

Lambert Smith Hampton

Report

In respect of

Liongate, Ladymead, Guildford GU1 1AT

On behalf of

Guildford Borough Council

Prepared by
Lambert Smith Hampton
2 Bell Court
Leapale Lane
Guildford
GU1 4LY
Tel: +44 (0)1483 538181
Date: 3rd December 2018

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INTRODUCTION

Lambert Smith Hampton (LSH) has been requested by Melissa Bronham to undertake an Options Appraisal on Liongate, Ladymead, Guildford.

This Options Appraisal is not a valuation of the property but just a guide as to potential pricing for different uses.

The report has been prepared by:

Paul Dowson BSc MRICS
2 Bell Court
Leapale Lane
Guildford
Surrey
GU1 4LY

Tel: + 44 (0) 1483 446703
Mobile: + 44 (0) 7711 535563
Email: pdowson@lsh.co.uk



SUMMARY

Liongate, Ladymead, Guildford GU1 1AT



Background

Liongate is a late 1980's office building situated on Ladymead and adjacent to the Stoke Intersection, which is the main access point from the A3 into Guildford. It comprises some 43,000 sq.ft (Net Internal) of offices, mainly on three floors on a site of approximately 1.36 acres.

The property is leased to Honeywell UOP at a rental of £980,000 per annum and is subject to a tenant break clause in September 2019. LSH understand that this break clause is likely to be exercised by Honeywell UOP as the property is much larger than the business now needs in Guildford.

In addition, the parent company is also looking to consolidate both its Guildford and Bracknell based staff into a single location with a combined requirement of circa 55,000 sq.ft. The search area for this requirement is Bracknell, Farnborough and Guildford. Honeywell have already been out viewing options but no decisions have been made by them as yet.

With the potential for a significant void within the GBC portfolio, LSH has been instructed to prepare an Options Appraisal for Liongate to consider the relative merits of the following:

- Refurbishment for continued office use
- Sale for residential with prior approval for Permitted Development (PD)
- Sale for residential use
- Sale for retirement living/care home
- Sale/pre-let as a hotel
- Sale for retail use
- Sale for self storage use

To complicate matters the site is mainly situated within the Environment Agency Flood Zone 3, which would usually preclude residential type uses. Therefore LSH has recommended undertaking a Flood Risk Assessment (FRA) and a topographical site survey to see if the case can be made for these uses on this property. We estimate that Ladymead is some two meters or more above the site level and we feel there is the potential to provide safe means of escape as is evidenced by the existing office building. We understand that GBC is procuring an FRA for the site.

The Property

Liongate is very prominently positioned alongside the A3 and Ladymead at the Stoke intersection, which is the main vehicular access into central Guildford. However, this location is not very convenient for office based staff as there is virtually no local amenity and it is not well positioned for public transport, being more than one mile from Guildford mainline station.

We understand that Liongate provides accommodation as follows:

Second floor - offices	12,850 sq ft
First floor - offices	14,771 sq ft
Ground floor - offices	14,927 sq ft
Total Net area	42,548 sq ft

The floor areas are taken from measured survey report by CBRE.

The building is very heavily partitioned to create private offices and meeting rooms and the current layout would not suit a contemporary office occupier. There is undercroft and surface parking for 126 cars.

Liongate is now looking very dated and on inspection feels like a property of its time and not one which the modern business user would be inspired by. Also, as the property is now thirty years old, both M&E plant and finishes will be reaching life expiry and the building would require substantial investment before being capable of new occupation.

The Guildford Office Market

At the end of Q3 2018 there was some 426,000 sq ft of offices available to be let in Guildford (units greater than 2,000 sq ft). This represents a vacancy rate of circa 13%.

Take up in the year to date has been just 42,000 sq ft and with current ongoing activity we expect to this reach 60,000 sq ft. This would be well below the ten year average take level of 90,000 sq ft per annum.

Therefore, there is between five and seven years supply of office stock currently available. These figures do not include the potential additional voids that will be created by Sanofi (60,000 sq ft) and Ericsson (90,000 sq ft) when they leave Guildford next year.

Market demand is mainly focussed on town centre locations with a large part of the demand currently coming from the computer games sector. Also, with the larger corporate occupiers reducing their spaces needs the market is reliant on the SME's for take up and demand is generally for smaller space areas of 3,000 -10,000 sq ft.

Prime market rents are around £33.50 per sq.ft for best quality, refurbished or new offices but these are being held up by rent free periods equating to 9-12 months for each 5 years term certain.

Options

1. Refurbishment for continued office use.

We have inspected the property but not undertaken any surveys. However, to refurbish the building to a standard to compete with other available stock, a budget in the order of £120 per sq ft would be a reasonable estimate to deliver contemporary office space. With fees included this would mean a capital spend of a least £5.5 million plus vat.

There would be a dilapidations receipt recoverable from the outgoing tenant at lease end which would help offset some of the cost required to refurbish the building. However, the required scope of the refurbishment would mean that supercession would significantly reduce the claim. The dilapidations receipt is therefore likely to be in the range of £250,000 - £500,000. This is a desktop estimate only and should not be relied upon. It would need a full review of the lease and a detailed inspection by a dilapidations surveyor to properly assess this claim.

Undertaking a refurbishment for office use would not however guarantee a letting as competition for potential occupiers in an oversupplied office market is fierce. Also, the location of Liongate does not compare favourably to available town centre offices or better located edge of town centre properties at Cathedral Hill and Guildford Business Park.

Therefore even if Liongate was refurbished to provide contemporary offices we would suggest that it would struggle to let. There is no weight of demand from the large corporate's such as Honeywell and whilst the floors do split well to create three separate suites these smaller occupiers are tending to prefer town centre space.

If the building was refurbished you would need to assume a void allowance of up to three years, which would make this level of investment by GBC untenable.

Post refurbishment the headline rental value of this office space would be circa £30.00 per sq.ft but this would require some 12-15 months' rent free per five years term certain.

If the property was marketed for sale for office refurbishment we would expect offers in the region of **£4.0 million - £5.0 million**, to reflect the risk around this opportunity.

We have considered the idea that Guildford Borough Council could refurbish the property for its own occupation and sell Millmead House, for would most likely be residential redevelopment. However, there are also flood risk issues with your current location, albeit that most of the site is in zones one and two and the flood risk probably surmountable.

The town centre is a more valuable residential development location but we have not undertaken any work to establish the potential massing of a new scheme and therefore at present we cannot put a value on this opportunity.

However, whilst more work can be done on establish the relative net proceeds of the two properties we would have to question the suitability of Liongate's location for GBC. Being one mile from the town centre and with limited public transport connections it is not an ideal location from which to deliver services to the public, nor one which would improve the ability to recruit and retain staff.

GBC has invested significant capital in Millmead House and this would need to be replicated at Liongate with some inevitable write downs which would not help the financial element of such a move.

Also, with Surrey County Council (SCC) considering vacating County Hall in Kingston and moving its accommodation out to the boroughs there is a potential that they could be an occupier of council owned buildings such as Liongate. It is very early in their strategy review but we assume that they have been engaging with GBC and asking about accommodation opportunities within your estate. We would suggest that details of Liongate are provided to SCC although they are saying that they are unlikely to know the size, shape and location preferences for some time. They are estimating that there will not be a live requirement until 2021/2022.

2. Sale for residential use under prior approval for Permitted Development (PD)

The building location is not ideal for residential use as it is very noisy being so close to the A3 and the Stoke intersection.

However, we have seen a number of similarly located office buildings across the South East converted under the prior approval process and there would be market demand for this property, subject to there being a resolution of the flood risk issue.

Due to the building layout there would be a significant loss of floor space to create access corridors to residential flats this is likely to reduce the saleable floor space by some 15%. It would be possible to recover some of this space by opening up what are currently toilets.

The level of on-site parking would be attractive to developers as a location such as this would need to be entirely self contained in this regard.

Net saleable area would be say 36,000 sq.ft and exit pricing circa £550 per sq.ft so there would be a gross development value of circa £20,000,000. Therefore likely sale price of the building with prior approval for permitted development around **£8.5 - £9.5 million**.

However, there is the possibility of creating more accommodation in the roof space and we would need to ensure that there was an overage agreement in place to cover off any additional consented space.

3. Sale for residential redevelopment

The same comments apply about the suitability of the location for residential use. Bids for a new residential development would involve the demolishing of the existing building are likely to be made on a subject to planning basis only. Such bids are likely to create a new building with substantially more floor space.

On a new building residential scheme social housing provision would apply.

We would suggest that the site could support say 50,000 sq.ft of net sales area based on current parking capacity – as in this location where there are no other parking options for residents. This would then create circa 30,000 sq.ft of private sale units and 20,000 sq.ft of affordable units.

Private sales values would again be circa £550 per sq.ft and the affordable housing circa £250 per sq.ft. Subject to planning bids are therefore likely to be in the order of **£7.0 - £8.0 million**.

4. Sale for care home / retirement living use

The retirement living and extra care sectors are very active at present, driven by increasing with occupier demand due to an ageing population - the number of people who are over 65 will double in the next ten years.

Building prominence is a key factor for the operators in this sector as it is often the children of the occupants who are making decisions about location and ease of car access and visibility that gets homes considered.

The specialist nature of this accommodation means that redevelopment would be required to create a bespoke building.

Our experience of dealing with the extra care sector shows that there is live demand in Guildford for a scheme which would provide circa 90-100 units with associated amenities and that this would require a building of circa 75,000 sq.ft (GIA). This could be fitted into a development arranged on say three/four levels. Whilst larger than the current building the massing would probably not look that much greater than Liongate due to the existing central core feature and steeply pitched roof.

Bids would be submitted on a subject to planning basis and for a scheme of this magnitude we would expect to receive offers in the order of **£8.5- £9.5 million**.

The retirement living sector is experiencing some issues at present due to the uncertainties thrown up by Brexit and the impact this has had on the wider housing market. There is also an increasing realisation that more people looking into moving into retirement accommodation see leasing as an attractive option and that the models of the retirement providers may need to adapt to this.

The impact on the site market is likely to be a reduced level of pricing in the short term as these issues are worked through. Also, Liongate whilst prominent does occupy a very busy location surrounded by roads which would be more of an issue to a retirement living scheme than an extra care development.

Bids would be submitted on a subject to planning basis and for a scheme of this magnitude we would expect to receive offers in the order of **£7.5- £8.5 million**.

5. Sale/Pre-let for hotel use

There is a shortage of hotel accommodation in Guildford for both leisure and business use and live demand from hotel operators.

The location would offer operators a very prominent hotel, although the out of town centre position would mainly appeal to the budget sector.

The existing building should be large enough to convert to deliver say 120 beds and this would fit in well with the level of on-site car parking.

A hotel use gives the opportunity to create an income producing investment rather than just a capital receipt as a number of the operators will take a 25 year leasehold interest based on an agreed specification and room rental.

Room rental would be circa £5,500 per annum, so say **£660,000 per annum** in total. This would generate an investment value of around £13.0 million after the costs of conversion etc. To deliver a project such as this you will need a professional team on board.

If the property was sold for hotel use, bids would be received on a subject to planning basis and likely to be in the region of **£5.0 – £5.5 million**.

6. Sale for retail use

Ladymead is the location for Guildford's principle out of town retail units. This year saw the redevelopment of the former fire station, opposite Liongate, to create a large new furniture store operated by Barker and Stonehouse.

It is hard to see in the current retail climate that there would be operator demand for another 'big box' retail unit in this location.

The evidence from the Barker and Stonehouse shows a purchase price, for a 250 year lease at a peppercorn, of £6.4 million for a site of 1.48 acres. The building constructed is 41,400 sq.ft, arranged on two levels with parking for 62 cars.

If replicated on Liongate this would generate a retail site value of circa £5.8 million. However, we do feel that this was a one off purchase as non food retail values are generally around £1.5 million per acre. The food discounters may be interested and they are now also promoting ground floor shops with residential accommodation above. For a food use we would expect a purchase price of around £4.0 million. This price would increase with additional consented upper parts.

The road side 'drive thru' sector would also show interest but we are probably looking at a site price for these use of circa £3.0 million.

There are live car showroom requirements, which whilst strictly not retail use, would deliver similar values to the road side users so again would deliver circa £3.0 million.

Retail bids are going to be subject to planning and likely best offers for this type of use will be in the region of **£4.0 million**.

7. Sale for self storage use

With an increase in the number of flatted developments the self-storage sector has continued to grow. Liongate House would provide a very prominent location for this sector, a factor which is very important to them. The planners may not be very keen on the idea of a large self storage building on such a gateway site but there is demand from this market sector and subject to planning bids may be around **£4.0 - £5.0 million**.

Next Steps

In summary the best values are those generated by residential type uses and it therefore very important to see if a strategy can be developed with the Environment Agency (EA) to support such uses. GBC has a lot of involvement with the EA in its discussions on the town centre flood strategy so is hopefully well placed to secure the latest modelling data to inform the FRA.

Generally the options mean that your freehold would need to be sold but there is the potential to create a continued revenue stream by looking at a hotel development, albeit that this is inherently less valuable than say a Permitted Development sale or Care Home sale.

If Permitted Development approval can be secured this would be offer the least risky disposal route and one which probably creates the highest value. It is also the one which if secured could deliver sale proceeds most quickly.

We still do not have any certainty that Honeywell will exercise the lease break but we continue to feel that this is more likely than not and that you proceed on the basis that this will be happening. We will continue to push Honeywell's agents to see if there a chance of re-gearing the lease but at present we have had no constructive response.

Once the FRA is available, we would suggest meeting to run through this report in more detail and to discuss what is required to move the project to the next phase.

In the meantime we will continue to try and engage with Honeywell to see if there is a chance of keeping them in occupation and removing the break clause from the lease.

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