

Is the final decision on the recommendations in this exempt report to be made at this meeting?

Yes

URGENT: To consider a property acquisition

Final Decision-Maker	Policy and Resources Committee
Lead Head of Service	Jennifer Dearing and Paul Riley
Lead Officer and Report Author	David Tibbit
Classification	<p>Exempt – The information contained within the report has been considered exempt under the following paragraph of part 1 of schedule 12A to the Local Government Act 1972:-</p> <p>3 = Information relating to the financial or business affairs of any particular person (including the authority holding that information)</p> <p><u>Public Interest Test</u></p> <p>It is in the public interest that this report be taken in private because it relates to commercially sensitive information.</p>
Wards affected	High Street

This report makes the following recommendations to the final decision maker:

1. That the Committee considers the wider economic benefits of the acquisition;
2. That the Head of Finance & Resources is granted delegated authority to conclude negotiations with the owner of Granada House;
3. That the Head of Mid Kent Legal Services is authorised to complete the purchase on the terms as agreed by the Head of Finance & Resources

This report relates to the following corporate priorities:

- Keeping Maidstone Borough an attractive place for all – through the regeneration of Gabriel's Hill
- Securing a successful economy for Maidstone Borough – through the regeneration of the Mall shopping centre

Timetable

<i>Meeting</i>	<i>Date</i>
Policy & Resources Committee	27 th April 2016

URGENT: To consider a property acquisition

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The Committee considered the recommendation to purchase the freehold of Granada House, as shown on Appendix 1 – Site Plan, at its meeting on 23rd March 2016. While the Committee agreed to the draft Heads of Terms, the potential use of prudential borrowing to finance the purchase and to progress negotiations with the owner, it requested that a further report be brought to the Committee specifically to address the wider economic benefits of the acquisition.
 - 1.2 The report considers the wider economic benefits of acquiring Granada House and provides an update on the negotiations with the owner.
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2. REASONS FOR URGENCY

- 2.1 In order for the purchase of Granada House to progress in line with the agreed timetable and to reduce the risk of the vendor considering alternative buyers it is essential that the decision is made by the Policy and Resources Committee at its meeting on 27th April 2016.
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3. INTRODUCTION AND BACKGROUND

- 3.1 The Committee will be familiar with Capital and Regional's desire to refurbish and extend the Mall shopping centre and the Council's close involvement to jointly achieve a comprehensive and viable proposal. An important element of the joint approach is that the Council will acquire Granada House as an enabler for the expansion of the retail centre to the west to provide a substantial frontage to Gabriel's Hill and the opportunity to accommodate a major new retail anchor tenant and new leisure businesses.
- 3.2 Officers have agreed Heads of Terms with the owners of Granada House to purchase the freehold, subject to contract, for £3.35 million. Since the previous report, there has been an increase in Stamp Duty Land Tax rates, so that the total price, including SDLT, agents, surveyors and legal fees has risen by £23,000 from £3,530,000 to £3,553,000.
- 3.3 Officers have looked at the wider economic benefits that the acquisition and subsequent assimilation of Granada House into the Mall shopping centre can bring, in the longer term, to the immediate area. These are discussed in more detail later in this report.
- 3.4 Since the last report, officers have also arranged a building survey, have received the package of title information and property information from the Vendor's solicitors and have undertaken various searches, which are referred to in more detail later in this report.

4. AVAILABLE OPTIONS

- 4.1 The Council could still withdraw from the proposed acquisition. This option is available until contracts have been exchanged.
- 4.2 However, the recommended option is still to proceed with the acquisition for the reasons explained in the next section.
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5. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 5.1 The primary reason for acquiring Granada House is for its leasehold transfer to Capital & Regional and its subsequent demolition as an enabler for the expansion of the shopping centre to provide frontages for units on Gabriel's Hill on three levels. At present, the proposals indicate family dining units at ground level and a two level department store above.

ECONOMIC IMPACT

- 5.2 The Mall is Maidstone's largest covered shopping centre with over 50,000 m² of lettable floor space. The latest scheme proposes an increase in the net floor space from 50,000m² to approximately 65,000m² and includes provision for a ten screen multiplex cinema (4,000m²) and a new anchor store (6,500m²). The scheme also includes the reorganisation of the existing floor space to achieve better internal circulation and an improved customer experience.
- 5.3 The full refurbishment and re-development of the Mall, including the bus station, will require some £75m of capital investment.
- 5.4 A basic analysis of the economic impact is set out below based on the information provided in paragraphs 5.2 and 5.3. No account is made to adjust the figures to estimate when the development might take place which could be many years in the future. No account has been made regarding the potential loss of residential units from Granada House and the cost of relocating tenants.
- 5.5 To arrive at a number of jobs arising from the delivery of commercial floorspace, the employment densities based upon the Homes and Community Agency's 2010 employment density guidance have been assumed. This assumes the figures above are net internal area not gross internal area.

Assumed employment densities	Type of job	Employment density
A1/A2/A3/A4	(sq. m)	19
Leisure and Community	(sq. m)	100

The Mall Development will therefore create:

Additional Net floorspace created	Sq.m.	Jobs created
Retail	15,000	789
Leisure	4,000	40

- 5.6 The economic impact (jobs, expenditure or income) of an intervention is multiplied because of knock-on effects within the local economy. There are a number of ways of measuring this impact but for the purposes of this analysis a supply linkage multiplier has been used:

Job Type	Multiplier	Net additional Jobs created applying multiplier
Retail	1.38	300
Leisure	1.56	22

(based on HCA (2014) Additionality Guide, Fourth Edition).

- 5.7 In terms of valuing the GVA generated by each job (i.e. the amount of output produced by a unit of labour input) assumptions have to be made and in the first instance it is necessary to ascertain the average GVA per filled job for Kent.

Key data informing GVA assumptions Indicator	Kent CC
GVA per filled job (£)	40,994

A weighted average based on the type of job arising from the development must be assumed for the delivery of lower value retail and leisure floorspace, which generates a lower GVA per job.

Key data informing GVA assumptions Type of job	% comparison to mean	Assumed GVA per job, excluding financial sector (£)
Retail	70%	28,639
Leisure	50%	20,637
Construction	134%	55,075

The additional GVA generated by the Mall Development is as follows:

Job number and type	GVA per job	GVA
Retail 789	£28,639	£22,596,171
Leisure 40	£20,637	£825,480

(NB: In order to capture local benefits the multiplier job figure has not been included as the supply chain might not be local)

- 5.8 To arrive at an economic benefit arising from construction output impact, a number of assumptions about additional construction spending (using spending as a proxy for output), can be used and is then divided by a

weighted average job density per £1m of output to estimate the number of jobs generated as a result of the increase.

Jobs per £1m output = 14.6 jobs for 1 year
(source: CLG estimates, based on Construction Skills Network analysis, adjusted for type of construction and 2015 prices).

If the value of the development is £75m then the number of construction jobs is estimated to be 1095 for 1 year. The additional GVA is therefore £60,307,125.

In total, GVA could increase by £83,728,776 if the construction GVA is added to that arising from the retail and leisure jobs.

UPDATE ON DISCUSSIONS WITH CAPITAL & REGIONAL AND THE OWNERS OF GRANADA HOUSE

- 5.9 Negotiations with Capital & Regional are still at an early stage, but the intention is to agree a long term ground lease with Capital & Regional for which the Council would receive an agreed fixed percentage of the market rent for the additional floor area created in the shopping centre. Capital & Regional would be responsible for all the costs in connection with the demolition of Granada House and the extension of the shopping centre, and this would be reflected in the percentage of the market rent to be agreed.
- 5.10 The agreed percentage of market rent will be equal to or greater than the income received from Granada House, and this income would have to exceed its assumed borrowing costs of £200,000.
- 5.11 If Capital & Regional's redevelopment plans are scaled back, deferred or even cancelled, Granada House would remain intact and would continue to be managed by the Council as a commercial asset. Officers have therefore undertaken a building survey to understand better the long term financial implications of its ownership together with an examination of the various searches and reports provided by the current owner over the last month as part of the normal due diligence before exchange of contracts.
- 5.12 These show that the building is structurally sound and there are no areas of immediate concern. It is recommended that there should be some re-pointing of external brickwork, and that the external windows will need to be replaced within the next five years. The cost of the re-pointing can be partially recovered via the service charge, and the cost of replacement windows should be covered by the uplift in rent that can be charged on the residential units as a result of this upgrade.
- 5.13 Legal Services have commenced the due diligence on the Legal Title. The majority of the title documentation and search results have been received and these are being reviewed to ensure there are no unusual provisions for the charge and recovery of rent and costs. Two of the residential flats are vacant and two of the commercial units are vacant. We understand these are being marketed.

5.14 Officers are still of the view that the investment will still provide a gross initial yield of between 7.7% and 8.35%, with the expectation of rental growth at lease breaks and rent reviews following on from planned public realm improvements to Gabriel’s Hill.

5.15 Committee is reminded that immediately upon acquisition of Granada House, it is intended that the part of the property forming the residential units would be simultaneously transferred by the grant of a long lease to a wholly owned property company specifically created for that purpose. Such a transfer would have no impact on the expected yield from the property.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 There have been no public consultations due to the commercially sensitive nature of the proposals.

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 The decision will lead to agreement of the contract of sale, exchange of contracts and completion and transfer of the residential units to a holding company.

7.2 Officers will finalise negotiations with Capital & Regional over the terms of the grant of a long lease to Capital & Regional.

7.3 Officers will bring a further report to the Policy & Resources Committee on reaching a conclusion to these discussions.

8. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The proposal impacts on the corporate priorities by: 1. Enhancing the town centre 2. Promoting employment	Head of Finance & Resources
Risk Management	The key risks of the recommended proposal are: Site purchase. This will continue to be managed by due diligence before exchange of contracts. Capital & Regional. Grant of a lease will include safeguards to protect the Council’s investment	Head of Finance & Resources

	Property Company. The property company will need to be established prior to completion of the purchase.	
Financial	The financial implications are set out in the report and the proposals meet the criteria of the treasury management strategy's requirements relating to the use of prudential borrowing. A decision on the use of prudential borrowing is not required at this stage and a recommendation will be made to Policy & resources Committee at a later date, subject to overall resourcing of the full capital programme.	Head of Finance & Resources
Staffing	An officer led project team will be established using existing staff resources	Head of Finance & Resources
Legal	Documents relating to the acquisition will be overseen by the Mid Kent Legal Partnership	Head of MKLS
Equality Impact Needs Assessment	N/A	N/A
Environmental/Sustainable Development	Development of the site will be in accordance with the Council's sustainable development requirements	Head of Finance & Resources
Community Safety	N/A	N/A
Human Rights Act	N/A	N/A
Procurement	N/A	N/A
Asset Management	The property will be managed initially by the Council. Longer term plans will be determined in due course.	Head of Finance & Resources

9. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix I: Site Plan
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10. BACKGROUND PAPERS

- 9.1 Report of the Head of Finance & Resources to Policy & Resources Committee dated 23rd March 2016.