Council

St Edmundsbury
BOROUGH COUNCIL

Title of Report:	**Investing in our Commercial Asset Portfolio**	
Report No:	**EXEMPT ADDENDUM TO COU/SE/19/002**	
Report to and date:	**Council**	19 February 2019
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Documents attached:	**Appendix A** – Tenancy lease terms **Appendix B** – Tenant covenants	

1. Introduction

1.1 This addendum has been produced to offer additional information in relation to the proposed purchase of Vicon House and to provide an update on the progress of negotiations with the vendor. The original recommendations are unchanged.

2. Summary of Strategic Case

2.1 Ownership of this property interest can deliver strategic and place-shaping potential for the Council. The strategic case for the purchase of Vicon House it set out in the original Report, but a summary of the main benefits is detailed below:

2.1.1 Ownership of Vicon House offers long term potential to ultimately re-develop the site complementary to the Western Way Development and West Suffolk College expansion.

2.1.2 The purchase offers the opportunity to manage traffic issues in the area by having certainty over volumes of traffic accessing the site and even potentially using part of the site to improve the Western Way

roadway to improve the flow of traffic in an emerging business district.

2.1.3 Ownership of the property, as landlord, will enable the Council to support the existing tenants, who are major employers in Bury St Edmunds, by working with the businesses to fulfill their property needs and help them realise their long term growth ambitions in the area.

2.1.4 In contrast, a private investor might take a strict commercial view by bringing forward a future development which does not align with the Council's priorities and plans for the area and forces tenants to relocate prematurely. A different use may also change traffic volumes on Western Way.

3. Financial Case

3.1.1 The quality of an investment of this type depends largely on the reliability of the occupying tenants and the security of tenure. In other words, securing strong tenants on long leases helps to maintain future income streams and reduces the risk of tenant defaults.

3.2 *Existing tenancies*

3.2.1 Vicon House is currently fully let to six commercial tenants. A schedule of the tenants' basic lease terms is attached in **Appendix A**. The schedule provides a note of the current passing rents along with rent review and lease expiry details.

3.2.2 The existing tenancies in the buildings provide security of income over the next 4 years and the recent £500,000 refurbishment by Servest of their offices in Vicon House is a clear indication of Servest's commitment to the area and their desire to remain in the property in the medium term.

3.3 *Tenant covenants*

3.3.1 A table providing more detail regarding the financial standing of existing tenants has been attached in **Appendix B**.

3.3.2 Although Servest made a loss of £8.2m in the financial year ending 30 September 2017, as detailed in the Report, Servest have recently merged with the multi-national company, Atalian, who recently made a turnover of 3 billion euros, so this will bolster the Servest covenant significantly.

3.3.3 As detailed in **Appendix B**, the other tenants on the site are long established businesses and offer reasonable covenant strength.

3.3.4 When considering an investment of this nature, the financial strength of the incumbent tenants will affect the security of the investment, which in turn determines the value of the investment. Tenant covenants were reviewed by the Council's Internal Audit Manager who

believes the investment demonstrates a good overall tenant covenant strength. This has been reflected, along with the wider strategic value, in our offer.

4. The Purchase

4.1 *Negotiations*

4.1.1 Since the Report was written, our intermediaries, Bream Real Estate, have progressed negotiations with the vendor, Citygate Developments.

4.1.2 As detailed in the Report, Bream have provided the Council with the opportunity to seek to purchase the property off-market as part of a two-property deal. At the time of writing Citygate are considering a provisional offer from the Council of £3,215,000. Our maximum provisional offer, as endorsed by Cabinet and proposed in this report, is £3,266,000 so there is room to increase the current offer by £51,000. Any offer is conditional on Council approval at this meeting.

4.1.3 Since the original report was published, Citygate has released the opportunity on the open market. This is not surprising considering the pressure to realise a capital receipt within this financial year. The property is being marketed with an asking price in excess of £3,330,000. However, they have indicated that they would be prepared to proceed with the joint offer from the Council and Bream, if Members approve the acquisition.

4.1.4 Our red book valuation puts the property at a value of £3,863,000. This supports our belief that we are achieving a lower purchase price because we have benefited from advanced knowledge of the opportunity via our off-market introduction from Bream which has provided the Council with an advantage over other investors in that we are able meet the vendor’s time constraints.

4.1.5 If the offer via Bream is not accepted, the Council could submit an offer to Citygate directly in competition with the market under the terms of the existing recommendations in this report. In those circumstances, the Council would not need to pay Bream their finder’s fee, but Bream may argue for a small consideration to reflect the head start they secured for the Council. This would have be negotiated with Bream if the situation arises.