

CENTRAL SERVICES CABINET MEMBER MEETING

Agenda Item 30

Brighton & Hove City Council

Subject:	Property Disposals - Update		
Date of Meeting:	12 October 2009		
Report of:	Director Finance & Resources		
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Key Decision:	No	Forward Plan No: N/A	
Wards Affected:	All		

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 This report gives an annual update on and property disposals within the non – operational (investment) and operational portfolios that incorporates a review of disposals undertaken over the past year. This report is complemented by a separate report and Appendix A in Part 2 of the Agenda.

2. RECOMMENDATIONS:

- 2.1 That the contents of the report, the implications of the current property climate and the progress achieved on disposals over 2008 – 09 together with impending transactions be noted.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 The Council has a large property portfolio comprising a diverse range of non – operational (investment) and operational properties. Together these include; commercial investments , agricultural property, development sites, operational premises such as schools, libraries and social care establishments, residential, central administration, parks and recreational properties, seafront premises and a number of historic and listed buildings.
- 3.2 The investment (commercial and agricultural) portfolio produces an annual rental income of approximately £8.5 million and makes a valuable contribution towards services provided by the Council. The portfolio requires active management and this is provided by the Estates Team, Property & Design, supported by external consultants, Cluttons and Smiths Gore for the urban and agricultural properties respectively.

4. Property Reviews

- 4.1. The Corporate Property Officer (CPP), Property & Design is responsible for the council's over- arching function of asset management under the Asset Management Plan (AMP) & Corporate Property Strategy 2008 - 2011. This provides a strategic overview of the assets and the systems, processes and policies to manage and maintain them. It also provides a framework for challenging and reviewing the reasons for continuing to hold the assets and sets out our corporate property strategy that shows how our property objectives align with the council's corporate priorities.
- 4.2 For operational properties, age, changing services and legislative requirements are significant determining factors regarding the continued and alternative use of property. Once a property becomes surplus to requirements in terms of service need the building falls under the management of Property & Design it will be subject to asset management processes and property performance review evaluating its condition, suitability and capacity. A detailed option appraisal is undertaken when the property is declared surplus to requirements and a range of alternatives explored to include possible transfer to community groups or disposal. In addition, opportunities for development may occur within the operational portfolio either because we have identified the potential need working in partnership with other agencies, and/or an outside requirement arises, such as the new medical facility under construction at Whitehawk Road for the Primary Care Trust.
- 4.3 The investment portfolio is the subject of annual Strategic Reviews in consultation with our external agents. Whilst the majority of the properties are income producing we remain vigilant for development opportunities that regenerate areas of the City and working in partnership can address some of its needs in terms of housing and improved facilities – i.e. leisure, commercial, retail and industrial. These may arise when occupiers or developers seek to; modernise facilities, replace outmoded buildings or extend and therefore require a new long lease as security for funding. We negotiate the surrender of the existing lease in exchange for a new lease and a further premium payment. It is therefore of strategic benefit for the council to seek disposals through long leaseholds rather than freeholds so we can exert our influence in the City for the present and in the future to enable future opportunities to be capitalised on and maximised.
- 4.4 The central objectives in maintaining the investment portfolio are to improve revenue income whilst identifying and taking advantage of disposal opportunities to generate capital. These objectives also need to be balanced against the social and environmental development opportunities and corporate council priorities. Generally speaking it has been and is possible to balance these competing objectives through consultation and careful selection of properties for disposal to ensure the required outcomes are met.
- 4.5 Following a Best Value review and on-going annual reviews over the past 10 years a list of properties from the non- operational portfolio have been identified for disposal on the basis that they were poorly – performing investments and non - strategic to the portfolio. Many of the properties have since been sold; those retained are affected by traffic proposals or circumstances have changed which

dictate retention. In most instances the preferred method of disposal was by auction because, in the active market which prevailed for several years, they provided an open, competitive and speedy method of concluding sales. In some instances other disposal methods have been adopted where appropriate.

- 4.6 The review of the investment portfolio is reassessed annually and a separate strategic review was undertaken more recently to identify further disposal opportunities in accordance with the asset management process and criteria. Whilst some properties are secondary or tertiary investments, often detached from the main areas of the portfolio, they continue to earn income without undue management expenditure. In addition, although not obvious strategic holdings, experience has demonstrated that it is often better to hold assets and take advantage of situations that arise, possibly when adjoining properties become ripe for redevelopment to enable a comprehensive land assembly that could achieve far more for the City. Accordingly, it is considered preferable to monitor the portfolio and explore potential opportunities annually rather than adopt an arbitrary list for disposal where timing, opportunity and City outcomes might not be right.

5. Economic Situation

- 5.1 Whilst the process of disposal is ongoing economic circumstances are a major influence on the buoyancy of the property market and the speed at which transactions proceed. Most major transactions are reliant upon external funding and the economic situation which has prevailed for the last two years has impacted on value, market confidence and availability of funding which has brought most development to a halt.
- 5.2 The UK property market peaked late summer 2007 although the US sub prime mortgage crisis emerged early in 2007. The recession began in the US in December 2007 and by February 2008 the UK Government were forced to step in at Northern Rock which was subsequently mirrored by events in the US. Since the credit crunch took hold the UK property market has endured a tough time. Credit markets froze as banks struggled to retain liquidity and investor confidence evaporated. Manufacturers saw credit disappear, economic growth went into reverse, employment began to fall and by June 2008 the UK went into recession. The situation worsened when the global economic crisis was triggered by the collapse in the US of Lehman Brothers in October 2008.
- 5.3 During this period developers came to a halt on projects in the City and commercial and residential markets were at a virtual standstill. We continued to assess the situation as events unfolded although there were few options open other than to wait for confidence to return. The fall in values made it imprudent to offer new properties on the market. We were aware of cash rich purchasers looking for bargains but to sell in such a depressed market would not serve the council's best interests or represent value for money. Efforts have been directed towards preparing for the future marketing of properties including Patcham Court Farm development site this autumn. It is apparent also that there is still buoyancy in the hotel market based upon market commentary and actual proposals for hotel development e.g. the attractive range of bids received for hotel use on the former Ice Rink site where negotiations are continuing with the preferred bidder and the

proposed marketing of the former Charter Hotel where there is continued hotel interest.

- 5.4 Close attention to the economy and the market are key factors in preparing for disposals. Share prices have rallied from the low in March 2009 and with continued low interest rates and “quantitative easing” the UK economy shows signs of recovery in various sectors. Investment levels for commercial property during the first half of 2009 have been low, but are anticipated to rise as historically attractive prices tempt more cash-rich investors into the market. While the banks’ reluctance to lend will slow the speed of the recovery there is a view that their leniency over breaches of loan-to-value covenants coupled with limited available development should ensure a quicker recovery than was seen in the 1990s economy. Other views are more cautious.

6. Disposal Activity During 2008 - 09 and into 2009 -10

- 6.1 The council has been proactive in this area and a number of disposal transactions have been concluded on deals agreed during the previous financial year in spite of the conditions stated in 5.2, 5.3 and 5.4 above. These are set out in the Part 2 report Appendix A together with some anticipated receipts where transactions are on - going. Discussions are continuing on schemes where developers remain active and others are being prepared for market or options being assessed. One which will come to the market this autumn is Patcham Court Farm where the informal planning brief has been reassessed to allow scope to consider a wider range of development options to extend the sites market appeal. There was active interest in the former Ice Rink site in Queen Square for hotel development and discussions are continuing with the preferred bidder. Elsewhere we are preparing to market the former Charter Hotel in Kings Road which continues to attract interest from the hotel sector. We have also had an encouraging response from agents regarding the possible sale of a surplus property in the Withdean area. Transactions can take a long time to complete often because of the need to resolve problems with the property or because of the impact of the economic situation on funding availability or occupier confidence.

7. Significant Site Disposals

- 7.1 One significant success this year has been the negotiation of an option agreement with American Express for the sale of the freehold interest in their premises where the site is held on a long ground lease from the council. Not only should this produce a capital receipt for the council but it facilitates expansion at American Express helping to retain one of the city’s major employers creating new employment opportunities and allowing redevelopment of a large area of the city.
- 7.2 Discussions are continuing on a number of commercial development sites and major projects. The council’s control of a number of employment sites and other major properties, such as the Brighton Centre means opportunities arise both from council initiatives and as a result of market interest. Such proposals are usually significant, entail comprehensive land assemblies with various parties and can take time to come to fruition.

8. CONSULTATION

- 8.1 Consultation has taken place with all relevant parties. In addition a revised consultation protocol has been developed on property disposals to ensure that the consultation process throughout any disposal/ development, from inception through design to planning, is clear and thorough so that all interested parties are aware of the situation and have an opportunity to comment at the appropriate stage in the process.

9. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 9.1 There are no direct financial implications attached to this report as the capital receipts anticipated have been included in initial and follow up reports and have been included in the Council's budget process. Any delays in realising the receipts, which are used to support the Council's Capital Investment Programme, have been taken into account in the financial forecasts.

Finance Officer Consulted: Rob Allen

Date: 11/09/2009

Legal Implications:

- 9.2 There are no adverse legal implications considered in this report.

Lawyer Consulted: Anna Mackenzie

Date: 11/09/2009

Equalities Implications:

- 9.3 There are no equalities implications.

Sustainability Implications:

- 9.4 There are no sustainability implications.

Crime & Disorder Implications:

- 9.5 There are no crime and disorder implications

Risk and Opportunity Management Implications:

- 9.6 There are no risk and opportunity management implications

Corporate / Citywide Implications:

- 9.7 Improvement in the property market will enable development and disposal opportunities across generating capital receipts.

10. EVALUATION OF ANY ALTERNATIVE OPTION(S):

- 10.1 Potential property proposals are evaluated through the Asset Management disposal process to identify opportunities for disposal from the investment portfolio. This includes a review of the properties and internal consultation to identify other possible council uses. The property is considered in conjunction with council policies which might direct its use. The process identifies site restrictions and any development potential in preparing for marketing. Once the method of disposal is agreed consultation ensues with ward councillors and other directly interested parties which could dictate whether we market openly or on a restricted basis e.g. community transfer. The disposal will go through several

stages including marketing, assessments of bids, approval of terms and finalising the transaction with the preferred bidder.

10.2 The operational portfolio is reviewed for disposal options and fitness for purpose through the same asset management processes and specific property performance reviews that plot the condition and suitability of a property on a decision matrix where “considered disposal “ may be one of the options. At the start of any disposal process the options are informed by the establishment of the planning criteria and initiation of the consultation protocol. We assess the most appropriate method of disposal for each property. The actions and proposals outlined in this report indentify disposals that have concluded in the financial year, others that are on-going plus the steps taken to keep projects alive and bring other properties to the market.

11. REASONS FOR REPORT RECOMMENDATIONS

11.1 The council has managed some successful disposals despite the economic situation and the restricted property market. Transactions that have been ready to complete on the basis of deals agreed earlier have been concluded where possible. During the current financial year terms have been agreed for an option allowing American Express to buy the council’s freehold interest in the site occupied by their European HQ building. This transaction occurred at a time when large commercial sales were scarce and given the need by Amex to expand its operation in the city and redevelop the existing building it took place at a level reflecting a better market and will result in a significant capital receipt for the council. In addition there have been various indications that the hotel sector has remained buoyant as evidenced by the level of interest in the former Ice Rink site when it was marketed and by continuing interest in the former Charter Hotel. Our strategy has been to take advantage of these pockets of interest in the uncertain property market.

11.2 Otherwise the prudent view is that it is not appropriate to bring significant properties to the market at the bottom of the property cycle when the eventual economic and market recovery would allow a better return on transactions in due course. Location is often identified as the most crucial factor in regard to value but timing is significant in getting the best out of the market. Other options and delivery vehicles are being explored with various partners as now is the time to prepare for potential disposals so that the council is best placed and in a good position to accelerate any disposal and take advantage of changes in market conditions.

SUPPORTING DOCUMENTATION

Appendices:

1. None.

Documents in Members' Rooms

1. None.

Background Documents

1. None.