

**The Chairperson and Members
South Central Area Committee**

Report on the proposed guarantee for a loan to expand the Guinness Enterprise Centre (GEC)

Introduction

The Guinness Enterprise Centre (GEC) wants to build on its success with early stage micro enterprises by (1) refurbishing its existing premises and (2) expanding its floor space by 65% in a project known as GEC2. It is intended that the resulting “Entrepreneurial Super Hub” will give additional support to economic growth in Dublin 8.

Following successful submissions to the Regional Enterprise Development Fund (REDF), through Enterprise Ireland, and the Ireland Strategic Investment Fund (ISIF) to fund GEC2, Dublin City Council (DCC) is proposing the provision of a guarantee on a €7,000,000 ISIF loan to reduce the interest cost. This is subject to the proposal satisfying the European Commission’s General Block Exemption Regulation (GBER) regarding State Aid.

Background

The Dublin Enterprise & Technology Centre Ltd (DETCL), trading as GEC, was established in 1999 to stimulate micro enterprise development and innovation within Dublin’s inner city. The founding partners, who continue to support the GEC today, are Dublin City Council, Dublin City Enterprise Board (Dublin City LEO), Enterprise Ireland, the Guinness Works Enterprise Fund (Diageo) and Dublin Business Innovation Centre (Dublin BIC). It is a not-for-profit enterprise centre providing a range of services for innovative start-up and scaling micro enterprises with an export focus. The GEC has a long history of supporting all types of micro enterprises, many of whom would otherwise have difficulty starting or scaling, by offering affordable working spaces and a range of soft supports. It facilitates connections with start-up business advisors, seed capital investors and university access programmes which offer supports and knowledge geared towards business development. To date they have supported in excess of 700 companies with an estimated 25% of the employees coming from the local area.

Current status

The current GEC was developed in a warehouse in Guinness, St James Street, with lettable floor space which extends to 4,700 sq m over 3 stories. It provides a variety of hot-desking, co-working, serviced offices, meeting and conference rooms and events’ spaces. There are private and shared offices facilitating between 1 and 30 people and supported by shared services including reception, café and meeting and conference facilities. It currently houses about 86 companies and 133 co-workers with in excess of 400 people in the building at any one time. Current occupancy rates are 90% with a long term average rate of 80%.

The GEC encourages churn back into the enterprise ecosystem through a scaled cost structure¹. This unique model sees rental costs rise from below market in years 1-3 to above market after 5 years

¹ Management have some discretion

thus encouraging scaling entities into the surrounding area. It is envisaged that the churn into the local area will gain momentum and act as a catalyst for further local regeneration. The current churn rate is 25-30% pa. Even with this structure the average rent charge is at a 12% discount to the market supportive of early stage micro enterprises who would otherwise struggle to get space.

Ownership, lease and management

The building is owned by Diageo and leased to DETCL which trades as GEC. As part of this development Diageo have agreed to extend the lease to a minimum 35 years. DCC is a founding partner of the DETCL who along with Enterprise Ireland make up 3 of the founders of DETCL.

Following a tender process in 2017 Dublin BIC was awarded the management contract for the GEC. It is a public-private business support organisation with expertise in the entrepreneurial support arena which has supported the creation of in excess of 500 start-ups.

Rationale for project

To meet increased demand and foster further innovation GEC needs to significantly increase its physical space and facilities. In this way it can leverage its existing enterprise community to further support indigenous start-ups and encourage more scaling companies into the local economy through its pricing structures and targeted turnover rate of 25% which it is currently exceeding.

It is expected that the State and local community would benefit from the development through:

- 1 Job creation (estimated 3,300 direct & indirect)
- 2 Taxation (direct in terms of PAYE and indirect in terms of consumer spending)
- 3 Social Returns:
 - a. Economic growth in the Dublin 8 area
 - b. Additional Infrastructure to support start-ups and foster innovation in the inner city
 - c. Collaboration between industry, academia, public sector and citizens to drive synergies and innovation (Quadruple Helix)

This is aligned with State policy as outlined in;

- 1 Dublin Action Plan for Jobs (2016-2018)
- 2 Dublin City Local Economic & Community Plan (2016-2021)

The Proposal

The project consists of two distinct parts.

First, is an upgrade to the existing building to enhance the perception of activity and the sense of collaboration and further encourage networking.

Second, is to extend the space by adding two additional floors to the existing three floors which would increase the floor space from 4,700 sq m to c.8,230 sq m and add 3,090 sq. m of net lettable space. This would facilitate the expansion of GEC services to include:

- 1) Enterprise Centres Partnership which would provide space and connectivity for regional start-ups (MoUs agreed)
- 2) Accelerator Programmes
- 3) Corporate Innovation
- 4) Innovation Education
- 5) International Business Schools and Universities Programme (MoUs in progress)

It is envisaged that construction will start in mid-2019 with the 2 new floors completed by June 2020 and generating revenue by August 2020.

The Cost

The total cost of the project is €10.111m which includes a contingency of 10%. Of this the GEC has already secured up to €3.23m from REDF, of which €2.581m is for capital expenditure. It has available seed capital of €750K with €530K of this being applied as capital expenditure. For the remaining costs a loan of c.€7m for up to 20 years, with the intention of paying it down earlier, was agreed in principle with ISIF. However, the indicative standalone interest rate of 6% would be prohibitive for the development. Following a report from Deloitte outlining funding options DCC is considering guaranteeing the ISIF loan which would bring the interest cost down to c.2% making the project feasible. The development will not proceed without the support of DCC providing the loan guarantee.

The new GEC facility would service the debt based on a target occupancy rate of 80% after 3 years (in line with historical trends).

DCC commissioned E&Y to do an in-depth analysis of the financial models prepared by Dublin BIC and, except for external linkages, E&Y validated its integrity, logic and arithmetic. The accuracy, reliability or competence of the commercial projections were not validated although they did find the underlying financial assumptions reasonable.

Differentiation

There are a number of other enterprise hubs/accelerators in the Dublin City Area but what differentiates GEC is that it:

- 1) Supports export oriented start-up and scale-up micro enterprises
- 2) Maintains partnerships with international business schools and universities²
- 3) Has support from Enterprise Ireland, DCC, Dublin City LEO, Dublin BIC and Diageo
- 4) Implements a churn model to encourage and grow start-ups in the area

Outstanding issues and risks with project planning

Aside from the ongoing commercial risks associated with running an enlarged enterprise centre E&Y identified the following outstanding issues with the project plan.

- 1 The capital costs are not validated
- 2 Construction timing and planning are not validated
- 3 Planning application is being prepared for submission in the coming weeks
- 4 Work is ongoing to estimate capital costs and inflation and there is a 10% contingency allowed

In addition, a European Commission State Aid assessment is ongoing.

Further Action

This proposal and report will be submitted to the City Council on December 3rd for approval.

Greg Swift

Head of Economic Development & Enterprise

² No 1 ranked University Associated Business Incubator in the World 2015/16 by UBI global awards