

Not for Publication: The public and press are likely to be excluded from the meeting during consideration of this report as it contains exempt information as defined in para 3 Schedule 12a to the Local Government Act 1972 (as amended).

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| DELEGATED DECISION REPORT TO: | Cllr Simon Hall, Cabinet Member for Finance and Resources |
| SUBJECT: | Acquisition of the Freehold interest in 60 Vulcan Way as a commercial investment |
| LEAD OFFICER: | Jacqueline Harris Baker Executive Director Resources |
| CABINET MEMBER: | Cllr Simon Hall Cabinet Member for Finance and Resources |
| WARDS: | New Addington South |

CORPORATE PRIORITY/POLICY CONTEXT:

A new Corporate Plan and Medium Term Financial Strategy (MTFS) were agreed by Cabinet in September 2018. The MTFS included an Asset Investment Strategy. The securing of additional net revenue through acquisitions of this type are critical to ensuring that resources are available to deliver the priorities in the Corporate Plan.

FINANCIAL IMPACT

The Freehold acquisition of 60 Vulcan Way for £7m plus costs will secure a minimum annual rental income of £385k. After the cost of interest payments against the loan this would provide a net annual income of £162k.

FORWARD PLAN KEY DECISION REFERENCE: N/A

The Cabinet Member for Finance and Resources, in consultation with the Leader, is asked to approve the following recommendations:

1. RECOMMENDATIONS

- 1.1 That the Cabinet Member for Finance and Resources agrees that pursuant to the Asset Investment Strategy contained within Medium Term Financial Strategy approved by Full Council on the 8 October 2018 the Council purchases the Freehold interest in 60 Vulcan Way on the terms detailed in this report.

2. EXECUTIVE SUMMARY

- 2.1 This report details the terms agreed for the acquisition of the Freehold interest in 60 Vulcan Way as an investment asset for the Council.

3. DETAIL

- 3.1 The adopted Investment Strategy sets out the process, targets and an assessment matrix to assist with the decision making process.
- 3.2 The property is located on the south eastern corner of the Vulcan Way industrial estate. The unit offers 64,000sq ft of space in a 1950's warehouse with a more modern addition (raised roof area in the centre of the building). It has a good perimeter roadway and 7 loading doors. Given the age of the building it does have limited eaves height compared to modern requirements but is well suited to the current tenant. The site is 2.9 acres in total with the potential for a secondary access off Aragon Close.
- 3.3 The property is subject to the remainder of a 5 year lease that was granted by Administrators acting for the previous freeholder The lease is in a fairly standard form with full repairing liabilities for the tenant. The main terms are:
- Term: 4.75 years from 29 October 2018 inside the Act (ie automatic right to renew) due to expire 31 March 2019
 - No break provisions for either landlord or tenant
 - The current rent is £385,000pa
 - Rent reviews: No review provisions
 - User: Warehouse/light industrial building with ancillary offices
 - Alienation: Can sublet whole or part, assign whole subject to landlords consent
 - Repairs: Full repairing liability and required to put and keep premises in repair
- 3.4 The purchase is for the freehold interest but also has the benefit of outline planning consent for up to 59,000sq ft of warehouse/light industrial units
- 3.5 The property valuation undertaken by an independent valuer who has experience in both industrial properties and the local Croydon market has provided a valuation of £7m for the current use. They have also provided a valuation based on a notional scheme should the property be redeveloped at the end of the lease. This has provided a figure of £ 6.65m just below the proposed acquisition price. A redevelopment option has also been appraised by CBRE who have offered advice with the purchase of this unit and their view provided a figur of £6.9m.
- 3.6 Based on the valuation advice obtained the purchase price of £7m is considered to be reasonable

4. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 4.1 The acquisition of this asset for £7m + SDLT and other costs as detailed below would give a total acquisition price of £7.424m which will be financed through a loan which is likely to be from the PWLB. Based on current rates this is likely to be at or around 3%. The interest only payment will be £222k and therefore this purchase provides a net annual income to the Council of £162k.

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| Purchase price | £ 7,000,000 |
| SDLT | £ 339,500 |
| Agents fee (typically 1% but say .75%) | £ 70,000 |
| Solicitors fees | £ 10,000 |
| Valuation fee and survey fee | £ 8,000 |
| Total purchase cost | £ 7,424,500 |
| Interest on total cost at 3% | £ 222,735 |

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| Current rental | £ 385,000 |
| Less interest on loan | £ 222,735 |
| Net income | £ 162,265 |

- 4.2 The potential risk of rental default or termination of the rent is mitigated by the good covenant strength of the tenant. An Experian report has been undertaken and rates the tenant as “a very low risk” and the latest accounts are positive with an annual turnover to August 2018 of £3,440m and a profit of £147m
- 4.3 There is generally very good demand for industrial assets at present as they are one of the stronger performing sectors in the economy. Despite the shorter lease term the financial risks for this acquisition are considered to be low.

Approved by Lisa Taylor Director of Finance, Investment and Risk and s151 Officer

5. LEGAL CONSIDERATIONS

- 5.1 The Director of Law and Governance comments that under section 120 of the Local Government Act 1972, the Council has the power to acquire land for the purposes of any of its function. In addition under section 12 of the Local Government Act 2003, the Council has a broad power of investment and may invest for any purpose relevant to the Council’s functions under any enactment or for the purposes of the prudent management of its financial affairs. The recommendations in this report are therefore within the powers of the Council.

Approved by Sean Murphy, Director of Law and Governance & Deputy Monitoring Office

CONTACT OFFICER: Steve Wingrave Head of Asset Management and Estates ext 61512

BACKGROUND PAPERS: Valuation Report
Experian Report