Report for: Cabinet – 7th November 2023

Title: Disposal of 3 Shaftesbury Road, N18 1SW

Report authorised by: David Joyce, Director of Placemaking and Housing

Lead Officer: Mark Leeson, Capital Projects and Property

Ward(s) affected: Bruce Castle

Report for Key/ Non-Key Decision: Key

1. Describe the issue under consideration

1.1. This report seeks approval for the disposal of a property held in the General Fund located at 3 Shaftesbury Road, N18 1SW ("the Property") and shown edged red on the Plan attached at Appendix 1.

2. Cabinet Member Introduction

The Council acquired this property in July 2020 as part of its obligations to find suitable nearby accommodation for the potential relocation of business units on the Peacock Industrial Estate, which fell within the High Road West masterplan area north of White Hart Lane. The acquisition followed a cabinet decision in December 2019.

Since I introduced the Strategic Asset Management and Property Improvement Plan (SAMPIP), which was agreed by Cabinet in April 2023, the Council has been implementing the plan and is activating its Corporate Property Model. This has tightened the approach to property acquisition with a specific focus on exit planning as a key consideration. The recommendation to dispose of 3 Shaftesbury Road represents these improvements in action.

Using the SAMPIP as a guide for best practice and to assess best value, all council owned properties are under review so that each can be assessed and various options explored including retention, investment or disposal. In the case of Shaftesbury Road this decision to dispose represents the optimum financial outcome for the property and frees up capital to pursue other Council priorities.

3. Recommendations

3.1. It is recommended that Cabinet agree to:

a) The disposal of the freehold interest in the Property known as 3 Shaftesbury Road, N18 1SW (and shown edged red on the plan in

Appendix 1) on the open market and for a price that would represent best consideration, and

b) Delegate authority to the Director of Placemaking and Housing after consultation with the Leader and the Cabinet Member for Council Housebuilding, Placemaking and Development, to agree the final price and the contract terms for the disposal of the Property (subject to a minimum price threshold contained within paragraph 3.1.b). of the exempt report).

4. Reasons for decision

4.1. Following Cabinet approval in December 2019 (report attached at Appendix 2), the Property was purchased in July 2020 for General Fund purposes. The acquisition represented an important step in attempting to unlock 'Phase B' of the masterplan for the High Road West Scheme ("the Scheme"). The Council was required to demonstrate availability of alternative premises within the locality to allow for businesses to relocate and enable the latter phase (Phase B) of the development to be delivered, (see paragraph 4.4 below). Phase B comprises the part of the Scheme that is north of White Hart Lane, including the Peacock Industrial Estate.

4.2. [This information is contained in the exempt report]

4.3. The Property was marketed to light industrial businesses on the Peacock Industrial Estate between December 2020 and June 2021. Despite the proactive approach taken by the Council and discussions held with several interested parties, this marketing effort did not ultimately result in agreement on the part of any of the consultees to relocate to the Property. Terms could not be agreed with an occupier that would purchase the freehold of the Property in its entirety, and interest by smaller occupiers in taking up only a portion of the building (who also preferred owning freeholds) was limited, thus removing the option of putting forward a feasible and viable subdivision option for the Property.

4.4. After the decision to acquire the Property, in March 2021 Cabinet agreed a funding package from the Greater London Authority (GLA) to kick-start the part of the Scheme to the south of White Hart Lane ('Phase A'). Phase A will deliver 546 new Council homes, a Library and Learning Centre and a public square, amongst other benefits. In light of the Council securing this funding, as well as the fact that the Council owned a high proportion of the land and property interests within Phase A in comparison to Phase B (minimising the extent of land and property interests to be acquired to facilitate its delivery) and the desire of the Council to deliver new Council homes for existing residents and those on the Housing Register as quickly as possible, the phasing plan for the Scheme was updated to prioritise delivery of this phase.

4.5. As a consequence, the delivery of Phase B was deferred (including the redevelopment of the Peacock Industrial Estate) and is now programmed to commence in 2026 at the earliest. Existing businesses on the Peacock Industrial Estate will therefore not be required to relocate from their existing premises for a minimum of three years, and it is feasible that businesses are unlikely to consider their relocation options until closer to this time.

4.6. In light of the above factors (more fully described within Section 6 of this report), it is now considered that the Property is not required for its original purpose at the present time. It is therefore prudent that the Council considers the future of the property based on commercial principles to reach the most financially advantageous position.

4.7. Since the Property was acquired in July 2020, a range of unforeseen macro-economic and political factors and actions have resulted in a profound change in, at the micro level, UK property market values. Paragraph 6.12. of this report sets out a timeline of some of the main events to affect the UK economy and, by extension, how they have affected this property.

4.8. [This information is contained in the exempt report.]

4.9. An options appraisal has been undertaken. It considered refurbishment, redevelopment and disposal options and it concluded that a disposal on the open market would represent the optimum outcome for the Council.

5. Alternative options considered.

<u>Retain the Property until the date that existing businesses within Phase B of the Scheme are required to relocate</u>

5.5. The Council could choose to retain the Property until the time that existing businesses within Phase B of the Scheme are required to relocate. As set out in paragraph 4.5 above, it is not anticipated that this this will be required until 2026 at the earliest. The current focus of the Council is on the delivery of Phase A of the Scheme, reflecting the availability of GLA funding which is specific to this phase.

5.6. The Property was marketed to businesses within the Scheme. None of the business owners took up the option to purchase the Property as a whole and interest in taking up only a portion of the building was muted, thus removing the option of subdivision on a viable basis. While it is possible that more businesses may express concrete interest closer to the time they are required to relocate, the cost to the Council of holding the property outweighs the benefits of maintaining this as a relocation option.

5.7. The option to let the Property on a short-term basis, to mitigate holding costs in the period until Phase B comes forward, has also been discounted because of the uncertain period for which the property can be let allied to the upfront costs to enable beneficial occupation.

<u>Lease the Property and retain as an investment</u>

5.8. The current building needs works to enable beneficial occupation and an estimate of costs is contained within the exempt Cabinet report. Furthermore, holding costs would also be incurred during the pre-works period. Despite the still robust occupier market, it is difficult to judge the future net returns from a hold/refurbish/let strategy.

Redevelopment of the Property

5.9. The current building occupies 79% of the total site area leading to insufficient external parking/loading area for vehicles. New build industrial typically adopts a maximum 50% site cover, thus any replacement building would be significantly smaller than existing. This, allied to recent build cost inflation, increased interest rates and an outward movement in resulting investment yields, has decreased the worth to the Council for redevelopment purposes in comparison with the capital value that might be achieved by sale to an owner occupier or long-term investor.

5.6 5.6 to 5.11 This information is contained in the exempt report.

6. Background information

Property Description

6.1. The Property is situated close to the border of Haringey within the London Borough of Enfield, in part of an industrial area situated just north of the High Road West area and White Hart Lane station.

6.2. The Property is approximately 37,000 sq ft (3,440m²) on a site of 0.953 acres (0.386 ha). It comprises a north-lit factory in six bays constructed in 1950's with later extensions at the side and rear. There are showrooms and offices at first floor, with parking for around 15 cars at the front of the site and loading via a covered yard with two loading bays. The Property is currently unlet but secured by live in guardians.

High Road West Scheme

6.3. In 2017, the Council entered into a development agreement with Lendlease to deliver the High Road West Scheme ("the Scheme") in north Tottenham. The Scheme includes the delivery of about 2,500 homes including 546 Council homes, community facilities, employment spaces plus over £10m of funding for social and economic support for businesses and residents. On 31 August 2022, Planning Permission was granted for a hybrid planning application for the Scheme, including detailed permission for the first development plot within the Scheme (Phase 1A) and outline permission for the remainder of the Scheme.

6.4. The Scheme will be delivered in phases. The first phase, Phase A, encompasses that part of the masterplan south of White Hart Lane, including the Love Lane Estate and business/residential properties on the High Road. Phase B encompasses the part of the masterplan north of White Hart Lane, primarily occupied by business space including Peacock Industrial Estate.

Acquisition of the Property

6.5. In order to deliver the wider benefits of the Scheme, it is necessary for businesses within the site boundary to be relocated, either within the Scheme or elsewhere. The Council's High Road West Business Charter, agreed by Cabinet in December 2014, contains a commitment to endeavour to keep businesses and jobs locally.

6.6. It was in this context that, in December 2019, Cabinet approved the acquisition of the Property (report attached as Appendix 2), which was identified as a rare opportunity to provide a potential relocation site for existing businesses located on the Peacock Industrial Estate. This acquisition responded directly to feedback from these businesses, several of whom had consistently communicated that retaining their freehold status and remaining within the local area as key relocation requirements. Due to high demand for industrial space in London and limited vacancy, such space had proven difficult to secure. The acquisition therefore provided the potential to meet these requirements, by providing the opportunity to relocate one of the larger businesses or several of the smaller businesses, through subdivision of the property.

6.7. The Property was also assessed to be a positive commercial acquisition for the Council, representing a valuable asset as part of its commercial portfolio. The property advice obtained at that time noted the strength of the industrial market in this location.

Marketing to High Road West businesses

6.8. Following acquisition, the initial round of ringfenced marketing of the Property to businesses within the Scheme area commenced in December 2020 and continued until June 2021. Start of marketing was delayed owing to the impact of Covid-19. Marketing particulars (see Appendix 3) were sent out with further direct engagement undertaken.

6.9. The Council engaged with several interested parties during this period and, with one landowner, entered into detailed discussions. These negotiations were not concluded owing to differing pricing expectations. The limited interest overall (and limited corresponding floorspace requirement) at this time presented challenges in putting forward a feasible viable subdivision option for the Property. As such, this marketing effort did not ultimately result in agreement on the part of any of the consultees to relocate to the Property.

Future Property Strategy

6.10. In light of this, it is considered prudent to consider the advantages and disadvantages of retaining or disposing of the Property in the context of the Council's commercial portfolio.

6.11. The December 2019 Cabinet report stated that, should the property not be used for the relocation of existing businesses, then it would be leased to a third party and retained within the commercial portfolio. Subsequent commercial advice provided to the Council has highlighted solid demand for freehold industrial sites and units and the Council has thus revisited the merits of retention versus disposal, taking into consideration the cost of refurbishment versus its disposal prospects. The detailed analysis within the latest (September 2023) marketing strategy report is contained within the exempt part of the report.

The September 2023 report notes that the premises are located within a recognised industrial and distribution area and one that has seen consistent demand from local and regional businesses over a long period of time. It also highlights the changing macro-economic climate over the past few years and their impact on pricing expectations.

6.12. Some of the key events covering the acquisition and marketing of the Property, in addition to the changes in the macroeconomic climate in the period since acquisition are summarised in the table below.

Date	Event
December 2019	Cabinet agrees to the purchase of the freehold interest in the Property.
March 2020	Start of nationwide lockdown in the UK following the onset of the Covid-19 pandemic.
July 2020	Council completes the acquisition of the Property.
December 2020 to June 2021	Council undertakes six-month marketing of the Property to existing businesses. This engagement did not ultimately result in any agreement being reached.
October 2021	Council commissioned a marketing report from BNP Paribas which concluded that disposal proceeds should exceed returns generated from retention/redevelopment options once Council holding costs were considered in respect of each scenario.
December 2021	Bank of England starts to rapidly raise the base rate from an all-time low of 0.1%, amid growing concerns over inflation.
March 2022	Russia invades Ukraine, resulting in further pressures on the economy, cost of living and inflation.
May 2022	Bank of England base rate increases to 1%.
September 2022	UK Government Ministerial Statement (‘mini budget’) was immediately followed by a sharp fall in the value of Sterling against the US dollar, compounding economic uncertainty.
November 2022	Bank of England base rate increases to 3%.
June 2023 (latest available analysis)	Office for National Statistics calculates the All New Work Index (construction cost) as having risen by 23.3% since the Council’s acquisition of the Property.
August 2023	Bank of England base rate increases to 5.25%.

May 2022 to October 2023	There have been no comparative industrial or site sales during this period of economic and property market volatility.
Mid-October 2023	UK Gilts for 2, 5, 10 and 30 years all yield between 4.48% and 4.92% strongly indicating that markets see a stabilisation in interest rates at below current base rate but with no prospect of a return to the historically low interest rates experienced in the last few years following the financial crash.

2021 was an uncertain year as the world sought to rebuild from the Covid-19 pandemic. Government stimulus and support packages were rolled out in various shapes and forms as the UK adjusted to a ‘new reality’. At the end of 2021, high levels of uncertainty about the Omicron variant expected to see the Bank of England hold off raising interest rates with rate rises of 1-1.25% expected by the end of 2023 to prevent a ratcheting up of wage growth as the recovery gathered momentum.

At the start of 2022, the economy was predicted to grow by somewhere between 5 and 7.5% over the year. The breakout of war in Ukraine triggered a worsening in the inflation environment and increased pressure on the Bank of England to tighten monetary policy. This led to a downgrading of growth expectations with the economy anticipated to experience outright recession over the next eighteen months. The real estate and construction sectors appeared to be displaying a considerable degree of resilience creating a generally favourable environment for real estate as interest rates remained at rock bottom levels. Structural challenges continued to depress some parts of the commercial property market but investment activity elsewhere began to gain momentum from the Covid-19 recovery.

The Bank of England began increasing the Bank Rate in early 2022 as part of its efforts to return inflation to its 2% target level. This meant the Bank Rate increasing from 0.25% at the beginning of 2022 to 3.5% in December 2022 – fuelled by the “Mini Budget” in September 2022. Interest rates in August 2023 reached 5.25%. Although there are increasing signs of pressure on the economy, the focus of monetary policy remains geared to tackling the challenge presented by inflation which reached a peak of 11%. Although the headline inflation rate is beginning to fall, concerns persist about the core measure which could remain a little more troublesome to bring under control. This is fuelling expectations that interest rates may average circa 4.5 to 5.5% over the next three years which suggests no swift return to previous levels of capital value.

6.13. After initial price uncertainty in September/October 2022 (mini-budget), most of the investment market stepped back. Since February this year until relatively recently industrial pricing in the direct market rallied somewhat, driven by conviction amongst a relatively small but well capitalised investor pool looking to steal a march on the market and buy through a period of reduced pricing and competition. Investment has remained at historic lows while valuation yields have smoothed some of the volatility and have effectively plateaued in 2023. The Bank of England’s decision not to raise the base rate further in September 2023 could signal that we could be at or close to peak interest rates. If so, this should serve to galvanise investor confidence.

6.14. The general view, contained within the Gerald Eve marketing report, is that values within the secondary and logistics markets across the wider London area have fallen by circa 30-40% but that the outlook is relatively positive in the sector (predicated upon the length and depth of any upcoming recession). As such, it is difficult to see the market returning to the pricing levels of two to three years ago any time in the near future, rather the report suggests that a new, perhaps more stable level of pricing might be sustainable, albeit at lower levels than previously.

Next Steps

6.15. To test the market with the aim of disposing of the Property swiftly to mitigate ongoing holding costs. Such costs are considered to negatively outweigh any potential benefits from adopting a hold and wait for market improvement strategy. As such, the proposed indicative disposal timeline is as follows:

7th November 2023	Cabinet approval to dispose
Early December 2023	Finalise marketing materials/Commence soft marketing
Early January 2024	Full marketing commences
Mid February 2024	Solicit offers/agree terms
Mid March 2024	Exchange contracts
Mid April 2024	Completion of sale

Risks

6.16. Owing to the low risk associated with gaining planning consent to redevelop the site for industrial/warehousing uses, the aim is to sell the Property on an unconditional basis rather than a sale being conditional upon grant of any planning consent. The eventual sale contract however will contain provisions to protect the Council in the event of onward sale by the purchaser at a profit within a defined period following completion of the transaction. An unconditional sale has the advantage of a quicker and lower risk route to disposal which will mitigate the property's ongoing holding costs. The main risk appears not to be likelihood of attracting offers to purchase the Property as such but the level of financial offers that will be submitted. This risk can be partially mitigated by ensuring that a comprehensive property/legal pack is in place and available to prospective purchasers via a dedicated data room. This will effectively answer many of the standard due diligence questions, with the aim of minimising research, and the time spent on them, after the successful bidder has been identified. Ultimately though, the Council will not be bound to accept any offer and, if deemed too low such that retention may become an attractive alternative option, it can re-assess its future investment/divestment strategy at that time and take the resulting recommendations through the property governance process.

7. Contribution to strategic outcomes

7.1. The Council's 'Haringey Deal' sets out a series of commitments that the Council has made to working differently and building a different kind of relationship with residents and communities and the prospective outcomes are contained within the Council's Corporate Delivery Plan 2022/23 and 2023/24. The capital receipt will therefore be used flexibly in support of one or more of the following themes:

- Theme 1: Resident experience, collaboration and participation
- Theme 2: Responding to the climate emergency
- Theme 3: Children and young people
- Theme 4: Adults, health and welfare
- Theme 5: Homes for the future
- Theme 6: Safer borough
- Theme 7: Culturally rich borough
- Theme 8: Placemaking and economy

Acquisitions and Disposal Policy

7.2. The Acquisitions and Disposals policy is contained in the Asset Management Plan February 2020 which was updated and adopted by Cabinet in February 2021. The policy sets out key 'Principles' and 'Tests' that determine alignment with the Borough Plan (now superseded by the Corporate Delivery Plan). This transaction aligns with the principles set out within both the Asset Management Plan and SAMPIP.

7.3. The basis for this disposal has been assessed and found to meet key criteria as set out in the Council's Disposal and Acquisitions Policy. In particular, given that this is an out of borough asset, the policy relating to a disposal in circumstances where it is uneconomic to retain an asset or where there is no credible service or community case to retain, and where its disposal will contribute to other Council priorities.

Assessment Criteria:	**Test**	**Outcome**
MTFS contribution	Assessed as part of Business Case.	√
Asset Management Plan	Disposal receipt to be spent on Corporate Delivery Plan priorities	√
Business Case	Approved by Finance Department.	√
Deliverability	Open market disposal.	√
Valuations/ Development appraisal supports	Red Book Valuation to establish Market Value achieved once bidder selected	√
Affordability	Analysis of the relative merits of the retention options versus disposal undertaken by Gerald Eve	√
Legal assessment	Approval of Heads of Terms leading to documentation of transaction upon identification of successful bidder.	√

Alternative options considered	Only alternative is retention in some form. None of the retention options are viable versus disposal as discussed within this report.	√
Risk assessment	Risk to Council mitigated by setting minimum sale price and offers below this will be re-reviewed against retention options. There is no obligation on the Council to accept any offer made.	√
Political	Transaction has been presented to The Leader and the Lead Cabinet Member.	√

8. **Carbon and Climate Change**

8.1. This proposal concerns the forthcoming sale of a vacant industrial building on the open market. As such, the identity of the purchaser and the future use to which it proposes to put the building is unknown. At the point of sale, there will be no carbon and climate change impact.

8.2. It is reasonable to assume however that, within the next few years, the Property is likely to be redeveloped to create a new industrial/warehouse building on this site as the current building is nearing the end of its economic life. At that point in time, any redevelopment proposal will be judged in the context of the policies contained within Enfield Council's Local Plan. The Enfield Local Plan 2039 is currently in draft form. Chapter 4 of this draft plan "Sustainable Enfield" sets out policies related to the energy implications of new development and key aspects of sustainability and supporting the transition to net zero carbon development.

9. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance

9.1. Included within the exempt Part B report

Legal

9.2. The Council has the power to dispose of the Property (which is held in the general fund) under section 123 of the Local Government Act 1972. The Council must obtain best consideration for the Property otherwise the consent of the Secretary of State is required. The recommendation is to sell on the open market for best consideration and in so doing the Council will comply with section 123.

Procurement

9.3. Procurement comments not applicable for property and land transactions as they sit outside of the Procurement Contract Regulations.

Equality

9.4. 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.

9.5. 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 applies to the first part of the duty.

9.6. Although it is not enforced in legislation as a protected characteristic, Haringey Council treats socioeconomic status as a local protected characteristic.

9.7. The decision in question is regarding the disposal of a property at 3 Shaftesbury Road. The council purchased this property to allow businesses forced to relocate due to the High Road West to stay in the local area. This property was offered to businesses but ultimately not taken up during the first phase of relocation. The second phase of relocation will not commence until 2026.

9.8. The Council bought the property in question to achieve legitimate positive equalities outcomes, i.e., helping businesses, many of which are owned by those with protected characteristics, stay in the local area. This property is now surplus to requirement for achieving this purpose, so selling it should have no equalities implications and a neutral impact on those with protected characteristics.

10. Use of Appendices

10.1. The following appendices are included:

- Appendix 1 - Plan of the Property
- Appendix 2 – December 2019 Cabinet report
- Appendix 3 – Marketing particulars
- Appendix 4 – Gerald Eve Marketing Strategy Report September 2023 (Exempt)

Background Papers

- Appendix 1 – Plan of the Property
- Appendix 2 – December 2019 Cabinet Report
- Appendix 3 – Marketing particulars
- Appendix 4 – Gerald Eve Marketing Strategy Report September 2023 (Exempt)