
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 refers to the identity, financial and business affairs of an organisation and the amount of expenditure proposed to be incurred by the Council under a particular contract for the supply of goods or services. The public interest in maintaining the exemption under Schedule 12A outweighs the public interest in disclosing the information.

Cabinet
Council

13th June 2017
11th July 2017

Name of Cabinet Member:

Cabinet Member for Jobs and Regeneration - Councillor J O'Boyle

Director Approving Submission of the report:

Deputy Chief Executive (Place)

Ward(s) affected:

Henley

Title:

Unit 1 Dutton Road, Aldermans Green Industrial Estate, Coventry – Investment Acquisition.

Is this a key decision? No

Executive Summary:

This report is seeking approval for the acquisition of an income producing industrial property investment.

The investment currently produces an income the level of which is commercially sensitive and is therefore outlined in the private report.

Personal Hygiene Services Limited ("PHS") is part of a national company with a turnover of £280M in 2015/16 who occupies the premises and pays the rent. They have approximately 7 years left on their current lease.

The Council already owns the land upon which the building is constructed but granted a lease dated 13th September 1989 for a term of 99 years with effect from 20th May 1989 in respect of the industrial site at Dutton Road Aldermans Green Industrial Estate Coventry. The long leasehold interest, which receives the rent from PHS, is currently owned by Real Estate Investors PLC (REI). REI currently pays the Council an annual ground rent for the land, the level of which is outlined in your private report.

Real Estate Investors have indicated a willingness to sell its leasehold interest to the Council, subject to the existing lease to PHS and therefore the right to receive the annual rent for a negotiated price.

Stamp Duty land Tax will be payable by the Council in addition to the purchase price, the level of which is outlined in the private report.

The initial net return on the investment is assessed at circa 8.8% after assumed purchasing costs. This is reduced to a return of 8.0% based on the net rental increase for the Council as it already receives a ground rent from the property.

The level of return generated is based on the level of risk associated with the length of lease and the security of the income. The negotiated price has been validated by external property experts as providing 'best value' for the Council.

It is intended that the property would be held by the Council as an investment asset and managed by the Council's Commercial Property Management.

Recommendations:

The Cabinet is recommended to:

1. Approve the terms for the acquisition of the leasehold interest in 1 Dutton Road subject to the current tenancy for the price outlined in the private report plus Stamp Duty Land Tax.
2. Delegate authority to the Deputy Chief Executive (Place) (Legal Services) to complete the necessary legal documentation.
3. Delegate authority to the Deputy Chief Executive (Place) in consultation with the Cabinet Member for Jobs and Regeneration, for any subsequent variation in terms.
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 long leasehold interest in Unit 1 Dutton Road.

List of Appendices included:

Site plan

Other useful background papers:

None

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 – 11th July 2017

Report title: Unit 1 Dutton Road Aldermans Green Industrial Estate – Investment Acquisition.

1. Context (or background)

- 1.1 The Council is currently looking at ways of increasing revenue income to support the provision of services it is seeking to deliver.
- 1.2 An opportunity has been presented to the Council to acquire an income producing property investment within one of the City's established industrial estates, Aldermans Green.
- 1.3 The Council currently owns the freehold of the majority of the industrial estate but has disposed of parts on long leases. The land at 1 Dutton Road is where the Council granted a lease for a term of 99 years effective from 20th May 1989. This lease facilitated the construction of the current industrial building. The Council currently receives a ground rent the details of which are outlined in the private report.
- 1.4 The opportunity is for the Council to acquire the long leasehold interest from its tenant, Real Estate Investors Plc which includes the occupied property, which produces an annual rent.
- 1.5 The industrial building on the site extends to 14,789 sqft (1,374 sqm). PHS Limited have a lease to occupy the building which continues until July 2024, approximately 7 years remaining. The rent payable by PHS to occupy the property is outlined in the private report.
- 1.6 The tenant PHS is a national business providing a range of cleaning, hygiene and waste management services for commercial clients.
- 1.7 The company accounts of PHS shows a group of business' which produces an annual turnover of £280 Million. The most recent accounts (2015/16) show the company making a healthy profit, the accounts for 2106/17 are not yet available.

2. Options and recommended proposal

- 2.1 The opportunity presented to the Council is to acquire the long leasehold interest under the lease dated 13th September 1989 and in turn the right to receive the occupational rent generated by the underlease to PHS.
- 2.2 Based on the purchasing cost outlined in the finance section of your report the anticipated return generated on the investment proposed would produce a return on the capital employed of circa 8.0%.
- 2.3 The price proposed to purchase the leasehold interest and the level of return anticipated has been valued by the Council's independent property agents, Lambert Smith Hampton. They have confirmed that the price represents open market value and best value both from the Council as freeholder and long leaseholder having special purchaser benefits in merging their interests.
- 2.4 If the Council didn't proceed with the purchase of the leasehold interest the Council would continue to receive the current ground lease from REI Limited.. The ground rent under the lease dated 13th September 1989 is due for review with effect from 20th May 2017.

2.5 Issues

- 2.5.1 The underlease to the current tenant PHS runs until 2024 at which time they have the option to request a new lease or to vacate the property. The current tenant has made significant investment in the property and has large expensive cleaning machinery in the premises. It is believed that this indicates a current intention to remain in the building. A business decision around their longer term occupation beyond the existing lease term will not be made for some years.
- 2.5.2 The property proposed to be acquired has had a building survey carried out and is reported to be generally in a good condition. Due to the historic mining which has taken place in the area, it has been suggested that further surveys be carried out to ensure that the building is not affected by these issues. Any acquisition will be subject to the survey findings.
- 2.5.3 The basic configuration and layout of the property, its size and the height of the eaves of the property along with its access doors will provide a good flexible industrial property suitable for a variety of tenants. The current estate is currently well occupied and this coupled with the quality of the property provides strong optimism that the property would readily re-let.
- 2.5.4 In 7 years' time the strength of the current industrial market may have changed and be weaker in terms of tenant demand. This risk is however reflected in the investment yield / return on the capital employed to purchase the property.
- 2.5.5 Risks associated with investing in commercial property are being mitigated because the fundamentals of the building proposed to be acquired are sound in terms of a popular business location, the quality and flexibility of the accommodation along with a lease to a strong national business.
- 2.5.6 The return is substantially higher than that which placing the money on deposit would achieve because there is a pricing of the risk factored in.
- 2.5.7 Acquiring the leasehold interest pursuant to the head lease dated 13th September 1989 not only provides the Council as landowner with greater income but also the potential added flexibility if required in the future, if it were to become commercially advantageous to combine adjoining land holdings for expansion or redevelopment.

2.6 Recommendation – To proceed with the purchase of the industrial investment.

3. Results of consultation undertaken

No public consultation has been undertaken

4. Timetable for implementing this decision

4.1 Subject to Cabinet and Councils approval it is anticipated that the acquisition of the leasehold interest would be completed within 28 days of the decision.

5. Comments from the Director of Finance and Corporate Services

5.1 Financial implications

The financial implications of the proposed acquisition are outlined in your private report

5.2 Legal implications

The Council's appointed external agents, Lambert Smith Hampton have verified that the terms of the acquisition specified in this report represent best value and in turn satisfy the requirements under Section 123 Local Government Act 1972

Officers within Legal Service (Place Directorate) will agree and complete the legal documentation effecting the acquisition of the leasehold interest

6. Other implications

6.1 How will this contribute to achievement of the Council Plan

The purchase of the leasehold interest and the net financial income 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 risks have been identified as ensuring that the proposed benefits of the development scheme are realised. These are being managed through the independent assessment of the risk and return proposed including considering the strength of the business occupying the property and ability for them to pay the rent and through the lease terms protect the condition of the property during and at the end of the current lease.

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 Directorate in dealing with the acquisition of the leasehold interest.

The acquisition of the long leasehold interest will merge with the Council's existing freehold interest and provide the Council with additional income producing commercial investment asset on an established industrial estate.

6.4 Equalities / EIA

An Equality Impact Assessment has not been undertaken as the proposal concerns the disposal of land for redevelopment as no Council service or group will be impacted.

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 acquisition 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

The Council's acquisition of the leasehold interest in the commercial industrial property proposed will have no additional implication or impact on the environment

6.6 Implications for partner organisations?

There are no implications for any partner organisations.

Report author(s):

Name and job title:

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Property: Richard Moon	Assistant Director Project Management and Property Services	Place	17/05/17	17/05/17
Director: Martin Yardley	Deputy CEO	Place	30/05/17	30/05/17
Members: Cllr Jim'O'Boyle	Cabinet Member for Jobs and Regeneration		30/05/17	30/05/17

This report is published on the council's website:

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Appendix 1

Location Plan

Unit 1, Dutton Road, CV2 2LE, Coventry.

Scale at A4 1:1250



Plan Production Date: 30/01/2017 This plan is for identification purposes only.