

Agenda Item No: 9.6 **Report No:** 100/16

Report Title: **Asset Management:**
Land at Friars Walk, Lewes;
Units 19-21 Cradle Hill, Seaford;
Land at Denton Island, Newhaven;
Landport Youth Centre, Lewes.

Report To: Cabinet **Date:** 4th July 2016

Cabinet Member: Cllr Bill Giles

Ward(s) Affected: Lewes Bridge, Lewes Castle, Newhaven Valley, Seaford North

Report By: Alan Osborne, Director of Corporate Services
Rob Cottrill, Chief Executive

Contact Officer(s)-

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Purpose of Report:

To seek Cabinet approval of a number of asset management opportunities intended to increase revenue generated, or produce a capital receipt for the Council.

Officers Recommendation(s):

- 1 To delegate authority to the Director of Corporate Services to refurbish the building known as the Turkish Baths, Friars Walk, Lewes at a cost of up to £220,000 (including fees and planning) and to let the refurbished building at a commercial rent with a change of use to retail or restaurant.
- 2 To delegate authority to the Director of Corporate Services to purchase the lease of 19-21 Cradle Hill, Seaford, for £120,000 and set aside capital investment of up to £100,000 including fees to modernise the unit.
3. To approve the surrender of the current lease to Denton Island Bowls Club, Newhaven, together with granting a new lease for a smaller area on the existing terms.
4. To agree in principle to set aside up to £530,000 in the capital programme to develop the surrendered land at Denton Island, Newhaven, to provide a new

facility for Lewes Skatehouse, subject to agreement of commercial terms and the submission of a robust business plan from Lewes Skatehouse.

5. To approve the sale in principle of Landport Youth Centre, Lewes, and to delegate authority to the Director of Corporate Services to negotiate terms.

Reasons for Recommendations

- 1 To increase revenue to the Council by investing in a number of assets to deliver the best yield.
- 2 To assist with the relocation of businesses from the North St Quarter, freeing up land for development.

Information

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Land at Friar's Walk, Lewes (Appendix A)

- 3.1 The Turkish Baths is a single-storey building located at Friar's Walk, Lewes. It was constructed in the late 19th century as a purpose-built Turkish Baths but no parts of the original baths remain, having closed as a Turkish Baths in 1882. The building is not listed and is not registered as an Asset of Community Value.
- 3.2 The building previously housed the Council's print unit, but the service transferred to Eastbourne in June 2015. There was also a room set aside for use by Unison, but this facility has been re-provided at Southover House. As a result, the building is now empty and, in line with the Property Strategy adopted by the Council in May 2012, the building is surplus to the requirements of the service.
- 3.3 The building has a net internal area (NIA) of around 2,000 sq ft with a 600 sq ft garden to the side. It is a substantial and attractive property, in reasonable condition which would benefit from improvement and modernisation.
- 3.4 There are broadly three options for the Council to consider:
 - (a) Refurbishment. Refurbishing the building would involve replacing windows with double glazed units, removing the internal walls, inserting steel beams to maintain structural integrity, and overhaul the electrics and services. The building could then be marketed as a restaurant or possibly retail space. The new build Premier Inn at the Magistrates Court is less than 50 metres away and a restaurant would be an attractive proposition to complement the proposed facilities and the existing offers in the town. The likely achievable rent would be in the region of £40,000

pa (as advised by Stiles Harold Williams). Planning permission would be required for a change of use.

- (b)** Let the building as is. There has been a lot of interest in the building since it was closed. The interests range from community groups to gallery owners and one person who wishes to restore it as a Turkish Baths again. It would be possible to let the building reasonably quickly without refurbishment, generating an income for the Council, but any income received would fall short of the potential maximum and the Turkish Baths would remain an under-performing asset, and would not deliver best value for the Council.
- (c)** Sale of the freehold. A sale might generate between £250,000 - £350,000 as a capital receipt for the Council and reduce the ongoing operating costs. However, the potential ongoing revenue stream from a good quality lease would be lost.
- 3.5** The recommendation is to refurbish the building to benefit from an improved rent, generating revenue for the Council. The cost of refurbishment would be in the region of £150,000 - £200,000 plus fees at 10% (to include the planning application).
- 3.6** Refurbishment would also improve the asset value. The building was valued at £250,000 in Feb 2015, but if the refurbishment was completed sympathetically, the resulting valuation could be £600,000. The refurbished building would then return a yield of 6.7% as a minimum.

Units 19-21 Cradle Hill, Seaford (Appendix B)

- 3.7** LDC owns the freehold of the Cradle Hill Industrial Estate. The units are all let out on long leases, but most are geared on a ground rent only basis.
- 3.8** The lease on units 19-21 has become available after the tenant has got into financial difficulty. The current rent to the Council is £11,620 pa but there are two outstanding rent reviews and the rent after review is anticipated to rise to £17,000 pa.
- 3.9** The units comprise a total area of 11,506 sq ft comprising of a yard, an office and welfare unit, an engineering unit and a storage shed. With some modernisation to remove the asbestos cladding and install warm-air heating, the units could be let for around £33,000 pa, trebling the current rental income.
- 3.10** Officers have conducted a valuation of the lease and conclude that it is worth in the region of £120,000 to buy-in. It is recommended that Cabinet approves the purchase of the lease for £120,000 and sets aside capital investment of up to £100,000 including fees to modernise the unit.

Land at Denton Island, Newhaven (Appendix C)

- 3.11** Denton Island Bowls Club lease land from the Council at Denton Island, Newhaven. They are currently paying a rent of £23,000, abated to £18,000, but a recent rent review suggests the rental figure should be closer to £25,000. The Club state that any higher rent would be unaffordable for them.
- 3.12** Officers have discussed the position with the Club and have proposed that the Club surrenders around 15,000 sq ft of unused land to the side of the building, and in return the rent will remain at £23,000 until June 2023.
- 3.13** The surrendered land would be capable of supporting a commercial development of around 5,000-6,000 sq ft. It is not suitable for housing as it is an ex landfill site, surrounded by commercial enterprises.
- 3.14** Officers have been in discussions with Lewes Skatehouse who need to relocate from North Street, Lewes. Denton Island appears to meet their needs, being a non-residential area, close to transport links, and with Sussex Downs College nearby.
- 3.15** Lewes Skatehouse ideally need a building to locate to and are not in a position to raise funds themselves to build out. However, they have indicated that they would be able to afford a rent of around £7.00 per sq ft, which is commensurate with the current market rents at Denton Island.
- 3.16** Lewes Skatehouse have suggested they need a building with a Net Internal Area of between 4,000 and 5,000 sq ft. The table below shows the potential build costs and achievable yields, depending upon building size.

Size	Build Costs	Rental Income	Potential Yield
4,000 sq ft	£360,000	£28,000	7.7%
5,000 sq ft	£440,000	£35,000	7.9%
6,000 sq ft	£530,000	£42,000	7.9%

- 3.17** Should Lewes Skatehouse not wish to proceed, there are at least two other businesses interested in leasing the land.
- 3.18** It is recommended that Cabinet approves the surrender of the current lease to Denton Island Bowls Club, together with granting a new lease for a smaller area on the existing terms.
- 3.19** It is also recommended that Cabinet sets aside up to £530,000 to develop the surrendered land for a new facility for Lewes Skatehouse on Denton Island, subject to agreement of commercial terms.

Landport Youth Centre, Lewes (marked as Lewes Boys Club at Appendix D)

- 3.20** The Landport Youth Centre building (LYCb) is located on the Landport Estate, Lewes. It has previously been let to Ambition, formerly Lewes Boys Club, and is currently let on a Tenancy at Will to a charity called Landport Youth Centre (LYC).
- 3.21** A Tenancy at Will, is a month by month rolling agreement allowing LYC to access and operate from the building at a peppercorn rent. It can be broken at any time by either party giving one month's notice. A Tenancy at Will should not be used in place of a lease however, and is very much an interim measure.
- 3.22** The building is part community centre and part sports hall, with café/meeting space, small library, a one-court sports hall, changing rooms and office accommodation. It would be a difficult building to convert to residential and there are few other alternative uses for it.
- 3.23** LYC have maintained the building at their cost over a number of years but are not in a position to pay a market rent to the Council. The last rent review in 2013 suggested that the rent should be in the region of £18,000 pa.
- 3.24** LYC deliver a much-needed service from the building and officers have explored a number of ways of enabling them to remain there. An opportunity has arisen to co-locate two other services at the building, which would help LYC to remain.
- 3.25** Officers have been contacted by an organisation called Pippa's Group, currently located in a portacabin at Pells School. They have been looking for permanent premises for some time and ideally would like to purchase a property. Their ideal location would be Landport and their search is now more urgent as Pells School is currently listed for possible closure.
- 3.26** Pippa's Group offer support to pre-school children who may have difficulty adapting to school. They also run parenting classes and have good links with the Dance Studio, who also need to relocate from North St. Officers have held a meeting between representatives of LYC, Pippa's Group, and the Dance Studio to see whether it would be possible for all three services to operate from LYCb.
- 3.27** The initial meeting was positive and, while the details need to be worked out, Pippa's Group are interested in purchasing the building, which they will then let in part to LYC and the Dance Studio. The purchase hinges on whether it would be possible to reconfigure the building by adding another floor, and what the costs of that would be.
- 3.28** LYCb is a Housing Revenue Account property and any disposal would require the Secretary of State's permission. However, sale of the property would result in a capital receipt for the Council of around £190,000, but more importantly, would enable the co-location of three services with a strong emphasis on children and youth provision.

- 3.29** It is recommended that Cabinet approves the sale in principle of LYCb to Pippa's Group, subject to reaching mutually agreeable terms for a sale price of around £190,000.

Financial Appraisal

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- 4.1** The Council is able to borrow to fund capital expenditure on the purchase, improvement or enhancement of General Fund property assets. Before borrowing for capital purposes, it is necessary to ensure that it is prudent to do so, ie that the General Fund budget can afford any interest cost associated with the borrowing and to repay the amount borrowed over an appropriate period of time.
- 4.2** The recommended options in respect of Land at Friars Walk, Units 19-21 Cradle Hill and Land at Denton Island each meet the prudential borrowing test, with the additional annual cost of borrowing to the General Fund being outweighed by the additional rental income which will be generated each year. If approved, the cost of each proposal will be included within the 2016/2017 capital programme, to be financed from prudential borrowing.
- 4.3** The disposal of Landport Youth Centre would generate a capital receipt. In compliance with statutory regulations, this receipt could only be used as a source of finance for capital expenditure associated with a housing project, or for the repayment of outstanding borrowing.

Legal Implications

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- 5.1** The recommendations set out in this report relate to executive functions which Cabinet, under the Council's constitution, has authority to approve.
- 5.2** As an HRA property, Landport Youth Centre building may not be disposed of by the Council without the consent of the Secretary of State – section 32 of the Housing Act 1985 refers. However, so long as the Council disposes of the land for a consideration equal to its market value, the disposal would be allowed for under the General Housing Consents 2013 issued by the Secretary of State under section 34 of the 1985 Act. A professional valuation would be required, to ensure the consideration requirements were met.

Risk Management Implications

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- 6.1** The property market is currently buoyant, but political and economic factors can influence the return on investments made. The proposals in this report (with the exception of Landport Youth Centre) are not solely based on generating revenue from the existing asset. Each asset will

require a degree of capital investment, which both increases the asset value and improves the income from rents.

- 6.2** Being unable to let the properties once modernised presents the largest risk. However, there are very few vacant commercial properties in Lewes and the Premier Inn is anticipated to bring new footfall and interest into the Friar's Walk area. Similarly, there are few commercial properties available in Seaford and a modernised unit at Cradle Hill will be an attractive proposition for many.

Equality Screening

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- 7.1** The proposals in this report have positive impacts upon equality. Cradle Hill and the Turkish baths both offer opportunities for job creation. The sale of Landport Youth Centre will enable services for children and young people to continue, promoting healthy, active lifestyles as well as a meeting place for a number of community groups.
- 7.2** The proposed new site for Lewes Skatehouse is close to transport links and will offer a purpose-built facility. Although people of different ages skate, the activity primarily appeals to younger people. The new building would be situated on Denton Island, close to Sussex Downs Community College, and would therefore increase the options for participation from younger people.

Background Papers

- 8** None

Appendices

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- Appendix A: Plan of land at Friar's Walk, Lewes
- Appendix B: Plan of 19-21 Cradle Hill, Seaford
- Appendix C: Plan of land at Denton Island
- Appendix D: Plan of Landport Youth Centre

APPENDIX A



Turkish Baths, Lewes

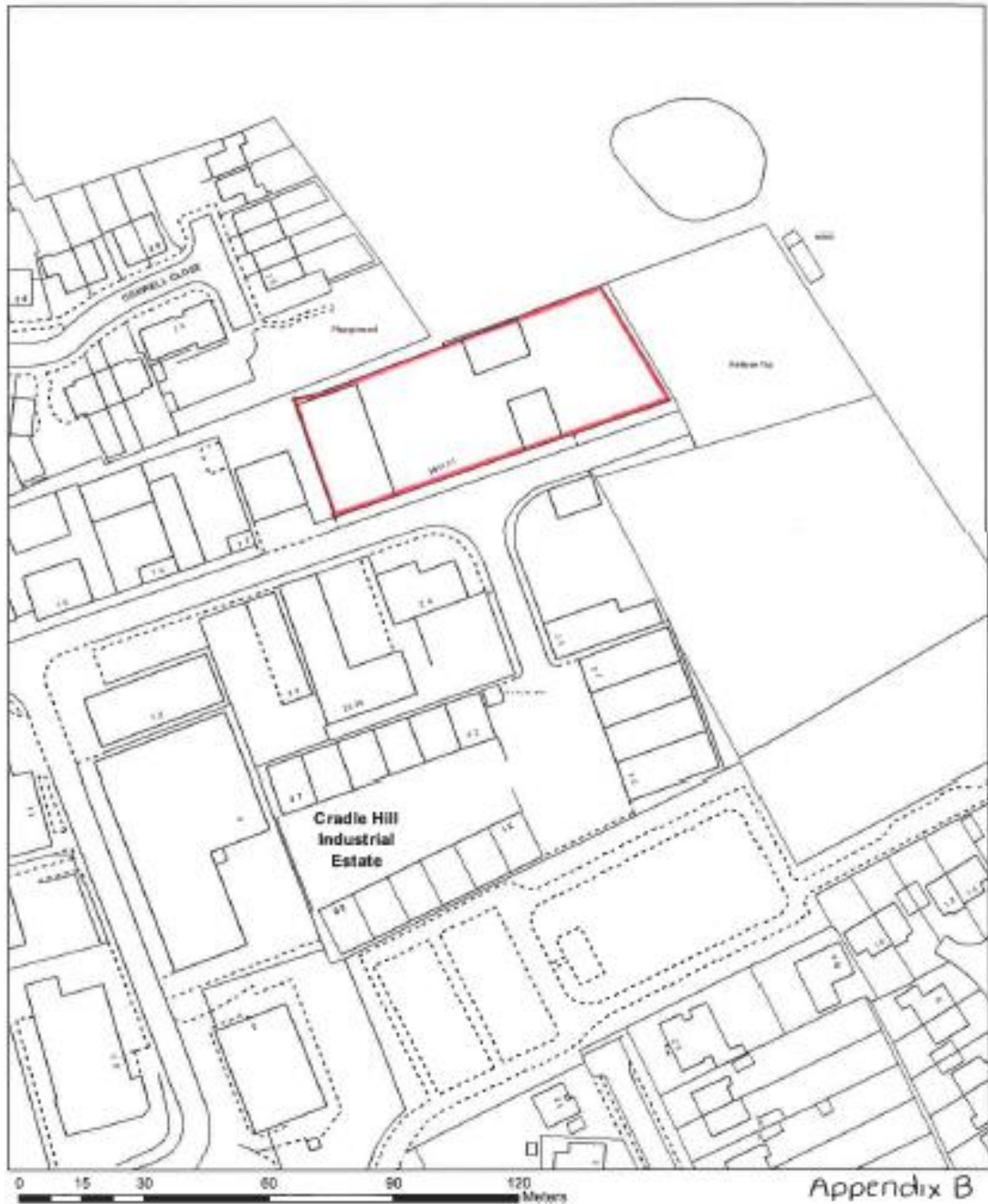
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APPENDIX B



19-21 Cradle Hill Industrial Estate

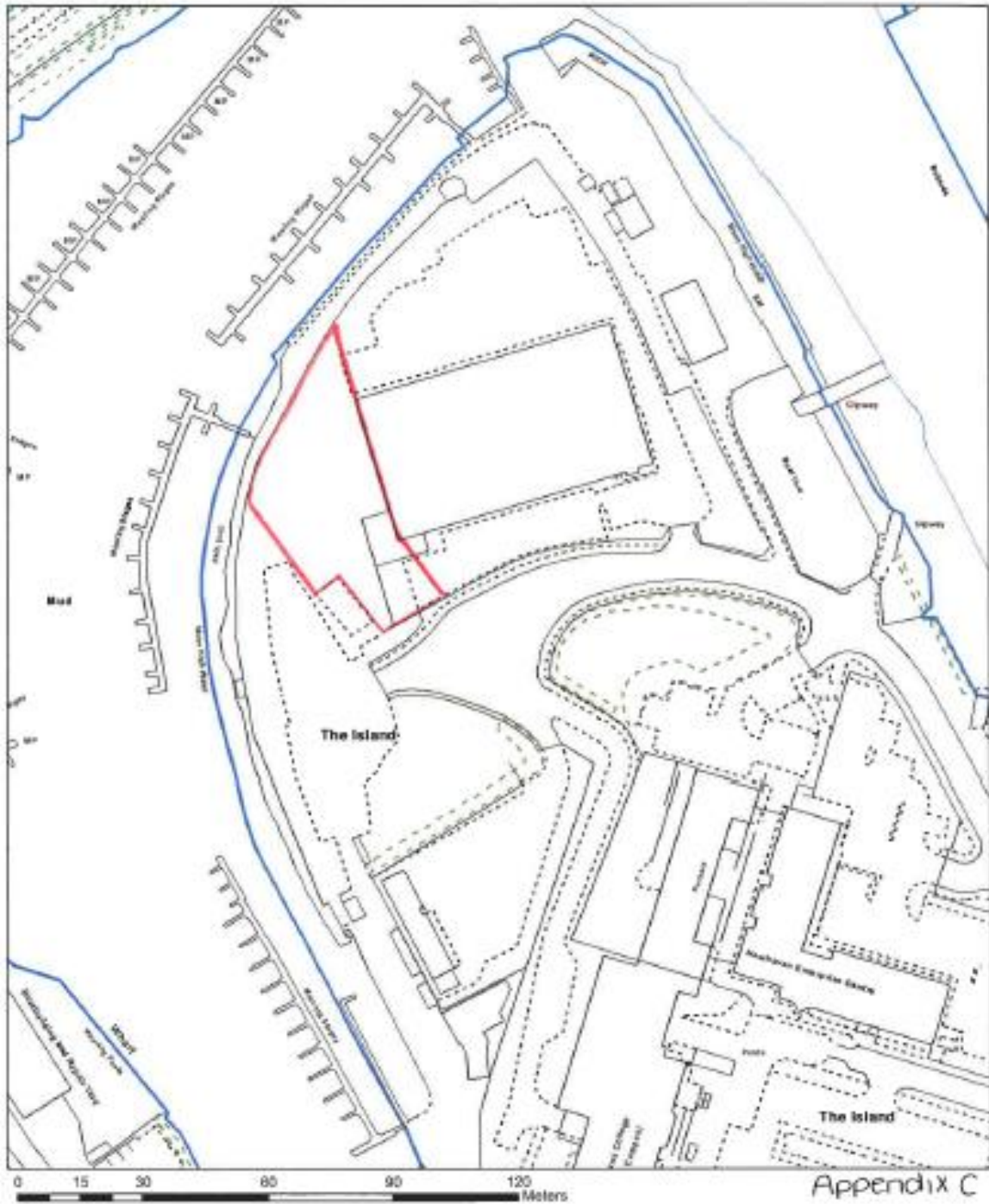
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APPENDIX C



Proposed Skate House Site, Denton Island

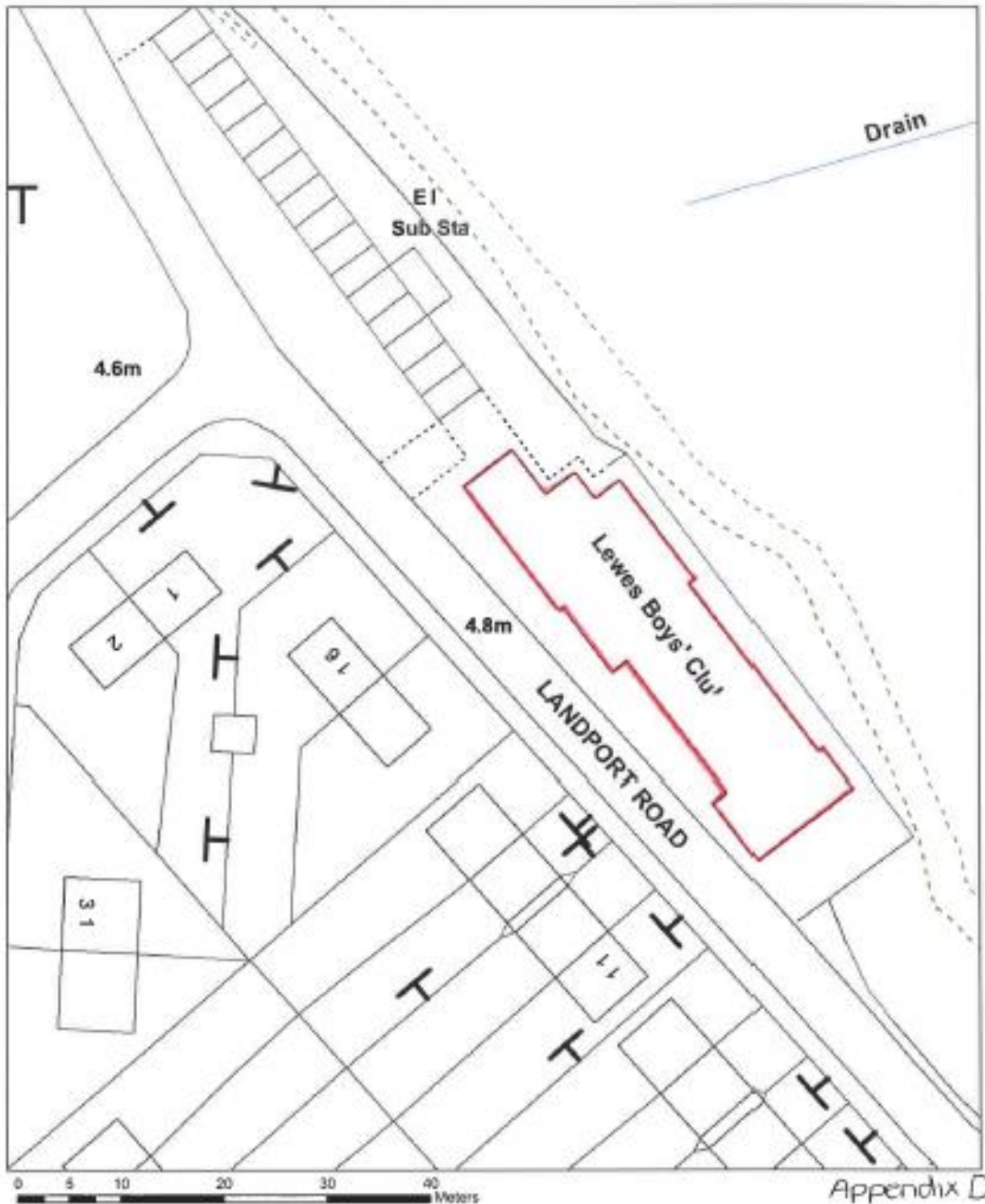
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APPENDIX D



Landport Youth Centre, Lewes

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