

Agenda Item 23

Cabinet

1 February 2012



Priority Disposal Programme: Littleham Trading Estate, Pankhurst Close, Exmouth

Exempt Information

Para 3 Schedule 12A information relating to the finance or business affairs of any particular person

Summary

The remainder of the Council's freehold interest in land owned at the Littleham Trading Estate, in Exmouth, was considered for disposal as part of the Council's Priority Disposal Programme in July 2011. However, owing to a significant increase in rental income following recent rent reviews, rather than selling the site for an immediate capital receipt of circa £1,000,000, this report considers the option of retaining the income producing sites and selling a smaller part of the Council's interest, known as Site 1, which has no potential for future revenue growth and which has a value of circa £60,000.

Recommendation

- 1) Authorise the sale of Site One only and retain the remainder of the Council's land interest at Littleham Industrial Estate as an investment.**
- 2) Authorise the grant of a long lease to use part site 2b for car parking.**

a) Reasons for Recommendation

The significant increase in revenue to the Council achieved through the implementation of the rent review clauses over recent months has meant that the property is now a more attractive investment than as at July 2011 the Council's interest in the Estate was considered as part of the Priority Disposal List and, while the whole site remains in need of investment and upgrading, the rental income is now more attractive. Site 1 does not have scope for future increased rental revenue and, is in urgent need of redevelopment. The sale of the site will enable others to take the risk of seeking redevelopment, will improve the area visually and provide the Council with an immediate capital receipt, along with potential extra capital should planning permission for a higher value use be permitted in the future.

The remaining four tenancies produce a secure income at low risk. This is an investment difficult to match in other sectors and as such, it is recommended that the Council's remaining interest in the site be retained.

b) Alternative Options

1. No action and keep whole of Council's remaining interest in Estate for investment purposes.
2. Sell whole of Council's remaining interest in site and expect to achieve a significant capital receipt (approx £1m) to assist the Council's Capital Programme deficit.

c) Risk Considerations

Site One alone is not likely to attract a great deal of market interest from investors and this will be reflected in the sale price. The most likely purchaser will be the existing tenant.

The industrial estate sits within a residential area, and is adjacent to an area of land which has recently been identified for residential development within the new Local Plan (the Maer Valley). There is therefore a possibility that at some time in the future, that permission for an alternative use such as residential could be granted. A clawback provision will therefore be included as part of the transaction so that the Council will share in the benefit of any future uplift in land values.

Future yields may increase and subsequently reduce the capital value of the remaining land interest.

d) Policy and Budgetary Considerations**Positive Impact Overall**

Thriving Economy.

e) Date for Review of Decision

Annually.

1.0 Introduction

- 1.1 The Council's Cabinet authorised a Priority Disposal Programme of certain property assets in July 2011 to assist the budget deficiency of the Capital Programme. However, since July, a significant increase in rental income has been achieved through the implementation of rent reviews and rather than selling the site for an immediate capital receipt of circa £1,000,000, this report considers the option of retaining the income producing sites and selling a smaller part of the Council's interest, known as Site 1, which has no potential for future revenue growth and which has a value of circa £60,000.

2.0 Background

- 2.1 The southern part of the Estate has been sold off in the past and the Council now retains the area as shown in Appendix 1.

Site 1

- 2.2 The current rent of £1,050 pa is not reviewable for 82 years and the worth of this asset will diminish in the future due to inflation. The site is currently unoccupied while works to remove asbestos are carried out. The lease has been advertised for sale or to let for a year with little interest due to potential purchasers preference of a freehold asset.
- 2.3 Authority is now sought to sell via auction with a reserve price to be agreed by the portfolio holder.

Remaining Sites 2a, 2b, 3 and Land.

- 2.4 Recently completed rent reviews have resulted in an increased income on sites 2a and 2b of £8,870 pa from the 14/10/2011. Site 3 has a rent review pending with potential of a further £20,000 pa. If the grant of a new long lease for car parking land is authorised, this will result in a further increase of rent income of £1,000 pa. In total, this current round of rent reviews will boost income from £9,750 to £48,937 pa
- 2.5 With the current economic environment there are fewer investment properties on the market. Low interest rates mean that Institutional investors are paying low yields for good ground rents and this is significantly boosting the capital values achieved. From this perspective, now would therefore be a good time to sell. However, unless the capital receipt is used by the Council to reinvest in a better performing asset there would be little to gain overall against such a loss in revenue income.
- 2.6 The former tenant of the car parking land has not renewed his 7 year lease and will vacate the site by February 2012. The tenant of site 2b AHA Properties Co.Ltd. has agreed, to a ground lease of 118 years to tie in with his current lease at an initial rent of £2,250 with 7 year upward only rent reviews. He has plans to extend his workshop subject to planning but if this is not possible due to drainage or site conditions he will use the site for just car parking.

Legal Implications

As the value of Site 1 is under the £2m threshold for the purposes of the General Disposal Consent 2003, there is no requirement to obtain prior consent to the disposal from the Secretary of State. There are otherwise no legal observations

Financial Implications

The net capital receipt for Site 1 of around £50,000 (£60,000 less costs of around £10,000) will be a welcome addition to Capital programme funding.

Background Papers

- Appendix 1 Photos
- Appendix 2 Plan

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