

Body: Cabinet

Date: 13 December 2017

Subject: Hampden Retail Park

Report of: Nazeya Hussain, Director of Regeneration and Planning

Cabinet member: Cllr Dean Sabri, Core Support and Strategic Services

Ward(s): Hampden Park

Purpose of the report: To update Cabinet on the programme of works proposed at Hampden Retail Park, and to recommend a development proposal which would deliver additional revenue.

Decision type: Key Decision

Recommendation: Cabinet is recommended to:

- i. Note the progress made to date in terms of the acquisition and management of Hampden Retail Park.
- ii. Agree to allocate up to £9,000,000 within the Council's capital programme, for the further development of land and property at Hampden Retail Park in order to meet the objectives set out in the Asset Management Plan.
- iii. Delegate authority to the Director of Regeneration and Planning, in consultation the Strategic Property Board; and the Council's Section 151 Officer; to negotiate and finalise land and property acquisitions at Lottbridge Drive.
- iv. Delegate authority to the Director of Regeneration and Planning, in consultation with the Director of Service Delivery, and the Chief Finance Officer, and Assistant Director – Legal and Democratic Services, to progress the project through the Energy & Sustainability Joint Venture if they consider it appropriate and at an appropriate future stage to decide the project should be put forward to the JV Steering Board for inclusion as a Part 1 and/or Part 2 project.
- v. Delegate authority to award any of the contracts in relation to recommendation iv. Above to the Director of Regeneration and Planning; such delegation to include approval to a waiver of the Contract Procedure Rules (sought under CPR 2.4.1 (a)) for those appointments.

Reasons for recommendations: The Council is committed to leveraging the best performance from its investment property portfolio and opportunities to increase the performance of the asset at Hampden Retail Park are set out in this report.

Contact: Head of Property & Facilities Shared Service
Telephone: 01323 415521
Email: bee.lewis@lewes-eastbourne.gov.uk

1.0 Introduction

- 1.1 In line with the Council's commitment to achieve a sustainable asset base, it is continually reviewing its portfolio to maximise the yield from its assets as well as exploring investment opportunities to secure future revenue opportunities for the Council.
- 1.2 The Council's MTFS target for new income generation by 2020 is £1m. Management of the Council's property assets will go part-way to meeting that target, but it is clear that a step-change is needed by way of property acquisitions and development to generate new revenue opportunities.
- 1.3 The Council has the opportunity to drive towards financial self-sufficiency by maximising the income generated by investments. With central government grants due to be all but phased out by 2020, most councils will be forced to rely increasingly heavily on local sources of funding.
- 1.4 In December 2016, Cabinet approved the Property Acquisition and Investment Strategy (PAIS) which is a fundamental driver of the Asset Management Plan. It sets out the framework for property investment and risk management. Using the principles set out in the PAIS, Hampden Retail Park was purchased for £17,825,000 on 1st June 2017, generating an additional £1,040,000 in revenue from the existing tenants, giving a yield of 5.5% after purchase costs.

2.0 Hampden Retail Park (HRP) – Capital Works Required

- 2.1 HRP is a first-generation retail park. The buildings are formed of steel frames, with metal cladding and lower level brickwork. Prior to EBC acquiring the site, there does not appear to have been any obvious investment in either the buildings or the surrounding car park.
- 2.2 EBC commissioned a technical due diligence report prior to acquisition and as a result of the findings, was able to lever the purchase price, with the aim of using the remainder of the capital set aside for purchase to undertake the works.
- 2.3 The areas of the building fabric and the car park which need to be addressed, include:
 - a) The finish to the metal cladding which is showing signs of peeling.
 - b) The car park surface has spalled (the concrete covering is compromised and

- the metal reinforcements are corroding) and has also become potholed.
- c) Remedial works to the roof.
 - d) General remedial works and making good to the communal service area.

2.4 In all, the cost consultants suggested that a total of £3,200,000 plus fees should be allowed to overclad the facades, update the signage, and resurface and reline the car park.

HRP: Asset Enhancement Plan

2.5 However, it is also possible to reconfigure the car park and to make better use of the space available, with the addition of three new units on the park comprising of 8,000 sq ft, 1,800 sq ft (a drive-thru unit), and 1,200 sq ft.

2.6 In addition, it is possible to extend the unit leased to B&Q by a further 11,700 sq ft and to reconfigure the parking space to increase car parking.

2.7 There are three main benefits to be gained by enhancing the asset:

- Increased revenue from improved (and new) rents.
- Improved capital value of the asset
- Ensuring the longevity of the site and the positive economic and employment impact upon the area and the town.

Appendix A sets out the existing site plan and the proposed site plan showing the new units.

Appendix B, which is exempt as it contains commercially sensitive information, sets out the existing and proposed tenancy schedules.

2.8 A suite of thorough investigations is underway to eliminate or reduce the risks and potential on-costs of the project. These investigations include:

- Site/soil and Geotechnical investigations
- Service Diversions (utilities)
- Drainage
- Flood plain capacity
- Existing steel frame loading capacity

2.9 At the same time, and again to proactively manage risk, negotiations are underway with prospective tenants for the new units. Heads of terms have been agreed (see Appendix B) and if the recommendation is approved, the leases could be finalised in January 2018.

Programme & Phasing

2.10 If approved, the key milestone dates are:

Activity	Date
Cabinet Approval	December 2017
Agree all leases/HOTs for occupational/ lease re-gears Finalise technical reports and cost plan	Feb 2018
Planning Application	March 2018
Planning Consent	June 2018
Service Diversions	August 2018
Highways Stopping Up Order	June – Sept 2018
Start on site (44 week build)	Sept 2018
Completion	July 2019

Project Budget

2.11 As set out in paragraph 2.4, capital works to update the units, undertake remedial repairs and resurface and reline the car park are required. The estimate for the works is circa £3.2m.

2.12 The cost estimate for the whole project, including the works set out above is:

Cost Element	Budget Cost	Notes
Construction	£6,500,000	Includes works set out in para 2.4
Contingency	£355,000	
Survey/application fees	£105,000	Including planning and Building Regulations
Professional fees	£1,234,230	
Finance costs	£265,000	
CIL	£170,515	
Insurance	£45,000	
Total Costs	£9,000,000	

Additional Site Acquisition

2.13 To tidy up the title on the site and to provide the best configuration of space for the car park, it will be necessary to purchase a strip of land from ESCC. The land has a technical legal status as a highway as it was originally acquired for highways improvements along Lottbridge Drive. As a result, it will require a Stopping Up Order to be granted before anything can be constructed upon it, and will require planning consent.

2.14 ESCC have agreed in principle to transfer the land to EBC, subject to agreeing terms. Purchasing costs have been included in the overall project budget.

2.15 It is therefore recommended that authority be delegated the Director of

Regeneration and Planning to negotiate and conclude terms to purchase land at Lottbridge Drove which is currently under the ownership of ESCC.

3.0 Consultation

- 3.1 Consultation with business owners will take place as part of the planning process.
- 3.2 The Strategic Property Board have been briefed on the contents of this report.

4.0 Corporate plan and council policies

- 4.1 The proposals within this report contribute to the Corporate Plan priorities to create a prosperous economy and a quality environment. They also help the Council to achieve a sustainable asset base by 2020 as set out in the Asset Management Plan.

5.0 Business case and alternative option(s) considered

- 5.1 Without investment, the buildings will continue to look tired and there will be a shortening of their serviceable life. The Council negotiated a reduction in the purchase price to allow for the capital maintenance items to be undertaken within the original budget set aside to complete the purchase.

While it would be possible to focus on the capital maintenance and to discount the new build element, the gain in rental yield and the economies of scale offer an opportunity that the Council would not be able to realise if the project was configured differently.

Appendix B sets out the illustrative asset performance post development, but the anticipated Return on Investment is expected to be around 6.2% (gross) as a minimum.

6.0 Outcome expected and performance management

- 6.1 The success of the project will be judged both quantitatively through increased rental income and qualitatively through ongoing trading success of the retail park tenants. This will be measured through lease negotiations with the aim of improving terms in favour of the Council.

7.0 Financial appraisal

- 7.1 The proposals set out in this report are consistent with the objectives of the Medium Term Financial Strategy (MTFS) and the Treasury Management Strategy (TMS). Local Authority capital receipts can only be reinvested in capital schemes or used to repay debt.
- 7.2 To provide surety over long term finance costs, at the detailed due diligence stage, EBC will explore other options for borrowing in line with the TMS to include new forms of institutional funding. It is unlikely that these will be required, but will however provide important background to the Councils' mid to long term

capital financing requirements and ensure we have a clear benchmark in making treasury management related decisions.

7.3 The Council can utilise capital receipts of prudential borrowing to finance its capital programme and therefore investments have to be affordable and risk managed.

7.4 Any borrowing required would be managed within the council's treasury management strategy approved by Council annually. As well as the yield, investment opportunities will need to be assessed with reference to risks such as:

- Interest rates
- Voids
- Future capital needs
- Planning constraints

7.5 The council can source borrowing from the Public Works Loans Board and/or institutional investors. There are a range of products available including interest only and annuity loans and interest is usually at a fixed rate for a given period. At the time of writing the rates available are between 2 and 3 percent.

8.0 Legal implications

8.1 Contract Procedure Rules

a) The Council's Contract Procedure Rules say that no lease of land where the estimated rent exceeds £25,000 per annum shall be made except after auction or the invitation of tenders or expressions of interest following appropriate public advertisement, unless authorised by Cabinet. This rule does not apply to the renewal of a lease under the Landlord and Tenant Act 1954.

b) Appendix B, paragraph B1 refers to three proposed new units. Unit 3 is currently being marketed, but the proposal is to let unit 1 to TAPI and unit 2 to Costa without public advertisement and invitation of tenders or expressions of interest. Officers will not exercise the delegated powers recommended in this report in the absence of expert valuations confirming that the proposed terms represent market value/best consideration. On this basis Cabinet is asked to authorise the proposed leases of units 1 and 2.

c) Appendix B, paragraph B2 refers to proposals to grant lease renewals to existing tenants. There will be no public advertisement and invitation of tenders or expressions of interest for the renewal leases. Officers will not exercise the delegated powers recommended in this report in the absence of expert valuations confirming that the proposed terms represent market value/best consideration. On this basis Cabinet is asked to authorise the

proposed renewal leases.

8.2 Best consideration – section 123 Local Government Act 1972

- d) The Council cannot dispose of land held in the general fund for a consideration less than the best that can be reasonably obtained in the market, except with the express consent of the Secretary of State. Disposal includes freehold and leasehold sales. The rule only applies to leases where the lease term exceeds seven years.
- e) Officers will not exercise the delegated powers recommended in this report in the absence of expert valuations confirming that the proposed terms referred to in Appendix B will be the best that can be reasonably obtained in the market. Expert valuations will be obtained as part of this process.

8.3 State aid

- f) In disposing of any land or interest in land the Council must ensure that it does so in accordance with State aid rules. The European Commission's Communication on the Sale of Land (the "Land Communication") sets out an automatic assumption that no State aid is present in a sale of land and buildings provided its terms are followed. The Land Communication requires the sale of land for "market value" through (i) an open and unconditional bidding process or (ii) an expert valuation.
- g) Officers will not exercise the delegated powers recommended in this report in the absence of expert valuations confirming that the proposed terms referred to in Appendix B will be for market value.

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9.0 **Equality analysis**

- 9.1 An equality analysis is not required as there are no negative impacts on any people who have protected characteristics under the Equality Act 2010.

10.0 **Conclusion**

- 10.1 By investing in its property assets, the Council will contribute to ensuring the long-term sustainability of its asset base which will contribute to unlocking housing, regeneration, and community benefits.
- 10.2 Cabinet is asked to approve the recommendations as outlined within this report.

Appendices

- **Appendix A: Existing and Proposed Site Plan**
- **Appendix B: Proposed tenancy schedule (EXEMPT)**

Background papers

The background papers used in compiling this report were as follows:

- None

To inspect or obtain copies of background papers please refer to the contact officer listed above.

Appendix A: Existing Site Layout and Proposed Site Layout

