

MEMORANDUM

To **ANDREW HUSBAND, STRATEGIC PROPERTY SERVICES MANAGER**

GARY ANGOVE PROPERTY SERVICES MANAGER

From **GILLIAN STRATFORD, ESTATE MANAGEMENT OFFICER**

Your Ref : My Ref : **GS**

Date 05 October 2017 Ext : **1520**

RE: BUSINESS CASE FOR REPLACEMENT ROOF – UNITS 1 – 6 TARSMILL COURT, ROTHERWAS

Units 1 – 6 Tarsmill Court, edged red on the attached plan are a block of early 1970s light industrial units forming part of the Council's investment property portfolio which is held to produce an on-going income stream to support the corporate strategic plan and medium term financial strategy one of the key priorities of which is to support growth of the local economy.

The units provide 1858m²/20,000ft² of industrial space and are currently fully let to 2 well established and respected local businesses occupied under a mix of lease and tenancies at will producing rental income of £61,500 p.a. and business rates of £25,500 p.a. so a total of £87,000 is currently received and if lost would represent an annual pressure of that sum. The 2 businesses currently employ 25 likely to increase to 28 very shortly – loss of these tenants would thus mean the loss of 28 jobs to the local economy

The pitched roof is clad with profiled asbestos cement sheets which have been coated with a liquid membrane. The roof covering is defective and water ingress has been a problem for many years. The problem is considered to be partly an inherent defect outside the liability of the existing tenants and partly due to past attempts to patch it up which have actually led to more damage and cracking to the roof sheets being done. Even if we could prove the liability lies with the existing tenants who have full repairing leases they are small businesses and do not have funds to meet the cost of permanent repair which can only be achieved by complete re-roofing of the whole block.

In the meantime the tenants are becoming increasingly frustrated that their businesses are operating in unsatisfactory buildings and may decide to move elsewhere:

- Central Engineering in units 4, 5 and 6 have reported the roof leaking in 12 different places over past periods of prolonged rainfall and are known to be actively considering an alternative location. They are a highly skilled high value engineering firm and have invested heavily in specialist machinery. They currently employ 14
- Hereford Glass Fibre in units 1 2 & 3 have reported water ingress over the past few months leading to the loss of high specification items they produce for defence related contracts. They also hold a major contract to deliver fibre

glass vehicle hoods for Nissan. They currently employ 11 and in the expectation of the award of a new contract this will increase to 14

The proposed re-roofing project has not been fully costed but based on the cost of re-roofing similar industrial units at Three Elms Industrial Estate a cost of £20.00 per ft² would appear realistic resulting in a total capital spend of £400,000.

It is important to understand this proposal in the context of the surrounding high profile Skylon Park Enterprise Zone which attracts a good deal of local and national publicity and in which the Council is a major landowner. I know from my day to day dealings with the existing Council tenants – many of whom are well known and key local businesses – that there is a perception that the Council focus has moved away from its existing properties on the original built part of the estate towards those new properties springing up in the EZ. Care needs to be taken that the existing portfolio is not allowed to deteriorate and become both less valuable and less attractive to both existing and prospective new tenants. Such a perception could result in reputational damage to the Council.

!! EZ activity is now beginning to include land occupied by existing poor quality industrial space in Chapel Road which is home to a number of local “dirty” businesses such as car mechanics and which will be displaced with no obvious place to relocate. These business!!

ALTERNATIVE OPTIONS CONSIDERED:

1. Do nothing – it is possible that the existing tenants will remain in occupation despite the difficulties they are encountering because it is not easy to find alternative accommodation and move an existing business. In that circumstance the Council would continue to realise the existing level of rental income for probably for the next few years although there may be pressure at lease renewal if tenants seek rent reductions to compensate for the condition of the units. Even if rental reduction is avoided the open market capital value of the units is likely to reduce to reflect their on-going deterioration and the need for an incoming owner to invest in the properties. Given that central government grants will cease completely in 2019/20 the Council would be prudent to protect and enhance the value of their investment in the industrial portfolio
2. Demolish and rebuild to provide replacement units possibly of a smaller size to appeal to new businesses or those to be displaced in Chapel Road as a result of on –going EZ sales. There are 3 small units currently vacant on the existing estate and very little interest is currently being expressed. Those businesses in Chapel Road currently facing displacement are “dirty” businesses including haulage firms and car repair workshops which are not compatible with other businesses in Tarsmill Court and which are likely to have a negative environmental impact in terms of their capacity to cause pollution. The Tarsmill Court units are structurally sound apart from the roof so demolishing and replacing new industrial space in accordance with the existing planning designation does not appear to be good use of Council funds
3. Dispose of the freehold in the units. This would be an opportunity to raise a capital receipt which is likely would exceed £500,000 however it would mean the loss of an annual current rental income of £61,500 and a potential future income of £80,000 p.a. Losing 100% of central

government grant as indicated above will mean greater reliance in the future on a regular stream of rental income to ensure the Council can continue to deliver good local services consistently well and selling the units outright would mean the loss of the income stream from these units.

4. Obtain capital funds and re-roof the units. This will mean an initial investment in the region of £400,000. Assuming the units remain occupied and rents remain as now a payback period of 6.5 years would be achieved. If the tenants are lost payback would be over a longer time frame depending on how quickly new tenants can be found. Even in the latter scenario the capital value of the units would be enhanced and the value of the Council's portfolio protected for the future.

In light of the foregoing Option 4 above is recommended and a bid for capital funds of £400,000 be set aside for early commencement of this project be made

GILLIAN STRATFORD

ESTATES MANAGEMENT OFFICER