DECISION NO:	18/125	*For Member Services use only*

Concurrence No:	066232

Action under delegated authority of Chief Executive	
Action under delegated authority of Director of Finance and Cabinet Member for Finance	
Action taken by Chief Executive in consultation with Cabinet Member(s)	**X**

Subject: Property Acquisition – Turnford Place, Great Cambridge Rd, Cheshunt EN10 6NH – Drawdown of funds

Signature and designation of officer(s) taking action:

	5.9.18		4.9.18
Chief Executive	Date	Director of Finance	Date
			04/09/18
		Head of Financial Planning and Reporting	Date

Name of Cabinet Member(s) Consulted:

I have been consulted and concur with the proposals set out below:

Councillor M Mills-Bishop		5.9.2018
Leader of the Council	Signature:	Date:
Councillor K Ayling		17/9/18
Cabinet Member for Finance	Signature:	Date:

Name of any member who has declared a conflict of interest in relation to this decision:

THIS DOCUMENT WILL BE PUBLISHED ON THE COUNCIL'S WEBSITE

The report overleaf sets out the decision to be taken, the reasons for the decision, and the details of alternative options, if any, considered and rejected.

Officer decisions are available for public inspection, both at the Borough Offices and on the Council's website, for a period of six years after the decision is made. Background papers are available for four years.

RECOMMENDED that:

Approval is given to draw down up to £18,420,000 from the £50m Property Acquisition Fund for an initial period of one year in order to acquire a commercial property at Turnford Place, Great Cambridge Rd, Cheshunt.

Background

At its meeting on 28 February 2017 Council agreed to the creation of a Property Acquisition fund of up to £50 million to be resourced from prudential borrowing with approval to drawdown on the fund delegated to the Chief Executive in consultation with the Leader of the Council, the Cabinet Member for Finance and the Director of Finance. To date £18.3 million has been utilised from the fund to acquire a commercial property in Grimsby, Lincolnshire and £4.7 million for the acquisition of Stephenson Close, Hoddesdon, leaving a balance of £27 million.

Proposal

The Council has made a, subject to due diligence and contracts, offer of £17.25m, on a multi-let office building at Turnford Place, Cheshunt. This offer has been accepted by the vendor; a private equity fund. A target completion date of 6 September 2018 has been agreed. The building provides a total floor area of c60,000 sq. ft. on a site of 5.5 acres the rest of which is mainly taken up by parking which provides 360 spaces. The property currently produces a total annual rent of £1,058,932.

The majority of the occupational leases (of which there are nine) have rent reviews and break clauses in the near future. This will give the Council the opportunity to consider occupation of the space as required, to increase the rental income from the existing tenant or to let the space to another tenant at a higher rent. The Council currently occupies c19,000 sq. ft. at its offices in Bishops College which could be relocated if suitable space within the building emerged.

The Council has received reports from two office agents confirming local and regional demand for such space is strong and supply of such space is low. This would indicate rental growth and therefore capital growth is likely.

It is also felt that the strategic nature of the location of this property, in view of the proposals at Brookfield, will also have a positive effect on the performance of this asset.

In assessing the suitability of investment assets to acquire the Council has adopted the following criteria to be looked at:

- The location
- The credit rating of the tenant
- The length and terms of the lease
- Market value
- The yield
- Diversity of the commercial property portfolio

Location
The property is located within the Borough, next door to the Marriott Hotel in Cheshunt, and therefore is regarded as a good location for the Council to invest.

There is a shortage of good quality large office space in the Borough and this development fulfils that criteria and of course is conveniently located for the A10 and M25 as well as being a short taxi ride from the local rail stations.

There is also, as previously mentioned, the added effect of the proximity to Brookfield and the positive effect the new development there could have on the rental values achievable in this existing development.

Credit rating of the tenants
There are seven tenants occupying the building (under 9 leases). Two of these, covering 30% of the rental income, are considered a very low risk, three of them, covering 64% of the rental income, are considered low risk with the remaining two tenants, covering 6% of the rental, being moderate or unrated. Overall the tenant mix is regarded as good with minimal credit rating risk attached.

Length and terms of leases
All leases are full repairing insuring (FRI) equivalent with a service charge element to cover off communal areas, external repairs, boilers and other utilities etc. All of the leases have either rent reviews, breaks or renewals due between January 2020 and September 2022. The valuation report considers that the majority of the leases are currently below market rent (under rented) with potential for quick rental growth on the reviews and renewals. The expiry dates of the leases range from July 2021 to September 2027.

Market Value
The property is being sold to the Council in an off market deal and as such it has commissioned an independent valuation. This has set a value at £17.24 million. The agreed price is £17.25 million there is always flexibility in valuations of between 5% and 10% to represented Market Value. The variance between the Red Book valuation and the agreed price is less than 0.001% and is considered negligible. It is with confidence therefore that this is recommended as an acquisition at market value.

Yield
The Council has set a minimum gross yield threshold of 6% for its commercial investments. The gross yield for this acquisition, taking into account all costs, is 5.78% but the rental growth that will be coming forward in a relatively short period offsets this slight shortfall.
In terms of comparative yield, with other property investments, costs would be omitted from the comparison and if this is done then the yield is 6.13%.

Diversity of the commercial property portfolio
Currently the only office property the Council has in its portfolio are the offices at Bishops College which are used for its own purposes with some subletting, the income represents a small percentage of the portfolio and technically it isn't regarded as an investment property. The majority of the portfolio is industrial in nature with an element of retail. The acquisition of this large office investment will help to diversify the portfolio and spread the income risk to the Council across a number of different sectors.

Legal Financial and Risk Implications
The Head of Legal Services is advising on this acquisition and has carried out full title report, reports on leases, contracts and other relevant matters as well as the contract negotiations. No major concerns have been brought to the Council's attention that would prejudice a decision to purchase.

The Council would need to borrow just over £18.4m to secure the acquisition of the site, including all costs such as stamp duty, legal and surveyors' fees and other one off costs. A short term loan of one year is considered to be the best option for funding the acquisition as this will allow the Council to benefit from a lower interest rate in the short term and also enable it to monitor the market.

A one year loan at 1% will attract an interest charge of £184,200 and brokerage fees of £18,420. The brokerage fees would be payable before the loan is granted and the interest at the end of the year when the loan itself matures. The loan will be refinanced each year at a variable rate until future interest rates can be more accurately predicted. In addition a one year term will allow the Council the flexibility to reduce the loan principal by current year underspends. After financing costs the net revenue income to the Council will be £856,000.

If the Council does take up occupancy of part of the property, it will need to set aside a Minimum Revenue Provision (MRP) each year in its revenue budgets. This is estimated to be approximately £370,000.

The property is being acquired under the TOGC rules so there is no VAT payable, stamp duty of £852,000 will become payable as will Agency fees of £172,500. The Agency fee covers all additional reports required including valuation and environmental reports. Total funding required therefore will be £18,412,500 subject to any adjustments required for rental income.

Conclusion
Initially the acquisition of the property will boost the revenue income by approximately £856,000 per annum, (prior to the Council taking occupation if indeed it does), after interest on the loan of approximately £185,000, which will assist in maintaining self-sufficiency over the coming years.

It is recommended that the acquisition is completed and that the drawdown effected on the best possible terms at the point of conclusion.

Contact Officer:	Richard Aitken	Ext: 5541	Date	20 August 2018

Action reported to the Cabinet on: