

Lease Proposal at D, E and F Hornbeam Road

Summary: The Council has received a lease proposal from a national operator to rent commercial premises at Hornbeam Road, North Walsham. The proposal represents a market rent/terms and initial due diligence indicate the tenant is of good covenant strength.

Options considered: The alternative option would be not to accept the lease proposal from the national operator for all three units and continue to market the two remaining units. However, the property was acquired for investment purposes and the proposed offer would facilitate a strong financial return.

Conclusions: Having marketed the remaining units to let, Officers have gained a lease proposal to rent all three adjoining units, which would be for a trade counter facility with storage.

The proposed tenant is of a good covenant strength and the rental terms negotiated, represents a good market rental offer. The proposal provides a good level of investment return in accordance with the Asset Management Plan.

Recommendations: **It is recommended that Cabinet should resolve:**
A. To withdraw from the current proposed lease, which is not yet legally completed
B. To approve the lease terms as described in Appendix A

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 the appendix to

move forwards with the proposal.

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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Cabinet Member(s) Cllr. E Seward	Ward(s) affected 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 December 2020. Since this time the units have been marketed with local commercial agents.
- 1.2 Cabinet previously approved a lease proposal from a local business for Unit D, in July 2021. This however has yet to legally complete and is currently awaiting a planning decision relating to change of use, as the proposed business doesn't fall within the current use class category. There is a risk that planning consent may not be granted.
- 1.3 The remaining two units are being marketed to let at £18,400 per annum for the larger unit and £17,500 for the smaller unit, which equates to (£8psft). See appendix B for site plan and particulars.

2. Lease Proposal

- 2.1 A lease proposal has been received by a National operator for a fifteen-year lease term, to rent all three units. The terms of this proposal can be found in the exempt appendix A.
- 2.2 The proposed use is for a trade counter facility with storage and distribution of hardware/kitchen and home improvement materials.
- 2.3 The lease proposed reflects a market rent and favourable lease terms including maintenance liability being the responsibility of the tenant.
- 2.2 The proposal is subject to contract.
- 2.3 Initial due diligence indicate the tenant is of good covenant strength and financial stability to meet the lease obligations.
- 2.4 This letting would require the Council to withdraw from the existing lease proposal, that has yet to legally complete.

3. Corporate Plan Objectives

- 3.1 This proposal aligns with the following key corporate priorities as contained within the current Corporate Plan;

3.2 Boosting Business Sustainability and Growth – by providing good quality business premises to a national operator, with the benefit of providing additional 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.

4. Medium Term Financial Strategy

4.1 The proposal contributes to the Council's medium term financial strategy. We anticipate that the rental income that will grow by incremental rent reviews throughout the term of the long lease, dependent on market conditions at that point in time.

4.2 The tenant will be responsible for all repairs and maintenance of the premises either directly or through a service charge, removing this financial liability from the Council.

5. Financial and Resource Implications

5.1 Financial information regarding the proposal can be found in the exempt Appendix A.

5.2 The gross financial return for this proposal is 7.30%, based on property value and rent. The Council's cost associated with this lease proposal will be minimal as the tenant is responsible for all costs and we anticipate a net return of circa 7%.

6. Legal Implications

6.1 The lease is subject to contract

6.2 Legal advice will be obtained during the lease transaction.

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 Whilst this proposed lease falls within the existing use class, the current lease proposal requires a change of use and planning consent may not be granted.

8. Sustainability

8.1 The letting of the premises provides financial sustainability to the Council.

9. Climate / Carbon impact

9.1 The Energy Performance Certificate rating of the premises are a D

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 Having marketed the remaining units to let, Officers have gained a lease proposal to rent all three adjoining units.

12.2 Officers support the proposed tenant use of the units, which would be for a trade counter facility with storage and distribution of hardware/kitchen and

home improvement materials. Which compliments existing nearby businesses and would help to facilitate local building needs and support local contractors.

12.3 The proposed tenant is of a good covenant strength and the rental terms negotiated, represents a good market rental offer. The proposal provides a good level of investment return in accordance with the Asset Management Plan.

12.4 On this basis, it is officer's recommendation to withdraw from the existing lease proposal, which has not yet legally completed and to approve the lease terms as described in Appendix A.