

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

Yes

To consider a property acquisition

Final Decision-Maker	Policy and Resources
Lead Head of Service	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 draft Heads of Terms set out in Appendix 1 for the freehold acquisition of Granada House, Gabriel's Hill, Maidstone are agreed.
2. That the potential use of prudential borrowing is agreed as a method of financing the purchase.
3. That the Head of Finance & Resources is granted delegated authority to conclude negotiations with the owner.
4. That the Head of Mid Kent Legal Services is authorised to complete the purchase on the terms as agreed by the Head of Finance and Resources.
5. That the establishment of a property company to hold the residential element of the property be agreed.

This report relates to the following corporate priorities:

- Keeping Maidstone Borough an attractive place for all – through the regeneration of The Mall shopping centre and Gabriel's Hill.

Timetable	
<i>Meeting</i>	<i>Date</i>
Policy & Resources Committee	23 March 2016

To consider a property acquisition

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 Capital and Regional Properties, as owners of the Mall, have long recognised the need to refurbish and develop the Mall shopping centre and have been seeking to achieve a deliverable scheme. Over the last five months officers have been working closely with the Directors of Capital & Regional through a joint project team approach to achieve a comprehensive and workable development proposal. This major scheme is in addition to the existing short-term improvements to entrances, lighting and surfaces.
- 1.2 Our specific objectives for the refurbishment and development of the Mall include:-
- facilitating the modernisation of the existing retail space and an improved layout to create better opportunities for business growth and enhanced customer experience;
 - providing additional floor space to enable the centre to expand and to utilise this space to attract a major new retail anchor and a significantly improved catering and leisure offer, all of which supports the growth identified in the retail capacity study;
 - a full refurbishment of the Maidstone bus station to create a more accessible, user friendly and fit for purpose bus interchange facility which supports the objectives of the Integrated Transport Strategy;
 - improvements to the Mall car parks and entrances to provide customers with a safer, more attractive and well-lit environment.
 - To increase the attractiveness of Maidstone Town Centre, achieve improved economic performance and greater consumer choice.
- 1.3 An essential element in the ability to achieve comprehensive development and expansion of the centre is the acquisition of Granada House. Including this property will enable Capital & Regional to expand the retail centre to the west thereby creating additional floor space to accommodate a major new retail anchor tenant and capacity for the new leisure businesses. Members will be aware of the significance of a new retail anchor store to the town centre as well as to the Mall.
- 1.4 It is preferred that the Council acquires Granada House rather than Capital & Regional as the terms of a subsequent leasehold transfer, whilst still improving the Council's financial position would also be more suitable for Capital & Regional's investment plans than if they had purchased it directly. As the freeholder of Granada House, the Council would have increased leverage to influence the development, as well as providing an opportunity to bring about improvements to Gabriel's Hill. It also enables the Council to retain a commercial investment if Capital & Regional's plans do not proceed.

- 1.5 Following discussions with the owner's agent, Heads of Terms have been agreed as set out in the attached Appendix 1.
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2. INTRODUCTION AND BACKGROUND

- 2.1 Capital and Regional's plan for redevelopment was previously set out in the Director of Planning and Development's report to this committee on 16th December 2015, and included the prospect of the Council acquiring Granada House as a means of facilitating the redevelopment.
- 2.2 To achieve a comprehensive development and expansion of the centre will require the acquisition of two additional properties – Granada House being one of them. This will enable Capital & Regional to expand the retail centre to the west thereby creating additional floor space and the opportunity to accommodate a major new retail anchor tenant and new leisure businesses.
- 2.3 There is an opportunity for the council to purchase the freehold interest in Granada House and become party to the redevelopment of the Mall. Being the freeholder of the Granada House site would give the council increased leverage to influence the development, as well as providing an opportunity to bring about improvements to Gabriel's Hill. Discussions have taken place between the owners of Granada House and the Council and agreement has been reached, subject to contract, on a purchase of the freehold of £3.35 million. The Council's external valuers have appraised the value and, taking into account current leases, and likely values on renewal, possible voids and rent free periods, have confirmed a market value of £3.35 million. In addition to the purchase price, there would be payment of Stamp Duty Land Tax and agents, surveyors and legal fees totalling £180,000 giving a total purchase cost of £3,530,000.
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3. AVAILABLE OPTIONS

- 3.1 Do nothing option – the Council could choose not to purchase Granada House. This may have a severe impact on Capital & Regional's ability to undertake the desired redevelopment of the Mall. It could also limit the Council's influence on Capital & Regional's redevelopment plans, if they were to come forward, as well as the much needed regeneration of Gabriel's Hill.
- 3.2 The Council could proceed with the acquisition of Granada House. This could be used as an enabler, through a structured deal with Capital & Regional for the redevelopment of the Mall. Alternatively, if Capital & Regional's redevelopment plans are scaled back or deferred, it could be a significant commercial investment for the Council which also facilitates the future regeneration of Gabriel's Hill.
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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 Granada House is a substantial three storey building located on the eastern side of Gabriel's Hill between the rear entrance to the Chequers and the service road to Gala Bingo, as shown on Appendix 2 – Site Plan. It is arranged as a parade of shops at ground floor level and residential units above with a combined floor area of 2632 sq m. Currently, there are seven shop units, six of which are let providing a passing rent of £129,500 per annum. Viewings of the seventh unit are currently taking place. There are twenty residential units, all except one being two bedroom units, which provide a rent of £128,040 per annum. A visual inspection internally and externally has not identified any significant problems.
- 4.2 The parade is typical of many secondary retail locations where there is a higher turnover of tenants, although there are a sufficient number of units to manage this over time. Rent levels are lower than other prime parts of the town centre but these units appeal to a different type of tenant, particularly locally based businesses.
- 4.3 The residential units above offer a reasonably secure and regular income. They are not as desirable as other town centre locations, but they are otherwise very accessible to most amenities and are relatively modern internally. They are let on assured shorthold tenancies. A high turnover of tenants is not unusual and the units should be relatively straightforward to let within a few weeks.
- 4.4 Last year's service charge budget of £24,500 is a very reasonable 10% of the passing rent and is rechargeable to the tenants
- 4.5 Overall the property would appear to be a relatively secondary but stable investment with a low incidence of voids in an improving market, giving a gross initial yield of 7.7% or 8.35% if the empty retail unit is let.
- 4.6 The principle of funding this purchase was approved as part of the capital programme within the Medium Term Financial Strategy by Policy and Resources Committee on 17 February 2016 and agreed at Council On 2 March 2016.
- 4.7 If the Council took a loan from the Public Works Loan Board of the total purchase price for twenty five years, annual repayments, including repayment of capital, would be £200,000, leaving a net rental income of £57,000, based on the current passing rent.
- 4.8 Purchasing the property provides a number of opportunities for improving the town centre generally and, more specifically, Gabriel's Hill.
- 4.9 Firstly, the property could be used as a facilitator for Capital & Regional's proposed redevelopment and expansion of the Mall. This would involve the demolition of Granada House to enable an expansion of the shopping centre to provide frontages for units on Gabriel's Hill on more than one level. The latest plans propose family dining units at ground level and a two level department store above.

- 4.10 Discussions with Capital & Regional on the structure of the deal are at an early stage, but it is crucial that, as a minimum, the Council's borrowing costs are covered with perhaps a one or two point margin, and ensuring the Mall's plans are sufficiently attractive to attract new tenants and contribute to or encompass improvements to the public realm of Gabriel's Hill.
- 4.11 Secondly, if Capital & Regional's redevelopment plans are scaled back, deferred or even cancelled, Granada House would remain intact and provide a secure income to the Council. The Council would also be able to take the opportunity by agreement with the tenants or at breaks in tenure of the retail units of improving the appearance of the property to complement public realm improvements thus improving the overall presentation of Gabriel's Hill.
- 4.12 The property includes twenty residential units on the two upper levels. In order to ensure that the property remains capable of being included in Capital & Regional's redevelopment plans, it is important that secure tenancies are not established. As the risk accrues immediately on the Council's completion of the acquisition, it is proposed that the residential units are transferred simultaneously by the grant of a long lease to a holding company that has been created prior to the purchase.
- 4.13 As the company is required immediately it is proposed that it is created with the sole purpose of holding the lease of the residential areas of the property. All functions and activities will be completed by the Council and recharged against the company's income from rents. A single director, the Director of Regeneration and Place, will be appointed.
- 4.14 Should the Committee wish to, a small task and finish group of members and officers could be set up for further consideration of such a company to advance its purpose for future property management or other purposes.
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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 There have been no public consultations due to the commercially sensitive nature of the proposals.
- 5.2 The opportunity of acquiring Granada House was included in the Director of Planning and Regeneration's report on the Development of the Mall on 16 December 2015 and was favourably received.
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6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The decision will lead to reasonable due diligence, agreement of the contract of sale, exchange of contracts and completion.
- 6.2 Officers will continue discussions with Capital & Regional over the structure of a transfer of an interest in the property to Capital & Regional.

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

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	<p>The proposal impacts on the corporate priorities in three ways:</p> <ol style="list-style-type: none"> 1. Enhancing the town centre 2. Providing housing 3. Promoting employment 	Head of Finance & Resources
Risk Management	<p>The key risks of the recommended proposal are:</p> <p>Site purchase. This will be managed by due diligence before exchange of contracts.</p> <p>Capital & Regional. Any transfer of an interest in the property will include safeguards of the Council's investment.</p> <p>Property Company. There is a requirement to establish the company prior to completion of the purchase.</p>	Head of Finance & Resources
Financial	<p>The financial implications are set out in the report and the proposals meet the criteria of the medium term financial strategy.</p>	Head of Finance & Resources
Staffing	<p>An officer led project team will be established using existing staff resources</p>	Head of Finance & Resources
Legal	<p>Documents relating to the acquisition will be overseen by the Mid Kent Legal Partnership</p>	Head of MKLS
Equality Impact Needs Assessment	<p>There is no specific impact of the acquisition.</p>	Head of Finance & Resources
Environmental/Sustainable Development	<p>Future development of the site will be in accordance with the council's sustainable development requirements</p>	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

8. REPORT APPENDICES

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

- Appendix 1: Heads of Terms
- Appendix 2: Site Plan

9. BACKGROUND PAPERS

- 9.1 Report of the Director of Planning & Regeneration to Policy & Resources Committee dated 16 December 2015.