

MEETING TITLE AND DATE:

Cabinet
8th February 2017

REPORT OF:

Executive Director of
Regeneration and
Environment

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Agenda – Part: 1

Item: 13

**Subject: Land Acquisition at Meridian
Water (VOSA)**

**Wards: Edmonton Green, Upper
Edmonton
KD 4377**

Cabinet Members consulted:

Cllr Alan Sitkin and Cllr Dino Lemonides

1. EXECUTIVE SUMMARY

- 1.1 On the 10th February 2016 the Cabinet Report (KD4229) agreed the increase to the Neighbourhood Regeneration Capital Programme to fund the next stages of a number of regeneration initiatives which include Meridian Water land acquisition.
- 1.2 The purpose of this report is to approve the price and terms of sale for the acquisition of a 2.13 acre (0.86 hectares) site at Meridian Water and to seek authorisation to enter into the Contract for Sale.

2. RECOMMENDATIONS

- 2.1 To approve the sale price for the purchase of a 2.13 acre (0.86 ha) site at Meridian Water, details of which are in Part 2 of this report.
- 2.2 To approve the terms of sale as set out in the Contract for Sale, appended to Part 2 of this report.
- 2.2 To authorise the Assistant Director Legal and Governance to enter into the Contract for Sale.
- 2.3 To authorise all necessary expenditure associated with the purchase of this land as detailed in Part 2 of this report, noting that it will be contained within the existing approved capital budget.

3. BACKGROUND

- 3.1 Meridian Water comprises approximately 85 hectares in the south east of the Borough and is one of the largest developable areas in London. Located within the Central Leaside growth area and the Mayor of London's wider Upper Lee Valley Opportunity Area, it has significant redevelopment potential.
- 3.2 On the 10th February 2016 Cabinet (KD4229) agreed to increase the Neighbourhood Regeneration Capital Programme to fund the next stages of a number of regeneration initiatives which included Meridian Water land acquisition.
- 3.3 On 18th May 2016 Cabinet (KD4241) approved the outcome of the Meridian Water Master Development Partner procurement process. Barratt London is the preferred Master Developer, and is currently working towards contract close.
- 3.4 The Council has adopted a proactive strategy of acquiring all the land at Meridian Water and coordinating the delivery of the development in partnership with the selected Master Developer.
- 3.5 On 6th September 2016 Cabinet (KD 4348) passed a resolution stating that the Council agrees, in principle, to use its compulsory purchase powers for acquisition of all land necessary for the delivery of regeneration at Meridian Water.
- 3.6 Jones Lang LaSalle (JLL) has been instructed to negotiate the purchase of all remaining land interests in Meridian Water. The Council's preference is to negotiate private treaty acquisitions of all land interests.
- 3.7 To date the Council has acquired c. 22 hectares of land within Meridian Water by negotiated agreement. This includes:
 - Three National Grid sites (Willoughby Lane, Meridian Way and Leaside Road) in April 2015
 - Orbital Business Park in June 2015
 - Phoenix Wharf in July 2016
 - Ikea Clear in December 2016
- 3.8 This acquisition is being made on the basis of future plans to develop the site for residential-led mixed use as set out in the Meridian Water Masterplan and in accordance with the Master Developer Framework Agreement. This acquisition will take the amount of land in Council ownership up to c. 23 hectares out of 55 hectares of developable land in Meridian Water.

- 3.9 In the period between acquisition and development, the site will be used for meanwhile uses. Further details of expected future development values, and anticipated rental income from meanwhile uses are given in Part 2 of this report.
- 3.10 This proposed purchase is a further example of a successfully negotiated land acquisition, and is another significant step forward in acquiring the land necessary that will enable the vision of Meridian Water to become a reality.

Description of The Site

- 3.11 The site is located within the Harbet Road industrial estate, at the eastern end of the Meridian Water Regeneration area. The site is surrounded by a variety of industrial and light industrial units and open storage.
- 3.12 The site itself is a roughly rectangular shaped parcel of land extending to 2.13 acres (0.86 hectares) and comprises a building and a concreted open area.
- 3.13 The site has planning consent for Class B2 or B8.
- 3.14 A full site address and site plan is attached to Part 2 of this report.
- 3.15 Trowers commissioned a basic desktop environmental search (dated 1 September 2016). The search advises that potential liabilities have been identified under Part 2A of the Environmental Protection Act 1990 and/or the Water Resources Act 1991 – the following possible risks have been identified: (i) a potential ground instability hazard; (ii) areas of potentially in-filled land; and (iii) flooding.
- 3.16 Responsibility to remediate future development sites in Meridian Water rests with the Master Developer. Site investigations and appropriate remediation measures will be undertaken in due course by the Master Developer as part of their statutory and development responsibilities.

Title and Contract for Sale

- 3.17 The site is owner-occupied and there are no existing leases in place. Therefore the site will be acquired with vacant possession.
- 3.18 JLL has been appointed as the acquisition agent advising the Council on the purchase of the site. As part of their estate agency role JLL have done a financial analysis of the opportunity and have negotiated the

terms of the contract for sale. More detail and JLL's Supporting Purchase Report are provided in Part 2 of this report.

- 3.19 Trowers & Hamlins LLP (Trowers) has been instructed to provide legal support and undertake the conveyancing for the acquisition of the site. The Report on Title and the Agreement for Sale are described in more detail in Part 2 of this report.

Red Book Valuation

- 3.17 In accordance with the Council's Property Procedure Rules, RICS accredited Glennys have been commissioned to provide a Red Book Valuation, which was produced on 9th August 2016 and is described in more detail in Part 2 of this Report.
- 3.18 Valuation was undertaken for Market Value of the freehold interest of the site. The comparable method of valuation was employed, using the capital value per acre of comparable sites to calculate a value for this site. The Valuation Report made a number of assumptions including:
- The valuation has regard to the ongoing regeneration and redevelopment of the local area, as set out in the Meridian Water Masterplan.
 - The valuation assumes that no significant remediation will be required in respect of the ongoing industrial use
- 3.19 Glennys' Valuation report confirms that the Land Valuation can support the purchase price detailed in the Agreement for Sale.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The principal alternative option for acquiring this site would be via a Compulsory Purchase Order (CPO). There are strong financial and strategic reasons why it is preferable to acquire the site now rather than via CPO.
- 4.2 Firstly, this acquisition will bring in a net revenue surplus to the Council of an estimated £40,000/annum. A Compulsory Purchase process can take up to three years, which would be equivalent to lost net income of £120,000.
- 4.3 Secondly, if we do not proceed with the acquisition now, the Seller is likely to sell to a third party because the Seller wants to dispose of the asset before the end of the financial year in order to release its value. The new owner is likely to purchase the site on a medium to long term basis for industrial use, and redevelop the site as such with the aim of maximising revenue. This would increase the market value of the site,

meaning that it would be more expensive for the Council to acquire the site by CPO in three years' time. An indication of the mark-up of a redeveloped site for industrial use is given in JLL's Purchase Report (see Part 2). In addition statutory compensation payments would be added to the acquisition cost were the site to be acquired via CPO.

- 4.4 Thirdly, there is no guarantee that a future acquisition whether by private treaty or CPO would be successful. Currently a sale has been agreed with a willing seller, and there is no need to compulsory purchase the Site, which is typically used as a measure of last resort. If the Council were to face the prospect of negotiating with a new owner, who may be unwilling to sell, this would make the negotiations more difficult and potentially less favourable for the Council. If the CPO went to Public Inquiry, an inspector may reasonably ask the question why the Council did not proceed with the acquisition at the time when an agreement had been mutually agreed with a willing seller at a price that was confirmed by an independent Red Book Valuation.

5. REASONS FOR RECOMMENDATIONS

- 5.1 The acquisition of the site will enable the Council to exercise control over the land within the Meridian Water Masterplan area, which will help accelerate housing delivery.
- 5.2 To provide a greater level of certainty over the timescales associated with the development of Meridian Water and to increase developer and stakeholder confidence in the delivery of the Masterplan.
- 5.3 The purchase of the site will underpin the delivery of the Meridian Water Housing Zone and this land could support a mixed use development at a later date.
- 5.4 Also see Part 2 of this Report.

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

6.1 Financial Implications

Contained within the Part 2 report.

6.2 Legal Implications

- 6.2.1 The Council has power under section 1(1) of the Localism Act 2011 to do anything that individuals generally may do provided it is not prohibited by legislation and subject to public law principles. The

recommendations detailed in this report are in accordance with the Council's powers.

- 6.2.2 Section 120(1)(b) of the Local Government Act 1972 (LGA) gives Councils a specific power to acquire land for the benefit, improvement or development of their area. In addition, the Council has powers under section 227 of the Town and Country Planning Act 1990 (as amended) to acquire land by agreement for 'planning purposes'. Where agreement cannot be reached, the Council has the power under various enactments to acquire land compulsorily using a Compulsory Purchase Order. However, CPO is a lengthy process and a measure of last resort. It is therefore preferable to pursue purchase by agreement as has been done in this case.
- 6.2.3 The Council has a fiduciary duty to look after the funds entrusted to it and to ensure that its Council tax and ratepayers' money is spent appropriately. For that reason, the Council must carefully consider any project it embarks on to ensure that it is making decisions based on a proper assessment of risk and rewards/outcomes
- 6.2.4 When considering an acquisition of property the Council must act in accordance with its Property Procedure Rules, including obtaining advice that the terms negotiated represent value for money and the property is suitable for its intended use.

6.3 Property Implications

- 6.3.1 The Council have appointed external property advisers Jones Lang La Salle (JLL) to provide technical and commercial advice on this property transaction and Glenny LLP to provide formal valuation advice , therefore Strategic Property Services (SPS) role in this instance is limited to providing an overview and highlighting risk areas for emphasis or further consideration in terms of contract documentation. SPS fully support the initiative to purchase this site.
- 6.3.2 SPS have been provided with a copy of the "Red Book" (formal) valuation by Glenny LLP and therefore the process requirement within the Council's Property Procedure Rules has been complied with. The valuation itself is stated to be based upon existing use value including an element of "Hope Value" and therefore does have regard to ongoing regeneration of the area which does enhance the value. A residual risk does however remain that if in the future the site were not included in a regeneration scheme the assessment of Market Value now reported may not be attainable. This is mitigated by an 8-10 year lead in period for development wherein it is anticipated that property values will rise in line with historical property cycles.

- 6.3.3 The price agreed for the site through private treaty negotiation is in line with the valuation and does not take into consideration the cost and time savings associated with a full Compulsory Purchase process.
- 6.3.4 The Council's property consultant (JLL) need to satisfy themselves and the Council that sufficient thorough and comprehensive due diligence investigations have been completed on the site.
- 6.3.5 The report states that no remediation is necessary for the existing industrial use, however, further remediation will be required for a future residential use, however, as yet this is uncosted. It is anticipated that the Master Developer will pay for this cost as part of the signed Master Developer Agreement estimated to occur in March 2017. In the event that the costs prove prohibitive, the current model is to wait until viability improves. In mitigation the Council have a good and increasing body of knowledge around likely remediation costs based upon other sites it has acquired.
- 6.3.6 The financial "holding costs" of the acquisition should be adequately considered within the overall project viability appraisal, particularly bearing in mind the potentially lengthy timeframe for remediation, onward sale and redevelopment.
- 6.3.7 The Council's property consultant (JLL) need to satisfy themselves and the Council that any risks associated with claims from third parties either now or in the future have been mitigated as far as is reasonably practicable in terms of ground or airborne contaminants and potential contamination of ground water.
- 6.3.8 As the Council may need to retain this property for an indeterminate period before it is redeveloped it is important to have both a Meanwhile Uses Strategy and pro-active asset management to enhance rental values and to ensure that the prospective income receivable (gross) is sufficient to meet the prudential borrowing costs.

7. KEY RISKS

Key risks considered arise from the liabilities associated with the acquisition and development of the site. Conversely not acquiring the site poses a risk to the Council's ability to deliver the vision for Meridian Water.

7.1 Legal

- 7.1.2 **Risk** – The Seller of the Site does not have an insurance policy in place for the site and the Council will not insure an asset until it is fully in the Council's ownership. Therefore, the Site will not be insured for the period between exchange and completion.

Mitigation: Exchange and completion will happen on the same day.

7.2 Financial

Risk – The key financial risk is that the Council is unable to recover the amount it is paying for the Site.

Mitigation: The deal offered by the selected Master Developer for Meridian Water ensures that disposal of land plots for development is governed by four guiding financial principles that guarantee a return on investment. For example, there is a minimum residential plot value which means that development of a particular phase cannot proceed until this plot value can be achieved.

7.2.2 **Risk** – By the time the Council comes to dispose of the Site for development, there has been a downturn in the housing market, which could be due to a number of possible causes of which Britain leaving the European Union and the resultant economic consequences could be one.

Mitigation – The Master Developer Framework Agreement (MDFA), which is being put in place with the preferred Master Developer (the Council is working towards contract close in March 2017), requires a financially viable position to be achieved before the Council disposes of any land. The MDFA protects the Council against downside risk while not capping the Council's ability to capture upside.

7.2.3 **Risk** - There is currently no established residential market at Meridian Water and therefore levels of sales and values assumed in the development appraisal, produced by Glenny, are yet to be tested.

Mitigation - The Site is being purchased using commercial valuation which is consistent with the Red Book. Any change in planning designation to residential / mixed use is likely to increase the land value.

7.3 Development

7.3.1 **Risk** – There is a risk that the Site will not be developed for the residential-led mixed use scheme. One of the primary reasons for this could be that the station does not run a 4-trains-per-hour service, and/or the requisite transport infrastructure is not in place.

Mitigation – If the Site is not developed for the residential scheme planned, the Council will retain the option to sell the Site to a third party for industrial use and recover its costs.

In the short term, if the Council decided to use the Site as open storage, it should receive sufficient income to cover borrowing costs, and could continue until such time as the residential market improves

or infrastructure and improved transport services make development viable.

- 7.3.2 **Risk** – No intrusive site investigations have been undertaken thus far and therefore uncertainty exists with respect to contamination levels of the Site.

Mitigation – From desktop studies undertaken to date, the Site is believed to be no more contaminated than other parts of Meridian Water. Further site investigations and appropriate remediation measures will be undertaken in due course by the Master Developer as part of their statutory and development responsibilities. If at the time of disposal, the cost of remediation of the Site means that a phase is unviable for development, the Council will not release the land to the Master Developer until such time as it is viable and can recover its investment (through the mechanisms of the financial model). The mitigation would be to continue to use the Site for industrial use until such time as the market improves to make the Site viable.

- 7.3.3 **Risk** - The development could be affected by flooding given the provisions of the Strategic Flood Risk Assessment.

Mitigation – Flood risk will be mitigated through the measures set out in the Masterplan and through the implementation of appropriate design solutions. In short, this allows for an appropriate amount of flood storage. Provided that proper attention is paid to design, which will be tested by the Environment Agency through the planning process, there is no reason why residential development here should prove any more problematical than anywhere else, in so far as flood-risk is concerned.

8. IMPACT ON COUNCIL PRIORITIES

- 8.1 The immediate acquisition of the land described in this report would enable the early development of new homes in Meridian Water. Given that a Master Developer has now been appointed and has begun work with the Council and the design team on progressing delivery of Meridian Water, this acquisition helps to confirm and open up new opportunities for developing the next stages of mixed use residential-led development after Zone 1. Any subsequent development would be guided by the Meridian Water Masterplan which, amongst other objectives, seeks to achieve fairness for all, sustainable growth and development of strong communities.

9. EQUALITIES IMPACT IMPLICATIONS

- 9.1 The draft Meridian Water Masterplan was subject to an initial Equalities Impact assessment/Analysis (EqIA) to ensure that consultation

promoted equal opportunities. During the master-planning process, demographic data was collected in relation to residents of Edmonton in order to determine which groups to target for community engagement and to also help assess the equalities issues the Masterplan proposals will need to consider.

- 9.2 These issues were summarised in the final EqlA report that was reported to the Local Plan Cabinet Sub-Committee at its 11th September 2013 meeting.
- 9.3 Any further equalities impact issues will be examined at the planning application stage on individual sites.

10. PERFORMANCE MANAGEMENT IMPLICATIONS

- 10.1 Delivery of a comprehensive regeneration scheme at Meridian Water is a corporate priority within the Council's Business Plan for 2016-2018. Completion of the Masterplan and the delivery of phased infrastructure improvements including increased rail services, station improvements and new homes will help to meet the strategic priority: "a borough that attracts inward investment and supports sustainable regeneration and growth."

11. HEALTH AND SAFETY IMPLICATIONS

- 12.1 A component of the Meridian Water Masterplan concerns the need to improve access to healthy living corridors. In accordance with the Core Strategy, all new areas brought forward for development will have appropriate provision of green space, parks, as well as sufficient access to new community, sports and health facilities to support the new communities.

12. HR IMPLICATIONS

There are no immediate HR implications. However, as Meridian Water progresses, it may be necessary to increase the size of the Neighbourhood Regeneration team.

13. PUBLIC HEALTH IMPLICATIONS

- 11.1 There are no Public Health Implications directly arising from this land acquisition, but the intention to remediate and develop the site when finally used for residential development is likely to have positive benefits.

Background Papers

None