

Lease Proposals at (A) Art Deco Building and (B) Blue Sky, Cromer

Summary: **The Art Deco Block:** The Council has marketed the vacant property, Art Deco Building on Cromer promenade. A local community group has made a bid for a lease of the site –and terms have been agreed in principle.

The Blue Sky Café: The tenant of the Blue Sky Café has approached the Council to renew their ground lease, the lease is a protected tenancy and therefore suitable terms have been negotiated with the existing tenant.

Options considered: **The Art Deco Block:** The alternative option would be not to accept the lease proposal from the local community group and continue to market the building. However the property was advertised on the open market and no viable commercial operators found.

The Blue Sky Café: The alternative option considered would be to refuse the grounds for renewal of the café. However, we are bound by the existing lease terms and to be released from the existing agreement would provide costly and we do not have grounds to do so.

Conclusions: **The Art Deco Block:** Having marketed the Art Deco building, Officers have gained a lease proposal from a local community group to rent the building the community group will renovate the existing building at their own cost.

The Blue Sky Café: The existing tenant of the Blue Sky Café has approached the Council, to renew their ground lease. Acceptable terms have been negotiated with the tenant.

Recommendations: **It is recommended that Cabinet should resolve:**
A. To approve the lease terms as described in Appendix A and C
B. Should there be any further negotiations to the offer made, to delegate to the s151 officer, in consultation with the portfolio holder, the ability to vary the terms of the lease and a rental value not exceeding a 10% variation the original lease proposal.

Reasons for Recommendations: Principally to support the financial sustainability and growth of the Council by leasing the premises and generating rental income that is used to support Council services.

Recommendations: To approve the lease terms as stated in appendix A and C.

LIST OF BACKGROUND PAPERS AS REQUIRED BY LAW

(Papers relied on to write the report, which do not contain exempt information and which are not published elsewhere)

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1. Introduction

- 1.1 **The Art Deco Block, Cromer Promenade** has been vacant since 2013 following damage to the building sustained during a storm surge. It was previously used as a Café and prior to this used as public conveniences.
- 1.2 The Art Deco Block was marketed on the open market with the intention of generating an income from the asset. Proposals were sought for investment into the building, which requires renovation prior to use. The property was first marketed at the start of August, for a period of around two months. During this period, some viewings had been conducted and a steady level of interest received.
- 1.3 **The Blue Sky Café** has been let to the existing tenant for just over 15 years.
- 1.4 The tenant has approached the Council to renew their existing ground lease, the building of which is the tenant's. The tenant has refurbished the café and built an extension following planning approval, work is now complete on the building and a revised lease is now required to reflect the extension.

2. Lease Proposal

- 2.1 **The Art Deco Block, Cromer Promenade** A lease proposal has been received from a local community group for a lease term of 15 years. The terms of this proposal can be found in the exempt appendix A.

- 2.2 The proposed use is for an art gallery, for sale of art and community workshops.
- 2.3 The lease proposed reflects a rent in reference to the level of investment made in to the property by the tenant. The tenant is responsible for the maintenance liability for the interior of the property. The Landlord is responsible for the exterior of the property as part of the wider chalet block. The proposed use is also subject to planning for change of use of the building.
- 2.2 **The Blue Sky Café:** Suitable terms have been agreed with the existing tenant of the Blue Sky Café for an additional 12-year period. The terms of this proposal can be found in the exempt Appendix C.
- 2.3 The existing use is a café, which will be the same for the renewed lease.
- 2.4 The rent has been reviewed and there has been an increase from the previous rent, due to increased market rents since the last review date. The tenant will continue to take full responsibility for the whole of the building reducing the maintenance liability on the Council.
- 2.5 The proposals are subject to contract.
- 2.6 Initial due diligence suggests that the tenants are of good covenant strength and financial stability to meet the lease obligations.

3. Corporate Plan Objectives

- 3.1 These lease proposals align with the following key corporate priorities as contained within the current Corporate Plan;
- 3.2 Boosting Business Sustainability and Growth – by providing business premises to a local business and community group, with the benefit of providing continued employment opportunities to the local economy.
- 3.3 Financial Sustainability and Growth – generating a rental income and financial return that is used to support Council services. In terms of the Art Deco bringing this vacant building back in to use reduces the Councils maintenance liabilities.
- 3.4 Quality of Life- providing a community art space and a community asset to Cromer for the public to enjoy.

4. Medium Term Financial Strategy

- 4.1 The proposals contribute to the Council's medium term financial strategy, by incremental rental growth throughout the period of the terms of the lease proposals. We anticipate that the rental income will grow by incremental rent reviews throughout the term of these long leases, dependent on market conditions at that point in time.
- 4.2 **The Art Deco Block, Cromer Promenade:** will receive a rental income, which will help to contribute to the Council's income stream to provide essential services.

- 4.3 **The Blue Sky Café:** The increased floor area and the revised market rent reflects a rental increase of the café. Which will help to contribute to the Council's income stream to provide essential services.

5. Financial and Resource Implications

- 5.1 Financial information regarding the proposals can be found in the exempt Appendices A and C.

- 5.2 **The Art Deco Block, Cromer Promenade:** The gross financial return for this proposal is 5.50%, based on property value and average rent across the term. The Council's cost associated with this lease proposal will be minimal as the tenant is responsible for internal repair costs and all decoration; we anticipate a net return of circa 4.10%. Subject to no major external repairs to the building.

- 5.3 **The Blue Sky Café:** The gross financial return for this proposal is 11%, based on property value and average rent across the term. The Council's costs associated with this lease proposal will be minimal as the tenant is responsible for all repairs and maintenance; we anticipate a net return of circa 9.50%. This is based on an assumed increase of the last asset valuation conducted, due to the now completed extension of the building.

6. Legal Implications

- 6.1 The lease is subject to contract
6.2 Eastlaw will act for NNDC for the lease transactions.

7. Risks

- 7.1 Typical property investment risks, including the lease not completing, tenant defaults on rental payments, dilapidations may occur, however these can be mitigated with active asset management.
7.2 **The Art Deco Block, Cromer Promenade:** The current lease proposal requires a change of use and planning consent may not be granted.
7.3 Costs may increase over the period of the proposed refurbishment of the block, deeming potentially unviable for the tenant.

8. Sustainability

- 8.1 The lettings of the premises provides financial sustainability to the Council.

9. Climate / Carbon impact

- 9.1 The tenants will be required to obtain an Energy Performance Certificate upon completion of their proposed works.

10. Equality and Diversity

- 10.1 There are no direct equality and diversity implications with this proposal.

11. Section 17 Crime and Disorder considerations

- 11.1 There are no Section 17 implications with this proposal.

12. Conclusion and Recommendations

- 12.1 **The Art Deco Block, Cromer Promenade:** Having marketed the Art Deco Block to let, Officers have gained a lease proposal from a community group.
12.2 Officers support the proposed use of the property, which would bring the property back in to use as an art gallery. This use is seen as complementary to those existing on the promenade and as an attraction in its own right.

- 12.3 **The Blue Sky Café:** Officers support the renewal of the existing agreement of this property. Suitable terms have been agreed with the existing tenant, which are considered best value in the current market. Due to the lease being a protected tenancy NNDC are obliged to agree to a renewal in the absence of any known legal grounds to terminate the agreement.
- 12.4 The proposed and existing tenants are deemed to be of a good covenant strength and the rental terms negotiated, represent good market rental offers. The proposals provide a good level of return in accordance with the Asset Management Plan.
- 12.5 On this basis, it is officer's recommendation to approve the lease terms as described in the exempt Appendix A and C.