
Executive

27 July 2017

Report of the Director of Economy and Place

Portfolio of the Executive Member for Finance and Performance

Acquisition of Freehold Interest of Swinegate Court

Summary

1. An opportunity has arisen for the council to acquire the freehold interest in a portfolio of properties Swinegate Court in the city centre that will ensure the ongoing maintenance of the buildings, support the economic vibrancy of the city centre and generate significant additional income to contribute to the increased budget income target set for the council's commercial portfolio. In July, Executive and full council established a budget for the acquisition which enabled an offer to be made for the property. The council offer was accepted and this report provides due diligence prior to the completion of the contract.

Recommendation

2. Executive is asked :
 - (i) subject to Full Council having approved on 20 July 2017 a capital budget of £15 million to make a strategic acquisition of a mixed commercial portfolio in York city centre;
 - (ii) to delegate to the Director of Customer and Corporate Services authority to complete the acquisition of the freehold of Swinegate Court provided that the findings of the due diligence process do not undermine the purpose of the acquisition; and
 - (iii) to authorise the funding of the acquisition of the asset referred to in (ii) above and all related costs from the capital budget referred to in (i) above.

Reason: To ensure the ongoing economic vibrancy of the city centre and increase the income from the council's commercial property portfolio in order to achieve budget targets.

Background

3. The council has for many years operated a significant commercial portfolio in order to generate a revenue income stream to support the council's revenue budget. In the last two years, additional income targets have been agreed as part of the annual budget. Significant work has already been undertaken to deliver additional income including the acquisition of property in Hospital Fields Road.
4. The budget report for 2017/18 set out an approach to a 4 year budget and identified the need to consider further property investment opportunities in order to continue this good progress over future years. Given that interest rates are low, property acquisitions perform well when compared to other forms of investment and are capable of delivering higher yields.
5. A report was approved 13th July by Executive setting aside a budget of £15 million to make a strategic acquisition of a mixed commercial portfolio in York city centre and is subject to approval by Full Council at a meeting on the 20th July 2017.
6. At the time of the report the details of the property were treated as confidential, since the council had to bid in a competitive market for the property. The council has now been advised that, following an offer for the property, it has been chosen as preferred bidder. The offer was within that budget set aside and approved by Executive and Full Council.
7. The property bid for is known as Swinegate Court (see photographs in Annex 1) and has a strong rent roll, a respectable yield and represents a good commercial investment.
8. Swinegate Court comprises of two, three storey buildings, known as Swinegate Court East and Swinegate Court West. Swinegate Court East comprises 9 retail units, 2 leisure units and 7 office suites at 1st and 2nd floor level. Swinegate Court West comprises 6 retail units, 1 leisure unit and 5 office suites at 1st and 2nd floor level. The offices have been refurbished recently. All units are occupied or under offer. The total rent generated from the asset provides for £813,000 per annum.
9. Under the terms of existing agreements between the current owner (landlord) and occupiers (tenants), the tenants are responsible for the upkeep of their own units, whilst the landlord is responsible for the maintenance of common areas, such as the structure, roof and services. The landlord is able to recharge the cost of these items of expenditure back to the tenants through a service charge, along with the management costs associated with such. Should the council proceed with the purchase it will become the landlord of the current tenants and be subject and benefit from the repair and maintenance arrangements in place.

10. The council has appointed joint national and York based agents to represent it through the bid negotiation process, utilising their respective national and local knowledge of the property market. Prior to bidding a pre acquisition report detailing the opportunity was commissioned, this is contained as confidential Annex 2. As part of a due diligence exercise, a further report confirming that the agreed purchase price is representative of Market Value has been commissioned and this is contained as confidential Annex 3.
11. Further due diligence has been undertaken through the council's legal services team examining the legal title to the property as well as looking through the various leases which are in place and will remain so should the council proceed. No legal issues of concern have been reported. An initial survey of the property by the council's buildings and mechanical and engineering teams has raised no issues of concern. A more comprehensive survey is being undertaken and this work will be concluded in full before contract completion.

Funding

12. The purchase has been agreed within the allocated overall capital budget of £15m set aside to fund the acquisition and which was approved previously by Executive and is subject to approval by Full Council. Details of the exact price paid are confidential at this stage given the matter has not been completed and hence this is contained within the confidential Annex 4.
13. The funding will be provided by borrowing from the Public Works Loan Board (PWLB) and will be repaid from rental income. The capital receipts from the future disposal of vacant council assets will be used to reduce the borrowing requirement over time. This will be reported as part of future capital monitor reports, where Executive/Council would be asked to consider the application of surplus future capital receipts to this acquisition.
14. An outline business case was provided in the previous report and is now amended within this report to reflect the actual price paid and contained with the confidential Annex 4. This information is still confidential until completion of contracts. Prudent assumptions have been made to provide for potential voids, the staff costs of operating an enlarged commercial estate and a prediction of the potential increase in income over the next 5 years to indicate how the revenue stream will increase whilst repayment of the capital will stay steady and eventually fall away. The business case is based upon borrowing over 50 years. The assets' life is considered in excess of this duration as confirmed by the council's agents and there is provision to recharge costs to tenants for maintenance of the property which will extend the life of such in any event.

15. Given current low interest rates, even with making full provision for repayment of the costs of purchase the rental income will provide an additional source of annual revenue, net of borrowing costs. In addition the value of the asset is likely to increase over time.
16. The investment therefore represents a good opportunity to increase the commercial portfolio rental stream and support city centre economic prosperity.

The Council Plan

17. The acquisition will support the following priorities;

- The creation of a Prosperous City for All,
- Be a Council that listens to residents particularly by ensuring that :
- Everyone who lives in the city can enjoy its unique heritage and range of activities.
- Visitors, businesses and residents are impressed with the quality of our city.
- Local businesses can thrive.
- We are entrepreneurial, by making the most of commercial activities.

Implications

18.

Financial – These are covered in the report and in confidential annex 4.

Human Resources (HR) – If the acquisition goes ahead additional resource will be needed to manage the expanded commercial portfolio. This will be funded from additional income.

Equalities – n/a

Legal – Under part 1 of the Local Government Act 2003 a local authority may borrow money or invest for any purpose relevant to its statutory functions or for the prudent management of its financial affairs.

The powers of General Competence enable the council to operate a commercial portfolio ..

The Local Government Act 1972 gives the Council powers to acquire any property or rights which facilitate, or is conducive or incidental to, the discharge of any of its functions.

The Council will need to ensure that in exercising its investment and borrowing functions to expand its commercial portfolio, that any actions are reasonable and proportionate. Investment decisions need to be taken mindful at all times of the Council's fiduciary duties to ensure the sound management of the public finances.

Information Technology (IT) - There are no IT implications.

Crime and Disorder – n/a

Property – All property implications are covered in the report.

Risk Management

19. As with all property acquisitions there is a risk that the value of the property may decrease over time. There is also a risk that there may be a level of empty properties or voids. The business case makes provision for that risk.
20. The overall investment represents a relatively prudent level of commercial investment in comparison with the Council's overall budget, and income sources.

Contact Details

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Wards Affected: Guildhall

All |

**For further information please
contact the author of the
report**

Background Papers:

Annexes

Annex 1	Photographs of Property
Confidential Annex 2	Buyers Pre Acquisition Report
Confidential Annex 3	Valuation Report
Confidential Annex 4	Financial Business Case

List of Abbreviations

None