

Joint Executive (Cabinet) Committee

Forest Heath & St Edmundsbury councils

West Suffolk
working together

Title of Report:	Investing in our Commercial Asset Portfolio	
Report No:	EXEMPTION REMOVED CAB/JT/18/058	
Report to and dates:	Joint Executive (Cabinet) Committee	11 December 2018
	St Edmundsbury Council	18 December 2018
Portfolio holder:	Councillor John Griffiths Leader of St Edmundsbury Borough Council Tel: 07958700434 Email: john.griffiths@stedsbc.gov.uk	
Lead officer:	Ian Gallin Chief Executive Tel: 01284 757009 Email: ian.gallin@westsuffolk.gov.uk	
Purpose of report:	To advise Council of the opportunity to acquire a commercial property investment in Haverhill using the £40m Investing in Growth Fund and to seek Council approval to purchase the property.	
Recommendation:	<p>It is <u>RECOMMENDED</u> that the Joint Executive (Cabinet) Committee recommends to St Edmundsbury Borough Council:</p> <p>(1) To approve the proposal to purchase the property at 33-35 High Street, Haverhill for a sum of £365,000 (Three Hundred and Sixty Five Thousand Pounds) excluding VAT, fees and Stamp Duty Land Tax, to be funded from the Investing in the Growth Agenda Fund.</p> <p>(2) To establish a capital budget of £376,400 to be made available to facilitate the</p>	

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	<p>purchase, including fees and Stamp Duty Land Tax, to be funded from the Investing in our Growth Agenda Fund; and</p> <p>(3) To fund the options due diligence costs of £20,000 and the holding costs associated with the purchase at (1) above, and as detailed in paragraph 3.7 of Report No: CAB/JT/18/058, from the Strategic Priorities and Medium Term Financial Strategy Reserve.</p> <p>(4) To note that a further report, detailing options for the site will be submitted.</p> <p>(5) To note that should the purchase be made, the Council's Section 151 Officer will make the necessary changes to the Council's prudential indicators as a result of Recommendation (2) above.</p>
<p>Key Decision:</p> <p><i>(Check the appropriate box and delete all those that do not apply.)</i></p>	<p><i>Is this a Key Decision and, if so, under which definition?</i></p> <p>Yes, it is a Key Decision - <input type="checkbox"/></p> <p>No, it is not a Key Decision - <input checked="" type="checkbox"/></p>
<p><i>The decisions made as a result of this report will usually be published within 48 hours. This item is included on the Decisions Plan and has been published via a General Exception Notice.</i></p>	
<p>Consultation:</p>	
<p>Alternative option(s):</p>	<p>The Council does not purchase this property investment and does not deliver strategic improvements and or take the opportunity to potentially provide additional residential accommodation within Haverhill town centre.</p>
<p>Implications:</p>	
<p><i>Are there any financial implications? If yes, please give details</i></p>	<p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <ul style="list-style-type: none"> A capital budget of £376,400 would be funded from the Council's Investing in our Growth Agenda Fund
<p><i>Are there any staffing implications? If yes, please give details</i></p>	<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p>
<p><i>Are there any ICT implications? If yes, please give details</i></p>	<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p>
<p><i>Are there any legal and/or policy implications? If yes, please give details</i></p>	<p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <ul style="list-style-type: none"> If a purchase is approved, the Legal Team will be instructed to take forward the conveyancing and undertake due diligence.

Are there any equality implications? If yes, please give details		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
Risk/opportunity assessment:		<i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>	
Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
	Low/Medium/ High*		Low/Medium/ High*
Price offered is in excess of market value.	Low	Market assessed by Asset Surveyors from Strategic Property team. Backed up by Red Book valuation from an external consultant.	Low
Purchase price is agreed but professional fees could vary beyond budgetary provision	Low	Use of the Council in-house solicitors. External property professional advice (Red Book valuation) already accounted for.	Low
The property has been vacant for two years. The property could prove difficult to let in existing form in the short term.	Medium	Strategic value remains. Estates Management team will take pro-active measures to secure a tenant before the property is redeveloped.	Medium
Potential unidentified defects.	Medium	In-house surveyors have inspected the building and not identified any significant defects. Intention is to redevelop.	Low
The national high street retail market is currently undergoing significant change. Capital values and demand from tenants are falling. The local market could deteriorate to such an extent that calculated returns on investment are not realised.	High	A significant reduction in the original asking price has already been secured reflecting the risk of potential losses. Intention to re-develop where market trends will be factored into the proposed scheme.	Medium

The proposed redevelopment of the building could fail to deliver the desired strategic transformation of the town centre dynamic.	High	A development appraisal has been prepared by external consultants to assess potential options and a further stage 1 feasibility study, to design an effective regeneration scheme, has been budgeted for.	Medium
Ward(s) affected:		All Haverhill Wards	
Background papers: <i>(all background papers are to be published on the website and a link included)</i>		West Suffolk Growth Investment Strategy - Executive Summary	
Documents attached:		Appendix A - Location Plan Appendix B – Photographs	

1. Key issues and reasons for recommendations

1.1 Introduction

- 1.1.1 The Council has the opportunity to purchase the freehold of 33-35 High Street, Haverhill, CB9 8AF, which was formerly occupied by HSBC Bank.
- 1.1.2 Ownership of this property could deliver both strategic place shaping and investment opportunities for the Council, helping to deliver on the masterplan through re-development of the site.
- 1.1.3 An offer to purchase the property for £365,000, subject to Member approval, contract and valuation, has been accepted by the Vendor and current owners in the form of two private individuals. Cheffins in Cambridge have been marketing the property and acting for the Vendor on this matter.

1.2 Investing in Growth Fund

- 1.2.1 The purchase, purchaser costs, holding costs and a sum for initial re-development feasibility will come from the Council's £40m Investing in Growth Fund. The Investing in Growth Fund was approved by SEBC Council on 18 February 2018 under the Overarching West Suffolk Growth Investment Strategy, Governance and Delegation. Full details of the figures and financial ask are set out under the Financial Case in this paper.
- 1.2.2 The Investing in Growth Fund was adopted in January 2018 with the aim of delivering the West Suffolk Strategic Priorities. The Fund of £40m comprises £20m each from St Edmundsbury and Forest Heath and has a target to achieve a blended revenue return, across the whole fund, of 1% above borrowing: £400,000 in net revenue terms.
- 1.2.3 To date £5.715m of the fund has been committed to the following: developing Cornhill Post Office in Bury St Edmunds; acquiring 20 High Street, Haverhill as a rental investment with longer term strategic value; and acquiring 113 High St/1 The Avenue, Newmarket which provides a commercial return from the retail units on the ground floor and emergency housing accommodation on the upper floors.
- 1.2.4 Whilst this acquisition would not immediately contribute to the revenue target of the fund (depending on the nature of any meanwhile use), it fits with the intention to achieve a blended return through the delivery of wider strategic benefits and ultimately will provide a source of revenue for the Council through renting out the commercial element(s).
- 1.2.5 Investment through the Fund will help the Councils achieve the Medium Term Financial Strategy (MTFS) targets and any revenue generated will the Investing in Growth Fund will achieve the strategic priorities and provide revenue returns to help pay for delivery of services in West Suffolk.

1.3 Strategic Case

- 1.3.1 A purchase of this property will help with the town centre place-shaping objectives of the Haverhill Masterplan. One of the key objectives is to create better links between the bus station/leisure centre/cinema end of the town and the High Street. This would be achieved through re-development of the property to create a potentially wider pedestrian corridor and reposition any retail/commercial offer to create better synergies between High Street and bus station/car park.
- 1.3.2 In terms of linking with the Council's Strategic Priorities and Investment Strategy, a successful purchase would demonstrate "increasing influence" through providing the Council with the opportunity to have a direct landowner influence in the shaping of the town.
- 1.3.3 More widely, selective ownership of key property assets in Haverhill town centre provides a catalyst to work with public and private sector partners in stimulating the High Street and an opportunity to seek alternative uses which will help meet the challenges of a changing retail and town centre landscape. The potential to re-develop the property to provide some residential element (subject to planning) could help contribute towards developing an evening/night time economy in the town centre and encourage other property owners in the High Street to consider the upper floors of their properties for this use.
- 1.3.4 In order to determine the most effective re-development, from both a place shaping and financial perspective, upon completion we would undertake a design and planning feasibility study, along with financial viability assessments. This will likely provide a number of options which would be presented to Members for a decision on which option to progress.
- 1.3.5 Subject to planning, feasibility and financial viability review, a re-development in this location has the potential to deliver a mixture of retail, leisure, community and residential uses.
- 1.3.6 From our experience of other projects we would anticipate that it could be up to three years before re-development could commence. Therefore we will seek interim uses which both help support the local community and provide a revenue return/help cover holding costs.
- 1.3.7 The request for holding costs and initial feasibility work has been included, along with the purchase and purchaser costs, in the Financial case.

1.4 The Property

- 1.4.1 The property comprises a detached, self-contained three storey building providing ground floor retail space and offices at first floor level. The property, which extends to 332.21 sq m (3,576 sq ft), benefits from a basement and six parking spaces to the rear.

- 1.4.2 In terms of planning, the building was granted consent in the early 1960's and has operated lawfully as a bank (Use class A2 Financial and professional services) since that time.
- 1.4.3 The property is not listed or within a conservation area, but is close to the Haverhill Queens Street Conservation Area and therefore any development will need to preserve or enhance the setting of the conservation area. It is inside the following designations: primary shopping area; town centre; and Haverhill Town Centre Masterplan. The property also forms part of the primary shopping frontage and therefore any planning application will need to take these policies into account.
- 1.4.4 A plan showing the location and context within Haverhill town centre is provided in **Appendix A**.

1.5 **Property Condition**

- 1.5.1 The Council's surveyors have viewed the property. Although the property is in an average condition internally and would require some investment cosmetically, from viewing the property, the Building Services team believe that a full structural survey will not be necessary.
- 1.5.2 The building is of brick construction with a part pitched/part flat roof and concrete floors. Apart from minor signs of water ingress at first floor level and general cosmetic wear and tear, the building is in reasonable condition.
- 1.5.3 The vendor has provided a copy of the asbestos register and this indicates that the property does have the presence of asbestos in the floor tiles and cement flue which will need to be factored into the cost of any redevelopment. However the property would not need any treatment to be occupied in its current state.
- 1.5.4 We have also been provided with the Energy Performance Certificate, which has an E (106) rating, which is the minimum level required to permit a letting of the property in its current form.
- 1.5.5 External photographs of the front and rear of the property are attached in **Appendix B**.

1.6 **Offer and Valuation**

- 1.6.1 The vendor originally sought offers in the region of £450,000, but recently reduced the asking price to £400,000 due to lack of viable interest.
- 1.6.2 Officers have negotiated a purchase price of the property, subject to contract and Council approval, in the sum of £365,000 (Three Hundred and Sixty Five Thousand Pounds) exclusive of VAT, SDLT and fees.
- 1.6.3 The offer was based on advice from the Council's in-house chartered surveyors and finance officers and takes account of the current market value of the interest including the revenue and borrowing implications.

- 1.6.4 To support the offer, a RICS Red Book valuation was prepared by external chartered surveyors, Wilks, Head & Eve. Their opinion of market value is £390,100 (Three Hundred and Ninety Thousand, One Hundred Pounds), which is £25,100 more than the agreed price. Wilks, Head & Eve are also commissioned to undertake the Councils Fixed Asset Valuations for 2018/19.

1.7 **Exit Strategy**

- 1.7.1 Should the decision be taken, following the initial feasibility work, not to progress, then there would be the option to either retain the property, rent it out in its current form (either commercially or for community use) and retain as an income-producing investment, or sell the property. In the case of the latter we would explore any opportunities to maximise the value such as obtaining a planning consent for a more valuable use.
- 1.7.2 It is recommended that a review of the ownership of this property be made as part of the consideration of options following the initial feasibility work.

1.8 **Summary of issues and recommendations**

- 1.8.1
- The Council has the opportunity to acquire a freehold interest of the former HSBC Bank in Haverhill for £365,000.
 - The property will be purchased through the £40m Investing in Growth Fund.
 - Acquisition and re-development of the property provides the opportunity to deliver on the Haverhill Masterplan objective of "improving the environmental quality and attractiveness of the pedestrian walkways to the High Street.
 - There is also opportunity to help shape the High Street and influence connectivity through direct investment in the property.
 - An RICS Red Book valuation has been undertaken which supports our offer price.
 - The total ask of Members will also include Purchaser costs, holding costs and cost to cover initial feasibility.
 - Whilst feasibility is undertaken, we will seek viable interim uses for the property.
 - A review of the ownership of the property will be included when the re-development options are presented to Members.

2. **The Purchase Process**

- 2.1 Heads of Terms are agreed between the parties. Subject to Council approval, our in-house solicitors will undertake the conveyancing and due diligence.
- 2.2 If there are no unforeseen legal or property issues arising from the due diligence process, we would anticipate exchanging contracts and completing the acquisition in February 2019.

3 **Financial Case**

- 3.1 The financial implications of purchasing the property are detailed in the table below:

Financial Implications of purchase of property	Purchase 33-35 High Street, Haverhill
Capital Implications	
Purchase Cost of building	365,000
Stamp Duty (SDLT)	7,750
Purchase costs at 1% of Capital Value	3,650
Capital Purchase Cost	376,400
Revenue Implications	
Borrowing - Interest	11,300.00
Borrowing - MRP	5,000.00
Overall (surplus)/deficit per annum after borrowing	16,300.00

The agreed price represents a total cost to the Council of £376,400, which includes SDLT and professional fees. This is to be funded in line with the Council's Investing in our Growth Agenda Fund.

The figures presented above do not include any assumption of achieving a rental return, and include the full cost of prudential borrowing on an annuity basis in line with the Council's MRP policy. The financial implications of any potential re-development of the site are explored further below.

- 3.2 With the potential for acquisition in mind, external property consultants, Concertus, were commissioned to prepare a high-level, desktop development appraisal. The brief was to consider the potential for redeveloping the property with a view to widening the adjacent alleyway and reconfiguring the site to enhance the High Street, in line with the Haverhill Masterplan. Three potential options they explored are detailed below:

Option 1 – Demolish the existing building and build 4 single storey retail units.

Option 2 – Demolish existing building and build 3 ground floor retail units with 3 residential flats above.

Option 3 – Convert existing building into 3 retail units on ground floor and 3 residential flats above, with an internal passageway.

- 3.3 The table below shows the indicative capital costs and revenue returns from three development proposals:

Financial Implications of potential re-development of property	Purchase 33-35 High Street, Haverhill	Purchase 33-35 High Street, Haverhill	Purchase 33-35 High Street, Haverhill
	Option 1	Option 2	Option 3
Capital Implications			
Indicative re-development costs	387,600	915,600	562,600
Less income from sale of residential units	-	(444,000)	(444,000)
Indicative Redevelopment Cost	387,600	471,600	118,600
Revenue Implications			
Rental Income from development	(70,000.00)	(62,400.00)	(40,800.00)
Total income per annum	(70,000.00)	(62,400.00)	(40,800.00)
Borrowing - Interest	11,600.00	14,150.00	3,550.00
Borrowing - MRP	5,150.00	6,250.00	1,600.00
(Surplus)/deficit per annum after borrowing of re-development	(53,250.00)	(42,000.00)	(35,650.00)
(Surplus)/deficit per annum after borrowing from purchase	16,300.00	16,300.00	16,300.00
Overall (surplus)/deficit per annum after borrowing	(36,950.00)	(25,700.00)	(19,350.00)

3.4 In terms of place-shaping potential the following points should be noted:

- 3.4.1 **Option 1** has no housing provision although it provides the most revenue income going forward. Option 2 and 3 both provide residential accommodation in the town centre in line with the Haverhill Masterplan and the Council's strategic priorities.
- 3.4.2 Although **Option 2** generates the lowest return, the returns meet Fund targets and the proposal provides three residential flats in the town centre. Option 2 will assist in the regeneration of the town by bringing a new building into the area and reconnecting the bus station and Ehringshausen Way car park with the high street.
- 3.4.3 **Option 3** three opens the close at ground floor level but option 2 will bring more natural light into the passageway.
- 3.5 Based on the appraisal detailed in 3.3, a purchase at £365,000 could achieve returns (after borrowing and purchase costs) of 3.03% to 4.48%. These returns would meet the current Investing in Growth Fund target of 1% above borrowing and represent a net income of £19,350 to £36,950 per annum depending on the development approach adopted.
- 3.6 In order to be able to undertake some more detailed feasibility work, an initial budget of £20,000 is required. This will enable us to provide more detail on each of the options mentioned at 3.1 above, and 3.3.
- 3.7 The asset purchase will incur holding costs whilst the site's future is being explored. These are estimated to be £75,000 (covering insurance, empty business rates and a provision for reactive maintenance) over the three year period that design, procurement and construction of the development is expected to take place. This would be reduced at any point if the property were let in its existing form.

- 3.8 It is proposed that these both initial feasibility work and holding costs are funded from the Strategic Priorities and Medium Term Financial Strategy reserve.

4 Legal Considerations

- 4.1 We have been supplied with copies of the Land Registry title documents and title plan, upon which we make the following initial observations:
- 4.1.1 The property includes a rear access road held under separate title which is included in this purchase.
- 4.1.2 The adjoining property No. 31, has a right of access over the rear access road.
- 4.2 The purchase will be subject to the normal due legal diligence.

5 Resource Considerations

- 5.1 If purchased, the property will be managed using the existing resources within the Councils in-house Estates team.
- 5.2 Re-development of the property will be a specific project which will require a combination of internal Project Management resource. This includes for the initial feasibility work set out in the Financial Case.