POLICY, RESOURCES & GROWTH COMMITTEE	Agenda Item 37 Brighton & Hove City Council

Subject:		**Disposal of 11 Little East Street**		
Date of Meeting:		**14 July 2016**		
Report of:		**Acting Executive Director Economy, Environment & Culture**		
Contact Officer:	**Name:**	**Angela Dymott** **Jessica Hamilton**	**Tel:**	**291450** **291461**
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Ward(s) affected:		**Regency**		

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

1.1 To seek agreement for the disposal of 11 Little East Street to provide capital funding for reinvestment to generate additional revenue funding streams to support the council's Corporate Property Strategy & Asset Management Plan 2014-18, Corporate Plan and Medium Term Financial Strategy.

2. RECOMMENDATIONS:

2.1 That Committee authorises the freehold disposal of 11 Little East Street by auction on the open market by the agents appointed.

3. CONTEXT/ BACKGROUND INFORMATION

3.1 Brighton & Hove City Council has a substantial investment portfolio producing a rental income in the region of £10m per annum, which helps fund the provision of services. The Council's Corporate Property Strategy & Asset Management Plan 2014-18 sets out the property context for the city and the council's property holdings and functions linking these to the corporate plan, priorities and strategic goals. It outlines the agreed rebalancing strategy for the council's urban portfolio as only a small proportion of the portfolio is primary investment stock with most of it consisting of ageing secondary and tertiary properties with a limited ability to continue to achieve increasing rents and income for the council.

3.2 The strategy aims to rebalance the portfolio by identifying under-performing assets for disposal and ring fencing receipts for reinvestment, focusing on the disposal of secondary and tertiary properties to improve returns medium and long term and reduce liabilities and risk for the council.

3.3 The council is in the process of accumulating a fund for re-investment to enable the council to act in time with the market when investment opportunities present themselves and take advantage of current buoyant market conditions. The council is working to identify further assets that are underperforming to contribute towards this fund and working on an investment strategy for the identification and reinvestment of funds.

3.4 The Capital Investment Strategy detailed within the Medium Term Financial Strategy states that all capital resources, including capital receipts, are available to the council for investment in assets. Capital receipts play an important role in helping to achieve the council's Corporate Plan priorities. The council's Capital Strategy outlines the process for the prioritisation and evaluation of capital investment projects.

The strategy aims to generate capital receipts from the disposal of surplus or under-performing assets and to deploy the proceeds from the sale of capital assets:

i) for reinvestment in the capital investment programme, or;
ii) for repayment of debt or for investment, for example, to offset any loss of rental income in the revenue budget, or;
iii) for reinvestment from under-performing assets back into more commercially viable assets as part of the rationalisation of the property portfolio.

3.6 The property comprises a four storey building at the southern end of Little East Street held within the Council's commercial investment portfolio and is managed by the council's agents Cluttons.

3.7 Prior to 2010 the property was operated as a restaurant with residential upper parts by a succession of lessees. All the businesses failed which is attributable to the premises' location in a thoroughfare having no pedestrian flow, being some distance from The Lanes and not visible from the seafront. All attempts to re-market and re-let the property under an occupational tenancy since 2010 have proved unsuccessful with little interest from prospective tenants.

3.8 In 2012 essential repairs were carried out and increased security measures put in place following occupation by squatters. This included the construction of hoarding around the forecourt in addition to steel shutters on the windows and the completion of remedial repairs following a flood caused by the removal of copper pipes by the squatters.

3.9 At the end of 2012 a further extensive marketing campaign was commenced and in 2013 terms were agreed to dispose of the property by way of a long lease. An Agreement for Lease was completed with an obligation for the purchaser to carry out a comprehensive scheme of repairs in advance of the long lease being granted. However the purchaser defaulted and abandoned the building in November 2015. A subsequent structural survey of the building confirmed that some of the unfinished works had a detrimental effect on the structural integrity of the building, and immediate action, including demolition of part, was required to ensure a section of the wall and roof did not collapse. These works to make the building safe were undertaken by the council.

3.10 The purchaser is a company limited by guarantee and, so far as the council is aware, has no assets other than the rescinded contract to purchase the property. Our agents consider it likely that the company is a shell company and, this being the case, Legal Services have advised that any attempts to recover debts owed by the council would be unsuccessful and therefore not an effective use of the council's resources.

3.11 The Council faces a continuing financial liability in respect of maintenance, repairs and security for as long as the premises are vacant and within its ownership.

3.12 The character of the area has become less commercial with the conversion of Priory House into flats. Accordingly the Council's agents advise there is no reasonable prospect of re-letting the premises on financially viable terms and recommend a sale of the freehold interest. Our agents recommend the conversion of the building to wholly residential use including the ground floor. However this is in conflict with planning policy which supports the retention of a commercial use on the ground floor. Given the failure of all previous restaurant businesses in this location and the further change in the character of the area to residential, a prospective developer may wish to make a case for a policy exception.

3.13 Given the condition of the property and investment needed, the property will attract developers with market knowledge, seeking unconventional projects, such as this, at auction. In addition an auction will ensure speed and certainty of the transaction and will result in best consideration being achieved. The proposed auctioneer recommends the property is marketed with a published guide in the region of £240,000 - £250,000.

4 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

4.1 Option 1 Do nothing

Retaining the property will leave the Council with a continued maintenance and security liability.

4.2 Option 2 Lease the property on a commercial lease

The property requires significant refurbishment and/or redevelopment to allow occupation and a developer would not be willing to invest the capital sums required whilst holding a relatively short term interest.

4.3 Option 3 Council to refurbish the property

The significant cost of bringing the property into good repair would be disproportionately high to the anticipated rental return in view of the poor trading location. The return on the residential parts would be less than for a private developer as rental income would be below market rents. If the council was to seek to dispose of the property, post refurbishment, the council is unlikely to see any return over the capital invested. If the council retained the property post-refurbishment, the council would have to manage separate tenancies and retain responsibility for the structural and external repairs which would be managed through a service charge. In addition any residential tenancy would obtain security. Planning policies seek to retain commercial use on the ground floor.

4.4 Option 4 Joint Venture

If the council was to seek to partner with an RSL or other development partner it is unlikely that the project would be financially viable owing to the capital requirements and likely returns. The size of the project is also unlikely to make the site attractive to partners who are likely to be put off by the risks associated with such a small site.

4.5 Option 5 Council to dispose of the property in current form
This is the recommended option, likely to give a modest receipt for reinvestment whilst removing a current liability from the current investment portfolio. This will enable the council to realise capital in a timely manner and is recommended by officers in the pro-active management of an investment portfolio. Disposal by auction will ensure a capital receipt representing market value and therefore best consideration is achieved from the disposal.

4.6 Option 6 Council to dispose of the property in current form with the benefit of planning permission for a change of use to residential
The possibility of selling the premises with the benefit of planning permission for residential use throughout, which would enhance value, has been explored with planning officers but discounted in view of current planning policies seeking to retain commercial use on the ground floor.

5 COMMUNITY ENGAGEMENT & CONSULTATION

5.1 Advice has been sought from our agents and local auctioneers.

6. CONCLUSION

6.1 The recommendation is to dispose of the freehold interest in the site by auction, exposing the property widely to the market to ensure best consideration.

6.2 The capital receipt of the disposal to be used for reinvestment in line with the council's rebalancing strategy providing an ongoing income stream to support the council's Corporate Plan and Medium Term Financial Strategy investing in new income streams with better growth potential.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

7.1 The disposal of the site will generate a capital receipt less any disposal costs. The net receipt is to be reinvested back into the property portfolio to assist with the council's revenue budget as identified within the Integrated Service and Financial Plans. The proposed reinvestment will need to achieve at least a level of rental income (£16,000per annum) that is lost through the disposal of this property.

Finance Officer Consulted: Rob Allen Date: 08/06/2016

Legal Implications:

7.2 Section 123 of the Local Government Act 1972 ("the Act") enables a local authority to dispose of land held by them provided it achieves the best consideration reasonably obtainable.

Paragraphs 3.10 and 4.5 of the report confirm that a sale by auction would enable the Council to achieve best consideration as required by the Act.

It is not considered that any individual Human rights Act rights would be adversely affected by the recommendation in this report.

Lawyer Consulted: Name Joanne Dougnaglo Date: 08/06/2016

Equalities Implications:

7.3 An Equalities Impact Assessment has not been carried out.

Sustainability Implications:

7.4 Any future refurbishment of the building or redevelopment of the site will be required to comply with minimum sustainability standards set by planning policy.

Any Other Significant Implications:

7.5 The building is secured at a cost to the council and its appearance is unsightly. Sale of the property will eliminate the holding costs for the council and facilitate its future development.

SUPPORTING DOCUMENTATION

Appendices:
Location Plan & photograph

Documents in Members' Rooms
None

Background Documents
None