



**Report of: Director of City Development**

**Report to: Executive Board**

**Date: 19 June 2013**

**Subject: St George House, 42 Great George Street, Leeds, LS1**

**Capital Scheme Number: 16912**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No City & Hunslet
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: 10.4 (3) Appendix number: 1	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

### **Summary of main issues**

1. St George House is an office and retail property that is located behind the Town Hall and is leased in by Leeds City Council from the current head tenant under a lease and leaseback arrangement that was entered into in the early 1980s by the Council to stimulate regeneration in this part of the City. It is currently occupied by Council services and private sub-tenants. The Council owns the freehold interest of this site.
2. The Council pays the head tenant a guaranteed percentage of the market rent of the property and under the lease arrangement the Council is responsible for the managing and letting of the office and retail accommodation. The head tenant is currently in receivership and an opportunity has arisen for the Council to purchase the head tenant's leasehold interest that would enable the Council to own the property without any intermediate tenant.
3. The report details the nature of the current leasehold arrangements and recommends to Executive Board that the Council should acquire the head tenant's leasehold interest to streamline the structure of the Council's ownership. This acquisition would be financially beneficial and will also give the Council outright ownership, which provides greater flexibility in respect of the future management of, and plans for, the building. The acquisition of the head tenant's leasehold interest will also involve a surrender of the Council's current leasehold interest in the property so that the Council effectively becomes the freehold owner unencumbered by the current leasehold arrangements.

## **Recommendations**

3. Executive Board is requested to:

- i) approve the terms to the purchase of the head tenants leasehold interest;
- ii) give approval to the completion of a formal “Deed of Surrender” of the existing leasehold interest on the terms outlined in the confidential appendix; and
- iii) approve the injection of the sum identified in the confidential appendix into the capital programme and give authority to spend the monies required.

### **1 Purpose of this report**

1.1 The purpose of this report is to seek approval to purchase by the Council of the head tenant’s leasehold interest in the St George House property, on the terms set out in the confidential appendix. The report also seeks approval to a formal Deed of Surrender of this Lease.

### **2 Background information**

- 2.1 St George House is a 5 storey office block and retail property behind the Town Hall that was built in the early 1980s to stimulate regeneration in this part of the City. The property totals approximately 3,940 sq m (42,410 sq ft) of accommodation and comprises mainly offices with retail units on the ground floor. The development of the site was structured in a way to stimulate development by granting the then developer, Bass Pensions Ltd, a ground lease with a lease back to the Council of the whole building on practical completion, with the Council retaining the freehold interest of the land. This provided the developer with certainty that the property would be let on practical completion enabling the development to take place at a time when the city’s service sector had not grown to the extent that it exists today and the office market was relatively weak. The structure of the legal arrangements provided that the site of the building was leased to the developer by way of a ground lease with the developer paying to the Council a ground rent set at 10% of the market rental value of the premises erected thereon for a period of 99 years from 1 March 1984 subject to 5 yearly reviews. The developer subsequently transferred their leasehold interest and the current head tenant is Wichford St George, who is now in Receivership.
- 2.2 On practical completion of the development the whole building was then leased back to the Council via an underlease for a period of 99 years from 1984 with the Council paying a guaranteed rental equivalent to 62.015% of the market rental, plus a sum equal to the ground rent regardless of whether the property was let or not.
- 2.3 The Council was then fully responsible for the management and all lettings in the building plus being responsible for all repairs and maintenance for the property. As long as the property was almost fully let, the Council would make a surplus in terms of rental income. However whenever there is a down turn in the market or a large number of vacancies then the Council ran the risk that it would not receive sufficient rental from the property to cover the full rental payments. Over the years the Council has used the property to accommodate Council staff and currently both

Legal Services and PPPU / Procurement Unit occupy space in the building .This is financially advantageous to the Council as it is a cheaper way to lease in property rather than lease property directly from the private sector at the full level of the market rent, due to the structure of the rental payments. The Council has previously considered opportunities to acquire the head tenant's leasehold interest but the previous head tenant had been unwilling to sell their leasehold interest. The main reason for this is that the head tenant has a very secure income stream from the property.

- 2.4 The property is currently also occupied by other private office tenants, retailers and a restaurant.

### **3 Main Issues**

#### **Proposals and Full Scheme Description**

- 3.1 It is proposed to complete the purchase and surrender by 28 June 2013.
- 3.2 The receiver has recently invited offers on the open market for the head tenant's leasehold interest in the premises which is subject to the remaining long leasehold interest held by the Council.
- 3.3 An opportunity to purchase this interest is therefore available and would allow the Council to acquire the "unencumbered freehold" of the entire premises, (subject to the various subtenants).This purchase would be a strategic acquisition which would provide the Council with an improved financial holding in the property and provide the Council with greater flexibility in terms of the future management of the building. The outright ownership of the property provides the Council with a strategic property holding in this part of the City.
- 3.4 The receiver set a deadline for offers to be made and the details of the offer submitted are set out in the confidential appendix. The offer has been made to the receiver on the basis that it is "subject to contract and Executive Board approval".

### **4 Corporate Considerations**

#### **4.1 Consultation and Engagement**

- 4.1.1 Ward Members have not been consulted as the premises are currently occupied mainly by Council offices, with a number of sub tenants. There will therefore be no change if this transaction proceeds, and no impact on the public.

#### **4.2 Equality and Diversity / Cohesion and Integration**

- 4.2.1 A screening document has been prepared and an independent impact assessment is not required for the approvals requested.
- 4.2.2 An Equality, Diversity, Cohesion and Integration screening exercise has been carried out in relation to the proposals contained within this report. This has affirmed that there are no likely impacts upon the equality characteristics and all issues have been effectively considered in relation to the proposals, a full Impact assessment is therefore not required. The screening document can be found as an appendix to this report.

### **4.3 Council policies and City Priorities**

- 4.3.1 By acquiring the leasehold interest the Council will merge its interests in the property to an “unencumbered freehold”.
- 4.3.2 This will enable the Council to obtain a higher value if it decides to sell its interest at a later date and thereby achieve best value.
- 4.3.3 By purchasing the leasehold interest no further rent will be paid to a third party and the Council will not be subject to rent reviews every 5 years.

### **4.4 Resources and value for money**

- 4.4.1 It is proposed to fund this acquisition by way of prudential borrowing. The purchase will enable the Council to mitigate the costs of this building, whilst creating an investment asset for the Council which could be realised at some future date.

### **4.5 Legal Implications, Access to Information and Call In**

- 4.5.1 The Executive Board has authority to discharge any function in relation to the management of land, (including valuation, acquisition, appropriation, disposal and any other dealings with land or interest in land) and Asset Management.
- 4.5.2 The information contained in the Appendix attached to this report relates to the financial or business affairs of a particular person, and of the Council. This information is not publicly available from the statutory registers of information kept in respect of certain companies and charities. It is considered that since this information relates to a financial offer that the Council has submitted to purchase the property in a competitive best and final bid process, then it is not in the public interest to disclose this information at this point in time. Also it is considered that the release of such information would or would be likely to prejudice the Council's commercial interests in relation to other similar transactions in that prospective purchasers of other similar properties would have access to information about the nature and level of consideration which may prove acceptable to the Council. It is considered that whilst there may be a public interest in disclosure, much of this information will be publicly available from the Land Registry following completion of this transaction and consequently the public interest in maintaining the exemption outweighs the public interest in disclosing this information at this point in time. It is therefore considered that this element of the report should be treated as exempt under Rule 10.4.3 of the Access to Information Procedure Rules.
- 4.5.3 A decision may be Exempt from Call In if the decision taker considers that the decision is urgent (i.e. that any delay would seriously damage the Council's or the public's interest). Although this is a key decision the report is exempt from Call-In as any delay would prejudice this transaction which may then not proceed to completion.
- 4.5.4 The Head of Property Services confirms that in his opinion the figure offered is a fair market value for this Leasehold Interest.

4.5.5 In line with current regulations, there is a requirement to publish a notice on the Council's website, providing details of any items where a report to be considered by the Executive has an exempt section/appendix. This notice is required to be published 28 clear days before the related meeting. The notice for the 19<sup>th</sup> June Executive Board meeting was published on 21<sup>st</sup> May.

4.5.6 Since then, it has been confirmed that the 'Purchase of the Council's Landlord's leasehold interest and formal Deed of Surrender at St George's House' item requires an exempt appendix, which will include details regarding the premium to be paid for the leasehold interest. This matter did not feature upon the published notice. In such circumstances, the Chair of the relevant Scrutiny Board must provide their agreement that the matter is urgent and cannot be deferred to another meeting. In this case the relevant Chair of Scrutiny Board (Sustainable Economy and Culture) has been informed of the current position. He was advised that the Receiver acting on behalf of the Council's landlord has advised that if this matter is delayed until the July Executive Board, the Council's offer will be unlikely to be successful as other parties are interested in purchasing this interest and can proceed immediately. The Chair of Scrutiny Board (Sustainable Economy and Culture) has confirmed his approval for the report to be considered by the Executive Board in June due to the receiver requiring early decision in respect of the offer.

#### 4.6 **Risk Management**

4.6.1 If the acquisition of this Leasehold Interest does not proceed the Council will remain in occupation under the existing lease and will have a new Landlord in due course and continue to pay rent with upward only rent reviews every 5 years for the remaining 70 years of the Council's sub lease.

### 5 **Conclusions**

5.1 The acquisition of this Leasehold Interest is considered to be a sensible solution and it allows the Council to merge its interest into an "unencumbered freehold" and avoids the necessity to pay rent and future rental increases to a third party.

### 6 **Recommendations**

6.1 Executive Board is requested to:

- i) approve the terms to the purchase of the head tenants leasehold interest;
- ii) give approval to the completion of a formal "Deed of Surrender" of the existing leasehold interest on the terms outlined in the confidential appendix; and
- iii) approve the injection of the sum identified in the confidential appendix into the capital programme and give authority to spend the monies required.

**7 Background documents<sup>1</sup>**

7.1 None

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<sup>1</sup> The background documents listed in this section are available for download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.