

Report to the Cabinet

Report reference: C-006-2023/24

Date of meeting: 31st May 2023



**Epping Forest
District Council**

Portfolio: Finance, Qualis Client and Economic Development – Cllr J. Philip

Subject: Acquisition of Leasehold Interests of Council Owned Commercial Property and Disposal at Cartersfield Road

Responsible Officer: Andrew Small (07548 145665).

Democratic Services: Vivienne Messenger (01992 564243).

Recommendations/Decisions Required:

To Agree:

- (1) The acquisition of the long leasehold interest set out in the confidential Appendix A to this report.
- (2) The sale of 50, 51-52, 60 and Unit 10 Cartersfield Road, Waltham Abbey at the lower figure of £1,722,165; and

To Recommend

- (3) That Council varies the approved Capital Programme by £1,500,000 to allow the acquisition of the properties set out within Appendix A.

1. Executive Summary

- 1.1. The Council has the option to acquire a series of long leasehold interests in a number of properties. These acquisitions provide regeneration and employment opportunities with some of these properties having been vacant for several years. As these are commercial negotiations, the details of the properties are set out in the Confidential Appendix.
- 1.2. The Council can also secure commercial development to provide new industrial units creating further job opportunities and estate regeneration with a sale to Qualis identified above in item 2.

2. Detailed Report

- 2.1. The Council historically has had different approaches to commercial estate management and on occasion in the past has agreed a number of long leasehold interest disposals of its commercial estate in return for capital payments.

- 2.2. In practice, whilst opportune at the time, these now limit the Council's ability to redesign, intensify or remodel its commercial estates as islands of privately held interests now exist which restrict such attempts.
- 2.3. With the Council's commercial estate now being actively managed by Qualis, the Council may wish to capitalise on opportunities to regain ownership and then re-let the units for commercial returns but with such commercial terms as would allow the Council, as advised by Qualis, to redevelop its holdings in order to increase employment opportunities and intensify commercial returns.
- 2.4. Where the higher rental achieved through acquiring and re-letting these properties exceeds the capitalised costs of purchasing the interest, these acquisitions can be achieved at either no net cost or betterment to the Council's revenue budget. However, this also means that the Council must actively manage the property, ensure it remains let and collect the income. If the Council is unsuccessful in keeping the property let and in collecting the rent then the borrowing costs, if not offset by rent income, could create a revenue budgetary pressure.
- 2.5. As the negotiations are commercial and involve the interests of specific tenants the details of the properties and the sums potentially involved are set out within a Confidential Appendix A to protect the tenants and the Council's commercial position.

3. Report - 50, 51-52, 60 and Unit 10 Cartersfield Road, Waltham Abbey

- 3.1. The sale of these properties to Qualis was approved at Cabinet last March for £2,930,000, with the site previously identified for redevelopment and having secured planning permission in September 2020.
- 3.2. As time has passed this report provides an update on the significant progress made in the interim period.
- 3.3. The scheme will provide 4 industrial units creating new employment opportunities and continues the regeneration of this important industrial estate in Waltham Abbey.
- 3.4. The property market and the economy in general has seen significant challenges over the last 12 months with large increases in construction costs including materials and wages linked to high inflation. Commercial property values have also softened because of these factors including the increased cost of borrowing.
- 3.5. Achieving vacant possession has elongated the delivery programme but there is now only 1 tenant remaining and being relocated into another unit on the estate.
- 3.6. Qualis have speculatively moved forward with the project, commenced demolition and concluded a construction tender exercise. The impact of this reflected in the financial appraisal outputs in the table below.

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|--------------------------------|-------------------|
| | |
| Gross Development Value | £11,965,200 |
| Costs | £8,896,212 |
| Costs including finance | £9,554,018 |
| Residual land value | £1,722,165 |
| Profit on Cost | 15% |

- 3.7. Whilst the paper considered in March 2022 by Cabinet created a land value at a higher figure the subsequent timeframe has seen construction costs increase in the order of 34%.
- 3.8. The lower land value is supported by a March 2023 valuation carried out by Carter Jonas and whilst the Qualis assessment of the value of this land is below this sum they are prepared to match the valuation figure of £1,722,165 in order to meet the requirements of S123 of the Local Government Act 1972.
- 3.9. Disposal meets the Council objectives of immediate regeneration, job creation and the catalyst for the improvement of this important industrial estate. A start on site is programmed for July once demolition is complete. Qualis have agreed to an additional overage payment which protects the Council should values exceed this forecast.
- 3.10. Funding for the development will come via the Council and return an additional margin over and above any capital receipt. Whilst the land value has decreased, the cost of the development has increased, due to the impacts of building inflation, and thus the value of the Council's lending and therefore the return from the lenders margin remains similar despite the reduced land value.
- 3.11. It is recommended that the site be sold to Qualis for £1,722,165.

4. Resource Implications

4.1. Within the Council's approved Capital Programme, it has an Investment Property Acquisition Fund of £1,117,867. There are commitments against this provision of £604,867 leaving a balance available to fund the acquisitions set out within this report of £513,000.

4.2. The detailed proposals above would entail the following:

| | |
|-------------------------------------------------------|-------------------|
| • Investment Property Acquisition Fund Budget 2022/23 | £1,117,867 |
| • Revised Forecast Outturn (to crystallise May 2023) | £2,571,705 |
| • Fees Contingency | <u>£ 46,162</u> |
| • Shortfall | £1,500,000 |

4.3. The recommended acquisition of these properties would exceed the available balance of the capital allocation and therefore, to complete the transactions, the Council would need to vary the Capital Programme by £1,500,000.

5. Legal and Governance Implications

5.1. None contained within this report.

6. Safer, Cleaner and Greener Implications

6.1. None.

7. Consultation Undertaken

7.1. None