

# Guildford Borough Council

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| Report to:                       | Executive  |
| Date:                            | 23 January 2024  |
| Ward(s) affected:                | Bellfields & Slyfield  |
| Report of Strategic Director of: | Finance and Resources  |
| Report Author:                   | Charles Wood Senior Asset & Property<br>Manager (Investment)                       |
| Email:                           | <a href="mailto:Charles.Wood@guilford.gov.uk">Charles.Wood@guilford.gov.uk</a>     |
| Lead Executive Member:           | Richard Lucas  |
| Email:                           | <a href="mailto:Richard.Lucas@guildford.gov.uk">Richard.Lucas@guildford.gov.uk</a> |
| Status:                          | Open   |
| Key decision:                    | Yes  |

## To review the rent over 40 Moorfield Road, Slyfield Industrial Estate

### 1.0 Executive Summary

- 1.1 The Council owns a large investment property portfolio comprising industrial, office and retail properties. The properties are held for income generation and capital appreciation to support Council services.
- 1.2 The portfolio requires ongoing active property management to keep the estate in good order. Many of the tenanted investment assets are on leases which include provision for regular rent reviews, either based on open market, or indexed/ fixed increase. In the case of open market rent reviews officers will instruct external consultants to provide a rental valuation report and represent the Council in negotiating a settlement.
- 1.3 All lease agreements – including rent reviews – with an income in excess of £200,000 over the life of the contract are now required to be approved by the Executive.

### 2.0 Recommendation to Executive

#### That the Executive resolves to:

- 2.1 Approve an increase in the rent from £174,144 per annum to £278,500 per annum with effect from the 3 February 2024 rent review.

### **3.0 Reasons for Recommendations**

- 3.1 The proposed settlement represents best consideration.
- 3.2 The proposed annual rent secures an excellent increase in the annual rental income stream for the Council.

### **4.0 Status of Report**

The report is open.

### **5.0 Strategic Priorities**

- 5.1 **A more prosperous borough** – The proposed rent review settlement demonstrates the strength of the local economy which is directly supporting the Council's finances and the running of its services for the benefit of residents.
- 5.2 **A resilient and well-managed council** – The proposed rent review settlement demonstrates excellent estate management of the Council's property portfolio.

### **6.0 Background**

- 6.1 The term of the lease is 150 years from 24 February 1989 to Jewson Ltd. The lease contains a provision for upward-only open market rent reviews every 5 years, with the subject rent review being due with effect from 3 February 2024.
- 6.2 The rent review is the higher of (i) 11% of the notional freehold land value, or (ii) 24% of the rental value of a notional building on the site. This is alongside the detailed definitions, assumptions and disregards as set out in the lease.
- 6.3 Freehold land values particularly in the industrial sector have increased substantially in recent years which put the Council in a strong negotiating position. The external valuer demonstrated that the comparable evidence of freehold land transactions produced the highest value compared with rental values.
- 6.3 After a period of negotiation, the external valuer recommended the matter be settled at £278,500 per annum with effect from the rent review date, using basis (i). This is supported by comparable evidence and allows for appropriate adjustments relating to the subject property. For the avoidance of doubt, using basis (ii) would result in a value below the current passing rent which would equate to a nil increase.

## **7.0 Options**

To conclude the matter as recommended.

- 7.2 If the parties are unable to reach a negotiated settlement, the lease allows for the matter to be referred to a third-party independent surveyor on application to the RICS (Royal Institution of Chartered Surveyors) dispute resolution service. Such a course of action exposes the Council to significant costs and a risk that the process results in a lower rent.

## **8.0 Consultation**

- 8.1 The Lead Councillor for Assets and Property, Councillor Ricard Lucas was consulted and supports the officer recommendation laid out in this report.

- 8.2 Ward Councillors were informed of this decision and no comments were raised.

## **9.0 Key Risks**

- 9.1 By failing to conclude the matter on the terms above, there is a risk that the tenant may withdraw their offer and instead pursue third party determination. This exposes the Council to additional costs, delays and the possibility of a lower outcome.
- 9.2 There is a risk the Council may face reputational damage by failing to respond to the market – which presently represents best consideration – and failing to meet its strategic priorities.

## **10.0 Legal and Governance Implications**

- 10.1 The Council is bound by Section 123 of the Local Government Act 1972 which states that a council must not dispose of land for a consideration less than the best that can reasonably be obtained. As set out in the report Assets have considered that the rent achieves best consideration.

## **11.0 Financial Implications**

- 11.1 The proposed settlement represents an excellent financial outcome for the Council, boosting the commercial property investment income by £104,356 per annum, backdated to the rent review date of the 3 February 2024.

11.2 Over the remaining term of the lease, the increased rent would generate significant cumulative income, supporting the Council's financial sustainability and long term strategic priorities.

11.3 Failure to approve the recommended settlement could result in additional costs associated with a third party dispute resolution process, including legal and costs relating to third party appointment as well as the potential risk of a lower rental settlement. Approving the settlement avoids these financial risks.

## **12.0 Human Resources Implications**

None.

## **13.0 Equality and Diversity Implications**

None.

## **14.0 Climate Change and Sustainability Implications**

None.

## **15.0 Next Steps**

15.1 Asset and Property officers to arrange a rent review memorandum to be signed by the parties.

15.3 Finance officers to budget for and arrange collection of the rental income.

## **16.0 Background Papers**

None.

## **17.0 Appendices**

None

### **Report clearance progress:**

|                    |                   |          |
|--------------------|-------------------|----------|
| Finance            | Solomon Akuffo    | 18/12/24 |
| Legal & Governance | Claire Beesly     | 23/12/24 |
| Human Resources    | Francesca Chapman | 13/12/24 |
| Equalities         | Ali Holman        | 16/12/24 |
| Strategic Director | Richard Bates     | 18/12/24 |