

<b>Subject:</b>	<b>Disposal of 43 Belmont Street and adjacent land</b>		
<b>Date of Meeting:</b>	<b>12 July 2018</b>		
<b>Report of:</b>	<b>Executive Director Economy, Environment and Culture</b>		
<b>Contact officer:</b>	<b>Name:</b>	<b>Angela Dymott</b>	<b>Tel: 01273 29 1450</b>
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<b>Ward(s) affected:</b>	<b>St Peter's &amp; North Laine</b>		

**FOR GENERAL RELEASE****1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 To seek approval for the disposal of Belmont Street Annexe and adjacent land to provide a capital receipt for reinvestment in the council's urban investment property portfolio. The disposal will, generate additional revenue streams, promoting the council's asset investment strategy, of re-balancing the urban investment portfolio and in line with principles in the Corporate Property Strategy & Asset Management Plan 2014-18 (AMP), the Corporate Plan and the Medium Term Financial Strategy.

**2. RECOMMENDATIONS:**

- 2.1 That the committee authorises the freehold disposal of Belmont Street Annexe and 26 and 27 St Peter's Street to the adjacent owner and agrees to the surrender of rights to use the adjacent garage,
- 2.2 That the committee authorises the Executive Director of Economy, Environment and Culture, Assistant Director Property & Design and Executive Lead Strategy, Governance and Law to agree terms and take any necessary steps to facilitate the recommendation at 2.1
- 2.3 That the committee authorises the retention of the net capital receipt to be used with capital receipts from previous disposals approved by Policy, Resources & Growth committee, to add to the "investment capital pot" that is being built up to acquire commercial investment property or properties, in support of the asset investment rebalancing strategy in accordance with the council's AMP and budget strategy.

**3. CONTEXT/ BACKGROUND INFORMATION**

- 3.1 The council's investment portfolio produces a rental income in the region of £10m per annum, which helps fund the provision of services. The council's Corporate Property Strategy & Asset Management Plan 2014-18 (AMP) outlines the agreed rebalancing strategy for the council's urban portfolio, as only a small proportion of

the portfolio is primary investment stock, with most of it consisting of ageing secondary and tertiary properties, with a limited ability to continue to achieve increasing rents and income for the council.

- 3.2 The strategy aims to rebalance the portfolio by identifying under-performing assets for disposal and ring fencing receipts for reinvestment, focusing on the disposal of secondary and tertiary properties to improve returns medium and long term, and reduce liabilities and risk for the council. Through disposal of underperforming assets a fund is accumulating for re-investment to enable the acquisition of better quality investment properties when opportunities present themselves. The council is developing the asset investment strategy with input from the Asset Member Board which is supportive of proposals for at shorter term investment strategy position so as not to miss any potential acquisition investment opportunities in the City that may arise whilst the longer term rebalancing strategy is developed.
- 3.3 The building known as The Annexe at 43 Belmont Street was constructed c.1950's. The council's ownership extends to adjacent land, used as parking, at 26-27 St Peters Street. The council also has the right to occupy a garage located within the freehold of 45-47 Cheapside which interlocks the site (Plan shown in Appendix 1).
- 3.4 The building has been identified for redevelopment for some years and in that time the building's condition has deteriorated due to lack of investment. There are 4 tenants (3 in the building and the 4<sup>th</sup> occupying the garage) all on flexible short term leases and licences, excluded from security of tenure provisions and with low rental levels reflecting the short term nature of the leases/licences granted as well as the building condition. The total gross rental income is £23,750pa.
- 3.5 The three main tenants of the building (excluding the garage tenant) are all within creative industries and have been in occupation for 20-35 years. The tenants include a wide range of creative illustrators, designers and makers. From our discussions with the tenants we are aware they would prefer to remain in the building for as long as possible.
- 3.6 The Brighton Cultural Strategy recognises the need for connectivity, creative co-operation, affordable spaces, grassroots inclusion and security. The council is therefore committed to supporting the three creative tenants in providing alternative accommodation which is suitable for their industry needs and keeps them located within the creative community. New England House is the ideal location for this.
- 3.7 The market value for the property has been assessed by an independent valuer commissioned by the council. The site has been considered for redevelopment in isolation of the adjacent interlocking property at 45-47 Cheapside, but advice from the council's property teams has confirmed that this site could not be practically, economically or sensibly developed in isolation due to a number of site constraints, including its narrow dimensions and orientation, proximity to current housing, the inability to have habitable windows on both the North and South elevations, the potential complexity of Party Wall Agreements and challenges of foundation designs.

- 3.8 Given these site constraints we consider isolated re-development of the site unviable, and that a comprehensive redevelopment of this site and the interlocking adjoining site for residential and employment could be deliverable and is likely to produce a better scheme for the site. This larger integrated development would be more efficient with the potential of providing 30-35 homes plus an element of commercial space which, as currently proposed, will be larger than the current commercial space contained within the council's current property.
- 3.9 We have also approached the New Homes for Neighbourhoods Team and the New Homes for Brighton & Hove JV about possible interest in this site for development of affordable but owing to the site constraints detailed at 3.7, they confirm that they do not wish to pursue a redevelopment of this.
- 3.10 The owner of 45-47 Cheapside has made an unsolicited offer to purchase the council's freehold interest to facilitate the redevelopment of the combined site for 30-35 new flats with commercial space on the ground floor and as a special purchaser is willing to pay above the market value for the property. The offer therefore represents best consideration.
- 3.11 A second unsolicited offer has also been received from another special purchaser who wishes to retain the building for its existing use. This second offer is also above the market value but is for less than the first offer received.

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

Option	Comment
a) <u>Do nothing</u>	<p>The council would continue to hold the asset and receive the income, but the maintenance and significant repairs needed and the impact of the Energy Act 2011 introducing the Minimum Energy Efficiency Standards (MEES) regulations would require investment by the council. These costs are likely to be greater than the current income received. The income currently being achieved is low and the site will continue to be a maintenance liability.</p> <p>Costs of occupation for the tenants will increase as the council will have to undertake a series of repairs to a building in poor condition that will be recharged to the tenants as service charges.</p>
b) <u>Open Market Sale</u>	The council could put the building on the open market for sale; however any

	<p>bids would realistically have to tie in with the owner of 45-47 Cheapside and his future development plans which would complicate and delay any offers and will also likely be reflected in the price. Alternatively, a buyer may decide to retain and maintain the current building for income without redevelopment, but on this basis is unlikely to match the offer received.</p>
<p>c) <u>Development by General Fund for special housing need</u></p>	<p>The council could seek to redevelop the site for identified specialist housing need. Having taken advice from the councils property teams, the site is heavily constrained, its narrow width and orientation, proximity to current housing including the adjoining property, 45-47 Cheapside, the inability to have habitable windows on both the North and South elevations, the potential complexity of Party Wall Agreements and challenges of foundation design making any development in isolation extremely challenging. Given these constraints listed, we do not consider that redevelopment of the site in isolation is viable from a practical or economic perspective.</p> <p>We have approached the adjoining owner to propose either acquiring the adjoining building or discussing the possibility of a joint development.</p> <p>The adjoining owners site is of significantly higher value with a healthy income stream and an independent valuation report has estimated it in the region of a couple of millions and would require a significant capital receipt to purchase.</p> <p>Unfortunately the adjoining owner has confirmed that it is not viable to consider either a sale or transfer of the adjoining building given the finance and tax structure currently financing the building. As such, it makes no financial sense for them to sell or</p>

	<p>develop jointly.</p> <p>As the adjoining owner's site is also of considerably higher value and almost certainly required to make development achievable it would mean that the council would have to explore other means of development including possible use of compulsory purchase powers. It is not considered that this process will be efficient in delivering regeneration on this site</p>
<p>d) <u>Sale to Housing Revenue Account (HRA)</u></p>	<p>The council could seek to sell the site to the HRA. A receipt would be required to off-set the general fund income target on this property.</p> <p>Any redevelopment would still have to address the site constraints detailed above.</p> <p>We have liaised with the council's New Homes for Neighbourhoods, City Regeneration Team who confirm they do not feel the site is developable in isolation.</p> <p>This means an agreement with the adjoining owner would be required which is unlikely to be reached for the same reasons as set out in c) above. The likely cost of acquiring adjoining interests is also likely to make the site uneconomically viable</p>
<p>e) <u>Sale to New Homes for Brighton &amp; Hove Joint Venture</u></p>	<p>We have met with representatives from Hyde who confirm that the site is not suited to delivery of affordable homes under the joint venture and that the JV does not wish to purchase the site</p>

<p>f) <u>Off market sale to special purchaser for retained use (Creative Industries)</u></p>	<p>The council could sell the building to the current occupiers, to retain the building for its current use. This would benefit the arts and creative industries in Brighton, however the price does not represent the best consideration for the site and retaining the building does not benefit the Council's objective to deliver more housing</p> <p>Agreements have been reached to protect these tenants occupation for a minimum of 12 months and alternative space can be made available within New England House (a Creative, Digital and IT hub building) to enable them to continue operating close by.</p> <p>The current draft proposal includes new employment space which may offer potential for these tenants to take leases to move back into the building once it has been redeveloped meaning the benefits of more new homes, increased employment floor space are realised contributing towards the regeneration of the local area</p>
<p>g) <u>Off market sale to the special purchaser for redevelopment (adjoining owner)</u></p>	<p>We recommend an off market sale to the owner of 45-47 Cheapside, who will be able to realise maximum new homes and employment space from the redevelopment by doing it together with his own freehold, and as such has offered an above market price for the site reflecting his special purchaser status. The transfer to include a restrictive covenant to protect future adjoining redevelopments and, guarantee a generous notice period for the existing tenants to facilitate their relocation in the City, by not terminating any of the current tenancies for at least 12 months.</p>

**5. COMMUNITY ENGAGEMENT & CONSULTATION**

- 5.1 The council has engaged with each tenant individually within the building. If the building is sold for redevelopment the tenants are comfortable that their continued occupation would be protected for at least 12-months post sale. In addition, the council are able to offer priority in relocating the tenants to New England House and to the garage tenant when marketing storage space.

### **Tenant A**

- 5.2 The tenant's preference is to occupy the building for as long a period as possible if the building is sold to be redeveloped with quarterly break options to allow him to terminate the lease. The tenant has met with the recommended purchaser and understands that the process of planning and preliminaries will likely be 2-3 years post completion of a sale from the council. Also, that the rent would not increase over this period. The tenant is comfortable that a condition of the sale would be that the developer could not change the terms of the lease or evict the tenants in the first 12-months post sale.
- 5.3 The council have discussed New England House as alternative accommodation for the tenant. The tenant agrees that New England House would be a good option and would like to be kept updated and prioritised as and when a suitable sized space becomes vacant. This has been agreed with the property managers of New England House which is managed on behalf of the Council by GVA.

### **Tenant B**

- 5.4 We did not have the opportunity to meet with this tenant face-to-face due to personal circumstances, however we had a long phone conversation to discuss options. The tenant has been in occupation at Belmont Street Annexe for 25 years and, similar to tenant A, the space leased is occupied by a team of illustrators.
- 5.5 The tenant's preference is to occupy the building for as long a period as possible if the building is sold to be redeveloped, with quarterly break clause options to her benefit. The tenant also met with the recommended purchaser and understands that the process of planning and preliminaries will likely be 2-3 years post completion of a sale from the council. Also, that the rent would not increase over this period. The tenant is comfortable that a condition of the sale would be that the developer could not change the terms of the lease or evict the tenants in the first 12-months post sale.
- 5.6 The council have discussed New England House as alternative accommodation for the tenant. The tenant agrees that New England House would be a good option and would like to be kept undated and prioritised as and when a suitable sized space becomes vacant, and would consider sharing a larger space with tenant A in New England House. This has been agreed with the property managers of New England House which is currently managed on behalf of the Council by GVA.

### **Tenant C**

- 5.7 The manager explained that they had occupied the building for a long time however they knew at some point the property would be redeveloped. The

tenant explained they would prefer to have certainty over the location of the offices into the future to ensure longevity of the charity's future.

- 5.8 The tenant is comfortable that a condition of the sale would be that the recommended purchaser would not change the terms of the lease or evict the tenants in the first 12-months post sale and would like to be prioritised for space at New England House. The tenant agrees that New England House would be a good option. This has been agreed with the property managers of New England House which is managed on behalf of the Council by GVA. The property managers will notify the tenant of accommodation options becoming available within the next 12-24 months.

### **Tenant D**

- 5.9 The tenant uses the garage to store boots and tools for the community work they do. The tenant has additional offices in Brighton and is in process of consolidating to a new site outside of the city centre. The garage is in poor condition with the floor joists above the garage beginning to rot and needing attention.
- 5.10 Council owned storage space will be offered to the tenant as alternative accommodation.

### **Situation with New England House**

- 5.11 We are engaged with two council tenants occupying New England House for storage only who we could potentially relocate in order to provide space for the tenants at Belmont Street annexe. The two spaces are of a sufficient size to relocate all three tenants.

## **6. CONCLUSION**

- 6.1 We have received two unsolicited offers from special purchasers, which are both above the independently assessed market value. The offer from the owner of 45-47 Cheapside is the higher of the 2 and represents best consideration.
- 6.2 The freehold disposal will facilitate the redevelopment of a larger site along with the adjacent site 45-47 Cheapside. To dispose of the site as long leasehold would complicate the site assembly, and make future ownership and occupation of the site once redeveloped complex as it would limit the purchaser's ability to dispose of the newly created residential units as freehold without going through an enfranchisement process with the council. This adds a layer of work and expense for both parties in the future.
- 6.3 The current proposed redevelopment plans from the owner of 45-47 Cheapside (subject to planning) would be an asset for the City providing an estimated 30-35 new residential apartments, which would be an increase from the current 8 homes (delivering new housing in the city) and at least 500m<sup>2</sup> commercial employment space (currently only 430m<sup>2</sup>) which is above the current offering and would also help boost the undersupply in the city centre.

- 6.4 The net capital receipt to be used for reinvestment in the council's urban investment portfolio in line with the council's asset investment rebalancing strategy providing an ongoing income stream with better growth potential.
- 6.5 The current proposed disposal terms, protect the current tenants occupation for a minimum of 12 months and the council has sought to re-provide space for the creative tenants in the council's CDIT building New England House which is approx. 400m away.

**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 from properties previously disposed of plus a further properties 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 rental streams and this strategy forms part of the council's Integrated Service and Financial Plans. The building currently generates a low level of rental income. There is likely to be a period of time for which existing rental streams 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: 11/12/17*

Legal Implications:

- 7.2 Section 123 of the Local Government Act 1972 enables a local authority to dispose of land provided it achieves the best consideration reasonably obtainable. The price for the land exceeds the valuation provided by the valuer and is the higher of the two offers so the recommendation complies with Section 123.

*Lawyer Consulted: Alice Rowland*

*Date: 12/12/17*

Equalities Implications:

- 7.3 There are none

Sustainability Implications:

- 7.4 There are none

Any Other Significant Implications:

- 7.5 None

**SUPPORTING DOCUMENTATION**

**Appendices:**

1. Plan of site

**Documents in Members' Rooms**

None

**Background Documents**

None