

**CABINET  
30TH JUNE 2015**

**SOLICITOR TO THE COUNCIL  
EXEMPT REPORT NO. LEG1512**

**PURCHASE OF PLOT NO. 10A WELLESLEY HOUSE, FARNBOROUGH  
INDUSTRIAL ESTATE, FARNBOROUGH**

**PURPOSE**

**The purpose of this report is seek authority to purchase the leasehold interest in Plot 10A Wellesley House, Farnborough Industrial Estate as an investment asset.**

**BACKGROUND**

Plot 10A was leased to RR Richardson Maintenance Ltd on a ground rent for 125 years at a rent of £10 per annum, with the Lease expiring on 1<sup>st</sup> June 2095. Accordingly, the lease has an unexpired term of 80 years. The council owns the freehold.

RR Richardson Maintenance Ltd entered administration on 10 November 2014. RR Richardson Maintenance Ltd occupied the top floor of the property and the front part of the ground floor.

The plot has the benefit of an existing sub-tenant in residence on the ground floor towards the rear of the property. 1<sup>st</sup> Millennium have a good record of rental payments and have been in residence for the past ten years. They are currently paying £15,500 per annum for an area of 1,750 sq.ft (which equates to £8.86 per sq.ft). It is envisaged that they will continue with their occupation of this part of the premises.

Advice from Hollis Hockley is that the remainder of the site (5,580 sq.ft) can be occupied at a market rent between £10 and £12 psf. If this can be achieved this would give a rent in the order of £55,800 and £67,000.

**PROPERTY IMPLICATIONS**

The premises have been inspected and are in good repair and condition and offer good quality office accommodation. The particulars of sale are attached as the appendix. If the Council proceeds with this purchase then a survey will be undertaken.

The council will want to be satisfied that there is a realistic prospect of being able to let the premises for the rental value suggested by Hollis Hockley given the amount of office space on the market within Farnborough and that it is thus a wise investment.

It is therefore necessary to consider, in relation to other vacant floor space on the market:-

- the levels of rent;
- length of time premises have been marketed as vacant; and
- where known, the reasons for the vacancy.

*It should be noted that the Estates department has been in contact with agents in the Farnborough Area. Whilst there has been an over-supply of offices in the last two years, there has been an increased take-up in the last two years. It has almost come full circle, in that there is increased demand for limited office space available, and that offices are now in demand that were not considered two years ago. This can be shown by the purchase of **Abbey House**, a five storey office building that was recently sold for £550,000 – it requires over £3 million pounds worth of refurbishment.*

It should also be noted that a number of offices have either been or are awaiting redevelopment for residential uses as there is a greater land value to be realised from such schemes. An example of this is **Thompson House** which has been vacant for over a year and is being disposed of by a receiver. The prospective purchaser is seeking to convert that building under permitted development rights for residential use as this will generate the greatest return rather than re-letting for offices. This is why the property has remained empty for so long.

Other offices in Farnborough which have either been converted to residential or have consent for residential are:

**49-51 Victoria Road** -23 flats (implemented)

**The Pavilion Sherborne Road** - 6 flats (not implemented)

**16 Fernhill Road** - 4 units (implemented)

**61-65 Victoria Road-** (extension and conversion) 10 flats (not implemented to date)

**Hawley House-** There is a current application for 4 flats.

Thus the change to permitted development rights to allow office conversions to residential has reduced the supply of offices.

**Other available office accommodation on the market in Farnborough** is as follows (all rents exclude rates but some higher rates include some small element of service charge):-

- **Queens Road, Farnborough** 200sqft at £15 per sqft. Larger sizes are available too but at a greater rent. In part occupation since 2014 but still some vacant units.
- **Victoria House , Victoria Road, Farnborough** 5,000 sqft at £13 per sqft- vacant for 2 years however greater interest recently been shown.
- **Unit 14, 5<sup>th</sup> floor, Kingsmead, Farnborough** 400 sqft at £30-35 per sqft
- **Units 4,5,6,7 2<sup>nd</sup> floor , Kingsmead, Farnborough** at £45 per sqft
- **Unit 6 Farnborough Business Centre, Eelmoor Road** 2,656sqft at £11 per sqft – now under offer and only marketed for a couple of months.

- **Abbey House, Farnborough Road** – premises sold as mentioned above, required significant refurbishment costs.
- **Westmead House** – there are three remaining suites on site and they have all been marketed at £20 psf.
- **Pyramid House, Solatron Retail Park**- this site is being sold by a receiver and the debt has been recently sold by the mortgagee and a new owner is now looking at the site. Therefore Pyramid House has not been available other than for short term lets for well over a year and its future still remains uncertain.

**Office available accommodation on the market in Aldershot** is as follows:-

- Aldershot office suites at Hippodrome House at up to 377sqft are offered at a rent of £17.50 per sqft
- Suite 1 Wesley Chambers 1,536sqft at £9.76 per sqft- (this is a converted church)
- Suites at Aldershot Business Centre , Victoria House £30 per sqft

The above are a representative sample and some of the higher rents include services but it can be seen that Plot 10A at £10- £12 per sqft will represent good value in comparison, being cheaper than all of the above that are still available in Farnborough and therefore the council should be able to let the premises at the levels advised by Hollis Hockley.

The business rates payable are £28,506 per annum but should be paid by the tenant as the occupier though there will be empty rates liability till the entire unit is let.

Unit.10A is being marketed at £595,000. The purchase price is recommended by the Councils professional valuer and is considered to be best value based on the value of the lost rental income to the Head Lessee.

## **FINANCIAL IMPLICATIONS**

Assuming Purchase Price = £595,000

Rented (tenanted 1750 sq.ft = part of building) = £15,500

To be Rented (remainder 5,580 sq.ft)

	Rental @	Rental @	Rental @
	£9 psf	£10 psf	£12 psf
	£	£	£
Rental from Existing Tenants	15,500	15,500	15,500
Rental of Remaining Area	50,220	55,800	66,960
<b>Total Rental Receivable</b>	<b>65,720</b>	<b>71,300</b>	<b>82,460</b>
Less 10% Sinking Fund contribution	6,572	7,130	8,246
Less loss of interest on investment (£595,000*2.75%)	16,360	16,360	16,360
<b>Net Return on Investment</b>	<b>42,789</b>	<b>47,811</b>	<b>57,855</b>
% Rate of Return on Investment	<b>7</b>	<b>8</b>	<b>10</b>
Approximate Payback Period in Years	<b>14</b>	<b>12</b>	<b>10</b>

It is suggested that a sinking fund of 10% of the rental income should be established towards future repairs and maintenance.

If the full rental (£12 psf) of £82,460 per annum was achieved then the return would be 10% and the payback period would be approximately 10 years.

Even if a lower rent of £65,720 (£9 psf) per annum was achieved then the return would be 7% and the payback period would be approximately 14 years.

This return would be reduced by any void periods and acquisition costs

Eastleigh BC that has an extensive acquisition programme to generate investment income generally achieves between 7- 8% return.

### VAT

If RBC does not opt to tax the property then all the income received in respect of the property will be exempt income for vat purposes. This would mean that all of the expenditure incurred relating to this exempt income would contribute wholly to the Council's partial exemption calculation. For information, if the de-minimus limit of 5% is exceeded it could cost the Council in the region of £120k.

By opting to tax the land, the Council protects its partial exemption position (meaning that all vat on expenditure relating to the property is recoverable). It also means that vat becomes due on all rental income.

The process for opting to tax is straight forward and it would appear that the current occupiers already pay vat on their rent.

## **LEGAL IMPLICATIONS**

The council has power to acquire land under section 120 of the Local Government Act 1972 either to discharge any of the council's functions or for the benefit, improvement or development of the borough. The acquisition of this land will enable generate a rental income once let. The council already is the freeholder of Plot 10A and therefore the leasehold interest will merge with the freehold meaning that this plot will be owned outright by the council as an investment asset to generate income.

## **RECOMMENDATION**

Cabinet is recommended to:

- approve a variation to the 2015/16 Capital Programme of £595,000 for the purchase of Plot 10A Wellesley House, Farnborough Industrial Estate
- give authority to the Solicitor to the Council to purchase plot 10A for a price of up to £595,000 and to take any other related action to secure tenants for the vacant floor space and to agree the rental terms and lease provisions in connection with such lettings.
- approve the establishment of a sinking fund towards future repairs and maintenance