

CABINET
02 February 2016

SOLICITOR TO THE COUNCIL
EXEMPT REPORT NO. LEG1601

**ACQUISITION OF PLOT NO. 20 BLACKWATER INDUSTRIAL ESTATE,
ALDERSHOT**

PURPOSE

The purpose of this report is seek authority to purchase the leasehold interest in Plot 20 Blackwater Industrial Estate as an investment asset subject to securing a pre let.

BACKGROUND

Plot 20 is currently leased to Crystal Finishes Ltd, on a ground rent lease for 99 years at a rent of £12650, with the Lease expiring 24 June 2068. Accordingly, the lease has an unexpired term of 53 years. The council also owns the freehold of this plot. The tenant at the premises has been in historic rent arrears for over three years and the current sum owed, including business rates stands at £6,400.

The tenant's current business, involving the spray painting of commercial objects, has declined substantially over the years, and it seems that there will be no improvement in the near future.

PROPOSAL

Discussions have taken place with the leaseholder, who has indicated that they are willing to surrender the lease for an appropriate payment. The council's valuer is of the opinion that the value of the lease is £256,400. Were the council to buy out the leaseholder then the Council, as freehold owner, would be able to seek a tenant for the premises and generate an increased rental value.

The maximum rental that a letting of the premises could achieve is £7.00 psf = £42,700.pa

The Financial Implications part of this report contains the investment appraisal of the property showing the projected rates of return upon the acquisition costs for the purchase of the lease.

PROPERTY IMPLICATIONS

In deciding whether to buy out the lease the council needs to be satisfied that there is a realistic prospect of being able to let the then vacant premises for the rental value suggested in the investment appraisal.

A potential tenant has expressed considerable interest in the property. The tenant is currently located at Canna Industrial Estate, and is being displaced by the Council's purchase of the site for its refuse and street cleansing depot. The potential tenant wishes to expand their business by moving to Unit 20 Blackwater Way. The rent and terms have yet to be agreed but is likely to be a stepped rent starting at £6sqft and increasing to £7sqft

The business rates payable for plot 20 are £29,250 per annum but should be paid by the tenant as the occupier.

The EPC rating of plot 20 is unknown but will need to be ascertained once the Unit has been acquired. Future liability for improving the rating may be able to be passed onto the tenant if the tenant takes a repairing lease. Achieving a repairing lease would also remove the need to have a sinking fund at 7% thereby further increasing the yield. If the tenant does not take on liability for repairs then a higher rent per square foot would be negotiated

FINANCIAL IMPLICATIONS

Acquire Plot 20, 6100 sq.ft and rent out

Address	20 B/Way
Use	Industrial
NIA	6,100
Current Rental Income	£12,650
Business Rates P.A.	£29,250
Current Rates Multiplier	49.3

Managing Agent Fees	0.00%
Managing Agent Fixed	£0
Interest on Investment	2.75%
Sinking Fund	7.00%
Vacant Period (Years)	0.0

Purchase Price	£256,400
Stamp Duty	£8,547
Demolition Cost	N/A
Construction Cost	£0
Total	£264,947

	£6.75
Rent Income Assuming Full Let of Space	£41,175
Less: Current Interest on Investment @2.75%	£7286
Less: Sinking Fund @7%	£2372
Less: Current Rental Income	£12650
Net Return on Investment	£18,867

Years	3.56%
1	
Years	6.88%
15	
Years	7.11%
25	

NB There are no managing agents fees, as the maintenance and repair of the building will come under the direct management of the Council or be passed onto the Tenant . The fixed agent fee is excluded as a potential tenant has been found that will occupy the premises.

The final rental figure for Plot 20 at the current time is uncertain; therefore the appraisal is based on an average value we have estimated over a 15/25 year period.

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 £100,000.

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.

In this instance we would charge VAT because of the de-minimus cost.

LEGAL IMPLICATIONS

The Council has power to acquire land under section 120 of the Local Government Act 1972 for the benefit, improvement or development of the borough. Acquiring the

lease will increase the level of control that the council has over lettings of this unit on the estate and improve the estate.

RECOMMENDATION

Subject to the Council obtaining a pre let agreement with the prospective tenant Cabinet is recommended to:

- approve a variation to the 2015/16 Capital Programme of £265,000 for the purchase of the leasehold interest in Plot 20, Blackwater Way Industrial Estate
- if required approve the establishment of a sinking fund towards future repairs and maintenance of the unit