

Report Title: Report on the Potential Purchase of the
Royal National College for the Blind,
Southern Campus, Hereford



Release: Final

Date: 4th March 2019

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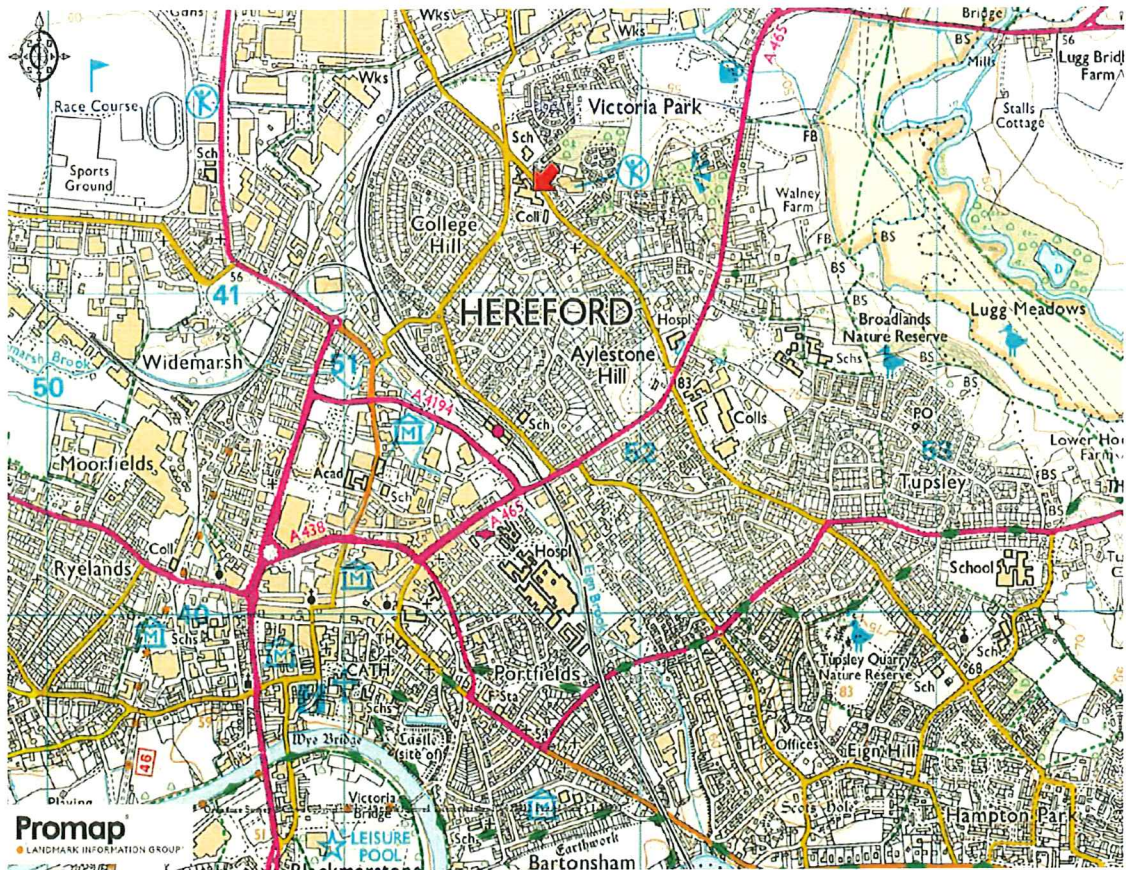
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1. Introduction

- 1.1 This report sets out an appraisal of the potential strategic acquisition of the southern Campus of the Royal National College for the Blind, Hereford (RNC) by Herefordshire Council further to the commissioning of consultant reports and a valuation of the southern campus by the Property Services Department.

2. Background

- 2.1 The RNC is situated to the north of Hereford city centre and is divided into a northern and southern campus which sit either side of Venns Lane as shown on the location plan below. The RNC's board determined in 2018 to put forward the southern campus for disposal further to which marketing commenced via an appointed agent.



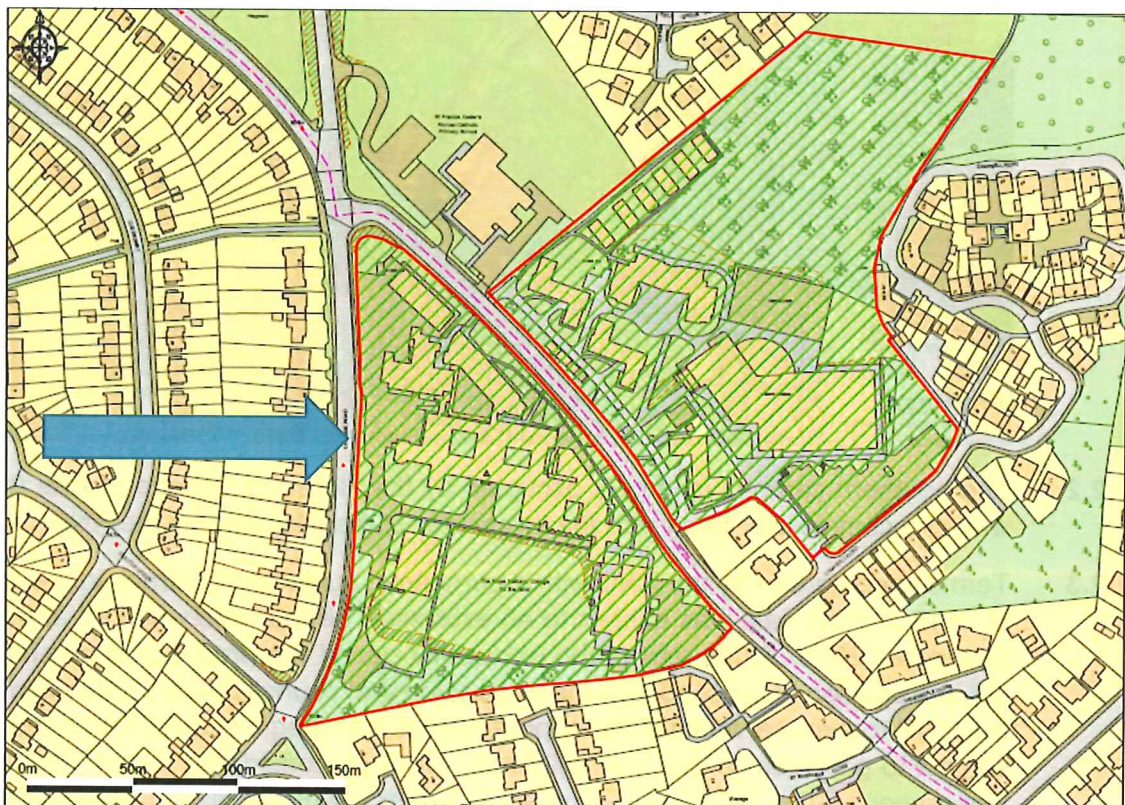
- 2.2 The southern campus is largely occupied by the Hereford College of Arts (HCA) by way of a commercial lease with the remainder of the site used by the RNC.
- 2.3 Terms were agreed by the RNC with a purchaser, subject to contract, in the latter half of 2018 and the sale was subject to an exclusivity period which expired at the end of December 2018. At the end of the exclusivity period the prospective purchaser was not in a position to proceed with the acquisition and council officers made contact with the RNC to explore whether the opportunity for a strategic acquisition by the council, subject to governance and due diligence, could be considered by the RNC's board. The response from the board was positive further to which a dialogue was established.

- 2.4 Further to the establishment of a dialogue, through liaison with, City Heart, who are subcontracted to our development and regeneration partner Engie, two reports were commissioned; firstly a Planning and Development appraisal and secondly a Technical Due Diligence Report (building condition survey). Both reports have then been used for reference in a valuation report which was separately commissioned.
- 2.5 The potential purchase of the southern campus is a unique opportunity for the council to secure a strategic site for further and higher education which may otherwise be lost to alternative development. The rationale for considering the potential acquisition of the site is that it will strongly accord with the councils objectives and in the medium to long term would provide security for the HCA and an opportunity for the New Model in Engineering and Technology (NMiTE) to share a campus and (subject to funding and planning consent) provide student accommodation. In taking forward the potential acquisition both the HCA and NMiTE have given their support to this concept.

3. Description

3.1 Location and Site

- 3.11 The RNC's southern campus is located less than two miles north of Hereford city centre in a largely residential area and forms one half of the RNC's landholding. The site is roughly triangular in shape being bordered by roads on two sides (Venns Lane and College Road) and has a site area of 2.426 hectares (5.994 acres) as shown on the site plan below.



Main Building and the chapel block



Main Building



Queens Building



The Hive



Rear View of Gardner Hall



Front view of Gardner Hall including carpark



Queens Lawn



Café / Social Space in Gardner Hall

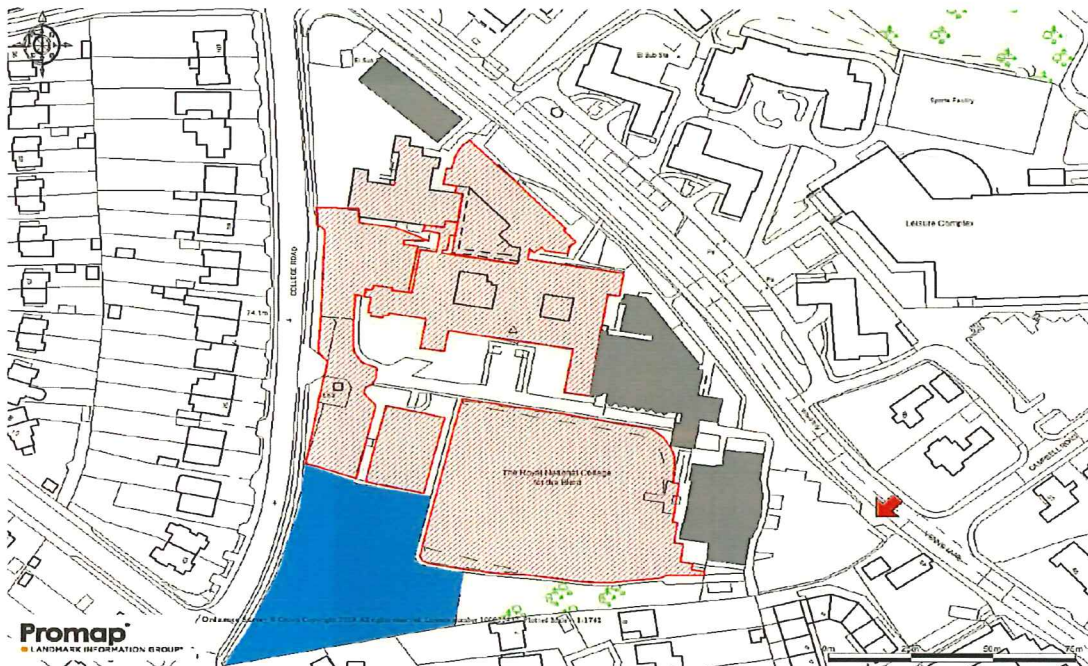


Corridor Student Accommodation in Gardner Hall



3.12 The site comprises a number of buildings of varying ages and construction, some of which are inter-connected, and range from the main building which is a former Victorian school (Listed Grade II) to 1960's additions and the more later (1980's) Queens Building. The total net internal floor area amounts to 9481 sq.m. (102,075 sq.ft.), by comparison this would be larger than the combined floor areas of Plough Lane Offices, Shirehall and the Town Hall, Hereford. Aside from the buildings there is parking for circa 100 cars and a large grassed area to the front of the Victorian building known as the Queens Lawn.

3.13 The majority of the site is let to the HCA as shown by the red boundary line on the plan below; three remaining buildings – Gardner Hall, The Hive and the Chapel 'block' (shaded grey on the plan South to North) are occupied by the RNC. The blue area denotes car parking. In addition it can be noted from the plan that the RNC is presently responsible for almost all the grounds maintenance.



3.2 Lease to the Hereford College of Arts

- 3.21** The majority of the site is let to the HCA by way of a commercial internal repairing and insuring lease for a term of ten years from the 10th May 2013 subject to a rent review on the anniversary of the 5th year i.e. 10th May 2018. It is understood that the passing rent is
- 3.22** It is further understood that the HCA have security of tenure under the provisions of the 1954 Landlord and Tenant Act. The lease will terminate in May 2023 and the . Whilst the lease is on an internal repairing basis we understand that the RNC has undertaken daily maintenance through its on-site team and recovered costs by way of a service charge as there is general provision for this in the lease.

3.3 RNC Short Term Tenancies

- 3.31** Upon the sale of the southern campus RNC have requested short term tenancies are granted to them in respect of Gardner Hall to September 2019, The Hive and the Chapel block to September 2020, to allow for time to transfer personnel and services to the northern campus. The RNC have asked that a rolling break clause subject to two month's notice is included in the tenancies for the Hive and Chapel block should an earlier transfer be achieved. The tenancies will be by way of licence agreements and are a condition of the purchase. There will also be provision for the RNC to continue using the data room in the southern campus.

3.4 Legal Title

- 3.41** The RNC own the freehold of the southern campus and at the time of drafting this report legal searches are being undertaken by the council's Legal Services Department. Information has been provided by the vendor's agent but as a matter of due diligence it is felt prudent that the council carries out its own searches regarding the title. To date no adverse matters have been identified.

4. Due Diligence: Planning Appraisal and Building Survey

4.1 Two reports were commissioned by City Heart in order to assess the current state of the campus and its development potential. Both these reports have then been considered by the appointed valuer when determining the market value. The reports are as follows:

a) Planning Appraisal – Geriant John Planning consultants. This is desk based planning appraisal which considers prevailing planning policy and an assessment of the site and its environs. The appraisal has determined that there is potential to develop the site close to the south western boundary fronting College Road and the southern boundary below and to the west of the Queens Lawn. The report has been discussed with the Head of Development Control who is in general agreement as to the report’s findings, subject to a comment that any planning application for development would have to be fully considered at the time of submission.

b) Technical Due Diligence Report – GVA Grimley (t/a Avison Young) consultants. A complete building survey and inspection of mechanical and electrical services, including boilers, heating systems and lifts has been undertaken and a summary of the findings is contained further in this report. The inspection was reliant on information being provided by the RNC and HCA, such as asbestos survey reports, although it was noted that not all this data was available at the time of the survey.

4.2 GVA Grimley (t/a Avison Young) were commissioned by the Property Services Department to provide a market valuation report. The instruction to GVA was to consider the property as it currently stands, and additionally to take account of the development potential indicated in Geriant John’s planning appraisal and report upon the highest market value for the purpose of purchase. The valuations in both contexts also take account of GVA’s Technical Due Diligence Report, the lease to HCA and the need for short term tenancies to the RNC to enable them to fully decant to the northern campus.

5. Valuation

5.1 GVA Grimley have produced a comprehensive market valuation report in respect of a freehold acquisition subject to the existing lease to the HCA (and its renewal in 2023), and short term tenancies that would be held by the RNC.

5.2 There are a number of considerations that have been taken into account, in particular that there is generally a dearth of comparable market evidence from such transactions i.e. further/higher education establishments, and that the mostly likely market scenario is purchase for redevelopment in which the highest value would be for residential use.

5.3 Also of note is the valuer’s comment that the campus has been well maintained which unsurprisingly has an effect on value, and for the future value to be protected the maintenance and repair has to be continued to the same standard.

- 5.4 In summary the market valuation as at February 2019 taking into account the development potential of the campus as provided in the Geriant John's appraisal is **£5,240k** exclusive of purchasers costs i.e. Stamp Duty Land Tax and fees. The value of the campus excluding the development potential i.e. ignoring the enhanced land value, is £4,045k exclusive of purchaser's costs.

6. Technical Due Diligence – Condition Survey

- 6.1 GVA undertook a building and mechanical/electrical services survey on the 12th February and subsequently provided a Technical Due Diligence Report which has categorised required maintenance by way of risk (high, medium and low) and the associated expenditure over the short (1 year), medium (2-5 years) and long (6-10 years) term.
- 6.2 The survey encompassed the whole site including the areas leased to the HCA and therefore some items of expenditure would fall to the HCA under the terms of their lease. In summary the report states that *'the premises are in a satisfactory condition commensurate with buildings of their age, use and construction. However, the lack of planned preventative maintenance is evident especially to the external parts of the building and the hard landscaping to the external areas'*.
- 6.4 In reading the report the key issues of note with regard to risk and short term expenditure are:
- Fire alarm, emergency lighting and signage – updating/replacement
 - Updating the asbestos survey, which may lead to remedial work
 - Compliance with conservation requirements, particularly new/replacement fenestration
 - Disability Discrimination Act compliance – ramp access
 - Hot water systems in the Victorian building - replacement
 - Hard landscaping and car park areas – remedial work
- 6.5 A summary of estimated maintenance expenditure is shown on the table below. For simplification the area demised to the HCA is shown separately, however it must be noted that some of this expenditure will fall to the purchaser/owner under the terms of HCA's lease.

TABLE 1:

Area					Total
Leased to HCA					
Non-HCA					
Total					

- 6.6 It is also noted from information provided by the RNC that aside from statutory compliance testing and grounds maintenance there is no evidence of maintenance expenditure on building fabric or mechanical/electrical services in the past year.

7. Financial and Resource Considerations

7.1 Revenue Liabilities

- 7.11** In the short term the purchaser's revenue expenditure will be limited to grounds maintenance and liabilities defined by the lease to the HCA e.g. external repairs, and the repair clauses contained in the tenancies agreed with the RNC. Table 1 indicates the scale of repair liability, notwithstanding the owner will have some liability in respect of the HCA lease i.e. external repair.
- 7.12** As the tenancies to the RNC come to an end liabilities would increase dependent on how soon the vacant buildings are occupied and the terms under which they are let. It is not possible to estimate this amount (which would include utilities, business rates and repair costs) until this timeline is determined.
- 7.13** Table 1. provides information on the repair liabilities over the next ten years, but the apportionment of these costs, dependent on the existing and future tenancies, will need to be fully determined. It is also not unreasonable to assume reactive maintenance costs would also be incurred
- 7.14** Consideration has been given to placing the income from the HCA lease into a sinking fund to provide for maintenance expenditure. Dependent on the apportionment of costs under the existing lease and terms of the RNC tenancies this may cover liabilities in the short term but requires further investigation in respect of the medium and long term.
- 7.15** It must be noted that because of the charitable status of the RNC the area of the campus occupied by them has not been assessed for business rates and does not feature in the Valuation Office Agency rating list. After the RNC relocate the premises will therefore be assessed and listed for business rate liability.

7.2 Income

- 7.21** A previously stated the HCA holds a lease to May 2023 which yields a rent of £10,000 per annum and consideration has been given to allocating this sum to a sinking fund to cover liabilities. In addition there will be an element of service charge recovery for common areas e.g. grounds maintenance which will be recoverable under HCA's lease.
- 7.22** The conditions of the short term tenancies to the RNC are to be finalised and discussions regarding the purchase price have centred on agreeing peppercorn rents in respect of these tenancies which are reflected in the purchase price referred to later in this report.

- 7.23 Future tenancies in respect of the buildings which will in due course be vacated by the RNC could yield an income in excess of £100k dependent on demand, terms and conditions. This would include the areas of residential accommodation situated on the first and second floors of the Gardner Hall building.

7.3. Resource

- 7.31 The acquisition of the campus will add a considerable property to the council's portfolio and there is presently no one single asset which is of this scale and complexity. As stated previously this property has a floor area greater than the combined area of Plough Lane Offices, the Shirehall and Town Hall, Hereford, and the impact on existing resource (in terms of resource) will not be insignificant.
- 7.32 Whilst it would be the intention that much if not all the campus will be tenanted in the future, there will be resource implications as a consequence of adding this scale of property to the portfolio, principally in terms of estate and facilities management e.g. management of common areas, site security and caretaker attendance, statutory compliance checks, repair and maintenance, the agreement and determination of legal consents. This has yet to be fully scoped but initial consideration of the impact suggests that additional resource will be required.
- 7.33 At present it is understood that an arrangement exists between the RNC and the HCA whereby the RNC's on site estate management team undertake works in respect of the HCA's repair obligations and recharge them accordingly. The future of this arrangement beyond the purchase of the campus has not yet been determined.

8. Purchase Price and Associated Costs

- 8.1 Discussions have been ongoing with the RNC's agent since January and there has been some degree of movement from the RNC's original asking price of £5,750k. Subject to the agreement to grant the short term tenancies to the RNC their agent has confirmed that they are prepared to sell the freehold in the sum of **£5,395k** (exclusive of purchaser's costs), subject to contract and governance.
- 8.2 Stamp Duty Land Tax (SDLT) in respect of this sum equates to £259.25k. Advice has been taken as to whether any exemption or relief is relevant to the SDLT, and we understand this not applicable. Consultant, legal and valuation fees amount to circa. £92k.

9. Summary

- 9.1 The availability of the RNC's southern campus represents a unique opportunity to acquire a strategic site in Hereford which would protect and potentially enhance the provision of further and higher education in the city and would accord with the council's wider objectives.
- 9.2 Due diligence has been undertaken in respect of the technical and legal aspects of a potential purchase, in addition to which a planning appraisal has indicated the capacity to add further development at the site.
- 9.3 A market valuation has determined a best value of **£5,240k** (exclusive of purchase costs). The RNC's agent has confirmed that they are prepared to sell the site, subject to conditions relating to short term tenancies, for the sum of **£5,395k** (exclusive of purchasers costs)
- 9.4 A difference between the offer price and market valuation of **£155k** therefore exists and whether to purchase above market value needs to be considered and determined.