

## **PROPERTY TRANSACTION: LEASE PROPOSAL AT UNIT D, HORNBEAM ROAD, NORTH WALSHAM AND RENT RECYCLING PROPOSAL**

**Summary:** The Council has received a lease proposal from a local business to rent commercial premises in North Walsham. The proposal represent a market rent/terms and initial due diligence indicate the tenant is of good covenant strength.

During negotiations it has been identified that a clear and transparent policy regarding Council investment into assets is required to respond to recent changes in the Public Works Loan Board lending terms. A rent recycling scheme is proposed to be developed to enable investment into assets where regeneration is needed to bring them back into use.

**Options considered:** The alternative option would be not to accept the lease proposal however, the property was acquired for income generation purposes and the rent and terms proposed are appropriate and therefore this option has been discounted.

The Council could decide not to develop a rent recycling policy and make direct investment into assets, however that would be in conflict with lending terms and would have significant financial implications. This option therefore would not be recommended.

**Conclusions:** Having advertised the units to let on the open market, Officers have gained a lease proposal from a local business to rent unit D. With rent/terms that reflect the local current market it provides an appropriate level of investment return in accordance with the Asset Management Plan.

Due to the changes to the Public Works Load Board (PWLB) lending terms, the development a rent recycling policy as a clear and transparent financial strategy to demonstrate how the Council may seek to fund future asset regeneration opportunities.

**Recommendations:** **It is recommended that Cabinet should resolve:**

- A. To approve the lease terms as described in Appendix A.**
- 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.**
- C. To approve officers in the development of a financial strategy for a rent recycle scheme and that approval of the policy is delegated to**

**the Director of Resources and in consultation  
with the relevant portfolio holder.**

**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.

To provide a clear and transparent policy on how property rents can be recycled to facilitate regeneration of Council assets.

**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)*

|                   |                  |
|-------------------|------------------|
| Cabinet Member(s) | Ward(s) affected |
| Cllr. E Seward    | North Walsham    |

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**1. Introduction**

- 1.1 The Council acquired 3 brand new commercial units with B2/B8 use at Hornbeam Road, North Walsham in 2020.
- 1.2 The units have been marketed to let with a local commercial agent and whilst Cabinet previously approved a lease proposal from a local business, this did not complete as the tenant decided not to proceed. The appointed commercial letting agent has continued to market the units since this time and have had a number of viewings and subsequent offers.
- 1.3 The units are being marketed to let at £18,360 per annum for the 2 larger units (D &F) and £17,472 for the smaller unit E. (£8psft), which reflects that they are brand new.

**2. Lease Proposal**

- 2.1 A lease proposal has been received by a local business for Unit D. The terms of this proposal can be found in the exempt appendix A.
- 2.2 The proposal is subject to contract and obtaining a change of use from B2/B8 to the planning use class E.
- 2.3 Initial due diligence indicate the tenant is of appropriate covenant strength and financial stability to meet the lease obligations.

**3. Rent Recycling Scheme**

- 3.1 During the course of this lease negotiation there was a request for the Council to consider investment into a mezzanine floor to increase the floor area of the unit.

- 3.2 After consideration the proposal was rejected as this investment would be in conflict with the recent changes to the Public Works Loan Board lending terms. These terms have been amended to dis-incentivise Councils making direct investment in to asset which are primarily held for income generation/yield. Any Council doing this will not be able to borrow from the PWLB for the financial year.
- 3.3 Whilst the Council could chose to secure funds from other sources, this constraint causes significant financial implications for the Council in terms of investment in other property and/or capital projects and a future solution is required.
- 4.3 The Council is however able to fund investment in assets or project where there is a regeneration need, using a financial strategy such as a rent recycle scheme, without being in conflict with the new PWLB lending terms. This is important as the Council has a number of vacant long term assets that may meet the definition of regeneration and could be brought back into use.
- 4.4. It is proposed therefore for Officers to develop a clear and transparent rent recycle scheme for such regeneration circumstances.

#### **4. Corporate Plan Objectives**

- 4.1 This proposal aligns with the following key corporate priorities as contained within the current Corporate Plan;
- 4.2 Boosting Business Sustainability and Growth – by providing good quality business premises to a local business.
- 4.3 Financial Sustainability and Growth – generating rental income that is used to support Council services.
- 4.4 Quality of Life – the proposed tenants business facilitates health and wellbeing by the form of exercise.

#### **5. Medium Term Financial Strategy**

- 5.1 The proposal contributes to the Council's MTFS by generating rental income that will grow by way of a stepped rent as proposed and is further envisaged to grow in the longer term.
- 5.2 Whilst the Council has existing repairs and maintenance budgets a rent recycle scheme would sit alongside this.

#### **6. Financial and Resource Implications**

- 5.1 Financial information regarding the proposal can be found in the exempt Appendix A.
- 5.2 The tenant will be responsible for repairs and maintenance of the premises either directly or through a service charge.
- 5.3 Officers have undertaken a financial check on the tenant that is acceptable.

#### **7. Legal Implications**

- 7.1 The lease is subject to contract and planning consent being obtained for a change of use.
- 7.2 Eastlaw will provide legal advice during the lease transaction.
- 7.3 Legal and other professional advice maybe required around a rent recycling scheme and this will be sought if needed

## **8. Risks**

- 8.1 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.
- 8.2 Planning/Building Regulation consent may not be granted for change of use and/or any building alterations resulting in the proposed tenant withdrawing, in which case officers will recommence marketing of the unit to let.
- 8.3 There is a risk that long term vacant assets are not brought back into use if a rent recycling financial strategy is not developed.

## **9. Sustainability**

- 9.1 The letting of the premises provides financial sustainability to the Council.

## **10. Climate / Carbon impact**

- 10.1 The Energy Performance Certificate rating of the premises is D

## **11. Equality and Diversity**

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

## **12. Section 17 Crime and Disorder considerations**

- 12.1 There are no Section 17 implications with this proposal

## **13. Conclusion and Recommendations**

- 13.1 Having marketed the units to let, Officers have gained a lease proposal from a local business to rent Unit D.
- 13.2 The Estates team supports the proposed tenant use of the unit which would provide services to the community that offer health and wellbeing, encompassing confidence and fitness through martial arts to all age groups, which would be well suited to the unit and location.
- 13.3 The proposed tenant possesses a good covenant strength and the rental terms negotiated represents a market rent offer, which provide an appropriate level of investment return in accordance with the Asset Management Plan. On this basis, it is officer's recommendation to approve the lease terms as described in Appendix A. 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.
- 13.4 Due to the changes to the Public Works Load Board lending terms, it is recommended that officers develop a financial strategy for a rent recycle scheme to fund asset regeneration opportunities and that approval of the

policy is delegated to the Director of Resources and in consultation with the relevant portfolio holder.