

Classification: Public

Key Decision: No

Gravesham Borough Council

Report to: Cabinet

Date: 25th March 2019

Reporting officer: Director (Corporate Services)

Subject: Purchase of the freehold interest in 35-36 New Road, Gravesend and a long leasehold interest in A1-A3 and B1-B4 Springhead Enterprise Park, Northfleet

Purpose and summary of report:

To report on the purchase of the above property holdings.

Recommendations:

1. The report is for information only.

1. Background

- 1.1 The Cross Party Working Group established to oversee and approve property acquisitions by the Council considered the acquisition of 35-36 New Road, Gravesend and A1-A3 and B1-B4 Springhead Enterprise Park, Northfleet on 10th December 2018. Having considered all the papers including the surveyors' reports, financial analysis and independent valuation reports the group provided their approval for the purchases to proceed on the terms agreed.

2. 35-36 New Road

- 2.1 The unit is situated in the main shopping area within Gravesend town Centre and occupies a visible position on the corner of New Road with a return frontage to the Kempthorne Street, the prime mall of the St George's Centre.
- 2.2 The premises comprise a ground floor retail unit with first floor ancillary accommodation. There is also a basement which is now accessed externally from the rear and is unused.
- 2.3 The premises are occupied by Bon Marche on a 5 year fully repairing and insuring (FRI) lease from 17th October 2018 at a rent of £29,000 pa until 16th April 2019 and £58,000 pa thereafter.

- 2.4 The Council's Building and Facilities Manager inspected the property and whilst some items of disrepair were noted as the property is let on a FRI lease these should fall to the tenant to resolve.

3. Comment

- 3.1 A number of risks were identified in the report to the Cross Party Working Group which can be summarised as follows:
- 3.1.1 Voids – a number of well-known names have disappeared from the High Street in recent years due to changing shopping habits and as such tenant insolvencies or the premises becoming void at lease end is a risk. In the event that the unit becomes empty the Council will be responsible for the payment of all the outgoings, e.g. rates, insurance and repairs, whilst it remains so.
- 3.1.2 Company Voluntary Arrangement – occupiers are increasingly using CVAs as a means to negotiate a reduction in the rent payable. Whilst we have no reason to suspect this will happen in this instance it remains a risk.

4. A1-A3 and B1-B4 Springhead Enterprise Park

- 4.1 Springhead Enterprise Park comprises a modern business estate of varying unit sizes dating situated within a mile of the Ebbsfleet International Passenger Terminal and the A2.
- 4.2 The seven units in question are situated across three courtyards and vary in size from circa 2,560 sq ft to circa 7,150 sq ft. The units are let to seven different companies on varying lease lengths.
- 4.3 The interest purchased was the long leasehold held by J L G Investments Ltd which is for a term of 99 years from 4th April 1985, therefore expiring on 3rd April 2084. The lease also includes an option to extend for a further 26 years.
- 4.4 The Council currently receives 8.45% of the rents paid by the occupying tenants and the purchase of the long leasehold interest currently held by J L G Investments Ltd will increase this to 100% - £237,200 pa.
- 4.5 No marriage value resulted from this purchase as there is an intermediate long leasehold interest held by an unrelated third party.
- 4.6 The Council's Building and Facilities Manager inspected the property and considered that the units were all in a reasonable condition. Whilst a number of maintenance issues were noted these were generally minor and in the main the responsibility of individual tenants.

5. Comment

- 5.1 A number of risks were identified in the report to the Cross Party Working Group which can be summarised as follows:
- 5.1.1 Vacancies due to tenants break, lease expiries and tenant failures. These would reduce the Council's income and in addition the Council would be responsible for costs associated with the unit such as empty rates and

particularly in the case of a vacant unit due to business failure clearing out the unit and potentially refurbishment.

- 5.1.2 Economic downturn – during the last recession rents on re-letting were lower than previously obtained and they took a number of years to recover. This could impact on rents achieved should a recession coincide with a lease renewal, vacancy or tenant's break option as could rent levels agreed elsewhere. However the advantage of multi-let properties is that the risk in respect of business failure, use of break clauses etc is spread and the likelihood of all units becoming vacant simultaneously is low.

6. Background Papers

- 6.1 There are no background papers relating to this report.

Anyone wishing to inspect background papers should, in the first place, be directed to Committee & Electoral Services who will make the necessary arrangements.

IMPLICATIONS

APPENDIX 1

Legal	Contained within the body of the report
Finance and Value for Money	<p>The purchase of these properties meets the Council's objectives of providing an income stream and contributes to the delivery of the workstreams within the Medium Term Financial Strategy to meet the funding gap in the General Fund over the medium term.</p> <p>The Council has opted to tax the property to avoid any effect on its partial exemption calculation. This means we will charge VAT to the tenants. The tenants, as VAT registered companies, will be able to reclaim the amount in full from HMRC.</p>
Risk Assessment	Contained within the body of the report.
Equality Impact Assessment	Screening for Equality Impacts
	Question
	<p>a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community? If yes, please explain answer.</p> <p>No</p>
	<p>b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? If yes, please explain answer.</p> <p>No</p>
<i>In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above</i>	
Corporate Plan	Links with Corporate Objective 4 - Sound and self-sufficient council
Crime and Disorder	No implications
Digital and website implications	No implications

Safeguarding children and vulnerable adults	No implications
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