

Subject:	Asset Disposal for Re-investment in the Urban Portfolio		
Date of Meeting:	12 July 2018		
Report of:	Director Economy, Environment & Culture		
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Ward(s) affected:	Regency		

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

1.1 To seek authority for the disposal of a property from the council's urban investment portfolio. The disposal will generate a capital receipt less disposal and repair costs. The disposal supports the council's Corporate Property Strategy and Asset Management Plan 2014-2018 (AMP) and the developing asset investment strategy by optimising the value received from the council's urban non-operational portfolio and providing a net capital receipt for reinvestment into the portfolio to increase income in support of the council's budget strategy.

2. RECOMMENDATIONS:

2.1 That the committee authorises the disposal of the freehold of 23 Meeting House Lane and that delegated powers be given to the Executive Director of Economy, Environment and Culture, Assistant Director Property & Design and Executive Lead, Strategy, Governance and Law to agree terms.

2.2 That the committee authorises the retention of the net capital receipt to add to an investment fund which includes the net capital receipts of previously completed property disposals, as approved by this committee.

2.3 That the committee notes that the investment fund will be used to acquire a commercial investment property or properties, in accordance with the council's AMP, 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 council's commercial investment portfolio is significant and provides an annual income to the council in excess of £7.5m which supports the council's budget and provision of services. The portfolio is made up of a large number of properties in all commercial property sectors acquired historically through housing clearance schemes, abortive road widening schemes and historic policy led acquisitions. As such it does not represent a typical commercial property

investment portfolio; it is heavily weighted towards retail with approximately 30% of the income being provided by 15 prime retail units and a further 30% of the income being provided by 108 smaller retail units in secondary and tertiary locations. The composition of the portfolio creates inherent risks to its longer term performance including; -

- Heavy reliance on the performance of the retail sector.
- High number of low covenant tenants with a higher risk of default, which could result in rent arrears, void units and a repair liability falling on the council.
- A large number of historic buildings, associated liabilities in terms of fully repairing leases and high management costs.
- Low rental growth and potential obsolescence.

3.2 Whilst generally high performing in terms of low voids and low rental arrears it has long been recognised that the inherent risk as a result of the composition of the portfolio represents a risk to the longer term performance and rental growth of the portfolio. The council's Corporate Property Strategy and Asset Management Plan (AMP) includes a policy to rebalance the urban portfolio through the disposal of higher risk properties and the acquisition of more robust financial investments, with the potential for long term rental growth in support of the budget strategy.

3.3 The council has judiciously disposed of 4 commercial properties as opportunities on favourable terms have arisen, as previously presented to and approved by this committee. The net capital receipts from these disposals have been ring fenced to accumulate an acquisition fund with the intention of acquiring an investment property. It is intended this process would be the start of the rebalance of the portfolio and would be further developed in close consultation with our managing agents GVA and the council's Asset Management Board who have already begun to discuss the longer term process for the council.

3.4 This property, 23 Meeting House Lane, is an example of a low performing investment property, achieving a low rent and in this circumstance the high risk crystallised when the tenant defaulted and terminated the tenancy, leaving rent arrears and a repair liability which the council is unable to secure payment for as the tenant, who had operated as jewellery retailer, has been placed into voluntary liquidation by the directors.

3.5 Immediate repairs will be completed prior to disposal including replacement of the bressummer beam, which is rotten and would otherwise require temporary propping, and repairs to the roof to make the building water tight as water ingress to the upper parts is causing damage to the property and the property adjacent. The works to be completed, at a cost of £25,000-£30,000 including fees to be paid from the capital receipt, will ensure the structural integrity of the building which would otherwise discourage potential purchasers and take approximately 4 weeks to complete. There remain significant internal repairs required to the property and these will be a liability for the purchaser. Whilst vacant the property is also incurring security costs and rates.

3.6 A reletting of the unit would, given the low rent and residual repair liability result in a rent free period of about 5 years. This would create a further budget pressure until such time as it was income producing. An alternative use for the

property is restricted as planning policy would require retention of retail use at ground floor. Whilst a change of use to residential on the upper floors would be accepted in principle, alterations to provide independent access to the upper floors would not be possible given the listed status, and the building is also small in size and landlocked.

- 3.7 A freehold disposal of this property would realise a capital receipt less disposal and repair costs, which in addition to the other capital receipts previously achieved through the disposal of assets from the urban investment portfolio would provide an accumulated fund with which to purchase a stronger performing investment property with a more secure rental stream and lower risk for the council. The council's agents have already received 2 unsolicited enquiries for the freehold acquisition of the property. It is proposed the property would be disposed of at auction after the necessary repair works described at 3.5 have been carried out.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

Option	Comment
<u>Retain and convert to housing</u>	There is a planning requirement for retention of retail on the ground floor. Although change of use to residential to the upper floors is acceptable in principle the location of the building being landlocked and of a small size make a conversion with independent access to the upper floors extremely difficult to achieve and economically unviable.
<u>Retain and relet</u>	<p>Because of the low rent and residual repair liability a reletting would result in a rent free period for 5 years and therefore an immediate and ongoing budget pressure.</p> <p>This option would conflict with the council's Corporate Property Strategy & Asset Management Plan to rebalance the council's investment portfolio through disposal of low performing and higher risk secondary and tertiary properties and reinvestment in higher performing assets, to provide the council with a more secure income stream to financially support council services</p>
<u>Disposal</u>	The net proceeds of a disposal would be added to the existing investment fund that is accumulating to support the rebalancing strategy for the acquisition of a lower risk, stronger performing commercial urban investment property.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 There has not been any community engagement as the matter relates to the disposal of commercial investment properties. Internal consultations have been held with Housing and other relevant parties.

6 CONCLUSION

- 6.1 The circumstances of this property are illustrative of the high risk inherent in the council's commercial investment portfolio. This secondary/tertiary property had an independent low covenant tenant, whose business was no longer financially viable resulting in the termination of the tenancy. The vacant property came back to the council with outstanding repair liabilities, which the council could not recover and which the council would have to fund, both directly, as is the case for some immediate repairs needed, and by granting an ingoing tenant an equivalent rent free period. Retention and reletting of these poor performing investment properties would result in the council continuing to retain the risks associated and a budget pressure for the duration of the free rent period granted likely to be 5 years.
- 6.2 The recommendation is to dispose of the freehold of this property. The net proceeds of the disposal to be added to the existing investment fund that is accumulating to support the rebalancing strategy for the acquisition of a lower risk, stronger performing commercial urban investment property.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 The disposal of this site will generate a capital receipt, less any disposal and repair costs, which will be pooled with the net receipts generated from four 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 and this strategy forms part of the council's Integrated Service and Financial Plans. There will be a period for which 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: 08/06/18

Legal Implications:

- 7.2 With reference to recommendation 2.1 section 123 of the Local Government Act 1972 enables a local authority to dispose of land provided it achieves the best consideration reasonably obtainable. As mentioned earlier on in the report the proposal to dispose of the properties by way of auction would ensure that best consideration is achieved.

Lawyer Consulted: Joanne Dougnaglo

Date: 22/06/18

Equalities Implications:

- 7.3 There are none.

Sustainability Implications:

- 7.4 There are none.

SUPPORTING DOCUMENTATION

Appendices:

1. Site Plan 23 Meeting House Lane

Documents in Members' Rooms

None

Background Documents

None

