



Cabinet 15 September 2010

Asset Management Plan – Ground Lease Shopping Centres in Bury St Edmunds (Sep10/12)

1. Summary and Reasons for Recommendation(s)

- 1.1 As part of the Asset Management Plan (AMP) review of all the Council's assets, the decision in 2006 to retain the two housing estate shopping parades held on historic ground leases is being reassessed.
- 1.2 This report reconsiders the AMP options for the future Council ownership of the freehold of the Hardwick and St Olaves shopping parades in Bury St Edmunds, as part of the objective of making better use of property resources, in accordance with good asset management planning.
- 1.3 In the context of the current economic and financial conditions, sale of the two ground lease shopping parade assets may be a more compelling option than retaining them.
- 1.4 Selling the freehold interest of the land does not have any impact on the leases held by the shops from their current landlord.

2. Recommendation(s)

- 2.1 It is **RECOMMENDED** that the Hardwick and St Olaves Shopping Parades in Bury St Edmunds are declared surplus and the sites are sold, either by auction or by private treaty, as outlined in Report B205.

3. Corporate Objectives

- 3.1 The recommendation meet the following, as contained within the Corporate Plan:-
 - (a) Corporate Priority 4: *'to raise standards and corporate efficiency'*; and
 - (b) Cabinet Commitments: *'Sustainable Council Tax'*.

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4. Key Issues

4.1 The Council's Tenanted Portfolio

- 4.1.1 The Council has a diverse property portfolio which is leased to third parties. They are not used for direct service delivery. A number of them are long ground leases where the Council owns the freehold of the land but does **not** own or manage the shops. The land is let on a long lease to property/investment companies who are responsible for the shops, including their maintenance, letting arrangements and day to day management. The property/investment companies own the buildings.
- 4.1.2 These ground leases are generally low risk because the tenants hold the equity of the buildings and the Council normally has very limited landlord liabilities. Nor does the Council practically have any real influence on how the day to day management is conducted, but officers can spend a disproportionate amount of time in administering the leases, for example, inspecting the premises to ensure that they have been decorated by the tenant, giving permission for a change to a tenancy, or collecting ground rent. The Council is also responsible for maintenance of the surrounding land, including the car parks solely serving the shopping parades.
- 4.1.3 In addition to the significant financial importance of the tenanted portfolio, the assets also deliver service value. However, performance across the leased estate is not consistent. Therefore AMP reviews consider the adopted criteria of service return, financial return and value for money, and then options are considered, in accordance with good asset management practice. Maximising the performance of these assets, correcting under-performance and disposing of poor or inappropriate investments are all ways to increase cashable gains, as required by the Lyons recommendations, the Gershon Review, and the Council's DR-IVE initiative.

4.2 AMP Review of the Council's Investment Portfolio

- 4.2.1 The Council considered 24 ground lease 'investment' assets as part of Report W563 to Cabinet on 16 February 2006. Two of these were the Hardwick Shopping Parade and the St Olaves Precinct, both of which were leased in the early 1970s. In both cases, the assessment of the parades against financial and service return and value for money produced low scores against other ground lease assets which exhibit more service return, less risk, lower management costs and a higher rental income with regular growth prospects. Further details are contained in Exempt Appendix 1.
- 4.2.2 Report W563 did conclude that for both assets, there may be reasons for selling them on the open market. However, it was concluded that because the Council as landowner could have an element of control through the leases of both shopping parades, and the opportunity of working in partnership at St Olaves Precinct, it was resolved to retain both sites.
- 4.2.3 As part of the systematic Asset Management Plan (AMP) review of all the Council's assets, the 2006 decision is being reconsidered - retain the two housing estate shopping parades held on historic ground leases. As with other ground lease assets, the merging of the freehold interest in the land owned by the Council with the leasehold interest held by the tenant can be valuable. Additionally, there is a known interest from nationally operating institutional investors in the purchase of long ground lease assets. The Council has been successful in selling similar assets at auction.

4.3 Hardwick Shopping Parade

- 4.3.1 The Council owns the freehold of Hardwick Shopping Parade, Bury St Edmunds, which

has an older style 125 year ground lease which commenced in 1973, as part of the community facilities associated with the Nowton housing estate. The head lease is held by an investor and individual commercial leases are granted to each shop tenant. The Council's rent is reviewed every 21 years and the next review is 2015. Rent at review is a percentage of the total rental value of the let shops.

- 4.3.2 The parade consists of 9 shop units, which includes a small supermarket with flats above. The adjoining public house is owned privately. Southgate Community Centre is adjacent to the parade and is separated by a small landscaped area. The Council is responsible for maintaining the car park to the front, which is not included in the ground lease. The parade is shown in Plan 1 attached.

4.4 St Olaves Precinct

- 4.4.1 The Council also owns the freehold of St Olaves Precinct, Bury St Edmunds, adjacent to the Howard housing estate. It is a 125 year ground lease commencing in 1970 comprising 13 shops including a supermarket, with flats above and originally included a public house. The Council undertook improvements in 1993 as part of a reallocation of the large rear service yard, to provide a site for affordable housing in partnership with a housing association. Resurfacing works to the front and back were undertaken. More recently, another partnership project was agreed between the Council, the tenant and Havebury Housing Partnership to provide further affordable housing and environmental improvements to the forecourt. The environmental works are complete and the affordable housing is under construction. The Council maintains the car park to the front, but this is not a responsibility tied to the ground lease. The precinct is shown in Plan 2 attached.

- 4.4.2 As with the Hardwick parade, the head lease is held by an investor and individual commercial leases are granted to each shop tenant. The Council's rent is reviewed every 14 years and the next review is 2018. Rent at review is a percentage of the total rental value of the let shops.

4.5 AMP assessment process and options appraisal

- 4.5.1 The adopted assessment process and options appraisal have been reconsidered for the two ground leases. Details are contained in Exempt Appendix 1. The favoured option is to sell the freehold of the sites subject to the ground leases, but to retain the adjoining car parks and landscaping areas.
- 4.5.2 The sale of the assets will not alter the individual tenancies of the shops, which will continue to be managed in the same way, nor will it have any effect on the community and customers which use them.

5. Other Options considered

- 5.1 The process for assessing the non-operational portfolio includes options appraisal. The agreed options are:-
- (a) retain and manage actively to achieve required performance;
 - (b) retain and consider the feasibility of alternative uses or with partners, to better meet the Council's property objectives; or
 - (c) sell and reallocate the capital to better achieve corporate objectives and priorities.
- 5.2 In many cases, the decision to sell or retain will be straight forward. For other assets, it will be harder to judge and further feasibility studies may be needed. Considerations are:-
- (a) If sold, can an equivalent amount of income be raised from alternative

	<p>investments (property or otherwise)? Costs of sale, acquisition, Stamp Duty and management also have to be taken into account.</p> <p>(b) Are there any contractual obligations which have to be taken into account, such as lease covenants, grants, etc, which will affect value?</p> <p>(c) Does the property fulfil a community need, which may be lost if the property is sold?</p> <p>(d) Does the property have unique characteristics which are important for the Council to protect?</p> <p>(e) Is there potential, with surrounding land, to improve the investment, by combining sites or changing their use, which may mean additional investment?</p> <p>(f) Are there long-term strategic reasons for holding the property, which outweigh the current under-performance?</p> <p>(g) Is there a more pressing need for alternative capital investment which would justify sacrificing current income (particularly if the capital value has increased more than rental value)?</p> <p>(h) Could the property be retained by the Council and used for direct service delivery?</p> <p>5.3 These factors have all been taken into account. The exempt Appendix includes reasoned arguments which, in the context of the current economic and financial conditions, sale of the assets may be more compelling than retaining them.</p>
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6.	Community impact <i>(including Section 17 of the Crime and Disorder Act 1998 and diversity issues)</i>
6.1	<u>General</u>
6.1.1	There is no adverse community impact, nor any implications for the Crime and Disorder Act 1998 in selling the two assets. There will not be any changes to the tenancies of the shops, nor will it have an effect on the community and customers which use them.
6.2	<u>Diversity and Equality Impact</u> <i>(including the findings of the Equality Impact Assessment)</i>
6.2.1	There are no diversity implications.
7.	Sustainability Impact <i>(including environmental or social impact on the local area or beyond the Borough)</i>
7.1	There is no impact on sustainability. Ownership of the land will change from the Council to a private investor but there will not be any changes to the facilities provided which is a direct result of the sales. The shopping parades should continue to support the objective of providing facilities for communities, to improve well being.
8.	Consultation
8.1	Portfolio holders for Asset Management and Resources have been consulted.
9.	Resource implications <i>(including asset management implications)</i>
9.1	The decision to sell the two assets will mean a small overall reduction in rental income for the whole tenanted portfolio. The current and anticipated revenue generated from the non-operational portfolio is built into the Five Year Financial Model. This rental income will not increase until 2015 for the Hardwick Shopping Parade and 2018 for the St Olaves Precinct. If market rents are affected by adverse economic circumstances, the two ground rents are unlikely to increase significantly at the next reviews and will then remain fixed at the new levels for a long time (21 and 14 years respectively).
9.2	Exempt Appendix 1 contains estimates of market value based on the sale of similar assets at auction, where there is evidence that investors often bid for land subject to long ground leases at prices higher than conventional market values. In some cases, the

existing ground lease tenants may be interested in buying the land to achieve a more valuable investment. They may be bidders at the auction or may offer an acceptable price prior to the date of auction, and the sites may then be sold by private treaty. In this case, the sale price would need to meet the Council's statutory duty of best price.

9.3 If the assets are sold and the capital invested, it is likely that in the medium to long term, an equivalent amount of revenue to the rental income can be raised, particularly if internal staff management costs and maintenance costs are taken into account. There will not be any adverse impact on the 5 year model.

10. Risk Assessment *(potential hazards or opportunities affecting corporate, service or project objectives)*

10.1 The following risks are identified:

Risk area	Inherent level of Risk (before controls)	Controls	Residual Risk (after controls)
The sales do not achieve the anticipated financial expectations	Medium	Effective marketing through an experienced auction house; Establish reserve prices and do not sell if bids do not meet revenue expectations	Low
Individual shop tenants become concerned that as landowner the Council will no longer be in control	High	Active communication with the tenants to explain the sales prior to marketing	Medium
The long leasehold tenants are critical of not being given first chance of buying the land	Medium	Active communication with the two long leasehold tenants to explain the sales prior to marketing	Low

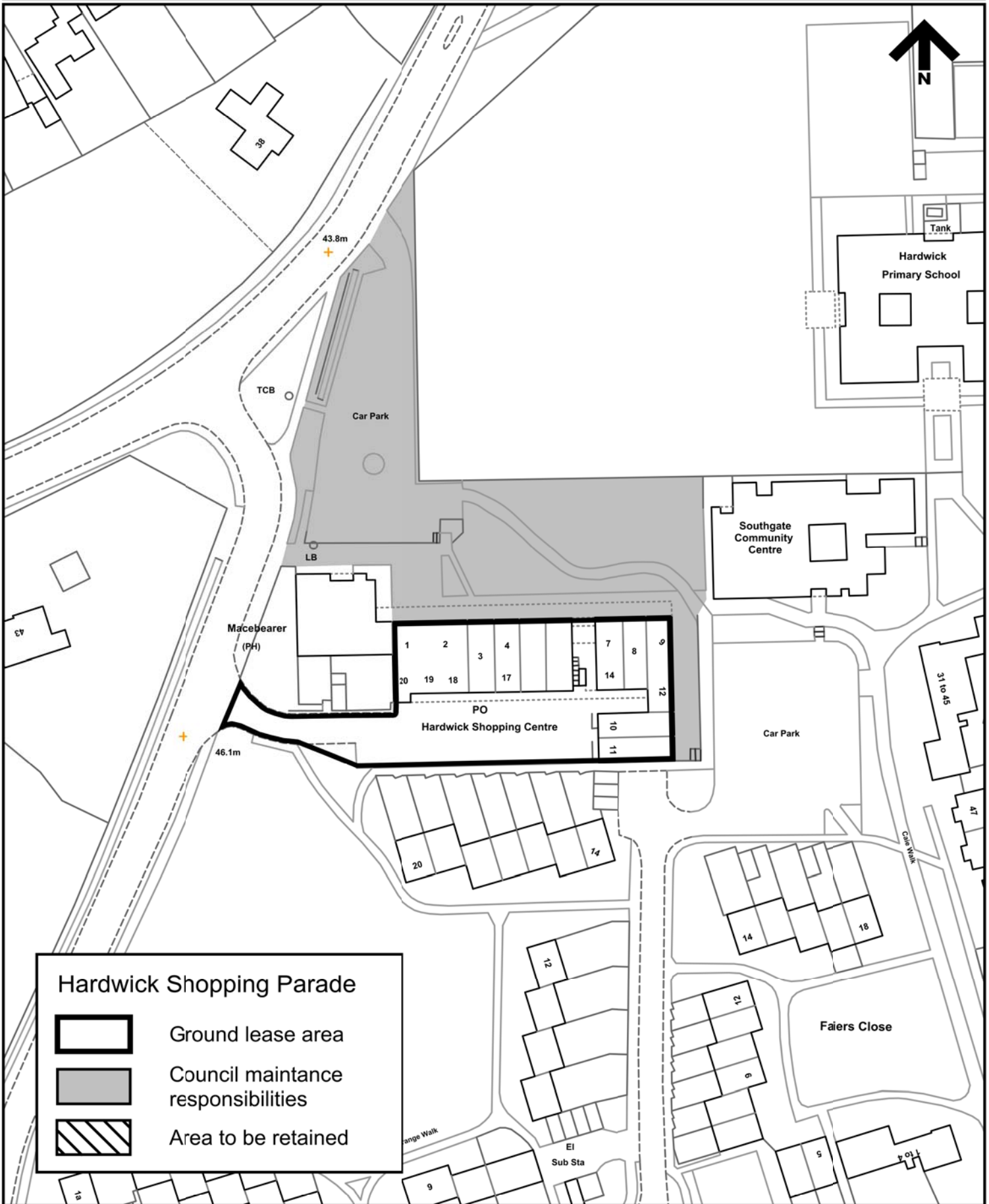
11. Legal or policy implications

11.1 The proposed sale of land at Hardwick Shopping Parade and St Olaves Precinct is in accordance with the adopted asset management options appraisal.




11.2 There sales will be made in compliance of s123 of the Local Government Act 1972.

Ward(s) affected	Southgate St Olaves	Portfolio Holder(s)	Sara Mildmay-White Economy & Asset Management
Background Papers	W563 Cabinet 16 February 2006	Subject Area Economy Property Management	

Plan 1



Hardwick Shopping Parade

-  Ground lease area
-  Council maintenance responsibilities
-  Area to be retained



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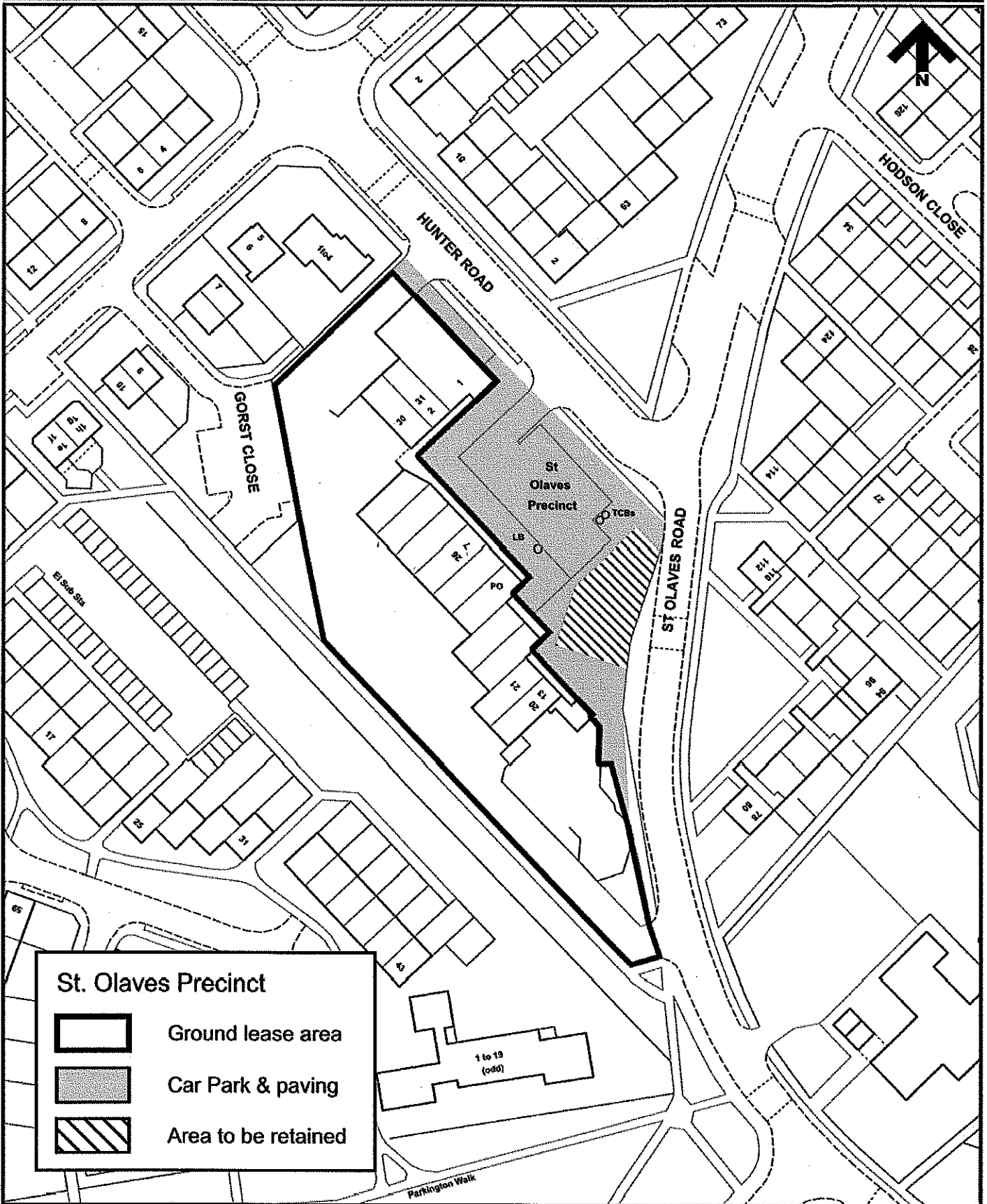
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Plan 2



St Edmundsbury
BOROUGH COUNCIL

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