

Subject:	Charter Hotel (12 – 15A Kings Road) – Proposed Future Options		
Date of Meeting:	17 September 2009		
Report of:	Director of Finance & Resources Director of Culture & Enterprise		
Contact Officer:	Name:	Angela Dymott	Tel: 29-1450
		Adam Bates	29-2600
	E-mail:	angela.dymott@brighton-hove.gov.uk adam.bates@brighton-hove.gov.uk	
Key Decision:	Yes	Forward Plan No: CAB6350	
Wards Affected:	Regency		

FOR GENERAL RELEASE**1. SUMMARY AND POLICY CONTEXT:**

- 1.1 To advise Cabinet on the present position of the property, the Charter Hotel, 12-15A Kings Road and seek approval for the disposal.

2. RECOMMENDATIONS:

- 2.1 That Cabinet approves and authorises:
- (a) The disposal of the Charter Hotel on a 150 year lease to a successful bidder for a premium and a peppercorn rent, following a marketing exercise, full evaluation of informal bids and recommendations by the council's appointed agents.
 - (b) That once offers have been evaluated a further report will be prepared to enable Cabinet to consider the proposals, select a preferred developer and authorise the detailed terms to be settled by the Director of Finance & Resources and the Solicitor to the Council.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 The property is located near the Thistle and other hotels on Kings Road, as illustrated on the attached plan. The building faces partly onto the seafront and has accommodation on basement, ground and three upper floors. Having been operated for over 20 years as a hotel the lease was assigned but the new operator encountered financial difficulties and the Council repossessed in October 2007.
- 3.2 Following repossession the property was marketed on a new 25 year lease seeking a rent plus premium to reflect the established use of the premises as a night club, restaurant and hotel. Six bids emerged for hotel use and after

evaluation Townhouse Brighton Ltd were selected. Later, Townhouse withdrew in August 2008 following loss of funding. An alternative proposal involving the refurbishment of the hotel as the subject of TV programme was rejected as untried and too risky.

- 3.3 Whilst marketing the property it has remained empty since October 2007 having been left in a very poor state by the previous tenant. There is serious concern about this situation, the property is not safe to provide accommodation and ongoing security is an issue. The property has been taken out of rating thereby saving on empty rates but this illustrates the seriousness of its condition. Cluttons (who manage the property as the council's agents) reported in March 2009 identifying urgent work (£40,000) to make it safe and water tight and work is in hand to address the worst defects.
- 3.4 In addition to making the best use of the property, a pressing objective is to get an injection of capital to address the extensive repair and refurbishment required. The estimated cost of repair in autumn 2007 was £0.3m but developers' estimates in early 2008, ranged from £0.45m -£0.85m depending on building works and standard of fit out. The building has deteriorated further over the past 18 months and it is vital to address its condition as soon as possible.
- 3.5 Despite the economic situation there are clear signs that the hotel market has remained buoyant, partly because overseas visitor numbers have grown and the city's conference programme remains strong. Indications from property consultants are that there is continuing activity in the market and interest in the building from hotel operators remains high.
- 3.6 Brighton & Hove Hotel Futures report identified the potential for growth and demand in the City in the conference and leisure break markets directing new hotel development to the City centre. Recent additions to hotel stock however have largely satisfied the new room requirements under low to medium growth conditions. However the progress of other major developments in the City including the Brighton Centre, Arena and Stadium would all support further growth.
- 3.7 With the true value of hotels appearing to trail the changing patterns of financial return, delays in marketing the property to potential investors may see the capital receipt and rental value fall if market conditions worsen.

Disposal on a long leasehold basis for hotel use

- 3.8 The previous marketing campaign on a 25 year lease attracted interest but did not offer bidders the scope to fully capitalise upon this refurbishment opportunity. Given the costs of repair and fit out, the deterioration of the building and the uncertain economic situation, a 150 development lease would increase the appeal to investors.
- 3.9 A key concern is that the market may weaken if the signs of recovery from recession abate or if the marketing of this property is delayed and those developers in the market would switch to other projects. In the meantime this property, despite urgent remedial measures, will continue to deteriorate especially if it remains empty into the autumn and winter months.

- 3.10 Property Performance Reviews (PPRs) form an integral element of the Corporate Asset Management Plan and Property Strategy (AMP) allowing the overall performance of a building to be assessed using two key property performance indicators of required maintenance and suitability. The PPR plots the two assessments on to a Decision Matrix to give an indication of a property's relative performance and possible future outcome. The results for the Charter House Hotel indicate that the building in its unimproved state was performing poorly and suggest that disposal should be considered to attract refurbishment funding.
- 3.11 There is a sense of urgency due to the steady deterioration of the property and as the hotel market remains buoyant in these uncertain times it is recommended that following the appointment of agents, the property is marketed and informal bids are sought for a disposal of a long term interest.

4. CONSULTATION

- 4.1 Consultation has been restricted initially to allow a clear view to emerge from Members regarding preferred approach to the future use of this property. Ward Councillors have been advised and further consultation is taking place in accordance with the consultation protocol.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 5.1 The vacant property is currently a budget service pressure presenting a rental income loss with ongoing costs associated with security and maintenance. At present the council has no unallocated resources within the current capital programme partly as a result of low levels of capital receipts and additional receipts are required to assist with the funding of future years' capital programmes.
- 5.2 Disposal on a long lease is likely to generate a substantial capital receipt of less any associated disposal costs. The net capital receipt may be used to offset the rent budget with any remaining balance used to support the corporate Strategic Investment Fund for future years' capital investment. Alternatively capital investment would be required to bring this building up to a standard that would make this viable to be let in the open market. Opting for disposal would negate the need for the council to identify capital resources to invest into the repair of this building.

Finance Officer Consulted: Rob Allen

Date: 09/06/09

Legal Implications:

- 5.3 A long lease disposal entails a straight forward property transaction to proceed in the usual way, as set out in recommendation 2.1(a). Provided that the marketing results in competitive bids, there would be a presumption that section 123 of the Local Government Act 1972 which relates to the council achieving best consideration reasonably obtainable would thereby be complied with.

- 5.4 It is not considered that any individual Human Rights Act rights will be adversely affected by the recommendations in this report.

Lawyer Consulted:

Bob Bruce

Date: 09/06/09

Equalities Implications:

- 5.5 Refurbishment as a hotel will offer employment opportunities to an important sector of the local employment market.

Sustainability Implications:

- 5.6 The building will require refurbishment to high sustainable design standards.

Crime & Disorder Implications:

- 5.7 The long leasehold approach would address these issues in a timelier manner, re-providing an active use in this prominent frontage.

Risk & Opportunity Management Implications:

- 5.8 The hotel market is well tested but the training hotel concept is high risk and untried in this country

Corporate / Citywide Implications:

- 5.9 Hotel use will deliver employment opportunities..

6. EVALUATION OF ANY ALTERNATIVE OPTION(S):

- 6.1 Consideration was given to the possibility of working with joint venture partners to establish a training hotel to improve the training and employment prospects for those who face barriers to employment. This is a new concept which could in the long term help local people find the skills and opportunities for employment in a sector which delivers 10% - 20% of the local workforce. However, it represents a high risk strategy which would take some time (about 2 years) to work up and a suitable partner would need to be found. It is untried in this country and would take a large amount of feasibility and preparation work to see whether the idea is viable and realistic particularly for this building. This timeframe would impact on the deteriorating state of the building fabric thus worsening the situation and could impact on any premium, rental income and marketing opportunities.

- 6.2 The training hotel concept also provides a financially higher risk project. It will require revenue resources to implement and manage the project and to date no financial resources have been identified. Considerable capital investment will be required through the partnership and the council will need to identify capital resources from within the capital programme. A detailed business plan will be required that demonstrates the feasibility of the project both for the initial investment and the ongoing viability of the project as a long-term business. It is unlikely that this option would produce a premium or capital receipt, however, there is the potential for some rental income to be generated. The legal issues would need to be more thoroughly evaluated e.g. in respect of the appropriate

procurement route, governance arrangements and the on-going operation and maintenance of the building.

- 6.3 The long lease disposal is outlined in paragraphs 3.8-3.11. It would be a more straightforward financial transaction for the authority, quicker and easier to deliver than a training hotel. It will produce a capital receipt, will address the urgent issue of the deteriorating building more quickly, will readily appeal to hotel operators and create employment for an established local market.
- 6.4 For these main reasons and the other factors identified in this report the disposal option is considered as the most beneficial and appropriate way forward. Elements of the untested training option could be incorporated into the marketing brief and potential developers signposted to the Tourism Futures service provided by City College. This would enable the council to test the market view and provide information for other projects where a hotel element is contemplated, such as Circus Street and Patcham Court Farm.

7. REASONS FOR REPORT RECOMMENDATIONS

- 7.1 The hotel disposal on a long lease has most advantages given the likely favourable market reaction and speed of response which would enable the building's deterioration to be addressed at the earliest opportunity.

SUPPORTING DOCUMENTATION

Appendices:

1. Plan

Documents in Members' Rooms

None

Background Documents

None

