

Executive Report

Ward(s) affected: Friary St. Nicolas Ward

Report of Director of Community Services

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Proposed disposal of Council-owned property in Guildford

Executive Summary

Liongate is a 43,000 sq.ft late 1980s office building situated on Ladymead on a site of approximately 1.36 acres.

The Property was leased to Honeywell UOP at a rental of £980,000 per annum but the tenant actioned a tenant only break clause in September 2019. Whilst in a prominent position alongside the A3 and Ladymead at the Stoke intersection, the 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.

Generally, as the Property is now thirty years old the building is looking very dated, 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 is going through structural change in terms of relocation and shrinkage of some of the mature corporates. Demand is now for smaller space, good quality Grade A offices, centrally located.

To complicate matters, the majority of the site is currently designated Environment Agency Flood Zone 3b. This site is also located within 400m to 5km of the Thames Basin Heaths Special Protection Area.

In September 2018, the Council commissioned Lambert Smith Hampton (LSH) to prepare an Options Appraisal for Liongate on the potential future uses of the site. Refurbishment to re-let for continued office use was dismissed and options for residential or retirement living/care homes were recommended. However, given the issues around planning and to take advantage of any interest, the site has been through a full marketing campaign on an 'any offer' basis. 12 bids have been received and are detailed in **Appendix 1** and this Report

requests authority to take steps to further improve these bids in terms of price and deliverability to ensure that the Council meets its best value obligations.

Recommendation to Executive

- (1) That the Corporate Property Manager be authorised to take such actions as are required to improve the bids received in terms of price and deliverability and to negotiate detailed terms for the disposal of the Council-owned property in Guildford referred to in this report in consultation with the Lead Councillor for Finance and Asset Management, the Managing Director, the Director of Community Services and Chief Finance Officer to ensure that the Council meets its best value obligations.
- (2) That the ring-fencing of the sale proceeds within the provisional capital programme for future re-investment in a better investment property, be approved.

Reasons for Recommendation:

Disposing of the property would allow the Council to reinvest the capital receipts in better property investments and remove the current difficulties and the potential future risks associated with this property whilst capturing the best consideration available in today's market.

Is the report (or part of it) exempt from publication?

Yes, the whole report:

- (a) The content is to be treated as exempt from the Access to Information publication rules because it contains commercially sensitive information and is therefore exempt by virtue of paragraph(s) 3 of Part 1 of Schedule 12A to the Local Government Act 1972 as follows:
"Information relating to the financial or business affairs of any particular person (including the authority holding that information"
- (b) The content is restricted to all councillors.
- (c) The exempt information is not expected to be made public because it contains commercially sensitive information about the Council's business affairs.
- (d) The decision to maintain the exemption may be challenged by any person at the point at which the Executive is invited to pass a resolution to exclude the public from the meeting to consider the exempt information.

1. Purpose of Report

- 1.1 The purpose of this report is to ask the Executive to authorise the Corporate Property Manager to negotiate the most advantageous terms for the disposal of the property in consultation with the Lead Councillor for Finance and Asset Management, the Managing Director, the Director of Community Services, and the Chief Finance Officer. This will include further negotiation with a number of preferred bidders (with the option to call for best and final bids) to ensure the Council obtains best consideration for the property.

- 1.2 Section C6.2 (vi) of Financial Procedure Rules in Part 4 of the Council's Constitution states that: "any disposal not delegated to the Director of Community Services must be authorised by the Executive".

2. Strategic Priorities

- 2.1 A well-managed, income producing investment portfolio supports all the fundamental themes of the Corporate Plan and the Council's strategic priorities. The proposal to dispose of a site which no longer meets the Council's investment criteria will allow the Council to re-invest in better performing properties, enabling the Council to achieve financial excellence and value for money.
- 2.2 Allowing a third party to take this site forward also contributes to the theme of Place Making.

3. Background

The Property

- 3.1 Liongate (the 'Property') is a late 1980s 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.
- 3.2 The Property was leased to Honeywell UOP at a rental of £980,000 per annum but the tenant actioned a tenant only break clause in September 2019 as the Property was much larger than the business needed in Guildford.
- 3.3 The Property 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.
- 3.4 The building is very heavily partitioned to create private offices and meeting rooms and the current layout would not generally suit a contemporary office occupier. There is undercroft and surface parking for 126 cars.
- 3.5 Generally, as the Property is now thirty years old the building is looking very dated, both M&E plant and finishes will be reaching life expiry and the building would require substantial investment before being capable of re-letting or new occupation.

The Guildford Office Market

- 3.6 Guildford's office market is going through structural change and this is illustrated by both the relocation and shrinkage of some of the mature corporates in the town. The departure of large, long standing corporate occupiers, Sanofi and Ericsson to Reading, led to reduced activity during 2018. BOC is downsizing from

its 90,000 sq. ft. Surrey Research Park HQ and taking 23,000 sq. ft. at Guildford Business Park. In addition, Philips is now reviewing its occupation at Guildford Business Park and they may also be considering leaving the town as they plan to merge the Guildford and Basingstoke offices. Honeywell UOP having exercised the break clause on the subject Property has consolidated into existing group offices in Bracknell.

- 3.7 Whilst take up in Guildford this year has been good, the letting activity is generally mirroring the trend in recent years for smaller space areas, over 53% of transactions have been of 5,000 sq. ft. or less and only 22% between 5,000 and 10,000 sq. ft.
- 3.8 Occupiers are generally seeking good quality Grade A offices with increased emphasis being placed on town centre location, staff wellbeing and amenity as business is increasingly recognising the need to offer its staff more.
- 3.9 A lot of the available supply is very good quality grade A space which requires significant capital outlay to deliver to the market so the cost of entry to compete with these buildings is very high. The location of each property then has to be considered and Liongate does not fare particularly well when considered with its potential competition. It is prominent but lacks local amenity and has access issues.

Planning

- 3.10 The site falls within an Area of High Archaeological Potential, the Guildford Urban Area, and an area of flood plain. The majority of the site is within Environment Agency Flood Zone 3b. In Flood Zone 3b, residential development should not be permitted. Residential uses fall within 'more vulnerable' as identified in the Flood Risk Vulnerability Classification of the NPPG. Any prior approval application would need to be accompanied by a site-specific flood risk assessment.
- 3.11 The Council has commissioned a Flood Risk Assessment and topographical site survey to see if the case can be made for these uses on this Property. The report has confirmed that the existing building is located within Flood Zone 3 but outside of the functional floodplain. The Council's advisors have taken comfort from the report in terms of prior approval for Permitted Development (PD).
- 3.12 The site is located within 400m to 5km of the Thames Basin Heaths Special Protection Area. This means that avoidance and mitigation measures would need to be provided for any development having adverse effects on the integrity of the Special Protection Area, such measures to be agreed with Natural England in accordance with the Conservation of Habitats and Species Regulations 2017.
- 3.13 Where applicable, such mitigation measures are currently based on a combination of (1) the provision, improvement and/or maintenance of Suitable Alternative Natural Greenspace and (2) Strategic Access Management and Monitoring.

- 3.14 The property also falls within a Strategic Employment site as identified in the local plan.

4. Summary of Options

- 4.1 In September 2018, Lambert Smith Hampton (LSH) were instructed to prepare an Options Appraisal for the Property to consider the relative merits of the following potential uses:

- (a) Refurbishment to re-let for continued office use
- (b) Sell for continued office use
- (c) Sale for residential use with prior approval for Permitted Development (PD)
- (d) Sale for residential use
- (e) Sale for retirement living/care home
- (f) Sale/pre-let as a hotel
- (g) Sale for retail use
- (h) Sale for self-storage use

LSH's Report recommended options (c) (d) or (e) to be pursued in that order of preference.

Option (a) Refurbishment for continued office use

- (i) The advice received from LSH was that undertaking a refurbishment for office use would not guarantee a letting as competition for potential occupiers in an oversupplied office market is fierce. In addition, the location of the Property does not compare favourably to town centre offices or better located edge of town centre properties at Cathedral Hill and Guildford Business Park.
- (ii) Therefore, even if the Property was refurbished to provide contemporary offices, the Council's advisers suggest that it would struggle to let. There is no weight of demand from the large corporates 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.
- (iii) If the building was refurbished a void allowance of up to three years would still need to be made, which would make this level of investment untenable.
- (iv) Post refurbishment the headline rental value of this office space would be circa £30.00 per sq. ft (circa £1.2 million pa) but this would require some 12-15 months' rent free per five years term certain.
- (v) This option has therefore been rejected.
- (vi) Consideration was also given to the idea that Guildford Borough Council could refurbish the Property for its own occupation and sell Millmead House, for residential redevelopment in line with the local plan. However, the same issues would apply.

Option (b) Refurbishment for continued office use

- (i) The Council could sell the property to an owner occupier to refurbish for continued office use. Again, the same issues would apply as option (a) above. However, the marketing campaign allowed for this use to ensure no opportunities were lost.

Option (c) Sale for Residential Use with prior approval for PD

- (i) The property location is not ideal for conventional residential use as it is very noisy being so close to the A3 and the Stoke intersection.
- (ii) However, a number of similarly located office buildings across the South East have been converted under the prior approval process and there would be a market for this, subject to there being a resolution to the flood risk issue.
- (iii) 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.
- (iv) The site is mainly situated within the Flood Zone 3, which would usually preclude residential type uses. Therefore, the Council commissioned a flood risk assessment which has offered comfort in terms of prior approval for PD.
- (v) The site is located within 400m to 5km of the Thames Basin Heaths Special Protection Area.
- (vi) Officers have also considered the option of the Council developing the site, but it was felt that the additional risks relating to the construction and management of any build contract and letting/sale risk would be prohibitive.

Option (d) Sale for Residential Use

- (i) This is less appealing than a PD route due to the uncertainty around a planning contingent bid but also, on a purely commercial basis, by the fact that social housing provision would need to apply which would reduce the proceeds of sale.

Option (e) Sale for retirement living/care home

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

- (ii) 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.
- (iii) The specialist nature of this accommodation means that redevelopment would be required to create a bespoke building.
- (iv) 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 to move into retirement accommodation see leasing as an attractive option and that the models of the retirement providers may need to adapt to this.
- (v) The site is mainly situated within the Flood Zone 3, which would also preclude residential this use.
- (vi) The site is located within 400m to 5km of the Thames Basin Heaths Special Protection Area.

Option (f), (g) and (h)

- (i) These options are unlikely to achieve the same prices as the above options but, again, bidders for this use were pursued to ensure no opportunities were missed.

5. Bids Received

- 5.1 The Council have been marketing the site on an 'any offer' basis to ensure that no opportunities are missed. 12 bids were received on 14 November 2019 and are detailed in **Appendix 1**. These vary in terms of price, quality and deliverability.
- 5.2 All of the bids have been initially assessed in terms of:
 - Price
 - Funding
 - Approvals required
 - Timescale
 - Conditions
 - Due Diligence undertaken
- 5.3 These now need to be interrogated further and negotiated with the interested party.

6. Consultations

- 6.1 The disposal is supported by the officer and Councillor represented Property Review Group and the Lead Councillor for Finance and Asset Management.

7. Key Risks

Risks in Retaining the Asset

- 7.1 There are inherent risks in property ownership; capital value/income derived from property will increase and decrease in line with the market, their location, and specification attributes.
- 7.2 The Options Analysis undertaken for this Property and summarised in section 4 considered the risks of the ongoing property ownership, weighed up against the potential level of returns expected, taking into account this point in the market cycle.
- 7.3 Retaining a property for the revenue return and granting a lease interest to a third party, thereby creating an investment product, exposes the Council to the additional risks of retaining property ownership and ensuring the resource and mechanisms are in place to manage the property effectively in terms of ongoing estate/asset management and valuation processes. This is worth it when a property will provide an adequate return to off-set these costs/risks, but officers do not believe the subject property meets this criterion. There will be ongoing expenses incurred while the property remains vacant, including repairs, maintenance, security, and rates.

Risk of Delay in Transacting

- 7.4 Developers, who have spent time and resources putting together a bid, will expect the Council to make a quick decision and be in a position to exchange contracts before Christmas. By delaying consideration of the matter to the next Executive meeting, the Council may lose the opportunity to dispose of this site at the best consideration.
- 7.5 To mitigate this risk, officers are requesting that the authority to negotiate the final deal with the preferred bidder from the schedule in Appendix 1, be delegated to the Corporate Property Manager in consultation with the Lead Councillor for Finance and Asset Management, the Managing Director, the Director of Community Services and Chief Finance Officer.

Risks of Sale

- 7.6 There are risks associated with the sale which include:
- Conditional bids – to mitigate the risk, all bids will be assessed taking into consideration any conditions, such as planning which could delay the sale and leading to further costs to the Council in terms of the void.

- Non-performance by preferred vendor – to mitigate this, details of the funding and due diligence already undertaken have been requested.

8. Financial Implications

- 8.1 The void currently represents a budgeted income shortfall of £980,000pa. In addition, whilst the property remains vacant there is an empty premises business rates liability of £125,000 meaning that the loss of income and additional costs are costing the Council £1.105m per annum. Office use would be the only real option to allow the site to continue to be income producing but as detailed above this is highly risky and would require a large capital outlay.
- 8.2 As set out in para 4.1 (a) (vi) the council has explored the option of relocating to the Property itself in order to release the Millmead site for housing development. The Millmead site has been included in the Council's town centre regeneration strategy for redevelopment for residential use. When the Property was purchased in 2013, it was purchased with the option of it being a new Council headquarters as a consideration for when the lease to UOP expired at the end of its 10-year period. The tenant having exercised its break-clause has meant officers have considered this option further alongside the disposal option. LSH have advised that the cost of refurbishing the Property for owner occupation would be in the region of £4m. We are awaiting an estimate of the disposal valuation of the Millmead House site in order to assess whether owner-occupation would be a viable option.
- 8.3 The current valuation of the Property in the Council's balance sheet is £13m. All bids have come in under this value, as a result the Council is likely to recognise a loss on disposal. In addition, the Council has an outstanding capital financing requirement of £11.89m, which the disposal proceeds need to cover. All bids suggest that the Council will be left with an overhanging debt liability that will need to be charged against the Council's General Fund as additional Minimum Revenue Provision at the point of disposal.

9. Legal Implications

- 9.1 The disposal of land and building assets must be undertaken in accordance with the provisions set out in the Local Government Act 1972 including the obligation to receive the best consideration reasonably obtainable in accordance with section 123 Local Government Act 1972.
- 9.2 In accordance with the Council's Constitution (30 May 2019) Part 4 the Financial Procedure Rules section C6.2 relating to Land and Buildings provide:
- (i) As the land and buildings to be sold exceed 0.2 hectares any disposal must be authorised by the Executive.
 - (ii) Where land or buildings are surplus to services' requirements, a recommendation for sale will be the subject of a joint report by the Director or Service Leader and Director of Community Services in consultation with the Council Solicitor and Monitoring Officer, and CFO or the Executive (as appropriate). The report shall set out the relevant

information, such as the planning position, potential use, legal issues, current and proposed development restrictions, estimated market value and confirmation that best consideration is achievable.

- (iii) For all disposals, a Chartered Surveyor must provide a valuation. If the likely value exceeds £100,000, this must be supplemented by a second valuation by an external Chartered Surveyor.
- (iv) subject to the over-riding requirement of public procurement legislation, the Council's Procurement Procedure Rules shall not apply to the disposal of land and buildings unless the Director of Community Services and Council Solicitor and Monitoring Officer consider that tenders or quotations would be appropriate. Where quotations or tenders are not required, this will be subject to the agreement of the Managing Director and consultation with the Leader or appropriate lead councillor in relation to tenders.

- 9.3 The general power of competence set out in the Localism Act 2011 section 1 empowers the Council to do anything an individual may generally do apart from that which is specifically prohibited by existing legislation. Any decision taken in exercise of the general power of competence, as with any other power, can be challenged under judicial review on the grounds of illegality, irrationality or procedural impropriety.
- 9.4 The Crime and Disorder Act 1998 section 17 imposes a duty on the Council to consider in all its decision making the requirements to reduce crime and disorder.
- 9.5 The Human Rights Act 1998 requires not only that the Council shall not infringe the convention rights but also (by inference) the Council is required to promote the convention rights in its decision-making.

10. Human Resource Implications

- 10.1 The sale of the Property will not have any human resource implications.

11. Equality and Diversity Implications

- 11.1 There are no Equality and Diversity Implications

12. Sustainability/Climate Change Implications

- 12.1 From 1 April 2018, landlords of buildings within the scope of the minimum energy efficiency standard (MEES) Regulations must not renew existing tenancies or grant new tenancies if the building has less than the minimum energy performance certificate (EPC) rating of E. The property has a EPC rating of F. If the Council was to pursue Option (a) works would need to be taken to improve this rating.
- 12.2 With the increasing awareness of the issues around climate change and the Council's declaration of a Climate Change emergency there is an expectation on

the Council to lead by example. If the Council were to relocate to the property there would need to be a large budget allowed for improving the energy efficiency of the building to not only increase the energy efficiency rating of the building but to implement further sustainable measures.

- 12.3 The property's location is also not well positioned for public transport, being more than one mile from Guildford mainline station. If the property was to be continued to be used for office use this would need to be addressed. Staff commuting to the office by car will have a big impact on the climate and electric car charging points, car-pooling or working from home would need to be promoted to try to reduce this impact.

13. Conclusion

- 13.1 The Council have been marketing the Property through LSH and have had a number of interested parties. LSH asked for best bids on 14 November 2019. Appendix 1 provides a schedule of these bids. It is believed that the Council's advisors can now negotiate to improve these bids and ensure deliverability.

14. Background Papers

None

15. Appendices

Appendix 1: Schedule of Bids