

<b>Subject:</b>	<b>Disposal of 54 London Road</b>		
<b>Date of Meeting:</b>	<b>25 January 2018</b>		
<b>Report of:</b>	<b>Executive Director, Economy, Environment &amp; Culture</b>		
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<b>Ward(s) affected:</b>	<b>St Peter's and North Laine</b>		

**FOR GENERAL RELEASE**

**1. PURPOSE OF REPORT AND POLICY CONTEXT**

1.1 To seek authority for the disposal of 54 London Road. The disposal will generate a capital receipt less disposal costs. The disposal supports the council's Corporate Property Strategy and Asset Management Plan 2014-2018 and proposed asset investment strategy endorsed by the Asset Member Board by optimising the value received from poor performing properties in the council's non-operational portfolio to provide a net capital receipt for reinvestment into the portfolio.

**2. RECOMMENDATIONS:**

2.1 That the committee authorises the disposal of the freehold of 54 London Road and that delegated powers be given to the Executive Director of Economy, Environment and Culture, Assistant Director Property & Design and Executive Lead for Strategy, Governance and Law to agree terms.

2.2 That the committee authorises the retention of the net capital receipt to support the created investment fund, that includes the net capital receipts from 3 other completed property disposals, previously approved by this committee (11 Little East Street, 18 Market Street and 28 York Place).

2.3 That the committee notes that the investment fund created will be used to acquire commercial investment property or properties, in accordance with the council's Asset Management Plan, details of which will be presented to this committee with a recommendation when an acquisition opportunity has been identified.

**3. CONTEXT/ BACKGROUND INFORMATION**

3.1 The property comprises a retail shop and storage at ground floor with an upper floor self-contained residential flat located on the west side of London Road and remains an isolated corner ownership within the Council's investment portfolio. It is situated in a secondary / near tertiary retail location dominated by local businesses serving the mid to bottom-end of the market.

- 3.2 The building is let for a 10-year term from December 2009. The existing full repairing and insuring lease expires 11 December 2019. Evidence indicates there is low demand and limited requirements for this section of London Road.
- 3.3 In April 2017 Cluttons LLP valued the council's freehold investment interest. The valuation reflected those transactions in the market which had occurred in the period leading up to the valuation date, that the property was fully rented to a sound covenant for the remaining period of the lease, albeit if the current tenant failed to renew their lease in 2019 a potential re-let would most likely be to a secondary / tertiary covenant based upon existing demand and known requirements. In addition, Cluttons LLP's valuation had regard to the size, layout, location and nature of this mixed-use accommodation.
- 3.4 Since April 2017 there has been investment sale activity close by of similar mixed use (retail and residential) properties, albeit in preferred locations with superior residential elements, with mixed success illustrating the low demand for commercial investment property in this location.
- 3.5 Most of the tenants' retail outlets are wholly owned and with their existing lease expiring in 24-months' time there is no certainty they will renew, particularly if alternative freehold premises became available in the interim period.
- 3.6 The disposal of this secondary/tertiary property creates funds for the acquisition of more secure property investments as part of the proposed asset investment strategy and rebalancing of the council's urban investment portfolio set out in the council's Corporate Property Strategy and Asset Management Plan. The net capital receipt from the disposal of this property, after deduction of disposal fees, would be added to the capital receipts received from previously approved disposals of 28 York Place, 18 Market Street and 11 Little East Street to create a fund for the future acquisition of an investment property to replace the existing rental stream and the intention of creating an additional income stream from higher performing properties.
- 3.7 Prior to reinvesting the capital receipt the council will have to forgo the net income stream, which will create an immediate budget pressure until that income stream is replaced by the acquisition of an additional property.

#### **4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

- 4.1 To sell directly to the bidder: It is considered the offer submitted for the council's freehold interest represents an excellent price and best consideration.
- 4.2 To sell on the open market: The disposal of the property on the open market is unlikely to achieve the level of offer submitted.
- 4.3 To retain: And continue to receive an income stream from a sound covenant, albeit there is no certainty the tenant will renew their lease at the end of 2019. If re-let our agents would not envisage securing a covenant approaching the strength of the existing tenancy and marketing / rent free period voids would be incurred.

## 5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 There has not been any community engagement as the matter relates to the disposal of a commercial investment property.

## 6. CONCLUSION

- 6.1 The recommendation is to dispose of the freehold of this property. The net proceeds of the disposal to contribute to an investment fund for the acquisition of a lower risk higher performing investment property in line with the proposed asset investment rebalancing strategy set out in the council 's Corporate Property Strategy and Asset Management Plan .
- 6.2 It is an isolated site and there is a risk that the tenant would not renew their lease when their current lease expires in 2 year time. A reletting of the property is likely to be to a poorer covenant, create a void period and incur a rent free period adding a pressure to the income budget.

## 7. FINANCIAL & OTHER IMPLICATIONS:

### Financial Implications:

- 7.1 The disposal of the site will generate a capital receipt, less any disposal costs, which will be pooled with the net receipts generated from three properties previously disposed of, plus a further property seeking approval at this committee. The balance of receipts will be reinvested back into the property portfolio to generate additional rental income streams over and above the existing rents and this strategy forms part of the council's Integrated Service and Financial Plans. The property is currently occupied and generates a rental income stream. There is likely to be a period for which existing rental incomes will be lost in the short term and these will be reported through the Targeted Budget Monitoring reporting procedure to this committee.

*Finance Officer Consulted: Rob Allen*

*Date: 13/12/17*

### Legal Implications:

- 7.2 With reference to recommendation 2.1, section 123 of the Local Government Act 1972 ("the Act") enables a local authority to dispose of land provided it achieves the best consideration reasonably obtainable. Paragraph 4 of this report confirms that the proposed offer does represent best consideration as required by the Act.

*Lawyer Consulted: Joanne Dougnaglo*

*Date: 08/12/17*

### Equalities Implications:

- 7.3 There are none.

### Sustainability Implications:

- 7.4 There are none.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

1. Site Plan

### **Documents in Members' Rooms**

None

### **Background Documents**

None

# Appendix 1

## Site Plan



