

**Report for:** Cabinet 9th February 2021

**Item number:**

**Title:** **Commercial Property Portfolio Review – Industrial Property Strategy and proposed acquisition of third party interests**

**Report authorised by:** Director of Housing, Regeneration and Planning

**Lead Officers:** Christine Addison, Interim Assistant Director Capital Projects & Property

**Ward(s) affected:** All

**Report for Key/  
Non-Key Decision:** Key

## **1. Describe the issue under consideration**

- 1.1. The Council holds a significant commercial property portfolio with a budgeted income of £7.3m per annum. It was agreed as part of the Asset Management Plan that the commercial portfolio would be reviewed. This work has started with the industrial portfolio. This portfolio includes a range of industrial properties built or acquired by the Council over many years for general purposes, primarily for socio-economic purposes. Whilst the Council operates this portfolio largely on commercial lines, the portfolio has a significant economic and social impact and contributes to the Council's Borough Plan targets.
- 1.2. This review provides an opportunity for the Council to consider the future strategy for the industrial property portfolio to ensure that the emphasis is placed on how these properties are used to best effect to deliver Council priorities, including the Borough Plan priorities to support economic growth rather than purely focussing on achieving income to help the Council meet its budget requirements.
- 1.3. This report sets out the outcome of a detailed review of a number of industrial properties and makes recommendations about taking forward the process to seek to acquire any third party headlease or freehold interests. If successful, this would improve the ability to the Council to use these properties for economic growth and regeneration purposes as well as potentially improve the Council's income. If the Council is able to acquire full interests in these properties there are significant economic and planning benefits, including protecting employment and industrial uses, supporting the growth of SMEs as the Council will be in control of any future development in a way to protect business and employment space. This could be a very important step to take in the context of the Government policy on industrial land, new use classes, permitted development and the London Plan which will make it more difficult for the Council to protect important private employment and industrial space in future. It also gives the Council the ability and incentive over

time, where appropriate to invest in the portfolio to intensify uses and maximise the impact that these industrial properties can have on local business and employment especially where they are located in regeneration priority areas and in designated employment land.

- 1.4. This report sets out the outcome of the review of eight of the industrial properties held in the Council's commercial property portfolio where the Council does not hold 100% of the interest. The proposal in relation to these properties is to take steps to acquire headlease or freehold interests, subject to business case. If successful, this would allow the Council to protect uses, support economic growth as well as increase its commercial income. The Council could consider at a later time whether there is scope to invest in these properties with a view to maximising their economic impact, subject to the business case. The report sets out the case to proceed with acquisition if the Council's acquisition policy criteria are met and within financial limits set out in the exempt part of this report.
- 1.5. Six of the industrial properties to be potentially acquired are subject to headleases with long unexpired lease terms. The council has not got an automatic right to acquire interests in these properties and the proposals included in this report are subject to negotiation and agreement of the third parties. Should agreement be reached, on acquisition the headlease interests would be extinguished and the Council would then hold an unencumbered freehold giving full control of the industrial property investment. Further detail is provided in the exempt report.
- 1.6. The strategy included in the Asset Management Plan is to invest in the industrial portfolio, as long as opportunities are in line with the Council's Disposals and Acquisition policy. In addition, any acquisitions will need to meet the criteria around the Borough Plan and strategy contribution as well as having a sound financial business case. The strategy is also to review the portfolio for potential intensification in the future to support further economic growth. This is a consideration in proposing the acquisitions as it would give the Council the controlling interest making this more achievable.
- 1.7. Whilst the report is proposing that Cabinet agrees to seek to acquire as many of the interests in these properties as possible, it is important to note that this will need to be with the agreement of third parties, which if possible, will take time to secure. In addition, the report clarifies the basis for holding and acquiring these assets needs to be in line with its investment policy as laid out in the Treasury Strategy and this will be considered alongside the Asset Management Plan agreed acquisition policy criteria in assessing the potential acquisitions.
- 1.8. Further information is provided in the exempt part of this report.

## **2. Cabinet Member Introduction**

- 2.1. The Council has a large portfolio of commercial properties which support the economy of our Borough, helping local business to grow and supporting employment opportunities for residents. The portfolio also provides a good income to help support Council services. We have been reviewing the performance of the industrial portfolio and looking at ways to maximise its contribution to economic

growth and regeneration and the opportunity to increase our income where possible.

- 2.2. The first part of this review is related to the industrial portfolio, where we set out in our Asset Management Plan last year our ambition to grow and improve the portfolio where we can to support economic growth. Industrial properties are in short supply, so the market is very strong. We have a number of industrial properties in our portfolio, where we don't own the full interest and where we are keen, if the business case works and if the current owners agree, to acquire fully, so that we can protect and grow SMEs and protect our employment sites; and in doing so we will be able to increase the Council's income which helps us pay for vital services. This approach will strengthen our ability in the longer term to shape and protect the provision of employment space in the borough.
- 2.3. I am pleased to recommend that we take steps to buy back up to eight long lease and freehold interests, subject to further analysis to ensure that the properties meet the Council's Acquisitions Policy, including the financial criteria we have proposed.

### **3. Recommendations**

3.1. It is recommended that Cabinet:

- (i) Approves the strategy for the commercial industrial portfolio as set out in the open and the exempt report which aims to ensure the Council's industrial portfolio is aligned with the Council's economic plans as set out in the Good Economy Recovery Plan and the Borough Plan.
- (ii) Approves that steps are taken to seek to buy-back 6 long leasehold interests as set out in the exempt report and two Freehold interests in a total of 8 industrial properties forming part of the Council's commercial property portfolio, subject to agreement with the third party interests, and subject to the disposals and acquisitions policy criteria being met. All potential acquisitions to also meet the Council's acquisition criteria set out in 6.12 below, and to be in accordance with the financial thresholds and further analysis required as set out in the Exempt report.
- (iii) Notes that on provisionally agreeing terms to acquire each of the third party interests a full business case to be brought to Cabinet for approval to the acquisition within the agreed budgetary framework.

### **4. Reasons for decision**

- 4.1. As part of the Council's Asset Management Plan the commercial portfolio is under review to ensure that it is performing well financially and to ensure that it is possible to maximise its impact on the socio-economic well-being of the Borough. The industrial portfolio includes some established industrial estates and properties. This review covers eight of the industrial properties where it may be possible to increase the Council's income and improve the Council's ability to use these properties to support future economic growth and achieve planning aims, in particular in the Tottenham area.

- 4.2. Haringey is an established location for small and medium scale manufacturing activities. There is a strong demand for industrial properties nationwide and this sector of the property market is set to continue to be buoyant. The industrial property market in Haringey reflects this strong performance. This supports business growth and employment in the Borough.
- 4.3. Occupation of the Council's industrial properties is mainly by independent businesses in relatively small spaces. This nature of occupation with relatively small unit sizes and high number of independent operators has been identified as a key advantage for the Haringey industrial property market. Another key advantage that makes Haringey a good location for industrial properties is the trunk road connections within the borough, which combines with its good public transport network.
- 4.4. The Council pays a significant amount of rent to its direct landlords as ground rent. The proposal to acquire the freehold interests in the industrial properties represents an opportunity for the Council to acquire full control of the properties and deploy the additional rental income into its Medium Term Financial Strategy. Acquiring freehold interests and intermediate headleases would mean the Council would no longer pay ground rent.
- 4.5. Subject to further review, it may be possible for the Council to refurbish or significantly remodel and further develop some of the properties in future to increase the supply of industrial properties in the Borough and improve the quality of available stock. That level of investment may be difficult to make without holding the freehold interests.

## **5. Alternative options considered**

- 5.1. The alternative option to the proposed acquisition is for the Council to continue with the current position i.e., not purchasing the freehold and intermediate headlease interests. This option is the default position for the properties should it not be possible to acquire by agreement. It is not preferred, for the following reasons.
  - The acquisitions would give the Council more control over these properties which will enable the Council to protect the employment and industrial uses as well as give the Council the ability to invest in future to increase the industrial and its quality within the borough.
  - The proposed acquisitions meet the Council's acquisition criteria and is considered financially viable.
  - The additional revenue income from ground rent savings has been included in the Council's Medium Term Financial Strategy.
  - Lost opportunity for greater economic, planning and regeneration through future investment opportunities if the Council does not have full ownership of its portfolio.

5.2. However, the acquisition programme is subject to both negotiations and meeting the financial criteria and should this result in the inability of the Council to proceed with any individual acquisition, this option will need to be the default position and the Council would then need to work with the other interests to see whether the portfolio can be improved to support the Council's economic growth and regeneration strategies.

5.3. Further information on the options is set out in the exempt part of this report.

## **6. Background information**

6.1. The refresh of the Council's Asset Management Plan 2020-25 is included elsewhere on this agenda. It includes an update of the review on the Council's commercial portfolio which was headlined in the current plan. This includes clarification about the basis of the Council's commercial portfolio holdings and confirms that Council's property holdings are based on holding property for socio-economic purposes to support the Council's functions in that respect and that they operate commercially to provide an income to the Council in order to support its services and Borough Plan implementation.

6.2. Whilst the portfolio is operated commercially and is included in the MTFs and budget strategy due to its income contribution to the Council's overall finances, its impact is much broader in terms of meeting the Council Borough Plan targets and ambitions. In considering investment in assets, including the commercial portfolio there are some criteria included in the Acquisitions Policy, which is updated in the Asset Management Plan to clarify that any proposed acquisitions need to be in line with the Council's investment policy as laid out in the Treasury Strategy.

6.3. The Council's commercial property portfolio comprises almost 900 leased non-operational assets producing an annual income of £7.3m a year. This comprises industrial, retail, office and various other assets located through the Borough. Industrial properties account for 50% of the income and 46% of the portfolio. All the industrial properties included in the exempt part of this report are located within the Borough of Haringey.

6.4. The industrial portfolio is the strongest performing asset and makes a significant contribution to the Borough Plan outcomes relating to economy and community wealth building. Industrial take-up remains buoyant, and industrial land values increased sharply in 2018, by an average of 8.2% across the UK. Pressure on land is strongest in London/M25 and land values rose by nearly 23%. This trend has continued with further rental growth notwithstanding the pandemic and the Council's industrial property is set to continue performing well.

6.5. Pressure on industrial and employment land is likely to continue. Over time it may be more difficult for the Council to prevent the loss of employment uses on private land through the planning system, increasing the importance of the Council controlling employment uses on its own land. Nationally the government has introduced reformed 'use classes' and is expanding 'permitted development rights' which allow more changes of use to occur from business uses to other uses without the need for planning permission. At a London level, the government has required the Mayor of London to remove policies in the emerging new London Plan which

- sought “no net loss of industrial floorspace capacity”, meaning that planning policy protection of private industrial land is weaker than it would have otherwise been.
- 6.6. The Council’s commercial property portfolio is made up of mainly industrial properties. Other property types within the portfolio include offices, retail and land. It is important that the commercial property portfolio aligns with the Council’s future economic and financial vision. Therefore, a report was commissioned to review the commercial portfolio and there were specific recommendations regarding the improvement of the industrial portfolio.
  - 6.7. According to the report, the industrial property market in the Borough of Haringey remains strong. The report identified a severe shortage of well-located sites for distribution use and urban locations that are suitable for the last mile delivery to shops and directly to customers. Most urban sites do have to compete with higher value residential uses.
  - 6.8. There is a general improvement in the industrial market nationally, as retail online demand grows with resulting increase in warehouses to service this increased demand. Online sales reached 21.5% of total retail sales in 2018, up from 15.58% in 2015. According to the Office of National Statistics, online sales as a proportion of total retail in April 2020 stood at 30.7%. Market sentiment is for the industrial property market to maintain its strong position.
  - 6.9. According to Carter Jonas, who run their own prime industrial rental index, London industrial properties saw a growth of 4.3% in 2018. CPI inflation grew at a rate of 2.1% in the same period. By the same token, industrial land values increased by an average of 8.2% in the same period. In the current pandemic situation, there has been further growth. According to the Office of National Statistics, online sales as a proportion of total retail in April 2020 stands at 30.7%. Market sentiment is for the industrial property market to maintain its strong position.
  - 6.10. It is proposed the Council should engage with the landlords of selected industrial estates, where the Council is tenant, to purchase the headlease or freehold interests in order for the Council to maximise its control to increase rental income and optimise future development potential to meet regeneration, planning and economic development objectives. In some instances, the Council is currently receiving only 25% of the occupational rental income, and therefore the increased income on acquisition to 100% of rental income would directly contribute to MTFS savings, net of servicing the borrowing the cost of acquisition and any non-recoverable outgoings, details of which are set out in the exempt report.
  - 6.11. Acquiring the interests in these properties will give the council greater control over the protection of employment space following recent changes to Permitted Development Rights and to the planning system with regards to Change of Use Classes. This will not only protect employment space and ensure any changes are in line with council planning policy but will also protect jobs located in that employment space. The resilience of economic activity and subsequent employment is reliant on the provision of suitable, affordable employment space.
  - 6.12. Following acquisition, and as units become available, a review of new tenants will be undertaken to prioritise businesses that provide job density and jobs that meet

the council's vision of a Good Economy by delivering Good Work (pay London Living Wage and provide security). The Council having freehold interests in commercial property will help it have a long term ability to shape the look and feel of employment space available in the borough, prioritise businesses and sectors that meet the Good Economy vision, and help retain businesses looking for larger premises as their businesses grow.

- 6.13. This report evaluates 8 industrial estates (listed in the exempt part of this report) in the Council's commercial portfolio for potential acquisition of headleases in respect of 6 properties and Freehold interests in respect of the remaining two. The full analysis including return on investment is set out in the exempt part of this report. How the programme meets appropriate parts of the Council's acquisitions policy as set out in the Asset Management Plan is as follows:

### **Acquisitions Supported**

- As part of a programme to invest directly or attract investment in changes to places, especially at this time to regeneration areas such as Tottenham and Wood Green, which support a growing Economy.
  - Acquisition of sites or buildings which will improve the business case of an existing proposal.
  - Acquisitions of land or properties which are within formally agreed Regeneration areas or designated employment land, or nearby and having a significant potential impact on the regeneration area, where this supports the land assembly which will deliver agreed investment programmes and Borough Plan outcomes.
  - Acquisitions of property for commercial purposes to support the Council's MTFS targets will be supported if there is a strong case linked to delivering the Borough Plan and Local Plan – including increasing or protecting employment space, the scope to intensify industrial or employment uses in target areas, or for meanwhile commercial purposes pending a redevelopment which the Council has agreed to take control of directly rather than leaving the delivery outcomes an timescale in the hands of private sector operators or developers.
  - Acquisitions for Planning or other purposes which support the delivery of the Council's strategic aims and Borough Plan objectives including by CPO as necessary or acquisitions at nil or less than cost via the planning process.
  - The Council has a strong preference for developing its own land
  - Any proposal to dispose or acquire must be deliverable and in line with the Council's budget strategy, including any commitment to increase income, the Asset Management Plan, the Capital Strategy and in conformity to the CIPFA Prudential Property Investment Guidance.
- 6.14. The policy is used to help support decisions about acquisitions, alongside the MTFS and the need to balance aspirations with budget availability and affordability addressed in business cases. The business case consideration of acquisitions in particular will be key to this and may rule in or out acquisitions

- 6.15. In addition to the assessment above, the Council will take into account current condition and repair requirements of these properties. However, in all cases the Council has responsibility for external repairs and overall compliance.
- 6.16. Subject to Cabinet agreement the next steps will be for officers to negotiate acquisitions and terms with the headlease holders/ freeholders concerned, and within financial limits as set out in the exempt part of this report, the final terms to be delegated to the Director of Housing Regeneration and Planning.
- 6.17. Additional information is provided in the exempt part to this report.

## **7. Consultation with Tenants**

- 7.1. It is not a requirement that the Council consults with tenants about any proposed commercial acquisitions as it will not affect tenants' position in relation to their leases which will remain the same. Clearly the Council will need to consult the tenants before any major repair or refurbishment works are carried out.

## **8. Contribution to strategic outcomes**

- 8.1. This proposal provides a balance of focus on the Council's priority 4 within its current Borough Plan by focusing on the economy that will support the other priorities being delivered with other projects such as housing, skills and employment priorities.
- 8.2. If these proposed acquisitions are implemented, they will contribute towards maximising the Council's investment within the borough and in the various local areas. It will contribute towards Haringey as a growing economy and towards thriving local businesses.
- 8.3. The acquisitions will better enable the Council to fulfil its obligations to tenants by becoming their direct landlord rather than an intermediary landlord.
- 8.4. This Council investment in its local area will contribute towards the ease with which people can do business in Haringey by increasing future supply of good quality business space, with further Council investment in improving and extending some of the exiting stock.
- 8.5. It will further strengthen the local capacity to attract further public and private investment and encourage businesses to establish and grow in the borough.
- 8.6. The Borough Plan Priority 4 Economy Outcome 13 seeks "A growing economy and thriving local businesses, supported by a community wealth-building approach". Objective d) is to "Secure the delivery of a range of workspaces to meet the needs of a modern economy" which includes an action to "Ensure the delivery of the right mix of employment spaces through the planning process" and "Seek to maximise employment intensity in Haringey's industrial estates, leading by example through the use of Council land".



8.7. The Borough Plan Year 2 Delivery Plan includes an objective to “Ensure Local Plan plans for the right amount of employment space, of the right type, in the right places to maximise jobs and the economy in Haringey”. Existing adopted Local Plan (2017) Policy SP8 Employment states that “The Council will secure a strong economy in Haringey and protect the Borough’s hierarchy of employment land” including through protection and intensification of existing sites. The Development Management Policies document (2017) sets out the requirement that “new uses will not prejudice the continuation of industrial and commercial activities”. The New Local Plan First Steps consultation document (2020) states “The New Local Plan will also look at ways to make more effective use of employment land” and “will also need to identify and determine where we should cluster industrial uses that are incompatible with other uses”.

## **9. Risk**

9.1. The acquisition programme is subject to both negotiations and meeting the financial criteria and should this result in the inability of the Council to proceed with any individual acquisition, the status quo would continue, and the Council would then need to engage with the existing headlease holders or freeholder as appropriate to see whether the portfolio can be improved to support the Council’s economic growth, planning and regeneration strategies.

## **10. Statutory Officers comments**

### **Finance**

10.1. The recommendation of the report is to authorise the acquisition of 6 long leasehold interests and 2 freehold interests. The approved capital programme currently includes budget provision as set out below:

2020/21	2021/22	2022/23	Total
£10m	£10m	£12m	£32m

Cabinet at its meeting of 14 July agreed to seek to acquire the freehold interest in Munro Works. This means that, of the above budget an element has been committed and that the available budget for acquisitions is less. The exact amount of available budget is set out in the exempt section.

### **Procurement**

10.2 The Corporate Procurement Unit notes the recommendations in this report and that there is no input from procurement required

### **Legal**

10.3 This report seeks authority to acquire the superior interests in 8 Industrial Sites which the Council holds on leaseholds basis. The Council has the power to acquire

under section 120 of the Local Government Act 1972 to acquire by agreement properties for the purposes of any of its functions, or (b) the benefit, improvement or development of its area. The properties are already held within the Council's commercial portfolio and the General Fund.

Legal advice will be required prior to any acquisition so the Council's legal interest is protected. Members should note that there are no obligations on any of the Council's landlords to dispose their interests to the Council at this stage

## **Equality**

10.4 The Council has a Public Sector Equality Duty under the Equality Act (2010) to have due regard to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act.
- Advance equality of opportunity between people who share those protected characteristics and people who do not.
- Foster good relations between people who share those characteristics and people who do not.

The three parts of the duty applies to the following protected characteristics: age, disability, gender reassignment, pregnancy/maternity, race, religion/faith, sex and sexual orientation. Marriage and civil partnership status apply to the first part of the duty.

The proposed decisions are to approve the strategy for the commercial industrial portfolio in order to ensure that it is aligned with the Council's economic plans as set out in the Good Economy Recovery Plan and the Borough Plan, and to approve steps to be taken regarding leasehold and freehold interests of certain commercial properties. The effects of the proposed decisions would be to protect employment and industrial space and support the growth of SMEs.

The objectives of the Borough Plan and the Good Economy Recovery Plan, including those to increase employment opportunities and support businesses, have been designed with an overarching objective of increasing equality in Haringey. As such, to the extent that the proposed decisions enable the Council to make progress towards the Borough Plan and Good Economy Recovery Plan objectives, they may be considered measures to address known inequalities and advance equality of opportunity.

## **11. Use of Appendices**

Exempt Appendix

## **12. Local Government (Access to Information) Act 1985**

- a. This report contains exempt and non-exempt information. Exempt information is contained within Part B and **is not for publication**. The exempt information is under the following category (identified in amended schedule 12A of the

Local Government Act 1972): S. (3) Information relating to financial or business affairs of any particular person (including the authority holding that information).