
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.

Cabinet
Council

8th January 2013
15th January 2013

Name of Cabinet Member:

Cabinet Member (City Development) - Councillor Kelly

Director Approving Submission of the report:

City Services & Development

Ward(s) affected:

St Michaels

Title: Shelton Square - Investment Acquisition

Is this a key decision?

Yes

The decision will result in a capital expenditure of more than £500K

Executive Summary:

To assist with the Councils objective of securing a retail development in the city centre, an opportunity has arisen to acquire income producing properties in the City Centre South area.

This acquisition would enable an intermediary property interest to be removed from the development area providing greater control around the delivery of the future development at a cost which would be less than if it had to be acquired using Compulsory Purchase Powers (CPO) in the future.

The financial details of the proposed acquisition of the 7 retail units in Shelton Square / City Arcade are outlined within the private report which accompanies this public report.

Recommendations:

Cabinet is requested to recommend that Council:

- 1) Approve the acquisition of the leasehold interest in 1-11 Shelton Square and 1a City Arcade.
- 2) Delegate authority to the Director of City Services & Development and Director of Finance and Legal services, in consultation with Cabinet member (City Development) to complete all the necessary legal documents in connection with the purchase.

Council is requested to:

- 1) Approve the acquisition of the leasehold interest in 1-11 Shelton Square and 1a City Arcade.
- 2) Delegate authority to the Director of City Services & Development and Director of Finance and Legal services, in consultation with Cabinet member (City Development) to complete all the necessary legal documents in connection with the purchase.

List of Appendices included:

Appendix A – Location Plan

Other useful background papers:

None

If there are none, say so.

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 January 2013

Report title:

1. Context (or background)

- 1.1 An opportunity has been presented to the Council to make a strategic property acquisition in Coventry's city centre. The income producing, leasehold investment is a known as 1-11 Shelton Square and 1a City Arcade.
- 1.2 In 2009 and 2010 Cabinet agreed that the location for future retail development in the city centre would be focused on the City Centre South area culminating in an outline planning consent for a development being obtained in 2012. The Shelton Square properties fall within the area covered by the planning consent and would be required to deliver the proposed retail scheme.
- 1.3 The properties are being sold by a liquidator on behalf of a property company in administration and a quick decision regarding the purchase is required if the Council wishes to secure them.
- 1.4 Former directors of the property company in liquidation are also in negotiations with the liquidator with a view to buying back the asset.

2. Options considered and recommended proposal

- 2.1 The seven adjoining retail investment properties predominantly front onto the southern side of Shelton Square (See Appendix A), with two of the retail units having frontages onto City Arcade. The City Centre South outline planning consent shows the retail units are located within the area identified for a future anchor store and is therefore a key site required in the current scheme.
- 2.2 The retail investment properties comprise ground floor sales area with first floor ancillary storage. Betfred bookmakers, occupies two adjoining units with the five other tenants having single units. The other tenants are Greggs Plc, H&T Pawnbrokers, Warren James jewellers and two local traders Pawelek Polish Delicatessen and Alan Tyndall trading as Antics a model shop. The signing of new leases to both Greggs and Alan Tyndall would be a condition of the purchase.
- 2.3 Details outlining the length of tenancy's and the rents received from the occupiers are held within paragraph 5.1, financial implication section of your private report.
- 2.4 *Option 1 : Coventry City Council to acquire via prudential borrowing*

The Council already owns the Freehold of the land on which the shops in Shelton Square were built but doesn't currently own the buildings or the right to receive the rent paid by the tenants of the shops.

The Council also owns adjoining and surrounding properties both in Shelton Square, City Arcade and Market Way.

The Council's purchase of the shops, subject to existing and new leases, would:-

- Assist with the land assembly required to deliver the future retail led development of this area.

- Reduce the development risk for a future development partner by removing an intermediate landlord thus providing the Council with a direct legal relationship with the current tenants. This will provide greater control of the interest and enable direct negotiations with the tenants around future development issues, especially managing obtaining vacant possession.
- Reduces uncertainty around the future need for and potential costs required to purchase the asset using CPO powers, helping to control the potential additional cost and delay this would add.
- In the meantime, ahead of any development, the property would produce a return on the capital investment, based on current rental levels of approximately 11%, which easily covers the cost of the prudential borrowing proposed to be used in the purchase.
- The main risk to the Council in the short term would be that one or more of the current tenants cease trading and the unit cannot be re-let at the same rental level, thus reducing income. This has however been considered and the provisional purchase price negotiated reflects this possibility.

2.5 Option 2 : Aviva Acquires

Our current city centre south partner, Aviva, could look to purchase the asset themselves as they already hold the head lease interest in the premises. Aviva have already indicated that they have no investment appetite to purchase further assets in Coventry's city centre ahead of the proposed development.

2.6 Option 3 : A third party acquires the asset and the Council acquires it via CPO in the future when required.

Although the Council is currently the preferred purchaser, a stronger offer could be received by the liquidator and therefore the asset could be sold to a third party. Even at a purchase price slightly above the current proposed purchase price, a third party would be looking at an attractive return on their money invested. The third party may also perceive some benefit from securing a future negotiating position when a development partner looks to buy in the properties later or at frustrating the scheme through the CPO process.

2.7 Preferred Option

Option 1 - The Council to make the purchase, securing control of the asset, reducing development risk and increasing the deliverability of the city centre development area, as well as securing short term income.

3. Results of consultation undertaken

- 3.1 No specific consultation has been undertaken regarding the purchase of the investment but the development plans for the city centre have been widely consulted.

4. Timetable for implementing this decision

- 4.1 The liquidator has confirmed that exchange of contracts is required to take place immediately following approval at Council, with completion of the purchase 14 days thereafter.

5. Comments from Director of Finance and Legal Services

5.1 Financial implications

The proposed purchase is a commercially sensitive transaction as such the details of the financial implications are presented within your private report.

5.2 Legal implications

The Council will acquire the leasehold interest under section 120 of the Local Government Act 1972 which enables the Council to acquire property by agreement if it's for the benefit, improvement and development of the area.

6. Other implications

Any other specific 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)?

Initially the investment acquisition is to be seen as a financial transaction however if it helps to deliver a redevelopment of the city centre this would help to make Coventry a more attractive and enjoyable place to be encouraging a more active and vibrant city centre, improving the environment providing a more energy efficient development.

6.2 How is risk being managed?

The purchase is being led by City Centre and Development Division of City Services & Development Directorate, working together with Legal and Financial services to manage the risks with the acquisition.

Financial credit checks of the 4 main tenants who occupy 5 of the 7 units, Greggs PLC, Betfred Bookmakers, H&T Pawnbrokers and Warren James Jewellers, all indicate they have strong financial reserves. The other two tenants' are local independent traders and the greater risk of failure has been considered and reflected in the purchase price.

Investment property assets will be managed pro-actively as part of the wider portfolio to maximise the occupancy levels.

6.3 What is the impact on the organisation?

It exposes the Council to financial risk which has been considered in your private report.

6.4 Equalities / EIA

No equality impact assessment has been carried out as the recommendations do not constitute a change in service or policy.

6.5 Implications for (or impact on) the environment

The initial investment purchase does not change the environment. If this ultimately leads to the development of part of the city centre the impact of these changes will be considered at the time but should provide opportunities for significant environmental improvements.

6.6 Implications for partner organisations?

The initial investment purchase does not affect any partner organisation. If this ultimately leads to the development of part of the city centre, the impact of these changes on any parties will be considered then.

Report author(s):

Name and job title:

Paul Beesley
Team Leader, Property Development

Directorate:

City Services & Development

Tel and email contact:

024 76831377
paul.beesley@coventry.gov.uk

Enquiries should be directed to the above person.

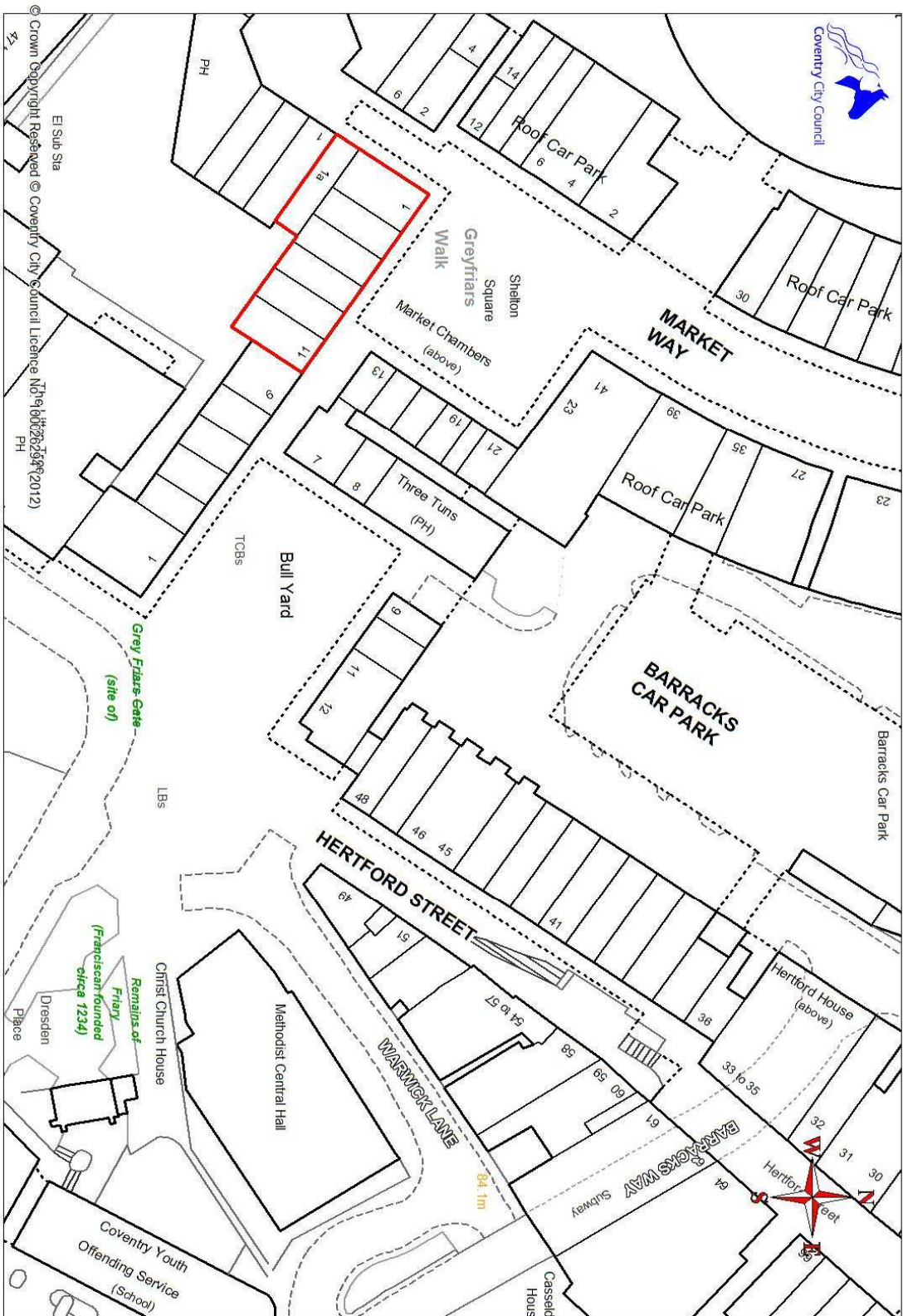
Contributor/approver name	Title	Directorate or organisation	Date doc sent out	Date response received or approved
Contributors:				
David Cockroft	Assistant Director City Centre & Development	City Services & Development	10/12/2012	10/12/2013
David Iles	Media & Communications		10/12/2012	
Other members				
Names of approvers for submission: (officers and members)				
Finance: Phil Helm		Finance & legal	10/12/2012	10/12/2013
Legal: Clarissa Evans	Commercial Team Manager	Finance & legal	10/12/2012	10/12/2013
Director: Martin Yardley	Director	City Services & Development	10/12/2012	
Members: Name				
Cllr Lynnette Kelly	Cabinet Member (City Development)		10/12/2012	

This report is published on the council's website:

www.coventry.gov.uk/meetings

Appendix A – Location Plan

Shelton Square, Investment Acquisition.



Scale at A4 1 : 800

© Crown Copyright Resealed © Coventry City Council Licence No: 10002399 (2012)
 Plan Production Date: 10/12/2012