

Agenda Item No:

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Report of: Head of Land and Property

Report to: Chief Officer Asset Management and Regeneration

Date: 23 October 2018

Subject: Unit 7 Logic Leeds Industrial Park – Skelton Moor Way

Are specific electoral Wards affected?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, name(s) of Ward(s):	Templenewsam	
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?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, Access to Information Procedure Rule number:		
Appendix number:	10.4(3)	

Summary of main issues

1. The subject property is a new industrial unit extending to 33,000 square feet and which, along with two similar adjoining properties, was completed June 2018 for the Council by way of a development agreement with Muse Developments.
2. The Council occupies the respective sites by way of long term ground leases. The units constructed on the respective sites are owned by the Council and were purposely constructed for income generation purposes and funded by way of Prudential borrowing.
3. The Council has appointed external marketing agents to secure lettings. Terms have been provisionally agreed for a letting of the subject unit for a manufacturing operation which will require alterations to the property.

Recommendations

4. It is recommended that:
 - a) Approval be granted to the terms provisionally agreed for the grant of an agreement for lease and sub- lease of the subject property as detailed in the attached confidential appendix.

- b) That the approval and completion of the agreement for lease (incorporating the sub-lease) shall be subject to the Council being satisfied that its interest is sufficiently protected in relation to the proposed structural alterations.

1 Purpose of this report

- 1.1 The purpose of this report is to seek approval to the terms provisionally agreed for the grant of an agreement for lease and sub- lease of the subject property.

2 Background information

- 2.1 On 14 April 2017 the Director of City Development granted approval to a report recommending terms for the Council to enter into individual ground leases with Muse Developments and thereafter a development agreement also with Muse Development for the construction of the three industrial units. The development has been funded by way of prudential borrowing. The principal terms of the ground leases and development agreement are detailed in the confidential appendix to this report.
- 2.2 Upon completion of the ground leases and development agreement, construction of the three units commenced in September 2017. Completion was achieved as per the project timetable and formal handover to the Council was undertaken in June this year. The subject unit extends to 33,000 square feet. The other two units extend to 30,000 and 37,000 square feet respectively.
- 2.3 The Council appointed Knight Frank and Carter Towler as joint marketing agents, who introduced the proposed tenant and whose details and proposed use are detailed in the confidential appendix.

3 Main issues

- 3.1 In arriving at this recommendation Asset Management has given due consideration to achieving the balance between securing a letting and meeting the Council's investment requirements. This is with particular regard to mitigating risk associated with a prospective tenant's covenant strength and any proposed alterations to the property. The proposed use will require quite substantive alterations and which are detailed in the confidential appendix.
- 3.2 In terms of the proposed tenant, due consideration has been given to the principals detailed in 3.1 and it is considered that the terms provisionally agreed mitigate the level of associated risk to an acceptable level. The issues arising are detailed in the confidential appendix.
- 3.3 The proposed use of property is a manufacturing process and which is detailed in the confidential appendix. It would represent a substantive inward investment and would result in the creation of number of new jobs, the projected number of which is also detailed in the appendix. The proposed tenant will be required to secure an Environment Agency permit.

3.4 Options

1. Proceed with the proposed letting to the company detailed in the confidential appendix

This is the recommended course of action for the reasons detailed in this report.

2. Withdraw the offer and continue with the marketing of the unit

This option should not be pursued as it is considered the provisional terms being recommended for approval mitigate the level of investment risk associated with the proposed letting to an acceptable level.

3. Sell the unit as it currently stands

Whilst there is considerable investment market demand for industrial units, it is considered that the Council should seek to let the property on the most favourable terms in order to generate a rental income as per the original reason for entering into the development agreement and ground lease.

4 Corporate considerations

4.1 Consultation and Engagement

4.2 Ward Councillors have not been consulted in respect of this proposed letting as this is considered to be a landlord and tenant matter.

4.3 Equality and Diversity / Cohesion and Integration

4.2.2 There are not considered to be any equality and diversity / cohesion and integration issues arising.

4.4 Council Policies and the Best Council Plan

4.4.1 The proposed course of action offers an opportunity to secure a rental income stream for the Council and a substantive inward investment to the City which would result in the creation of a number of jobs.

4.5 Resources and Value for Money

4.5.1 The Council has acquired these properties for investment purposes in order to create a rental income to the Council. The scheme has been funded by way of Prudential borrowing and for which the borrowing commitments must first be met from any rental income.

4.5.2 The Council is currently benefiting from the six month standard empty business rate relief for industrial property. The relief period will expire in January 2019 whereupon it is considered that the Council will be liable for the full charge for empty business rates. The Valuation Office Agency (VOA) have not yet undertaken an assessment of the three units and therefore rateable values have not been presented from which the liability is calculated using the Uniform Business Rate. However, an approximate guide is to adopt 50 % of the market rent. The VOA have been pressed in this matter and have recently undertaken an inspection. The assessment is urgently needed in order for prospective tenants to understand their liability.

4.5.3 Security measures have been implemented for which there is an ongoing revenue cost whilst the units remain empty.

4.6 Legal Implications, Access to Information and Call In

4.6.1 Under Part 3 Section 3E Paragraph 2(a) of the Council's Constitution (Officer Delegation Scheme (Executive Functions)) the Director of City Development has authority to discharge any function of Executive Board in relation to the management of land (including valuation, acquisition, appropriation, disposal and any other dealings with land or any interest in land) and Asset Management.

4.6.2 The Chief Officer Asset Management and Regeneration has authority to take the decisions requested in this report.

4.6.3 The proposal constitutes an admin decision and is therefore not subject to call in.

4.6.4 The Head of Land and Property confirms that proposed terms of the lease would result in the Council achieving best consideration that can reasonably be obtained under Section 123 of the Local Government Act 1972 (or under the Housing Act 1985).

5 Risk Management

5.1 It is considered that if the recommended course of action is not pursued then the Council will lose an opportunity to generate a much needed rental income and to secure a substantive level of inward investment and job creation. It is further considered that, subject to the acceptability of the proposed structural alterations, the terms provisionally agreed mitigate to an acceptable level the identified risks associated with the letting.

6 Conclusion

6.1 The proposed course of action is considered to be the most appropriate in the circumstances.

6 Recommendations

7.1 It is recommended that:

a) Approval be granted to the terms provisionally agreed for the grant of an agreement for lease and sub-lease of the subject property as detailed in the attached confidential appendix.

b) That the approval and completion of the agreement for lease (incorporating the sub-lease) shall be subject to the Council being satisfied that its interest is sufficiently protected in relation to the proposed structural alterations.