

<b>Decision maker:</b>	<b>Cabinet member: contracts &amp; assets</b>
<b>Decision date:</b>	<b>7 April 2017</b>
<b>Title of report:</b>	<b>Disposal of freehold ground leases at Rotherwas Industrial Estate</b>
<b>Report by:</b>	<b>Development manager</b>

## **Classification**

Open

## **Key decision**

This is a key decision because it is likely to result in the council incurring expenditure which is, or the making of savings which are, significant having regard to the council's budget for the service or function to which the decision relates.

Notice has been served in accordance with Part 3, Section 9 (Publicity in Connection with Key Decisions) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012

## **Wards affected**

Dinedor Hill

## **Purpose**

To approve the disposal of part of the council's portfolio of freehold ground leases at Rotherwas and appoint an external agent to undertake the marketing and disposal on behalf of the council.

## **Recommendation**

**THAT:**

- (a) the disposal of that part of the council's portfolio of freehold interests in various industrial sites currently subject to long leases (as identified in the schedule at appendix A and shown on the plan at appendix B) at Rotherwas be**

approved.

## Alternative options

- 1 Do nothing and retain the portfolio. This is not recommended as an opportunity to realise a capital receipt would be lost and continued staff resource will need to be utilised in managing the portfolio.
- 2 Market the portfolio internally. This is not recommended as the maximum capital value is unlikely to be realised.
- 3 Negotiate sale terms direct with existing tenants for them to purchase the freehold interest. This would be attractive to some tenants but it is difficult to ensure best value is achieved without exposure to the open market, given the difficulty in assessing market value of these property interests.

## Reasons for recommendations

- 4 The majority of the portfolio is let on low ground rents and produces a low rental income stream.
- 5 Staff time in both estates and legal departments is required to manage the long ground leases and this could be better utilised on higher profile more valuable transactions.
- 6 The opportunity to realise a capital receipt would be lost.
- 7 The true value of this type of investment property portfolio is difficult to identify. Public auction is considered the most appropriate method as it exposes the property to all potentially interested parties in a competitive bidding place and brings certainty and transparency that the maximum capital receipt has been realised.
- 8 The portfolio will be of interest to a national and possibly international market and hence the need to use a well-established firm to market the opportunity is necessary.

## Key considerations

- 9 The council own around 60 sites at Rotherwas which are subject to long ground leases with unexpired terms ranging from 59 to 117 years. Most are let at low ground rents of between a peppercorn and £50 which doubles every 25 years. Only those producing a return of less than 6% as specified in the financial test to be applied under the corporate property strategy will be considered for disposal. The sites are listed on the attached schedule at appendix A.
- 10 Historically the council did not sell freehold interests in its landholding on the Rotherwas estate because it wished to retain an element of control on land use, development densities and actual occupants. It is now recognised that these factors can largely be controlled through the planning process, and the policy to dispose of tenanted non-residential property which does not deliver sufficient return on investment is part of the approved corporate property strategy.

- 11 The principle of selling freeholds on the Rotherwas estate has also been established within the approved enterprise zone disposal policy.
- 12 This has resulted in a further fragmented pattern of council ownership with sold freeholds and retained leaseholds on adjoining sites in Coldnose Road and Chapel Road both of which are in the enterprise zone.
- 13 Staff resource is required in the management of the long ground leases which generate regular requests for assignments, sublettings, alterations and lease variations all of which require formal landlord's consent and thus input from both estates and legal to ensure the transactions are dealt with by formal deed. The number does vary but typically 6 to 10 applications a year which often need to be dealt with at short notice. At a time of reduced staff resource and the need for cost savings this resource could be better devoted to higher priority and more valuable transactions.
- 14 If a decision to dispose of the portfolio is taken consideration must be given to the method of sale to ensure best value is achieved. Accurate values of this type of investment property are notoriously difficult to calculate and this makes it difficult to demonstrate that maximum value has been achieved. Public auction is considered the most appropriate method as it exposes the property to all potentially interested parties in a competitive bidding scenario and brings certainty and transparency that the maximum capital receipt has been realised. The council adopted this approach in 2013 when a number of long ground leases in other locations were sold via auction and achieved prices well in excess of their reserves.
- 15 The portfolio is likely to be of interest to a national and possibly an international market and thus the appointment of a nationally recognised firm of agents with an established data base of potential purchasers is recommended to handle the sale. These factors have been taken into consideration within the procurement documents. The total value of the contract with the successful selling agent will not exceed that of £50,000, and so four firms have been invited to quote and a contract will be let in accordance with the council's contract procurement rules.
- 16 A number of the long leasehold tenants have approached the council and enterprise zone in recent months requesting the opportunity to purchase the freeholds in their sites. Various reasons have been given including the difficulty of raising finance for business expansion against the security of a wasting leasehold interest, a wish to enhance their security to remain on a site indefinitely and a personal desire to own their own premises. Selling the portfolio would give these tenants the opportunity to purchase and doing so via public auction would ensure the council can demonstrate that the best price has been achieved.

## **Community Impact**

- 17 The report and its recommendations support the following priorities as identified in the councils corporate plan:
  - support the growth of our economy, and
  - secure better services, quality of life and value for money

18 More specifically, the actions supported include:

- supporting economic growth and connectivity (including broadband, local infrastructure and economic development)
- making the best use of existing land and identifying new opportunities to enable existing businesses to stay and expand and for new businesses to locate to the area.
- securing the highest possible levels of efficiency savings and value for money to maximise investment in front line services and minimise council tax increases.
- reviewing the management of our assets in order to generate ongoing revenue savings, focusing on reducing the cost of ownership of our operational property by rationalising the estate and by improving the quality of the buildings that are retained.

19 The recommendations are in compliance with the council's approved corporate property strategy and, in particular, the asset disposal and tenanted non-residential policies forming part of that strategy.

## **Equality duty**

20 There are no equality or human rights issues arising from this report.

## **Financial implications**

21 The sale of part of the portfolio of freehold ground leases provides an opportunity to raise capital receipts in support of the council's medium term financial strategy without impacting on the rental income stream received from the council's remaining industrial portfolio.

22 The council's corporate property strategy sets financial tests for retaining investment properties, including a target yield of 6% or higher. The assets recommended for disposal in this report are achieving a lower (negligible) rate of return, hence their recommendation for disposal. Where applicable, the disposal will be subject to a reserve sales value to ensure assets achieving more than a 6% yield are not disposed.

23 Professional valuation advice will be taken and appropriate auction reserves will be set in consultation with the council's appointed selling agent. The contract for which will not exceed £50,000.

24 Legal and other fees incurred in connection with the disposal will be funded in part by the purchasers and the remainder from the capital receipt.

## **Legal implications**

25 The council is empowered to dispose of its land in such manner as it wishes pursuant to Section 123(1) of the Local Government Act 1972, provided that it does so at the best value that can reasonably be obtained on the market – selling at public auction is an open and transparent way of demonstrating that, following appropriate and comprehensive marketing of the site and publication of the auction details, particularly in the local press.

- 26 The council's legal department will oversee the sale and advise whether it is best dealt with in-house or by the appointment through normal procurement routes of an appropriate external legal advisor.
- 27 For the benefit and protection of the council's retained land, site specific covenants, indemnities and the reservation of rights will be imposed in the sale documentation, following analysis of each individual title.

## **Risk management**

- 28 To ensure that an acceptable level of capital receipt is achieved appropriate and professionally informed auction reserves for each site will be set.
- 29 A number of the council's tenants occupying under long ground leases have requested the opportunity to purchase the freehold in their sites. Whilst the council is under no obligation to sell direct to them refusing to consider selling at all risks harm to the council's reputation. Selling at public auction serves the dual purpose of providing them with the opportunity to purchase whilst ensuring the council can demonstrate best value is achieved.
- 30 The tenants' right to remain in occupation of the sites under their existing secure leases is not threatened by a sale. They have the right to remain whether they or an alternative investor purchases any particular site although an alternative investor may seek to manage the leases more aggressively.
- 31 Future control of the use of the properties to be disposed of will be controlled solely through the planning process which is the approach being adopted on the enterprise zone.

## **Consultees**

- 32 The ward member for Dinedor Hill has been consulted and has raised no objection to the recommendation.
- 33 The enterprise zone board are supportive of the principle of the council disposing of its freehold interests at Rotherwas. The enterprise board have asked whether the council could test the market first to establish values and then consider whether to give existing long-term tenants the opportunity to purchase their freeholds first at that market value.

## **Appendices**

Appendix A – schedule of freehold ground leases.

Appendix B – site location plan

## **Background papers**

- None identified.