
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

10th March 2020
17th March 2020

Name of Cabinet Member:

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

Director Approving Submission of the report:

Deputy Chief Executive Officer (Place)

Ward(s) affected:

St Michaels

Title:

Phase 2A Belgrave Place, Upper Wells Street, 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 is 100% let and comprises 129,500 sqft of mixed use, city centre accommodation including a hotel, restaurants, convenience store, gym and residential accommodation.

The proposal being that the Council would acquire the long leasehold interest in the land and receive the income from the occupational tenants, 70% is secured against two strong tenants with leases for between 11 and 22 years. Details of the price to be paid, income generated and initial return made by the investment is outlined in the private part of your report.

The level of return generated is assessed based on the level of risk associated with the length of leases 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 team.

Recommendations:

Cabinet is recommended to request that Council:

1. Approve the use of its powers under Section 12 of Local Government Act 2003 and Section 1 of the Localism Act 2011 to acquire the leasehold interest in Phase 2A Belgrade Plaza, subject to the seven occupational tenancies, 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 transaction.
3. Delegate authority to the Deputy Chief Executive (Place), following consultation with the Cabinet Members for Jobs and Regeneration and Cabinet Member for Strategic Finance and Resources, for any subsequent variation in terms.
4. To approve the necessary adjustment to the Capital programme to reflect the capital expenditure incurred in the acquisition of Phase 2A Belgrade Plaza

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3. Delegate authority to the Deputy Chief Executive (Place), following consultation with the Cabinet Members for Jobs and Regeneration and Cabinet Member for Strategic Finance and Resources, for any subsequent variation in terms.
4. To approve the necessary adjustment to the Capital programme to reflect the capital expenditure incurred in the acquisition of Phase 2A Belgrade Plaza

List of Appendices included:

Plan 1: Site plan for the acquisition of the interest.

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 – 17th March 2020

Report title: Phase 2A Belgrade Plaza, Upper Wells Street, Coventry – Investment Acquisitions.

1. Context (or background)

- 1.1 The Council is committed to investing capital receipts in order to increase its income and therefore, the revenue available to deliver key services.
- 1.2 An opportunity has been presented to the Council to acquire property for the purpose of generating revenue income.
- 1.3 The property comprises a purpose-built mixed-use accommodation including at 120 bed hotel, 63 one and 2 bed self-contained residential flats, Gymnasium, ground floor restaurants and convenience store. Completed in 2008 with a steel frame and rain screen cladding to the elevations comprising a combination of materials.
- 1.4 The property provides approximately 129,500 sqft of internal accommodation.
- 1.5 The property is let to seven tenants, Premier Inn, Coventry University, J D Gyms, Pizza Express, Café Rouge, Bella Italia and McColl's. There are a range of lease lengths from 22 years to 4 years however 70% of the income is secured against Premier Inn and Coventry University who have 22 and 11 years left respectively on their leases.
- 1.6 The Casual Dinning Group, who own Café Rouge, have recently advised that they intend to change the concept for Coventry investing in a significant refit of this unit changing it from Café Rouge to The Mulberry, an all day dining offer café / bar.
- 1.7 Phase 2A is also responsible for the management and maintenance of the external public realm around the whole of Belgrade Plaza. The costs of this is recovered through a service charge levied to the other building tenants.
- 1.8 Although there is no on-site car parking, there is the 1000 space Belgrade public car park operated by NCP 24/7, immediately adjacent supporting the activity and uses in the property.
- 1.9 74% of the current rent passing is reviewed by way of fixed uplifts in accordance with the Consumer Price Index.
- 1.10 The Council already owns the freehold and currently receives a ground rent having granted a long lease over the development site in 2006, which will continue to be received. The opportunity is to acquire the additional income generated from the occupational leases as outlined in the private report.
- 1.11 External property consultants Avison & Young have valued the property interests. They have confirmed that the price reflects the market value for the asset based on the level of income generated, quality of tenants, length of leases and market risks.
- 1.12 Legal due diligence and building surveys are being undertaken and the acquisition is subject to receiving satisfactory reports.

2. Options and recommended proposal

Option 1 – Proceed with Acquisition

- 2.1 The proposed acquisition of the mixed-use investment, would complement the Council's existing investment portfolio, helping to diversify it and provide a balance to the other assets.

- 2.2 The investment has a good proportion of long-term income secured against strong tenants.
- 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 report the return generated on the proposed investment would produce an initial return as outlined in your private report. 74% of the rents are reviewed in line with the Consumer Price Index which provides greater certainty around the future increases in the rents. The remainder being reviewed to the market rent at the time.
- 2.5 External property consultants Avison & Young have valued the property interests. They have confirmed that the price reflects the market value for the asset based on the level of income generated, quality of tenants, length of leases and market risks.
- 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 higher than that which placing the money on deposit would secure.
- 2.8 The vendors have agreed to the terms of the purchase subject to the sale completing on or before the 25th March 2020.

Option 2 - Not to proceed with this acquisition

- 2.9 This option is not recommended as good quality investment opportunities with strong covenants and 10 year plus 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 required that the Council will secure the acquisition of the leasehold interest on or before 25th March 2020 days of a positive decision.

5. Comments from the Director of Finance and Corporate resources

5.1 Financial implications

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

Members have previously approved a number of commercial property acquisitions in order to provide the Council with new income streams to help support the Medium-Term Financial Strategy and support the wider delivery of Council services. It is important to consider the proposed Council's investment in the company in the context of the Council's Commercial Investment Strategy approved by Council as part of the Budget Setting Report in February 2020. The acquisition is proportionate to the size of the Council and the view of the Director of

Finance and Corporate Services is that the investment is consistent with the Commercial Investment Strategy.

Each proposed acquisition has been considered on a commercial business case taking into account the one-off investment costs, the income to be generated from rent, and any net landlord liabilities. The detailed business case assessment set out in the private report identifies the risks and how these can be managed.

The capital receipts that will be used to fund this acquisition were taken into account within the forecasts included in the recent Budget Report to Council. However, it is important to note at this stage is that the Council will not be able to enter into any further commitments involving capital receipts until and unless further capital receipts are identified in future.

5.2 Legal implications

Under Section 12 of the Local Government Act 2003 the Council has a specific power to invest. The power states "a local authority may invest for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". This provides the Council with a power to invest in acquiring Phase 2A Belgrade Plaza, for any purpose relevant to its functions (this function would have to be identified) or if the Council can show it is for the prudent management of its financial affairs. Under section 1 of the Localism Act 2011, the Council also has a power "to do anything that individuals generally may do" (the "General Power of Competence"). "Individual" means an individual with full capacity. The General Power of Competence gives the Council:

- i. power to do a thing anywhere in the United Kingdom or elsewhere,
- ii. power to do it for a commercial purpose or otherwise for a charge, or without charge, and
- iii. power to do it for, or otherwise than for, the benefit of the authority, its area or persons resident or present in its area.

Where the Council uses the General Power of Competence to do something for a commercial purpose, section 4 of the Localism Act 2011 requires that the Council must do so through a company (which has a wider definition than for the purposes of section 95 Local Government Act 2003).

The General Power of Competence is limited by any restrictions on any pre-existing powers of the Council. The General Power of Competence can be used in conjunction with existing powers, for example the section 95 trading power.

The Council 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.

Best Consideration

The Council has the general power under section 123(1) of the Local Government Act 1972 to dispose of land and property in any manner it wishes. The Secretary of State's consent is not required provided the disposal is for the best consideration that can reasonably be obtained. The leases entered into will discharge this obligation.

The Council's external agents, Avison & Young 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

Legal Due Diligence

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.

Procurement and State Aid

The Council is not purchasing any services, goods or works as part of the transaction, and so the Public Contracts Regulations 2015 and the Council's contract procedure rules will not apply.

The Council is complying with EU State aid law as the transaction is being undertaken upon arms' length terms, meaning that no benefit is conferred on the vendor and there is no distortion to competition.

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 flows 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 the generation of additional work for officers within Place Directorate in dealing with the acquisition of the property and long-term management of the interest. The financial implication has been outlined in the finance section of this report

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 acquisition of land and buildings 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 commercial 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.

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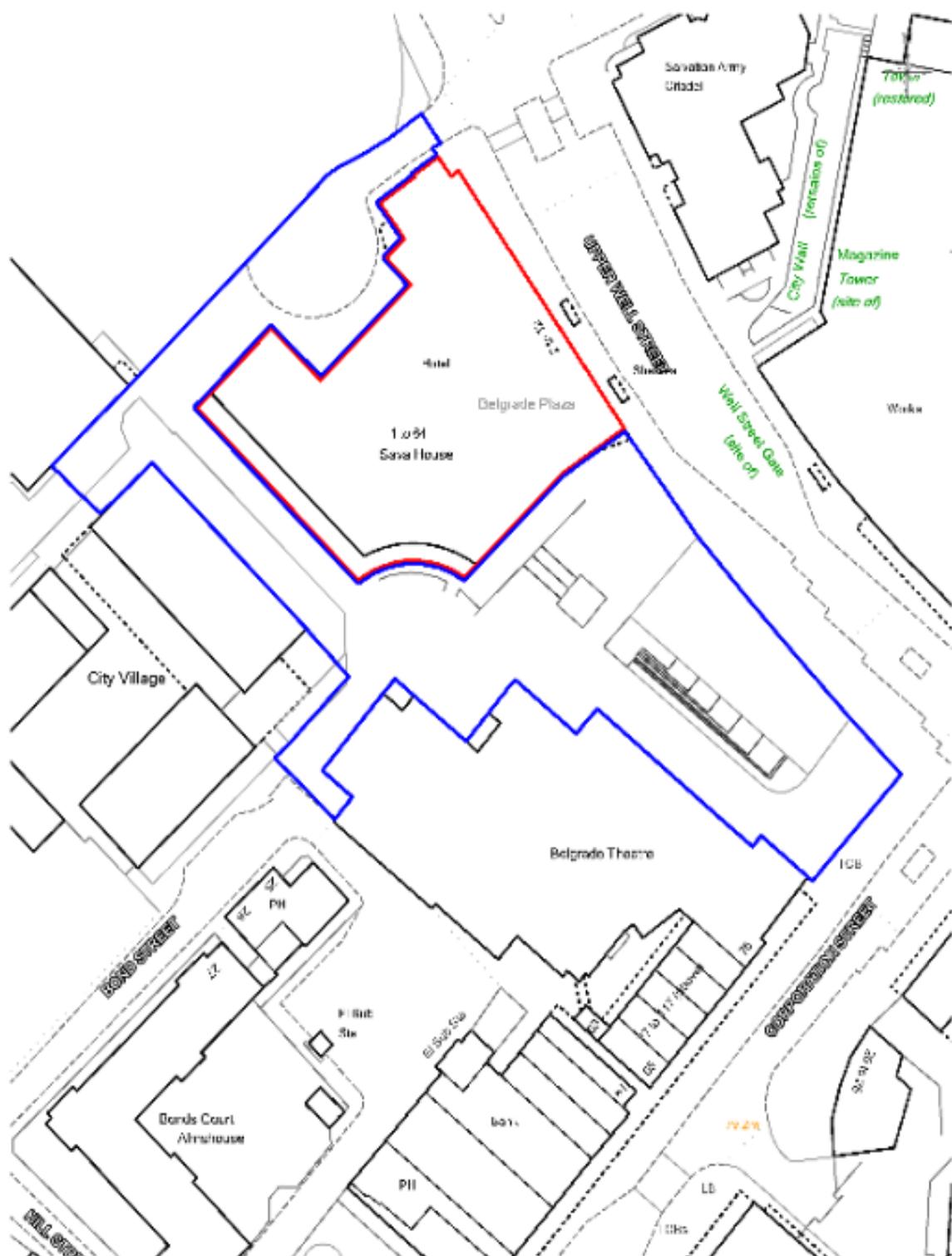
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Plan 1 – Phase 2A Belgrade



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Title: Belgrade Plaza and surrounding land

Drawn By: LB
Scale : NTS
Date: 04/02/2020