

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

8th October 2019
15th October 2019

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:

Wyken

Title:

B&M Stores, Antsy Road, Walsgrave, Coventry – Investment Acquisitions

Is this a key decision?

Yes - the proposals involve financial implications in excess of £1m per annum.

Executive Summary:

This report is seeking approval for the acquisition of a commercial investment property which would generate new income for the Council.

The subject property comprises just over 31,000 sqft of retail warehouse space with some 160 customer car parking spaces in front, sits on a site of 2.28 acres. It is occupied by B&M Stores under a lease for the next 10 years.

The commercially sensitive financial details of the proposal are contained within the corresponding private report.

The level of return generated is assessed 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 'market 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:

Subject to the consideration of the corresponding private report, Cabinet is recommended to:

1. Approve in principle the acquisition of the freehold interest subject to a leasehold tenancy, in land at Ansty Road, Coventry as shown on the attached plan 1 for a sum identified in the private report.
2. Delegate authority to the Deputy Chief Executive (Place) following consultation with the Director of Finance and Corporate Services and the City Solicitor to undertake the necessary due diligence, negotiate and finalise the terms of the acquisition of the properties and to complete all necessary legal documentation to facilitate the completion of the purchases.
3. Delegate authority to the Deputy Chief Executive (Place) following consultation with the Cabinet Members for Jobs and Regeneration and Cabinet Member Strategic Finance and Resources for any subsequent variation in terms.

Cabinet is asked to recommend to Council:

1. To approve the necessary adjustment to the Capital programme to reflect the capital expenditure incurred in the acquisition of the Ansty Road interest.

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List of Appendices included:

Plan 1: Site plan for the acquisition of the freehold interest in land known as B&M Stores Ansty Road, Coventry.

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 – 15th October 2019

Report title: B&M Stores, Ansty Road, Walsgrave, Coventry – Investment Acquisition.

1. Context (or background)

- 1.1 The Council is committed to investing capital receipts in order to increase revenue income, supporting services it seeks to deliver.
- 1.2 An opportunity has been presented to the Council to acquire property to create income.
- 1.3 The property comprises a purpose built A1 (non-food) stand alone, first generation former Focus DIY / Homebase Store retail warehouse unit. Constructed with a steel portal frame and clad with a combination of materials but predominantly cavity brick and blockwork / profile metal cladding to the elevations.
- 1.4 There is a customer car park to the front access directly from Ansty Road, with a concrete service yard to the rear. Customer car parking extends to approximately 160 spaces, providing a parking ratio of 1:18 sqm (1:195 sqft) and a separately accessed service yard and staff parking area to the rear.
- 1.5 The property provides approximately 2907 sqm (31,300 sqft) of internal accommodation, much of the accommodation being on the ground floor providing the trading space, with a small area of accommodation at first floor.
- 1.6 The total site extends to 2.28 acres
- 1.7 The property is let to B&M Retail Limited for a term of 15 years from 8th December 2014, expiring on 7th December 2029 leaving an unexpired term of just over 10 years.
- 1.8 The current passing rent per annum is outlined in the private report.
- 1.9 The Council already owns just under 50% of the site which is let out on two ground leases generating a total of six pence per annum. The opportunity is to acquire the Freehold land adjacent and benefit from the income generated from the occupational lease to B&M Stores.
- 1.10 The B&M group operates in the UK, Germany and France under the banners of
 - B&M Stores (general merchandise) – 620 stores across the UK
 - Herron Foods (convenience stores) – 281 predominantly in the north of England
 - Jawall (convenience and general stores) – 96 North west Germany
 - Badou (general merchandise and grocery) – 96 stores across France
- 1.11 B&M stores opened 44 net new stores during their Financial Year (FY)19. The company is reporting that it intends opening another 45 stores in their FY20.
- 1.12 The group recently released good trading results showing revenue growth on the previous year up by 15% to £3.48 billion. Their Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) has risen 8.8% to £249.4m

2. Options and recommended proposal

Option 1 – Proceed with Acquisition

- 2.1 The proposed acquisition of the retail warehouse, B&M Stores, would complement the Council's existing investment portfolio, helping to diversify it and provide a balance to the other asset.
- 2.2 The Council currently owns just over 50% of the site which the retail warehouse occupies. Following the acquisition the Council will own the whole of the site on a Freehold basis, subject to the occupational income producing lease from B&M Stores.
- 2.3 Purchasing the land and interests not only provides a substantial increase in the annual income generated from the site but also provides a strategic possibility to combine the land holdings for redevelopment in the medium to long term.
- 2.4 Based on the purchasing cost outlined in the finance section of the private report the return generated on the proposed investment would produce an initial return of 6.7% from the rent increase agreed in December 2019.
- 2.5 The purchase prices proposed for the freehold and leasehold interest and the level of return anticipated has been considered and evaluated by the Council's independent property agents, Lambert Smith Hampton. They have confirmed that the price represents the open market value for the acquisition.
- 2.6 The risks of the investment are reflected in the investment yield / return on the capital employed to purchase the property and due to the scarcity of property available are typical of those currently available in the investment market.
- 2.7 The anticipated return is substantially higher than that which placing the money on deposit.
- 2.8 The vendors have agreed to the terms of the purchase subject to the sale completing on or before the 30th October 2019.

Option - 2 Not to proceed with this acquisition

- 2.9 This option is not recommended as good quality investment opportunities with a strong covenant and 10 year income are limited in the current Coventry market.

Recommendation – To proceed with the purchase of the income producing 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 Council will secure the acquisition of the Freehold and leasehold interest within 10 working days of a positive decision.

5. Comments from the Director of Finance and Corporate Services

5.1 Financial implications

The commercially sensitive financial implications of this transaction are contained within the private report.

It is important to note that although the current tenant has a lease for the next ten years 100% rental yields cannot be guaranteed due to business failures and the void rental and cost liabilities that could arise as a result. The existing tenant currently has a strong trading position, having produced strong trading results and have reported a significant growth in new stores across the UK and Europe.

Property Consultants, Lambert Smith Hampton, have confirmed that the proposed purchases prices represent the best price achievable in the current market. Taking price and risk into account, the proposal would appear to represent a sensible financial opportunity for the Council. If approved by members, the purchase is proposed to be funded from corporate capital resources.

5.2 Legal implications

Local authorities have broad powers allowing it to invest and to borrow, either for purposes relevant to the performance of any of their functions or generally for the prudent management of their financial affairs (s1 and s12 of the Local Government Act 2003). The Council may also acquire property by agreement located either inside or outside of their administrative boundary for the purposes of any of their functions, including their investment functions, or otherwise for the benefit, improvement or development of their area (s120 of the Local Government Act 1972).

Lastly, they may also take any action (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions, which would again include their investment functions (s111 of the Local Government Act 1972).

The Council will ensure that in exercising its investment functions to expand its property portfolio that any actions are reasonable and proportionate and for proper purposes consistent with the Council's prudential regime and its investment strategy.

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

All acquisitions are subject to the vendors being able to show good title and the undertaking of the normal due diligence and finalising the terms of acquisition with regards to the acquisition of land and buildings.

Officers within Legal Service (Place Directorate) have been consulted with regards to the preparation of this report and will agree and complete the legal documentation effecting the acquisition of the freehold and leasehold interests ensuring that the Council's interests are properly protected.

6. Other implications

6.1 How will this contribute to achievement of the Council Plan (www.coventry.gov.uk/councilplan/)?

The purchase of the freehold 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 around the strength of the income being acquired have been identified and reflected in the proposed price to be paid for the asset.

6.3 What is the impact on the organisation?

The impact to the organisation will be limited to generate additional work for officers within Place Directorate in dealing with the acquisition of the property and long term management of the interest.

The acquisitions will generate additional income producing commercial investments.

6.4 Equality and Consultation Analysis (ECA)

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) climate change and the environment

The Council's acquisition of the freehold interest in the commercial office 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):

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Directorate:

Place Directorate

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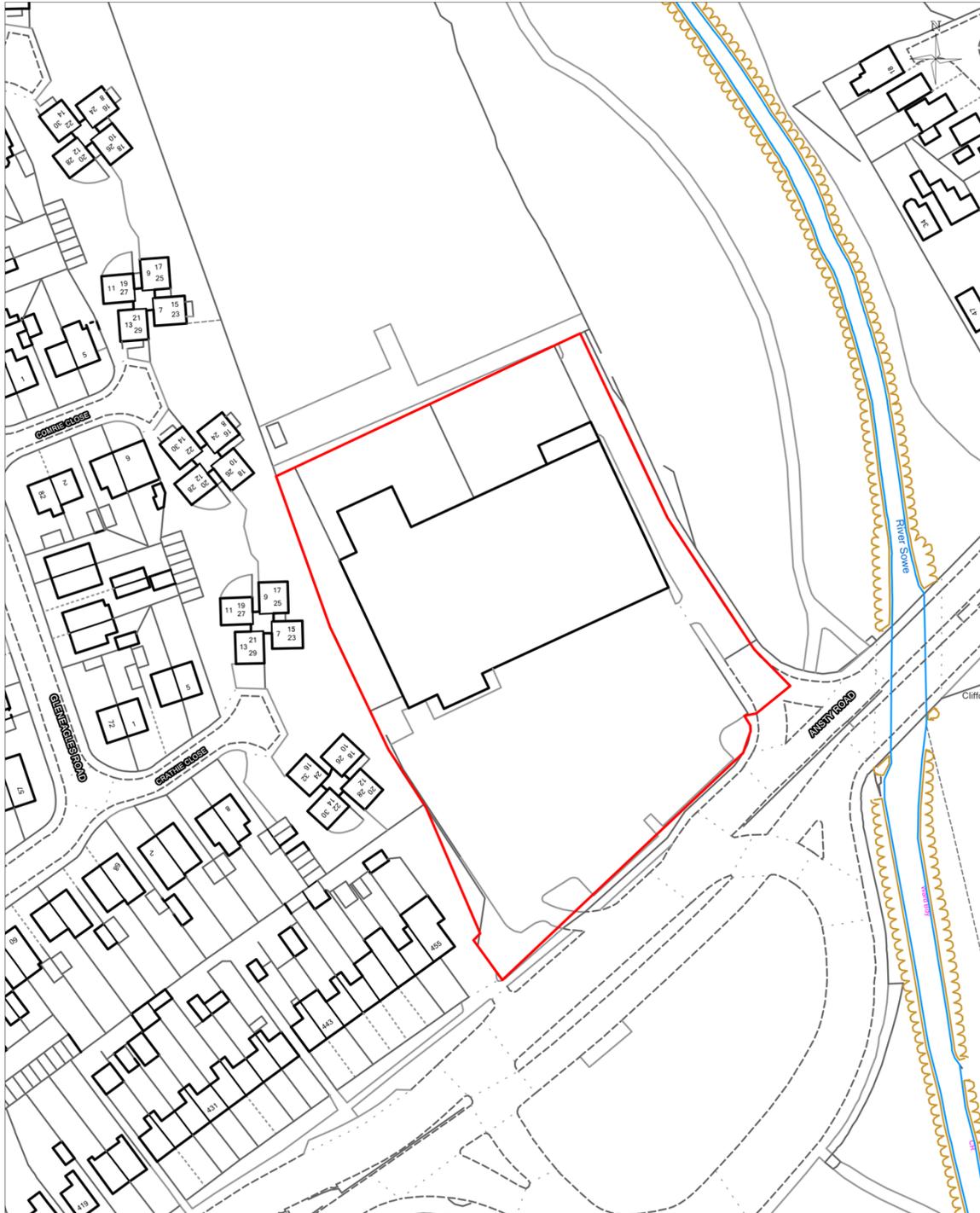
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Members: Cllr Jim'O'Boyle	Cabinet Member for Jobs and Regeneration		24/09/19	24/09/19

This report is published on the council's website:

www.coventry.gov.uk/meetings

Location Plan – B&M stores, Ansty Road, Coventry



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 PROPERTY
 ONE FRIARGATE
 COVENTRY
 CV1 2GN
 Tel: 024 76972105



Title: Ansty Road

Drawn By: LB
 Scale :1:1250
 Date: 20/09/2019

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