

Committee: Cabinet

Date of meeting: 14 September 2022

Subject:	Investment Property - 28 High Street Cobham
Lead Officer:	Sarah Kingston
Portfolio Holder:	Councillor Mike Rollings – Finance & Resources
Link to Council Priorities:	All
Exempt information:	None
Delegated status:	For Decision
Key decision:	No

Executive Summary:

This report outlines the need for the Estates team go out to tender for a Design & Build project, to create a small single storey extension to the rear of a retail lock up unit within our Investment Portfolio. The unit is let to Mint Velvet and is considered by the tenant to be too small for their current and future needs. Terms have been agreed 'in principal' for a new lease on the proposed extended unit. This will ensure tenant retention and continuity of income within a property sector which has suffered in recent years. In addition, the works will positively impact the overall value of the investment.

Recommendation: that

- (a) AMPS undertake a procurement exercise to seek quotes for a Design and Build contract which would include obtaining all necessary consents and then to construct a single storey extension, to an agreed specification; and**
- (b) delegated authority be given to the Strategic Director & Deputy Chief Executive to award the contract to a contractor selected through the procurement process, if the quotes are financially viable.**

Report:

1. **Background and Context**

26-38a High Street Cobham is a parade of eight retail units dating from the 1900's and 1940's, which was acquired by the council in December 2012 for £6.5 million. It sits within our Investment Portfolio. Since purchase the value of the asset has fluctuated, and more recently has been severely adversely impacted by economic circumstances, most notably as a consequence of the pandemic. As at March 2022 the entire asset was valued at £4.82 million.

Mint Velvet occupy no.28 and have been a tenant here for at least 10 years. The unit is quite small at ground floor level and the upper floor only lends itself to storage. Their head office initially confirmed that the unit was going to be too small to meet current and future trading requirements. They had indicated

they would vacate at lease expiry in July 2022. We have agreed a one-year extension to explore possibilities.

EBC's Asset Management Plan outlines the necessity for the council to manage assets in a cost-effective manner and to protect and optimise the value of the council's assets.

Mint Velvet are a well-regarded covenant and provide a popular retail store within this busy local setting. The council is also keen to maintain the vitality of our local high streets where possible. Our informal policy throughout Covid and beyond has been to encourage tenants to stay in situ rather than apply pressure to maintain unfeasibly high rents. The Estates team thought it prudent to explore the possibility of structuring a deal with the tenant to stay, whereby we would extend the unit for them. This would in turn create a unit which would be more marketable to established high street names, if it became vacant in the future.

A proposal outlining the broad financial implications together with an analysis of strengths, weaknesses, opportunities and threats was put forward to the Strategic Director and Deputy Chief Executive in March 2022, following which the parties agreed to extend the lease for one year, in order to explore this possibility. During that period terms 'in principal' have been agreed for the council to provide an enlarged unit, and for the tenant to take a new 10-year lease (subject to a tenant's break at year five) at a market rent.

This report requests permission to take this to the next stage. AMPS do not have the in-house capacity to manage this project, which will require planning consent, building regulations, construction and delivery. We will therefore need to procure these services and are seeking authority to obtain quotes and for delegated authority to award the contract once the procurement process has been completed. Having the delegated authority to award will ensure that the project can commence as soon as possible without the requirement to wait for an appropriate committee cycle for that approval which could impact on this project being completed in agreed timescales.

The proposed unit is a small, single storey extension beneath a flat roof, which will abut the existing rear elevation of the shop. It will extend to approximately 490 sq ft (46 sq m). In March 2022, AMPS building surveyors indicated that this would cost in the region of £130,000 +VAT to include planning and professional fees. Since this time, costs have increased significantly. In order to allow for these increases and other contingencies a figure in the region of £175,000 + VAT is anticipated.

AMPS have already obtained a topographical survey as a result of a separate planning application on the car parking area to the rear of the parade. Preliminary discussions with our Planning department indicate that no. 28 is just outside the conservation area. Other constraints of relevance are that it is an area of high archaeological potential, air quality management area, and primary shopping frontage. In principle, there are no significant reasons to why a small extension would not get planning consent.

Financial implications:

If the unit is not extended, Mint Velvet would vacate the premises in July 2023. Enquiries are picking up in the local retail area, but these tend to be from local occupiers and the covenant strength of Mint Velvet is unlikely to be matched easily. Any new letting would attract rent free period and a good agent will request at least 6 months' rent free on a 5-year lease (probably 9 to 12 months). Under current market conditions, it could take anything from 6 to 12 months (or longer) to find a suitable alternative occupier.

The current Market Rent is in the region of £43,000 pa.

From a financial perspective, if we do not extend the unit, EBC could end up with a void period of say 6 -12 months, with a likely 6-12 month rent free period to entice a new tenant to the unit. This is 'lost income' of up to £86,000 over the following 24 months. In addition, EBC would be responsible for business rates and utilities during the void period. Current rates payable are circa £23,000 pa; the resulting total deficit could be in the order of £135,000.

The value of the asset would also be impacted during this period. Within the March 2022 valuation, the individual unit was valued at £690,000 which assumed a yield that reflected a short-term occupancy. This value will reduce considerably next year, if the unit is vacant, negatively impacting the overall value of the property asset.

The alternative scenario, which we are recommending, is that the extension is built and a new 10-year lease (with 5-year break) is agreed. The rent would increase to £55,000 pa for the larger unit, on a pro rata basis. The additional £12,000 pa would have a value of around £185,000, using the same capitalisation rate as per the 2022 valuation. Any expenditure up to this sum could be considered cost effective, in addition to the other benefits (financial and otherwise) outlined above. If the costs of building the extension, following the procurement exercise, are significantly in excess of this figure, we would reconsider our position and can withdraw from the process.

This project can be funded from the allocation in the capital programme, which has been set up for improvements to the council's Investment properties.

Environmental/Sustainability Implications:

Following recent upgrades, no.28 has a current EPC rating of C, valid until August 2031. The new extension would be built in accordance with current building regulations and statutory requirements which would ensure the same or better rating on this part.

Legal implications:

AMPS with guidance from the Procurement team, would ensure that the tender documents state that the council is under no obligation to award a contract to any of the parties. There would therefore be no legal implications for this stage. If the quotes returned are higher than our estimates, we would have the choice not to proceed with the exercise.

If the quotes are satisfactory, a JCT Design and Build contract would be drawn up by EBC's legal team. This would be in conjunction with the tenant's representatives. The existing lease would be renewed with terms to reflect the new building and rent at the pre-agreed level, again carried out by the council's legal team.

Equality Implications:

This would be a ground floor extension and as such would have level access.

Risk Implications:

There is a very high risk of losing this tenant if we do not explore the costs of extending the building to the rear. This would leave the Council with a void, and we would be responsible for the management, maintenance, repair and vacant premises costs (business rates & utilities). We would also have costs of disposal (agency fees and marketing costs) to secure an alternative occupier.

Community Safety Implications:

None.

Principal Consultees:

Council Management Board
Head of Legal & Governance
Head of Accountancy
Portfolio Holder for Finance & Resources

Background papers:

None

Enclosures/Appendices:

Photograph of front elevation, below
Appendix A – Indicative plan & setting

Contact details:

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Property Portfolio Manager – 01372 474215, slafrenais@elmbridge.gov.uk

Photographs of building

Front elevation

