

## Addendum on EDS 2

### ASR reference EDS2 - Increase rental charges for clients in the Council's Business Centres by 2% year on year

#### Additional information on the modelling of increased Business Centre charges

##### Summary

The assumption in the ASR is that the proposed increases will have a very minor impact on occupancy. An adverse impact on occupancy at any meaningful level will mean the benefits of the ASR cannot be achieved. However, we do not believe this will be the case.

1.1 The marginal nature of the proposed increases is illustrated below. 2% rental increases across all four business centres will result in an increase in average charges of £1.50 to £2.00 per week per unit. For some of the smallest businesses, occupying the smallest units, the increase is just over 50p. The following table summarises the proposed changes at each centre

| Centre   | Average (Mean) rental increase per unit per annum | Range                      |                           |
|----------|---|----------------------------|---------------------------|
|          |   | Highest increase per annum | Lowest increase per annum |
| Fusion   | £80.68  | £143.14                    | £35.13                    |
| Century  | £76.31  | £114.08                    | £35.88                    |
| Moorgate | £80.73  | £158                       | £28.75                    |
| Matrix   | £100.60   | £191.74                    | £57.90                    |

1.2 A 2% increase in charges will yield additional income unless occupancy proportionally declines. An increase of 2% boosts the total rent roll by approximately £16,500 (from £831,522.32 to £848,152.78). The ASR does not propose an increase on charges for other services. A resulting 2% decline in occupancy would offset any gain in revenue.

1.3 The assumption in the ASR is that the very marginal rental increases proposed will have very little impact on occupancy. The ASR assumes that voids increase by one unit in total. The additional void is assumed to be at Matrix where the units are generally larger and therefore average rent per unit is highest (£5,030). NB the rate per square metre at Matrix is consistent with other RiDO centres. This yields the additional revenue estimate in the ASR of £9,000 per annum. The net impact of this assumption is that while rents are increased by 2.00%, revenues are increased by around 1.0133% (approximately).

1.4 The business centres operate with an overall target of circa 85% occupancy to ensure financial sustainability. Since 2011 the centres have achieved an overall average occupancy of between 85% and 90%. The ASR is therefore modelled as follows:

| Occupancy rate % | Existing Rent | New Rent (2% increase) | Less rent for additional void | Net rent after 2% increase and additional void | Net Increase |
|------------------|---------------|------------------------|-------------------------------|--|--------------|
| 100              | £831,522.32   | £848,152.76            | £5,030                        | £843,122.76                                    | £11,600.44   |
| 90               | £748,370.09   | £763,337.48            | £5,030                        | £758,307.48                                    | £9,937.40    |
| 89               | £740,054.86   | £754,855.96            | £5,030                        | £749,825.96                                    | £9,771.09    |
| 88               | £731,739.64   | £746,374.43            | £5,030                        | £741,344.43                                    | £9,604.79    |
| 87               | £723,424.42   | £737,892.90            | £5,030                        | £732,862.90                                    | £9,438.48    |
| 86               | £715,109.20   | £729,411.37            | £5,030                        | £724,381.37                                    | £9,272.18    |
| 85               | £706,793.97   | £720,929.85            | £5,030                        | £715,899.85                                    | £9,105.87    |

1.5 Modelling has been carried out on the basis outlined above. Extensive modelling of differing occupancy rates has not been carried out as the results allow a somewhat theoretical analysis (see below). A decrease of occupancy of between 0.6% and 0.7% following an increase in rents of 2% would allow the ASR to be achieved. A greater fall in occupancy would offset the increased revenue from the rent increase.

| Existing Occupancy (%) | Existing Rents | Full rent roll following 2% increase | Target to achieve the ASR | Occupancy required to achieve the ASR (%) | Additional Void level that still achieves ASR (%) |
|------------------------|----------------|--------------------------------------|---------------------------|---|---|
| 100                    | £831,522.32    | £848,152.76                          | £840,522.32               | 99.1003                                   | 0.8997  |
| 90                     | £748,370.09    | £848,152.76                          | £757,370.09               | 89.2964                                   | 0.7036  |
| 89                     | £740,054.86    | £848,152.76                          | £749,054.86               | 88.3160                                   | 0.6840  |
| 88                     | £731,739.64    | £848,152.76                          | £740,739.64               | 87.3356                                   | 0.6644  |
| 87                     | £723,424.42    | £848,152.76                          | £732,424.42               | 86.3552                                   | 0.6448  |
| 86                     | £715,109.20    | £848,152.76                          | £724,109.20               | 85.3749                                   | 0.6251  |
| 85                     | £706,793.97    | £848,152.76                          | £715,793.97               | 84.3945                                   | 0.6055  |

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