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**A separate report is submitted in the private part of the agenda in respect of this item, as it contains details of financial information required to be kept private in accordance with Schedule 12A of the Local Government Act 1972. The grounds for privacy are that it contains information relating to the financial and business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption under Schedule 12A outweighs the public interest in disclosing the information.**

Cabinet  
Council

5<sup>th</sup> January 2016  
12<sup>th</sup> January 2016

**Name of Cabinet Member:**

Cabinet Member for Business, Enterprise and Employment – Councillor Maton

**Director Approving Submission of the report:**

Executive Director - Place

**Ward(s) affected:**

**Title:**

Freehold purchase of Hornchurch Close Industrial Estate, Quinton Road, Coventry

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**Is this a key decision?**

No

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**Executive Summary:**

An opportunity has arisen to make an investment purchase of the freehold of an industrial estate let to small businesses where the Council is currently the long leaseholder. In doing so it will convert the Council's current depreciating asset into an appreciating one, on a self-funding basis that avoids future rent increases to the Council and removes dilapidations claims against the Council at the end of the lease.

The freehold interest in Hornchurch Close Industrial Estate is owned by British Grolux Limited. The Council holds a 99-year ground lease on the estate, which expires in 53 years time (2068). The Council pays a ground rent to British Grolux Limited of £19,250 per annum, which is next subject to review in 2022.

The Council's current leasehold interest is a diminishing asset, whose value will decline as the lease end gets nearer.

The estate comprises a multi let industrial estate of 14 units built by the Council and let on occupational leases to small businesses. The estate is a popular estate, fully let and currently produces a gross rent for the Council of £103,550 per annum.

British Grolux Limited is currently seeking to dispose of its freehold interest and terms have been agreed for the Council to purchase it subject to the formal approval of the Council and good title.

The purchase of the freehold will enhance the capital value of the Councils asset, buy in an income stream and turn the Councils interest into an appreciating asset.

**Recommendations:**

Cabinet is recommended to:

1. Approve the purchase of the freehold interest in Hornchurch Close Industrial Estate.
2. Fund the acquisition from corporate resources, servicing the debt from the saving in ground rent expenditure
3. Delegate authority to the Executive Director of Resources to complete the purchase of the freehold interest.
4. Request that Council approve the adjustment of the capital programme to reflect the capital expenditure.

Council is recommended to:

1. Adjust the Capital programme for the proposed capital expenditure incurred in the acquisition of the freehold of Hornchurch Close.

**List of Appendices included:**

A plan of the site is attached

**Other useful background papers:**

There are no background papers

**Has it been or will it be considered by Scrutiny?**

No

**Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?**

No

**Will this report go to Council?**

Yes – 12<sup>th</sup> January 2015

**Report title: Freehold purchase of Hornchurch Close Industrial Estate, Quinton Road, Coventry**

**1. Context (or background)**

- 1.1 This industrial estate, which is shown edged red on the attached plan, is in the freehold ownership of British Grolux Limited.
- 1.2 The Council hold a long ground lease interest from British Grolux Limited for a term of 99 years from 1969, which expires in 53 years time. (2068). The Council pay an annual ground rent of £19,250, which is subject to upward only review every 21 years to a market ground rent. The next review of the ground rent is due on 29th September 2022.
- 1.3 The estate, which is popular and located close to the City Centre, comprises 14 industrial units varying in size from 600 sq ft to 2215 sq ft and the Council let the units by way of occupational leases at market rents. Assuming 2% per annum rental growth since the ground rent was last reviewed in 2001 the new ground rent in 2022 would be in the region of £29,000 per annum.
- 1.4 The terms of the ground lease allows British Grolux Limited to recover its costs in the issuing of consents on all new lettings at the estate costing the Council £350 per letting.
- 1.5 British Grolux is currently seeking to dispose of its freehold interest, which gives the opportunity for the Council to acquire the freehold and merge the interests. The ground rent will no longer be paid so the Council will benefit from an increase in rental income of £19,250 per annum until the rent review in 2022 when the ground rent could increase to circa £29,000 per annum.
- 1.6 In capital terms the value of the Council's current leasehold interest will continue to depreciate as the unexpired term of the lease diminishes and the rate of depreciation accelerates once the lease term drops below 50 years. With only 53 years left on this lease the Council has a depreciating asset. Purchasing the freehold and merging the interests will result in both the rental income increasing and the asset appreciating in value, rather than depreciate, as would be the case with the current Council's interest.
- 1.7 Agents for British Grolux Limited have agreed terms with the Council's agents for the Council to purchase the freehold interest which will merge the interests. Stamp Duty Land Tax and agents costs will be payable by the Council on the purchase price.
- 1.8 The purchase price has been recommended by the Council's agent as representing open market value when both the freeholder and leaseholder have special purchaser benefits in merging their interests.

**2. Options considered and recommended proposal**

- 2.1 Proceed with the purchase of the freehold interest in the Hornchurch Close Industrial Estate, merging the interests and increasing the net rental income by £19,250 per annum, and converting the Council's interest from a depreciating to an appreciating asset.
- 2.2 Do not proceed with the purchase of the freehold interest and continue with the current ground lease arrangement with British Grolux Limited, whereby an annual ground rent of £19,250 is paid until this is increased on the 2022 rent review and a higher rent thereafter. The Council's leasehold asset will continue to depreciate in value.

2.3 It is recommended that the Council proceed with the purchase of the freehold interest on the terms reported in the private report.

### **3. Results of consultation undertaken**

3.1 None undertaken

### **4. Timetable for implementing this decision**

4.1 Providing Cabinet approval is secured, it is expected that freehold purchase will be completed within this financial year.

### **5. Comments from Executive Director, Resources**

#### **5.1 Financial implications**

This freehold purchase is proposed to be funded from corporate resources. The annual debt servicing cost can be more than offset by the reduction in ground lease cost per year.

Based on a Prudential borrowing calculation there is a short term marginal benefit against the rent gain but this does not take account of the following:

- The opportunity cost of merging the interests and more importantly, having an asset where the capital value appreciates rather than depreciates, thus protecting, and growing future revenue streams.
- Cost avoidance of an increasing ground rent from 2022 estimated to be £10,000 per annum higher.
- The inability as leaseholder to let properties (for a suitable length of time) in the latter part of the lease term, beyond the expiry of the leasehold interest.
- Long term liability of dilapidations that would be incurred at the end of the leasehold interest

This investment represents good value for money for the Council. It is proposed that the expenditure is an addition to the Capital Programme funded by Prudential Borrowing for which full Council approval is required. The borrowing costs will be covered by the reduction in the ground lease costs.

#### **5.2 Legal implications**

The Council is under a fiduciary duty when utilising the Council's resources. The purchase price of this freehold interest has been verified by external Chartered Surveyors, Lambert Smith Hampton as representing open market value recognising the special interests of both parties when merging the respective legal interests.

The Executive Director, Resources will complete the freehold purchase in accordance with appropriate procedures.

### **6. Other implications**

**6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)?**

The purchase of the freehold and the financial benefits that flow from it will contribute to the Council Plan of making the most of our assets to deliver priorities with fewer resources.

## **6.2 How is risk being managed?**

The only risk associated with the purchase will be in completing the transaction. Officers will monitor through to completion.

## **6.3 What is the impact on the organisation?**

The impact to the organisation will be minimal however it will generate additional work for officers within Place and Resources Directorate in dealing with the freehold purchase.

The purchase of the freehold interest will merge the interests and give the Council an unfettered freehold of a good industrial estate close to the City Centre.

## **6.4 Equalities / EIA**

An equality impact assessment is a process designed to ensure that a policy project or service does not discriminate against any disadvantaged or vulnerable people. Section 149 of the Equality Act 2010 imposes an obligation on Local Authorities to carry out an equality impact assessment when the local authority is exercising a public function.

An equality impact assessment has not been undertaken by officers as the proposal set out in this report relates to the granting of or the creation of a legal interest in the land and does not constitute a change in service delivery policy or the exercise of a public function.

## **6.5 Implications for (or impact on) the environment**

None

## **6.6 Implications for partner organisations?**

There are no partner implications

**Report author(s):**

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**Directorate:**

Place

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Members: Councillor Maton	Cabinet Member for Business, Employment and Enterprise		11.12.15	11.12.15

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## Appendices