MUNICIPAL YEAR 2016/17 REPORT NO. 13

Agenda Part: 1	Item - 11

MEETING TITLE AND DATE

CABINET – 15 June 2016

Purchase of Site on Gibbs Road, Montagu Industrial Estate, N18 3PU

WARD: Edmonton Green

KD 4343/U197

Cabinet Members consulted:
Cllrs Taylor, Sitkin & Lemonides

Report of:
Director of Finance, Resources and Customer Services

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1. EXECUTIVE SUMMARY

1.1 Authority is being sought to purchase a vacant industrial site on Gibbs Road, Montagu Industrial Estate, N18 3PU which has recently come to the market.

1.2 The property is being offered freehold with full vacant possession through the acquisition of a company. The site is 3.52 acres with several industrial buildings measuring just over 80,000 sq.ft and is strategically located in the centre of the Montagu Industrial Estate.

1.3 This is a rare and unique opportunity to acquire a significant area of land in the Montagu Industrial Estate which is primarily in Council ownership. Consolidation of Council land is highly desirable and will assist the Council with its regeneration, financial and economic development ambitions.

1.4 Approval is required to fund the acquisition using funding from the Capital Programme.

2. RECOMMENDATION

2.1 Cabinet approves the acquisition of the property which will be achieved through the purchase of a company specifically set up to hold the property on Gibbs Road, N18 3PU, or through direct purchase of the property by negotiation and delegates authority to the Director of Finance, Resources and Customer Services in consultation with the Cabinet Member for Finance to agree final Heads of Terms and exchange/complete the transaction if the Council’s offer is accepted by the vendor, subject to appropriate legal, finance and property due diligence being undertaken to the satisfaction of the Director of Finance, Resources and Customer Services in consultation with the Cabinet Member for Finance.

2.2 Cabinet recommends to Council an addition to the Capital Programme to be funded from borrowing to enable the purchase of the site as detailed in the Part 2 report.

3. BACKGROUND

Overview of the Montagu Industrial Estate

3.1 The Montagu Industrial Estate (The Estate) is located towards the southern boundary of the London Borough of Enfield, abutting the railway line to the eastern boundary. Access into the industrial area is off Montagu Road via three Ingresses; Pegamiod Road, Princes Road and Second Avenue. To the Montagu Road boundary, along part of the proposed site, sits a large number of low rise, high density residential dwellings. Montagu Road leads, via its intersection with Conduit Lane, directly onto the A406 North Circular Road and the A1055 'north/south' route (Meridian Way). The Estate benefits from excellent communication links; being located adjacent to the A406 (North Circular Road), close to the junction of the M25 and A10, which provides access to much of London's 7.8m occupants, plus the wider motorway network.

3.2 The Estate is circa 38 acres, the majority of which is an employment use and is designated as a Strategic Industrial Location.

3.3 The Estate originates from the post war period and has evolved since that time alongside the economic trends of the UK generally, presumably commencing with high density (and multi-level) manufacturing but fragmenting as those buildings reached the end of their life or became impractical. Due to the fragmented nature of the Estate generally, its location, and differing ownerships there has been no cohesive redevelopment within this area beyond owner occupiers adapting or remodelling existing premises. In many cases buildings have been returned to their core value, namely open storage. Due to the age and type of the location it has resulted in a number of what might be termed 'anti-social' users clustering in this area including car breaking, car repairs, scrap recycling, plant hire and pure general storage. Due to the aged nature of the infrastructure the road access, originally designed for lighter traffic, has further suffered due to the high density nature of the location with constant on street car parking both legal and illegal.

3.4 The Estate is in a state of decline and is blighted by urban decay. The Estate is also experiencing severe congestion and the estates layout is no longer fit-for purpose. Businesses located in the area are also observed to be land hungry yet, with low employment densities.

Ownership and Tenancy

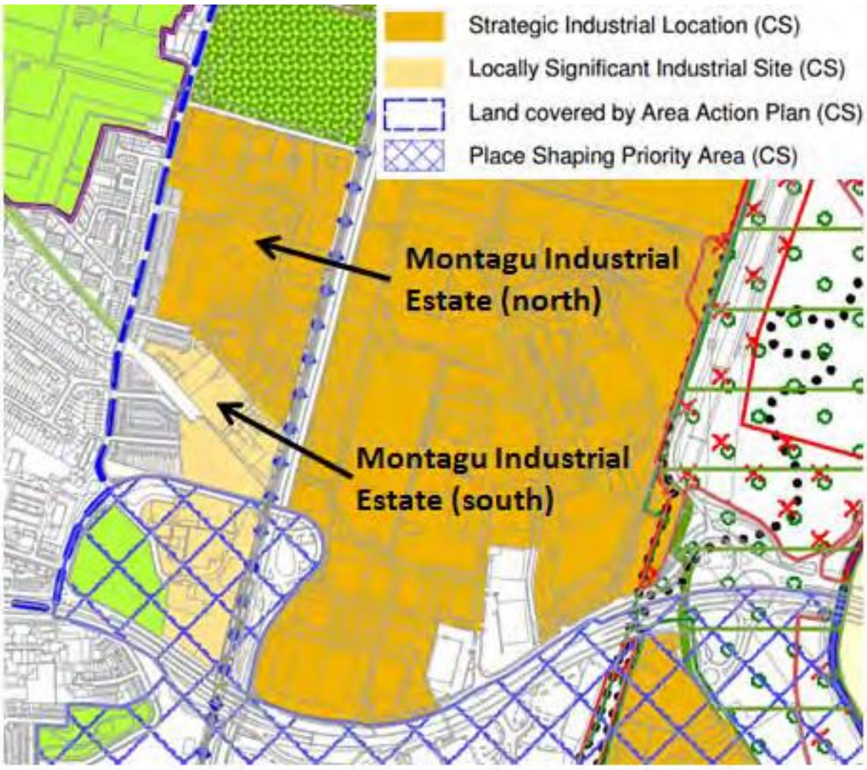
3.5 The area designated for employment use totals approximately 27.5 acres (72%) of the overall site. The remainder of the industrial estate comprises:

- Amenity space (3.7 acres)
- Other areas, such as roads (1.69 acres)

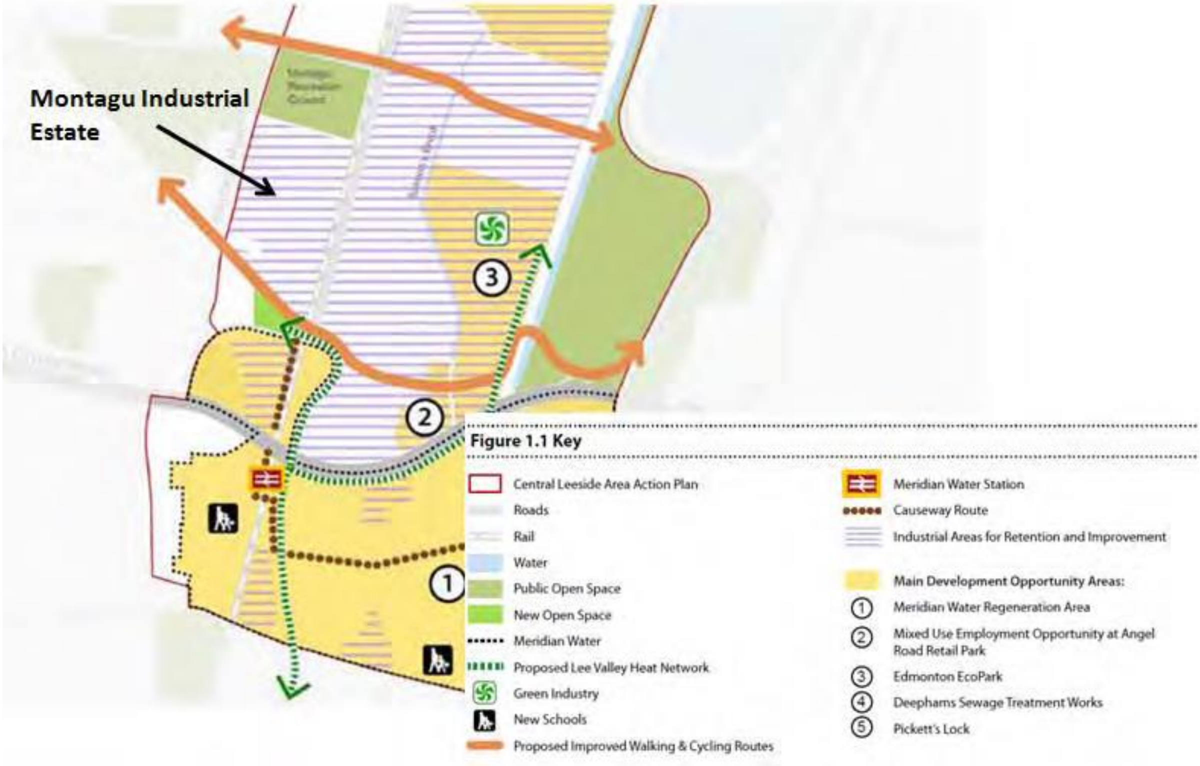
3.6 The Council owns approximately 66% of the industrial estate's overall landholding.

Planning Considerations

3.7 The majority of the area is designated as a Strategic Industrial Location (SIL) with the remainder of the employment land designated as a Locally Significant Industrial Site (LSIS).



Enfield Plan (2010) Proposals Map



Vision for Central Leeside

3.8 The Central Leeside Proposed Submission Area Action Plan (November 2014) once adopted will guide regeneration and future development of Central Leeside. The Montagu Industrial site is shown in the figure above as being retained as an industrial area.

3.9 The SIL and LSIS designations support and protect employment use and resist the loss to other uses.

Economic Outlook and Property Market Commentary

3.10 The conclusions drawn from economic reports are that despite increasing concerns over the outlook for the global economy, the UK is relatively well placed to deliver growth in 2016, with consumption and business investment providing the main drivers to expansion. This view is a reflection of the economy over the last 12 months and any commentary would be incomplete without considering the economic and political uncertainty of the EU referendum in June. Capital market teams from the leading consultancies are reporting limited activity since the referendum was announced.

3.11 Consequently, it is proposed that this period up to the EU decision can be used as a period of planning and preparation. Property forecasts suggest that if the UK elects to remain in the EU the property markets will rebound to robust levels. If the UK votes to leave this could lead to an outward yield shift.

3.12 Regardless of the referendum, over the past six months, investment performance of UK commercial property has been steadily moving back to core fundamentals. Property yields are stabilising and the occupier markets – in particular the business space markets of industrial/logistics and offices – are performing well benefitting from robust demand, tight supply and steady rental growth.

3.13 UK economic growth is expected to be 2.5% in 2016, moderating from the 2.8% expansion seen in 2015. Although growth has softened year-on-year, the UK outperformed all the world's advanced economies except for the US and Spain in 2015. Continuing low interest rates and inflation, alongside rising employment, are expected to support this growth level.

3.14 Recent momentum in the UK economy has partly resulted from global economic trends. A slowdown in China has prompted significant falls in commodity prices, with increasing supply forcing oil prices to a 12-year low. Despite negative implications for the UK's North Sea oil and steel industry, low prices have maintained UK inflation at low levels, with rising real incomes supporting robust domestic consumer spending.

3.15 While the economic outlook has become more uncertain compared with last year, the market fundamentals are broadly supportive for property in 2016. Based on LSH's Real Estate Forecasting rental growth is expected to average 2.8% and 2.4% for south east industrial and offices sectors during 2016 - 2019. In light of the weakening global outlook, the Federal Reserve's move to tighten monetary policy has fuelled the debate as to if and when the Bank of England will follow. However, regardless of the timing, commercial property should take this in its stride and owing to the demand/supply ratio will not lead to rents falling provided that rate hikes are undertaken gradually, as is assured by the Monetary Policy Committee.

3.16 While the UK economy and property market will not be immune to a possible escalation of a global economic slowdown, recent volatility in the stock markets is likely to fuel already strong overseas demand for UK property investment. That said, the UK's reputation as a 'safe haven' for international capital may be put to the test if the UK electorate votes to end its membership of the EU in the referendum.
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3.17 The year 2015 was strong for performance, with continuing yield movement supporting All Property returns of circa 13% (IPD Quarterly Index). Returns are forecast to moderate to circa 9% in 2016, with capital growth contributing 4%. While this is down on 2015, this is healthy against both its historic trend and those of competing assets.

3.18 Forecasts reflect a tailing off of yield compression, which in 2016 is likely to be largely confined to selected sectors and markets where there remains perception of value.

Crucially, rental growth, which is now firmly back on the agenda across much of the UK, will be key to driving performance moving forward.

3.19 With the central London markets looking increasingly expensive, institutional investors are expected to spread demand to fringe locations in search of yield.

3.20 The emergence of meaningful rental growth across various markets and sectors will tempt more investors to reposition assets through active management. In the office markets, a combination of robust occupier demand and further relaxation of Permitted Development for conversion to residential, will continue to put pressure on supply across all grades, making refurbishment and redevelopment opportunities increasingly attractive in selected markets.
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3.21 Speculative development in the logistics sector soared in 2015, with 10m sq ft currently under construction across the UK. Despite this, the steady growth of ecommerce means the sector remains structurally undersupplied with modern logistics space. We see scope for more development to come forward in 2016, albeit increasingly at 'off-prime' locations where site values remain attractive and occupiers can locate more affordably.

3.22 Industrial rents across Greater London have continued to grow with prime rents increasing by 2.7% and secondary by 3.6% in 2015 compared to 3.3% and 7.8% in 2014.

3.23 Of most relevance to Montagu is the small unit sector (units <10k sqft) where availability decreased from 28% to 14% of the total stock in 2015 with an equal split between Grade A and second hand. The small sector also accounted for almost a third of take up in Greater London. Nationally 60% of the private sector workforce is employed within the Small and Medium sized Enterprises (SME's). In Enfield, industrial rents have increased by 11% for prime and 6% for secondary in 2015. Across the UK prime rents grew by 3.8% and secondary by 8.5% further demonstrating pressure on secondary stock due to the lack of new build.

4. PROPOSAL

4.1 The purchase of the freehold interest of the property at Gibbs Road, Montagu Industrial Estate is proposed. This will be achieved through the purchase of the shareholding of the company which was set up by the fund managers (Foresight Fund Managers Limited) to purchase and hold the land on their behalf or through direct purchase of the property by negotiation.

4.2 The property is currently on the market and full details of the property are shown on the attached sales particulars within Appendix 1. Suffice to say that this is an industrial complex of just over 80,000 sq ft occupying a site of 3.52 acres in the centre of the Montagu Industrial Estate.

4.3 The units were constructed / improved approximately 2 / 3 years ago and let to Kedco, a recycling operator by the former owner, Gibbs Transport. The investment was then sold to a third party, Foresight Group with the benefit of the lease to Kedco. The tenant subsequently have failed to make any progress with their proposed use of the premises, partly we understand due to the cost of initial investment and partly due to the lack of available waste and we understand are no longer trading

4.4 This property has recently come to the market on a freehold basis with vacant possession and a price guide in the range of £8 - £9 million and offers are invited by mid-June.

4.5 For reasons outlined in this report (particularly Part 2), it would be highly prudent for the Council to acquire this site.

5. ALTERNATIVE OPTIONS CONSIDERED

5.1 Not acquiring the property is considered a lost opportunity, and land consolidation at a later date will prove to be more costly and time consuming.

6. REASONS FOR RECOMMENDATIONS

6.1 This is a rare opportunity in the Enfield property market. The site's planning context and its constraints severely restrict the potential for other uses, in particular residential development.

6.2 In our view there are several reasons that justify the Council acquiring the property, and these are outlined in Part 2.

6.3 Due to the need for an urgent decision to enable the Council to take advantage of this time limited opportunity it has been necessary to use the Council's urgency procedure in order to gain the necessary approvals to proceed.

7. KEY RISKS

See Part 2.

8. COMMENTS OF THE DIRECTOR OF FINANCE, RESOURCES AND CUSTOMER SERVICES AND OTHER DEPARTMENTS

8.1 Financial Implications

8.1.1 The land purchase will be funded through an addition to the 2016/17 Capital programme, funded through borrowing, as outlined in Part 2.

8.1.2 Prior to entering into contract, full financial due diligence of the company holding the land will need to be undertaken.

8.2 Legal Implications

8.2.1 The Council has powers under section 120 of the Local Government Act 1972 to acquire land by agreement for any of the Council's functions now or for future use. In addition the general power of competence under section 1 of the Localism Act 2011 grants the Council the power to do anything that a private individual may do subject to the restrictions set out in section 2 of that Act. Subject to the matters outlined below the general power of competence also enables the Council to acquire a company in which the land is vested, by purchasing the shares in that company from its shareholder(s).

8.2.2 When considering an acquisition of land/property the Council must act in accordance with the Property Procedure Rules which state that: "Acquisitions of property must be approved by the Assistant Director (Property Services) in consultation with the relevant Portfolio holder and the report must outline the purpose to which the asset will be put. This must be demonstrated by the inclusion of a business case that the service is able to fund all costs and expenses associated with the acquisition and running costs." Advice must also have been obtained that the property to be acquired represents value for money and is suitable for the proposed purpose, or is required for an approved Council scheme.

8.2.3 In the event of an onward disposal this will also need to comply with the Property Procedure Rules.

8.2.4 Initial inspection of the title documents indicate that there do not appear to be any unduly onerous rights or covenants affecting the title which would affect the existing or proposed use of the property. The Council has power under the Town and Country Planning Act 1990 to acquire or appropriate property for planning purposes in order to override any rights or covenants but this would be subject to payment of compensation if appropriate to the persons having the benefit of the rights or covenants. Further investigations are required to assess the environmental status of the land and it is not known whether there is any contamination of the property.

8.2.5 Prior to entering into a contract for the purchase of the property necessary local authority and environmental searches would need to be undertaken. It is anticipated that, due to the historic use of the property and its location, an environmental search result would state that there is a risk of land contamination and therefore remediation works to facilitate development are likely to be required.

8.2.6 Prior to purchasing the company in which the land vests due diligence will be undertaken. Assuming that the only asset of the company is the land, then legal due diligence will relate to matters (including but not limited to) employment contracts, liabilities, obligations and other contracts. Separate due diligence will be undertaken in respect of accounting and tax to identify any relevant financial matters or tax liabilities.

8.3 Property Implications

8.3.1 As embedded in this report.

8.3.2 The Council's external consultant (Lambert Smith Hampton) has provided strategic property advice for the Montagu Industrial Estate, has inspected the Property and has undertaken an initial valuation. A Red Book Valuation for the property to support the acquisition strategy proposed in Part 2 is being finalised. This will need to be cross referenced with the financial due diligence to be undertaken on the company that was set up to hold the property.

8.3.3 The property is offered on a freehold basis and with full vacant possession. The ability to let the property on a temporary basis has also been considered and this is expected to generate an income for the Council, although this cannot be guaranteed. In the event that the Council is unable to let the property on a temporary basis for part or all of the period leading up to the regeneration of the estate, an appropriate contingency budget needs to be set aside for holding costs. These costs include Business Rates estimated at £47,000 per annum exclusive, £40,000 p.a. in respect of security costs and management costs of circa £10,000 p.a.

8.3.4 There is reference to contamination from previous uses prior to 2010.

8.3.5 Important to note that previous consent in 2010 included the condition (number 16) that restricts Second Avenue access to emergency use only. This appears to be extending the position agreed and conditioned in earlier consents. It appears that since the pallet company, the scaffolding company and car breaker already use Second Avenue, there is no spare traffic capacity to serve the subject site. Condition 17 refers to operation of a Delivery and Servicing Plan and there may restrictions of times of access. Traffic generation is considered less of an issue since previously approved for 154 movements a day, 84 for HGVs. 2010 consent was on basis of 35 staff on site.

9. PERFORMANCE MANAGEMENT IMPLICATIONS

9.1 The purchase of the property will assist in the delivery of the Council's regeneration and economic development agenda.

9.2 The purchase will be managed by Strategic Property Services with support from its external consultant, Lambert Smith Hampton.

10. EQUALITIES IMPACT ASSESSMENT

The proposed purchase will not cause a change to policy, budgets or service delivery and therefore an Equalities Impact Assessment is not considered necessary.

11. PUBLIC HEALTH IMPLICATIONS

Not Applicable

12. IMPACT ON COUNCIL PRIORITIES

12.1 **Fairness for All**

The purchase of The Property will assist in promoting the regeneration of the area.

12.2 **Growth and Sustainability**

The purchase of this property will enhance the Council's property asset base and generate future income streams.

12.3 **Strong Communities**

The Council will be able to improve employment densities in the Montagu Industrial Estate by being able to actively manage and control the Estate.

BACKGROUND PAPERS

See Part 2.