technology Hub and to the Logistic Park.

Significantly, in the planning documents themselves, ***only £30 million of the £250 million of total investment is actually identified*** and this figure relates only to the proposed highway works and the relocation of buildings at Coventry airport (component A above). But even this investment element is mentioned only as a single number. Serious doubts have been expressed about both (i) the adequacy of the amount, and (ii) about the consistency of the financial costs of the highways works with the business case for the project.[20] No information is provided as to (i) the costings of the many different components of the highways changes (ii) the phasing over time of the financial outlays and so (iii) the additional financing charges associated with any loans that are needed to build the highways.[21] CPRE recommends that "*no significant development should be allowed to be occupied until the full package of highway improvements has been delivered on the ground"(pg.6).*

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[20] Campaign to Protect Rural England (CPRE), *Coventry and Warwickshire Gateway: Unsustainable Transport, CPRE Response to Planning Applications W/12/1143 and OUT/2012/1791*

[21] The CPRE study notes, "*The list of highway improvements required to support the proposed development (e.g. Environmental Statement section 13, page 43) is a long one. The consultants claim that they have been costed at a total of £30 million (Non-Technical Summary page 49), a mere 27% of the cost of the Toll Bar End scheme alone. There must however be serious doubt about whether the eventual cost of roadworks on such a scale would be compatible with the business case for the scheme. It is vital in our view that no significant*

Equally seriously for the decision about the Green Belt is that the planning documents provide no costings at all for component B above: the other up-front investments associated with the very considerable ***environmental works*** that are promised (the main ones being listed above) and the ***other up-front*** works needed to make the Gateway sites reasonably attractive to potential new tenants. A similar recommendation on these investments to the CPRE recommendation on highways would be equally valid.

Nor is any evidence provided regarding component C above. So nothing is said to help the planners pin down the likely size or timing of the ***investment*** response from the private investors who will be needed to populate the Gateway sites.[22]

In short and in spite of there being more than 200 documents submitted as part of the planning application, ***there is no real basis for assessing the likely size of the total investment that may be associated with the Gateway proposal or its key components.*** It is difficult to believe that the planners can make a decision to sacrifice Green Belt for development without a great deal more information. Were they to do so, they would be "shooting in the dark" with little or no basis for knowing how much investment that decisions may bring to the area. In this situation some robust safeguards to insure against possible "development blight" certainly seem to be called for!

The Capacities of the Sponsors

The second part of the inference involves an examination of whether the project sponsors themselves will be able/likely to contribute significant capital towards the headline figure of £250 million.

The Planning Application has been submitted and signed by Mr John Holmes who is an agent for the Coventry and Warwickshire Development Partnership LLP (CWDP). An examination of the web site of CWDP confirms that it is a new organisation established only in May 2011. It appears to have almost no significant financial resources in its own right.

CWDP is wholly dependent on the two companies who are described in the officially filed documents as partners and on the Roxhill web site as 50:50 joint venture partners. These are one of the Roxhill Development Companies (initially Roxhill Developments and now Roxhill (Coventry)) and Rigby Family Holdings – a company controlled by Sir Peter Rigby, who is also the Chair of the LEP. The structure of the ownership of the Roxhill companies is complex but critical to any inference about where the up-front funding might come from and in what possible amounts. Public domain documents enable us to infer something about the structure of the CWDP joint venture and at least

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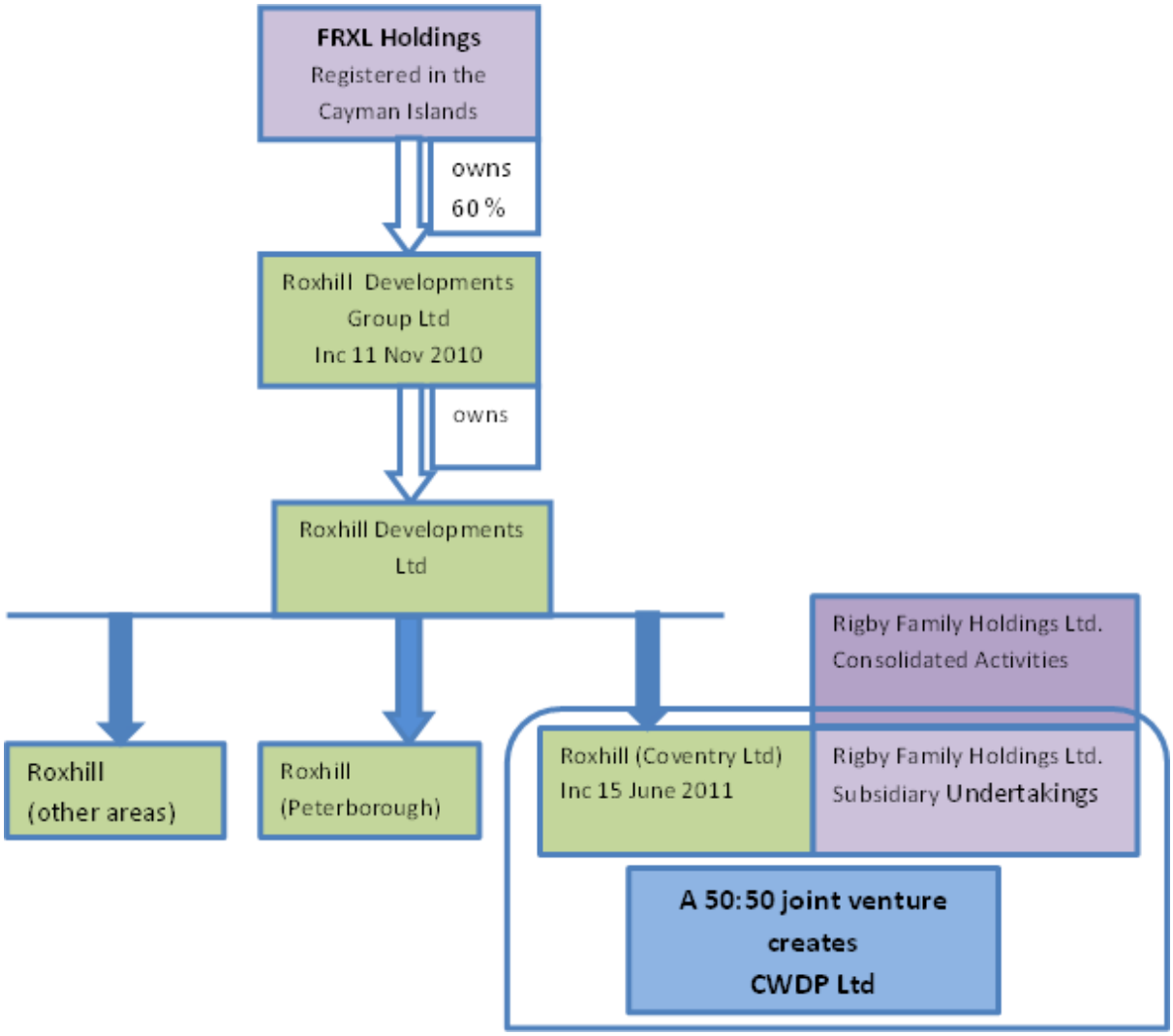
development should be allowed to be occupied until the full package of highway improvements has been delivered on the ground" (page 6)

[22] It is important to emphasise here that the item B investments will raise the costs to the developers (above those involved in competing brownfield sites), delay the date at which the first paying tenants can move in; raise the rents that will be needed to cover these extra costs; reduce the competitive attractiveness of the Gateway sites; and so reduce the likely take up of space. This point is further discussed below.

some of its links into other enterprises. The little that we have been able to gather is shown schematically in Figure 8 below.[23]

Figure 8 The Structure and Ownership of the CWDP Joint Venture[24]



That structure is complex and ***invokes many questions about the true lines of control and decision-making involved in the project and also about where the commercial benefits arising from the project will eventually reside***. CWDP although nominally the organisation that is seeking planning permission, is obviously beholden in different ways to the various companies that appear in the complex structure. From the Roxhill side of the joint venture, 60% of the ownership and control resides with FRXL holdings in the Cayman Islands and FRXL has also subscribed the bulk of the loan

[23] The Roxhill web site (Sept 27th) confirms that this is a 50:50 joint venture.

[24] It is understood that Roxhill has registered a small company in each of the areas where it seeks to operate, In the Midlands, these areas are Brackmills, Burton Latimer, Raunds , Peterborough, Milton Keynes, Inverness, Corby, Kegworth and Coventry. In all there are sixteen sites in some stage of preparation for development. The figure above uses Peterborough and Coventry to illustrate the more general picture.

capital (in the form of preference shares) to Roxhill. It is not known whether there is any connection as between the Rigby group of companies and FRXL in the Cayman Islands.

Roxhill

In terms of the financial capacities of these various players to contribute to the total headline investment of £250 million, there is an apparently strong disparity. What needs to emphasised very forcefully is that ***none of the Roxhill companies have any significant track record AS COMPANIES***. They were all incorporated on or after November 2009 and ***most were incorporated only within the last one or two years***. This fact stands in sharp contrast to the statement on Roxhill's own web site, the home page of which states ***"Over 25 years of experience and a team of enviable knowledge and talent***". Some of the persons who now work for the new 2010 organisation called Roxhill do indeed have considerable experience[25] but Roxhill **as a corporate organisation** cannot legitimately claim this. Insofar as it has financial strength (the ability to raise funds and withstand shocks), this is derivative on ***other sources of strength such as the reputation of individuals within its team or guarantees from other and more established organisations*.**

The apparent financial limitations of the Roxhill companies – as companies - is evidenced by summarising the balance-sheet positions of the various Roxhill companies based on their latest available audited accounts lodged in Companies House. This summary is in Table 3:

Table 3: Roxhill Companies – their Financial Capacities

Company	Balance Sheet (most recent available from Companies House)	Total Assets	Equity Capital	Comment
Roxhill (Coventry) Ltd	31 March 2012	£29,766	1 ordinary share of £1 minus Less £3,000 of acc. losses	Almost all of the assets have been financed by borrowings from "parent undertakings"
Roxhill Developments Ltd	31 March 2011	£17.5 million	100 ordinary shares of £1 minus retained losses of £185,437	Almost the whole of the assets have been financed by short term (< 1year) borrowings from the parent company

[25] In particular David Keir who is the Executive Chairman has 25 years experience with other property development companies including Kingspark that was acquired by Prologis in 1998; Rosemound Developments that he founded in 2002 but then sold to Goodmans UK at the height of the global financial crisis in 2007 and then Goodmans UK. Several other members of the senior management team have similar experience with a variety of property developers.

Roxhill Development Groups Ltd.	31 March 2011	£17.6 million	500 shares of different classes of £1 each minus retained losses of £18,437.	Assets constitute mainly land acquired and its capitalised costs Assets have been financed almost entirely by the issue of preference shares the bulk of which are owned by FRXL in the Cayman Islands
Roxhill (Peterborough) Ltd.	31 March 2011	£10.9 million	1 ordinary share of £1 minus Less £3,000 of acc. losses	The whole of the assets have been financed by short term (< 1year) borrowings from the parent company

However, in sharp contrast to these very modest numbers, Roxhill's own web site states the following .. "*We have £80m of equity, the first £40m was raised in 2010 from the Senior Management Team, Forum Partners and Abstract Securities. The second £40m was raised in March 2012 from CBRE Global Multi Manager and Forum Partners"*. This equity capital does not yet show up in the audited accounts available in the public domain. Given also that the "first $40 million was raised in 2010" and that the Roxhill (Coventry) balance sheet of March 2012 shows **negative** equity, none of this money had filtered into Roxhill (Coventry) at least by March 2012 to contribute significantly to the CWDP joint venture.

Further, Roxhill's equity funds of something like £80 million need to be allocated across the SIXTEEN different locations where it is currently working or seeking to work. If the allocation is done on a broadly pro-rate basis across nine sites, a sum of some £5 million might be available to the Coventry project. ***Certainly for a newly formed company Roxhill seems to be spreading itself very thinly with sixteen different sites being identified and in some cases prepared in just a two year period.*** So quite apart from the strain that this must impose on its management team[26] – however experienced – it will need to be very reliant on the third party sources of funding including those identified above.

To repeat, on the basis of information available in the public domain, Roxhill **as a corporate entity** has only limited resources to make a contribution to the £250 million of total investment. However, its financial capacities are almost certainly enhanced by access to a variety of third party finding sources that are probably secured against the financial strength of some of the individuals in its management team and their previous investment partners. For example there are past financial links between individuals working for Forum partners – one of Roxhill's equity partners as listed on its

[26] Mr Keir himself is listed as holding a large number of other company directorships or similar responsibilities – Roxhill (Coventry) is merely one of many similar companies.

web site – and member of the present management team. Through these various links there is likely to be access also to investment funds and hedge funds, some of them offshore.

However, these links are less than transparent. So it is difficult to know for what reasons and ***on what terms*** that third party financial support might be available to Roxhill in practice. It seems likely that those reasons will involve the prospective **capital gains** on any developments that Roxhill can achieve through its various land development activities. The social benefits including job creation are **not** likely to be uppermost.

Rigby Family Holdings (RFH)

By contrast, this is a transparently strong company financially built as it is on the undoubted success of Sir Peter Rigby's major corporate interest which was Specialist Computer Holdings (SCH). In March 2011 all the non IT investments built up in SCH were transferred to RFH – the core IT of the group activities were left in SCH and these seem unlikely to figure in the various corporate structures that shape the CWDP joint venture. However, they do appear in the ***consolidated*** activities of Rigby Family Holdings that are also shown in Figure 7 above. This is why the balance sheet of RFH (consolidated) is significantly larger than that of RFH itself. Specifically:

- The total assets of the ***consolidated company*** as of March 2011 were £810 million and the total shareholders' funds amounted to £152 million. This is a big and financially strong company
- The total assets shown in the ***company balance-sheet*** of RFH itself as of the same date were £20.5 million and the total shareholders' funds amounted to £16.9 million

So the RFH partner in the CWDP joint venture does have undoubted financial capacity. However, the resources of that company are of course already committed to a variety of investments. Of the £20.5 million of total assets, £11.7 million are tied up in various fixed assets and £8.7 million are tied up in various debtors, mainly including amounts owed by group and related undertakings. The cash balance as at 31 March 2011 was only £30,000. So in the absence of liquidations of existing holdings, or the raising of new capital, even RFH faces limits on how much it could commit to the CDWP joint venture.

RFH too, like Roxhill, would need to access a variety of unspecified third party investment vehicles, with terms and conditions that are not known, in order to finance the up-front investments (items A and B above) in the gateway.

Overall

Any inferences that we draw from this basic financial information about the main players in Gateway obviously needs to be qualified pending a much clearer definition of the actual financing plans for the different components of Gateway. ***This financing plan is something that the planners and other decision-makers definitely need if they are to make an informed decision about the investment and economic benefits of sacrificing Green Belt.***

In the absence of such a plan, it is a reasonable inference that only limited amounts of funding towards the £250 million total could today be put on the table ***directly*** by CWDP as a corporate entity, or by Roxhill (Coventry) or by Rigby Family Holdings. The bulk of the up-front investments needed to open up the development seem likely to be sourced from unspecified third party

investment vehicles whose interests in the project will be narrowly financial. The uncertainty about this, based again let us emphasise on our narrow reliance on public domain information, creates a clear risk for the Green-Belt. If in the event it proves impossible to satisfy the expectations of the third party funders then even some of the up-front investments in Gateway may fail to materialise. This would mean the destruction of the Green Belt with few if any of the economic benefits that are claimed. ***The developers would be well advised to eliminate this possibility from the public consciousness by offering far more detail about their financing plans especially for the up-front Highways and Environmental components.***

The Contribution of Public Sector Investment

The Gateway project as noted earlier has been attractive to politicians both local and national because it seems to offer the benefits of jobs and investment with the bulk of the investment finance coming from ***private sector sources***. However, given that there is genuine uncertainty about the amount, the costs of and the conditions attached to the private funding of Gateway, this deal may be less attractive to the public finance than appears at first glance to be the case. As in some other private-public financing initiatives in the past, the public sector including ***the two local councils may wake up to find that any failures of the private finances could impose an unexpected charge on the public finances.***

There have been periodic press statements about the likely ***financial*** support to Gateway from Coventry City and Warwick District Councils. These have included statements about Coventry's willingness to increases its own borrowing against the security of the future tax revenues from Gateway in order to finance its contributions. But these potential commitments do not seem to be backed up by actual hard commitments from either of the two councils. ***So the amounts of money that will come from these sources and from other public sources are also for the moment uncertain.***

As recently as September 17th 2012, that uncertainty was reconfirmed by the press reports about Coventry's renewed hopes of receiving significant sums from central government under the second round of the so-called City Deals. The report in the Coventry Telegraph states that this "*could include an investment package totalling terms of millions of pounds to "unlock" growth by enabling the go-ahead for delayed privately financed job schemes. They include the 15,000 job Friargate plan... and the Coventry Gateway technology and distribution park around the airport and Jaguar Whitley with up to 14,000 jobs."* [27]

So in one way or another several millions of pounds ***might*** become available from public sources. However, since no decision on the City Deals will be available ***before*** the planning application is considered, the actual amounts that the two councils will be able and willing to mobilise for their support to it will be unknown. This compounds the uncertainty around the private financing of the upfront investments. At this stage does anyone in the two Councils know:

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[27] If both of these job numbers proved to be correct it would be a serious embarrassment for the Coventry area since the combined total would be more than double the current level of job seekers. So major new housing investment would need to be added to the local plans in order to accommodate a massive influx of new workers.

- Who exactly will be responsible for what part of the total investment?
- What will happens if the Green Belt is sacrificed and there is then a private financing shortfall?
- Will the councils be expected to and willing to fund the difference?

Assessing the Scale of Investment from Gateway Tenants

The conclusions based on the inferences above (which will be revisited if and when firmer data on a financial plan for the project is available) clearly suggest that the figure of £250 million of **total** investment is a number that has been publicised mainly to increase interest in the Gateway project. ***Not even the up-front highways investment level is pinned down and evidenced in a satisfactory manner in the public domain documents. If detail is somewhere available it should be made available for public scrutiny and comment.***

Given that the main partner agencies in CWDP (including the two councils) seem unlikely to provide more than a part of a sum like £250 million ***as up-front investments*** (categories A and B as defined earlier), it is a further legitimate inference that the bulk of such money if it can be found at all, will need to come from the later stage investment that will first require ***signed up tenants*** to populate the various Gateway sites when these are prepared. So it is legitimate to ask ***who*** these tenant companies might be, ***what*** may motivate their move to Gateway, ***what*** terms they will need to do so (rents and lease periods etc.) and ***how competitive*** Gateway's offer to them may be in these and other terms?

In the following sub-sections we seek to provide a more broad-based assessment of demand that recognises the realities that are present in the market. This is done separately for Zone 1 (mainly warehousing) and Zone 2 (the Technology Hub).

The Competitive Situation in Logistics/Warehousing (Zone 1)

General Situation

Modern developments of the Gateway type are dependent on the take up by business of tenancy agreements what are commonly known as "Build to Requirement". For any business, there must be a reasoned business plan which will demonstrate return on investment. The financial potential for the developer is calculated from the balance of costs versus rewards. On the costs side is the development and construction costs of the site. On the rewards side is the length of tenancy combined with the likely rent. ***The capital costs of a speculative development are too great to simply build units "up-front" without knowing who will occupy and at what rents and terms.***

The approach taken in the Society and Economy Chapter of the Environmental Statement of the planning documents to assess tenant demand is fundamentally flawed. In effect, it invokes the logic that says something like "*if there is a shortage of development spaces, and Gateway provides significant amounts of new space, then firms will move into that space (within a reasonable time period) and so significant job creation will follow in numbers calibrated by standard (HCA) ratios of jobs to floor space"* . What are missing from this methodology are (i) any recognition of the ***other constraints*** that may hold back business investment and especially the currently severe financing constraint; and (ii) any role for the ***competitive markets*** in which enterprise location/relocation actually takes place in the real world.

In reality in the modern world, almost all enterprises of any scale (perhaps not corner shops) have significant choices about where to locate and even "local" business will be open to locations anywhere in the W. Midlands, in the UK as a whole, or even, for some, in the world economy. After all, many successful UK manufacturing and service companies of recent years have moved significant parts of their activities to Asia and elsewhere!

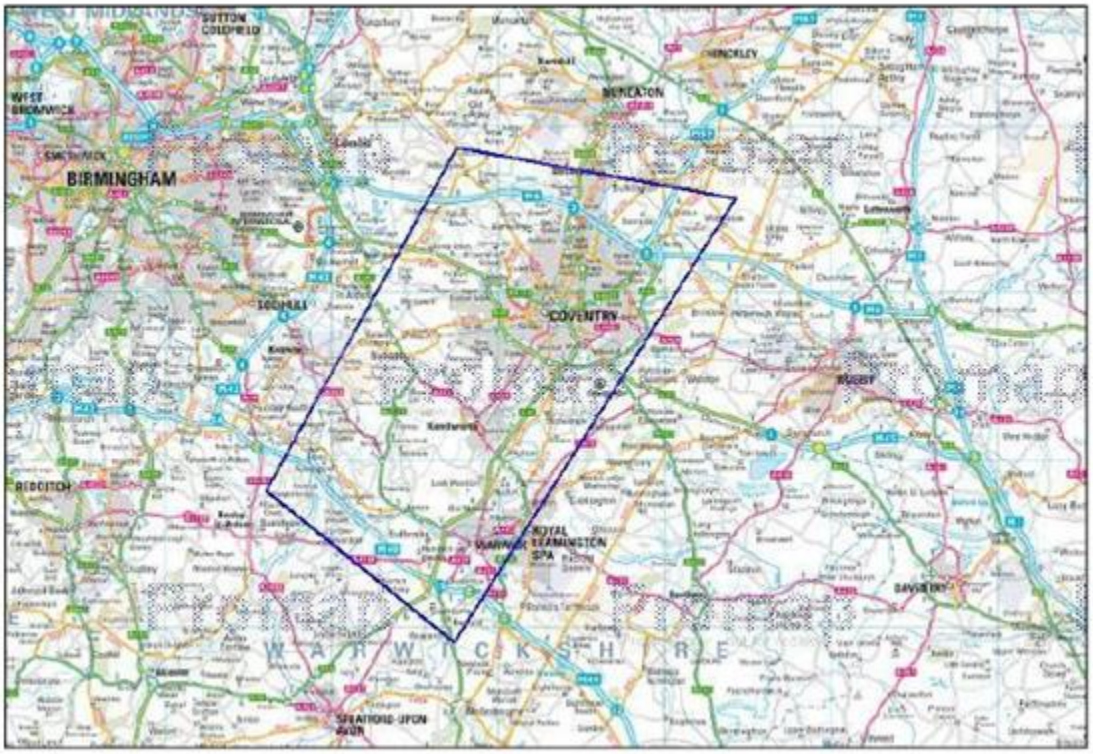
If applied to warehousing/distributional facilities in the UK, we know that many of these facilities have a ***national geographical reach*** – they locate in one area but then serve a large area of the whole country. The recently announced Network Rail investment on the Ryton site of Prologis is a typical example – it will be a ***national facility*** based in Coventry. The locations of these facilities are driven in large part by where the clients for their products mainly reside. This gives a strong pull to London and the South East. However, the East and West Midlands have also become attractive locations because of their relatively easy road and rail links into the key market areas of the UK. But ***specific*** locations are not for the most part pinned down precisely. Indeed distributions companies are heavily influenced by the terms of the leases they can obtain including the rental rates, the lease period and the possibility of obtaining break clauses. For example, the difference between a £3.50 per sq. ft. rental and one of £5.50 is a cost of £500,000 per annum on a typical unit of around 250,000 sq. ft. That difference can easily be recouped by moving some 50-75 miles from what may otherwise be the "ideal" location in terms of client distance. ***So the differential costs of available site matters acutely!***

That real world commercial reality is not recognised in the consultant's work on alternative development sites[28]. Instead this uses a meaningless and tight definition of the area within which firms seeking warehouse/distribution facilities are likely to search in competition with Gateway. The area, as defined by Savills as the "market area", is merely a small localised zone. Specifically, it is a small quadrilateral area that embraces Coventry, Leamington Spa, and Kenilworth but ***not*** areas as close by as Rugby, Nuneaton, Solihull, Hinckley and Corby[29]. It thereby also excludes, for example, Solihull and Birmingham with their alternative sites such as Birmingham Business Park and Blythe Valley Park. See Figure 7 below which is a reproduction of the Figure 6.1 in the planning documents.

[28] Chapter 6 in the planning application

[29] Figure 6.1 in the Savills Report

Figure 7: The Search Area assumed by the developers



The unreality of this approach can be shown through one example. The University Science Park has established one of its three innovation centres at Blythe Valley: it is only 18 miles away and is easily able to interact fully with the UWSP facilities. Similarly the Ansty Park already has good logistical links to the University Hospital at Walsgrave. There is no need to exclude them from the search area.

Pulling these various points together, an assessment of the competitive prospects of Gateway need to take account of the following points:

- There is currently more than 1.5million sq. ft. of land available within a 5 mile radius of the proposed Gateway development on two sites, much of it available with planning permission for Build to Requirement. (See the earlier cited study by CPRE that provides extremely detailed evidence on this point).
- In the larger logistics "Golden Triangle" that stretches from Nottingham, to Peterborough and down to Milton Keynes, there are many more empty, often brand new but unused properties, available at advantageous square-footage rates. Gateway would be on the NW boundary of this triangle and has no particular advantages because of this location.
- The location adjacent to Coventry Airport provides only a limited competitive advantage in this regard. Distribution facilities servicing international markets need airports that provide multi-destination routes. It is of limited value to have an airport providing just a limited subset of routes. It is understood that many local distribution facilities truck their cargoes to East Midland and Heathrow rather than use Coventry.
- The existing very local sites have been available in some cases for over 3 years and to date there is limited interest or activity.

- The larger of the two most proximate sites is the former Peugeot factory at Ryton. This site is owned by Prologis who acquired the site when made vacant. Only one possible tenant - Network Rail - has so far been identified five years after the Peugeot operation was closed. That will use only a small portion of the initially advertised site of 1.25 million sq feet. [30]
- Gateway's ***cost*** position will be unfavourable. Roxhill developments will need to compete directly with many regional and national sites that already have clear access and much lower costs of environmental mitigation and obligations (e.g. having to address the clean-up of the Severn Trent land and the many other environmental costs listed above).
- This higher cost structure will add upward pressure on the rentals required from future tenants and reduce/slow down the sign-up rate.
- Roxhill (Coventry) have stated they do not have any firm prospective tenants at present.to give them a pipeline with which to get started.

So the situation is one in which outline planning permission will be sought for an ***overall*** size of development, The ***actual*** size and scale of any individual unit and its job-creating characteristics based on the tenants ***actually attracted*** will not be known until real, signed up tenants are identified. But their numbers and ability to agree terms consistent with the business case for the project is seriously qualified for the reasons just presented.

The validity of this assessment can also be considered by examining the Roxhill development at Peterborough which is effectively 14 months further advanced. So far this has only one possible tenant who will occupy less than 10% of the site. As a consequence, there has been

1. zero job creation to date.
2. almost no construction.
3. no economic gains to the local communities.

Delays of at least this duration can be anticipated also for the Coventry Gateway meaning that the job-needs of the Coventry area, already declining in terms of the gap between unemployment and job vacancies, could be radically different (by the time significant tenants arrive) from what they are today.

[30] Indeed it has been reported that Prologis has acquired more land on the same site to accommodate the new arrival

Box 3: A First-hand Experience of Current Market Conditions

Mark Symes is Managing Director of Willis & Gambier (UK) Ltd part of Samson Holding a major worldwide manufacturer and distributor of furniture.

Samson Holding operate one state of the art storage and retrieval facility that has a footprint of 1.5million sq ft and can hold 4,000 containers of finished goods, through the use of fully automated warehousing systems operating this site with just 80 employees. Size is not the contributing factor to job creation - it is the specific activity that is carried out that influences the people requirement.

The following bullet points summarise his recent experience in the identification and establishment of a new UK Head Quarters and Distribution centre for the newly acquired subsidiary of Willis & Gambier.

- In Oct 2008 Willis & Gambier was acquired by Samson Holding from administrator Price Waterhouse Coopers.
- W&G occupied 500,000 sq. ft. distribution site in Peterborough owned by Prologis at a rent of £5.50 per sq. ft. with a ten year lease.
- On acquisition, he relocated the business to an adjoining site of 187,000 sq. ft. on a 3 year lease at £4.75 per sq. ft. operated by Prologis.
- In 2010 he commenced renegotiation of terms for the existing site and began the search for alternative premises within 70 miles.
- The company was able to obtain a new 10 year lease on its existing site with break clauses at 3 and 6 years at a rental of only £3.75 per sq. ft.
- In the search, he identified a suitable site at Junction 1 of the M6 at Rugby which was a purpose built distribution centre currently vacant and this was also offered at £3.75 per sq. ft.

This very recent background demonstrates that:

1. Current and vacant sites are available at extremely low rentals.
2. Landlords are aggressive with incentives to find tenants for vacant premises.
3. Following recent changes to the business rates scheme landlords are liable for the rates on their empty premises and so are prepared to agree extremely low rentals to mitigate existing losses.

In summary Roxhill developments will need to find tenants that:

A. require additional space or need to relocate at a time when business in general is at its most cautious: many companies today are building their balance sheets and not spending.
B. ***are prepared to pay a premium*** over existing market opportunities – Roxhill's financial plans are unlikely to be consistent with the prevailing rents below £5 per sq. ft.
C. ***are able to provide covenants*** that support a substantial lease period – as many of Roxhill's potential third party financiers will require
D. ***are prepared to overlook alternative near-at-hand Build to Requirement sites*** that are already much further ahead in their development and require little infrastructure development to bring on stream, and similar sites in other parts of the broader region that will meet many of the requirements of most potential tenants

Attracting Firms in Other Sectors for Zone B

The ***hard evidence*** adduced in the planning documents and the Environmental Statement to provide guidance on the likely level of demand for Gateway-type facilities from new and expanding firms ***in other sectors*** is really quite limited.

The "evidence" from the Environmental Statement regarding Zone B – the Technology Park is largely embraced in these and similar statements from the Savills' report.

i. *There is minimal capacity remaining at established Science and Technology Park locations in the sub-region to facilitate continued demand in the sector; particularly for high technology grow on accommodation at sufficient size for those second generation companies that continue to grow and require access to combined office / light industry / product development facilities*.(para 6.63)

ii. *The proposals for Zone B will provide an offer which is different from anything currently available or in the pipeline. The proposals will provide accommodation to meet the needs of those companies who have outgrown the existing Science and Technology Parks in the area and will therefore be complementary to the existing supply* (para 6.65)

iii. *As future demand is expected to be derived from smaller companies who feed into a supply chain, there is now considered an undersupply of such accommodation. Such demand is either to come through expansion of companies from the existing Science and Technology Parks in the locality, or new companies to the city via inward investment* (para 6.68)

iv. *Current demand levels are difficult to quantify, as the city and wider sub-region currently do not provide the type of accommodation proposed at the Gateway and without supporting base demand levels are not fully representative. Likely demand levels are supported by Coventry Technology Park which has pointed to a number of companies requiring grow-on accommodation, looking to either expand or diversify to new and emerging technologies* (para 6.69)

The first three bullets largely restate one central point – grow on sites for smaller high tech companies are in short supply. But those bullets and the text around it clearly do not constitute credible ***evidence of demand***. Indeed they are mere ***assertions*** of a particular supposed fact that some science park-type companies are short of space either to expand or to enter the Coventry/Warwickshire areas for the first time. Even if this is the case, there is still the little job of finding the investment **finance** for the buildings and services that the expanding companies will need. ***Finance is unquestionably a bigger constraint for small expanding businesses than is the availability of physical space.***

Surely propositions such as that in bullet (i) above are amenable to factual verification and this verification ought to be carried out*!** But even assuming that the assertion is correct, it is entirely possible to agree with the general proposition contained in bullet (i) above while at the same time questioning the ***actual numbers of businesses (and jobs) that are associated with that proposition.

To take one example, there are currently about 145 mainly smaller firms located on the University of Warwick Science Park (UWSP) and a further 70 firms located on Coventry University's Technology

Centre: a total of some 215 high tech firms. The UWSP firms typically employ 10-15 persons each, some more than this and some less. The Coventry University (CU) firms tend to be more student-based and so are typically much smaller. Even in the unlikely event that as many as **half** of the UWSP firms decide to expand in the next, say 5-10 years, and then move to the Gateway Technology Hub (rejecting the various other sites that are still available to them) and there employ on average TWICE as many people as they do today, this would bring 730-860 **additional** jobs. Movers from the Coventry University Technology Hub would create far less than this on the same assumptions. YES it is demand but NO it is not enough to justify a Hub that is claiming to be able to create 4,000 jobs. Remember too that it has taken the University 32 years to achieve 1,800 jobs at its Science Park and Coventry University 14 years to get 70 businesses into its own Technology Hub. So expecting almost 120 of their existing tenant firms of UWSP and 35 of the CU firms to move and expand in job terms in a 5-10 year period would be somewhat unrealistic!

On-going developments in the Coventry area suggest also that ***the availability of sites does not constitute the main constraint for high tech firms***. As recently as October 8th 2012 the Coventry Telegraph reported that a new £92 million National Automotive Innovation Campus was to be built at the University of Warwick funded by various leading companies including Jaguar Land Rover and the European arm of Tata Motors. This huge investment in areas absolutely central to the declared strategy of the LEP is being achieved ***without*** the need for the prior creation of the real-estate infrastructure that is the ***only substantive contribution*** of Gateway. It is an example that tells us once again that physical infrastructure only one of the many possible factors that can help re-generate the Coventry industrial capabilities.

The last of Savills' points, bullet (iv) above confirms that the ***actual demand levels have not been quantified by the developers or their consultants***. Contrary to what is stated in that bullet, it would **not** be that difficult to carry out this quantification certainly in relation to the existing occupants of technology park accommodation in the area. Most should be able to indicate both their likelihood of ***needing*** more space in a time frame of, say, the next five years and also their ability to overcome all other constraints to up-scaling.

It is noted that,

Bullet (iv) also states that Coventry Technology Park has "*pointed to a number of companies requiring grow-on accommodation*". But how many, when, how much space is needed, how many jobs may result, and how many of those firms can deal with the financing implications of possible expansion? Coventry University in a letter dated July 30 2012 has expressed support for the Gateway and has specifically stated that it has "*….an interest to work with Coventry and Warwickshire Development Partnership LLP to develop an annex to the existing technology park. There is also a concept of supporting the provision of some shared light manufacturing and production facilities so that a number of existing companies can get ease of access to their first production facilities without the cost and risk of ownership."*

This is one useful and tangible indication of the possible demand for the space at the Technology Hub. However, Coventry University in expressing "an interest" has not committed specific investment funds and so the size and scale of their contribution to the overall investment needs of Gateway also remains unclear. The same is true of other Coventry/Warwickshire businesses. The planning application documents refer to widespread support for Gateway from the Coventry and

Warwickshire business communities. But this support is not manifested in the form of firm commitments – or indeed specific types of support backed up outline contracts or even by letters (as per the Coventry University annex) as far as we are aware. So again there is no hard investment of money on the table.

Conclusions on the Likely Levels of Tenant Investment

The earlier analysis suggested that the bulk of the £250 million of the much heralded investment total of Gateway would need to come from the building and occupancy of actual units on the Gateway sites. However such investment is clearly ***contingent*** on the up-front investment in infrastructure of the Gateway being built as promised and on a reasonable time scale. There is ***no hard evidence in the developers' analysis to provide the planners with any confidence that the tenants can indeed be found in reasonable time and in sufficient numbers*** to generate the balance of the investment of that large investment total. Our brief review of the commercial realities in the market for warehouse and distribution space indicates intensive cut-throat competition. This will make it difficult to find potential tenants and also to turn any potential hits into signed-up clients given the cost disadvantages that Gateway will face relative to much of the competition. There is a case for expecting some demand for scale-up space from small high tech companies. But again ***no convincing evidence is adduced either about the scale of such demand or that these companies are not already very well served in the regional area by existing facilities***. Gateway can no doubt attract some of these scale-up investments from existing firms, supported as it is by Coventry University. But it is almost inconceivable that it can do this in the numbers necessary to match and greatly exceed the job creation achieved in the areas' main Science Park in the past thirty years.

5. Conclusions and Recommendations to Decision-Makers

This Report has sought to examine the hard evidence that is available publicly to assess the claims made by the Gateway sponsors about the job numbers and investment volumes that this large project might produce. The analysis was commenced before the submission of the planning application on September 12. The planning documents that are now available clearly show that the Gateway application is primarily about ***land development*** and not about ***job development***.

Job Creation

Although Chapter 4 of the Environmental Assessment (ES) contains a technical analysis of the likely numbers of new jobs, this is based almost entirely on hypothetical guidelines about job densities. It adduces no evidence of ***actual job-creating activities*** that may be able to populate the Green Belt land when it is developed. Nor does it refer to the job creating characteristics of any ***actual*** existing or prospective B2 or B8 units that might be thought likely to be attracted to Gateway. So although local newspapers have made much of the claim of circa 14,000 new jobs, the planning application itself clarifies the point that *"as this project is for speculative development these job estimates should be considered to be illustrative*" (page 27 in Ch. 4). This quotation refers to the construction jobs but applies pari passu to the later stage job creation as well.

The Chapter 4 analysis of the ES is an inherent unsound basis for assessing likely job creation for other reasons as well. Above all, although it relies on the HCA guidelines on job densities, it ignores the huge variation in possible job numbers in both B2 and B8 activities that are indicated by the HCA guidelines. In warehousing, those guidelines indicate a huge ***five:one*** variation between the highest

possible and the lowest possible job densities. Our own analysis has confirmed this huge variation by examining recent data on 28 ***actual*** warehouse units in the UK. That analysis shows that there is a non-trivial possibility that less than 1,000 jobs might be created in the Logistics Park even if full capacity were ever reached (versus the 6,000 claimed). This evidence is further supported by the examination of the job creation in other recent and modern warehouse units. These examples, including the recently announce Network Rail facility at Ryton, have confirmed that job numbers in the main Logistics Park could certainly be under 1,000 jobs at full capacity. The modern Asian unit of Samson Holdings suggests a number as low as 300 jobs would be possible: only 5% of the numbers claimed.

The non-credible nature of the Gateway job claims has been further evidenced by referring to the employment structure in the Coventry area and how this has changed over time. For some years, the largest employers of labour have been in public administration and health. Only THREE employers today employ more than the 6,000 persons claimed to be likely at the Gateway Logistics Park and ***these are all highly labour intensive activities.*** By stark contrast, B2 and B8 activities in today's world are increasingly highly automated and mechanised: they employ only limited numbers of people in often huge facilities. There is no conceivable possibility that a new modern warehouse and distribution facility built on Green Belt land could ever attain the job levels achieved by, for example, the University of Warwick over a fifty year period. But that is what the planning application claims. The analysis of job numbers in the Coventry and Warwick areas' main existing and successful Science Parks similarly suggests that the proposed Technology Hub will not achieve anything like the 4,000 jobs that are claimed for that part of the Gateway site.

Job creation represents the single main reason that might conceivably constitute the "very special circumstances" to override the strict restrictions on the use of Green Belt land.. The evidence presented in this Report demonstrates that (i) the huge uncertainties surround the likely job numbers and (ii) there is a distinct possibility that the actual job numbers could be very modest indeed. ***Jobs in this instance constitute at best a very weak case for sacrificing Green Belt!***

Investment

The planning document as submitted on September 12th identifies only £30 million of the £250 million of total investment that has been widely trailed as being associated with the Gateway project. This £30 million relates only to the proposed highway works and the relocation of buildings at Coventry airport. But even this investment element is mentioned only as a single number (no detailed costings of the various components are provided). Other commentators have already suggested that £30 million is an inadequate amount with which to complete the proposed highways works. Nor are any financial costs or financial plans provided to show how the developers will comply with their substantial commitments regarding ***the environmental mitigation investments*** that are needed ***before*** they can begin to generate significant commercial revenues. ***The figure of £250 million of total investment seems to be a notional number that has been publicised merely to increase interest in the Gateway project.***

However, this present Report has sought to probe the various sources from whence this total volume of investment might be sourced and also the conditions that may be associated with the various different sources. This work has been handicapped by the need to rely on public domain data alone with no access to the detailed business case that the developers themselves will have

relied upon. So ***the Report's statements in this area need to be regarded as inferences that will be tightened up if and when the developers reveal more about their own business case***

As regards the two partners in the CWDP joint venture, the public domain financial accounts indicate only a very limited *immediate* capacity to provide sums of this order of magnitude. However since this is a ***speculative land development project,*** it is likely that one or both partners will be able to draw on additional funds from third party sources **once planning permission is granted.** This is because planning permission alone will generate a very substantial potential capital gain which would help to unlock otherwise non-available funding sources. The third party funding sources will likely be various investment vehicles, some of which are mentioned in Roxhill's web site including hedge funds, ***some potentially offshore as indeed is Roxhill's controlling ownership***. These funds will likely regard the Gateway project merely as a ***financial asset*** that can be held to yield capital gains in a later re-sale even if only limited physical development actually takes place. Their business case for involvement can be inferred to involve little or no interest in the economic development of the Coventry and Warwick areas that are hosting the Gateway and sacrificing Green Belt in order to do so.

As regards the tenants who will be sought to populate the units at the three Gateway sites, the Report has mobilised hard and current evidence about the competitive nature of the business of attracting business tenants to any new site: in particular warehouse and distributions facilities. It has confirmed that the geographical search area involved in this competitive business is typically very large, often national. That search area is ***definitely not*** confined to the very small localised area that is assumed by the Savills' consultancy study that examined the availability of alternative sites. So Gateway will need to compete with a large number of already available B8 and B2 sites especially in the golden triangle. Many of these have far better access characteristics and far lower costs. In particular, Gateway is at a major competitive disadvantage because of its need to honour commitments to the large number of environmental mitigation programmes that are core components of its proposal.

This is not to say that there will be no investments – only that they are likely to be slow in arriving (as have the potential tenants at Roxhill's site in Peterborough). ***A long drawn out period of partly developed Green Belt with limited investment and jobs is a very likely scenario.***

Recommendations

This Report is presented primarily as a **technical document** designed to objectively assess the two headline claims of the Gateway developers. Having done the analysis, it is only too clear that both the headline job number and the headline investment total are, to put it politely, extremely uncertain outcomes. The making of recommendations is not our main concern, but there are various issues that we can usefully flag for the decision-makers based on our findings.

First, our logic, numbers and conclusions on the job issue should be independently assessed. We are confident that these are more comprehensive, more substantive and technically more legitimate than those which appear in the planning documents and the associated environmental statement (ES).

Secondly, if they recognise nothing else, the decision makers in this process (local planners and later the officials of the Ministry) need to recognise the ***inherently huge uncertainty*** regarding the size of

the economic benefits that may accrue from the Gateway project. This in turn suggests the need for considerably more analytical work to try to firm up those numbers that can in principle be firmed up, based for example on much more information from the developers about their own business case

Third, the many uncertainties identified in this Report lead inevitably to ***risks*** for someone. Decision-maker ought also to acknowledge, based on the analysis in this Report, that ***the risks of the project lie almost entirely with the local communities and the two Councils***. For their part, the developers have only limited upfront money at risk. They will *not* pay Coventry City Council for the long term lease on the development land until such time as planning approval is granted. But at that point, the potential capital gain associated with the land development is already in the bag for them. Similarly, the third party funders, whoever they may be, will *no*t need to put up any real money until the planning approval is obtained. They too can then secure their profits in part by relying on a realised capital gain at some future date ***even if no development takes place.*** No potential tenants need to invest in any units on the site until they are satisfied that they are being offered a good deal in terms of quality of site and services, rental and lease periods.

Meanwhile the local village communities for their part will ***instantly*** lose a huge tract of Green Belt. The two Councils, if they have committed any up-front money to the project face the risk of ***very long delay***s before they recoup this investment through increased local tax revenues. If they have borrowed funds to finance their participation then they face the additional risk of needing ***to service increased debt*** without those extra tax revenues yet in place. More seriously, in the event of the failure of the developers, for example in relation to the environmental clean-up, there will obviously be a "the buck stops here" risk for the two local councils in stepping in to resolve the problems.

This balance of risk-bearing between the private developers (limited risk) on the one hand and the communities plus the councils on the other (high risk) is wholly unreasonable. The planners would be well advised to develop a clear programme that can redress this imbalance if only in part. This could be done, for example, (i) by seeking much more complete information about the business case that is being used by the developers so that the financial assumptions around that business case can be robustly assessed and if necessary contested, (ii) by requiring a guaranteed and quantified programme of investment in a specific time period to gain the assurance that the up-front investments in highways and the environment at least will be completed without undue delays, (ii) by imposing a tight programme of guarantees backed by financial sanctions on the developers, for example regarding their delivery of the environmentally-related investments and the highways programme. Measures such as these cannot eliminate the problem of uncertainty and risk but they could deliver a slightly better deal and lower risks for the local areas and the local governments than a passive acceptance of the situation as it now seems to exist.