

MUNICIPAL YEAR 2018/2019 REPORT NO.

MEETING TITLE AND DATE:

Overview and Scrutiny Committee
12th June 2018 and
Cabinet 4th July 2018

REPORT OF:

Executive Director Place

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Agenda – Part: 1

Item:

**Subject: Genotin Road Car Park,
Enfield Town**

Wards: Town

Key Decision No: KD 4567

**Cabinet Member consulted:
Cllr Ahmet Oykenner**

1. EXECUTIVE SUMMARY

1.1 This paper follows from a Cabinet report (no.93) on the strategy for Genotin Road Car Park in November 2017.

1.1.1 The Council and Metaswitch have engaged in discussions over the past 18 months as they have outgrown their existing premises. In an effort to retain Metaswitch in Enfield the Council and external agents have undertaken a rigorous site process to identify a site within Enfield Town or in the vicinity for them to relocate to. Genotin Road Car Park is the only site that satisfies their space and time requirements.

1.1.2 Cabinet supported the retention of Metaswitch in the Borough and noted the development of a new office for them would support Enfield Town renewal and deliver positive outcomes for the whole borough.

1.1.3 Cabinet delegated authority to officers to progress final terms of the Option Agreement for the identified site of the Genotin Road Car Park. The delegation required a further report to Cabinet prior to any Option Agreement being entered into.

1.2 The aim of this report is for Cabinet to enable the Council to fund development of, and to grant an institutional lease for, a grade A office building to Metaswitch Networks Limited at an acceptable rate of return, whilst retaining this major employer and business in Enfield Town

1.3 This transaction will allow the company, in partnership with the Council, to bring forward a new Global & European Headquarters building in Enfield. The development will be subject to planning committee approval.

1.4 Retaining a global company and major employer in the borough sends a clear message that the Council is 'open' for business. It also will give greater confidence to future occupiers whom we hope to attract to the Town Centre in light of the new Town Centre Masterplan.

2. RECOMMENDATIONS

It is recommended that Cabinet delegate authority to the Executive Director Place, and Executive Director Resources to agree final Heads of Terms and enter into a contract on those terms for either :

A) The Council forward funds the development of the office once Metaswitch enter into a 125 year development lease. The Council would charge a ground rent equivalent to the loss of car parking income during the development period. On completion the development would be replaced by an institutional lease for a minimum of 15 years at an acceptable rate of return. The Council would retain the freehold of the property. The car park would be made available for public use at the weekend and some evenings, the maintenance and cost of running the car park would be the liability of the tenant, Metaswitch.

OR

B) In the event that Heads of Terms are not agreed for the preferred option above that Cabinet delegate authority to the Executive Director Place, and Executive Director, Resources to agree final Heads of Terms pursuant to a freehold disposal of the Genotin Road car park at Market Value and generate a capital receipt. This value will be derived at the time by an external RICS Registered Valuer based upon best alternative use value.

3. BACKGROUND

3.1 Genotin Road car park is one of the largest surface car parks in Enfield with a total of 123 car parking spaces. The proposed development constitutes a new office development for Metaswitch Networks Ltd as well as employee car parking spaces. The proposals indicate that the employee car parking spaces will be made available to the general public at the weekend and selected evenings.

3.2 Metaswitch Ltd is an Enfield success story. The firm has been located in Enfield Town for approximately 26 years, founded in 1981 from an initial workforce of only 7 staff; it now has 400 employees in Enfield and over 700 worldwide. Metaswitch Networks Ltd are a global leading network software provider who provide technical support and software for over 1,000 network operators. Whilst the company's headquarters are currently in Enfield, the company have further offices in the; USA, Mexico, Hong Kong and Singapore.

3.3 Initial Cabinet Approval

3.3.1 On the 15th November 2017 the Cabinet agreed in principle to further work being undertaken in respect of pursuing the following two options:

Option 1: Freehold Disposal

- A freehold disposal of the Genotin Car Park at Market Value. This value was derived at the time by an external RICS Registered Valuer and was based upon a residential scheme that would provide the Council a higher return as opposed to the land value for an office development.

Option 2: Investment

- The Council forward funds the development of the Office once Metaswitch entered into a 125 year development lease. The Council would charge a ground rent equivalent to the loss of car parking income during the development period. On completion the development agreement would be replaced by an institutional lease for a minimum of 15 years. The Council would retain the freehold of the property. This would result in the car park being available for public use at the weekends and some evenings, the maintenance and cost of running the car park would be liable to the tenant.

3.3.2 Option 2 was considered more favourable for the Council as it would retain partial control of the parking provision at the weekends and some evenings. The Council would also benefit from long term income and would have the ability to sell the asset on the open market in the future.

3.3.3 From a wider socio-economic view, approval was seen as a rare opportunity to retain a key business in the Borough and support the creation of a global HQ building in the London Borough of Enfield. Furthermore, support for the scheme would highlight Enfield Council's commitment to Business and Economic development in the Borough whilst forming part of the regeneration of Enfield Town. The retention and expansion of Metaswitch in the Borough was viewed as providing economic benefits for the wider Enfield business community. Finally the expansion was viewed as a potential catalyst for further employment development in the Town Centre.

3.4 Since the Initial Cabinet Approval

3.4.1 Metaswitch in January 2018 appointed a developer through a formal procurement process resulting in Stoford Developments as the nominated developer.

3.4.2 Stoford Developments subsequently produced architectural designs in conjunction with an Architect and pre planning application discussions have commenced including a public meeting on the design proposals.

3.4.3 During April and May 2018, Cushman & Wakefield (appointed agents to Metaswitch/Stoford) approached the Council seeking to agree terms on the basis of a forward funding of the development.

3.4.4 The Council have appointed GVA to provide advice on the structure and terms have been agreed on the following basis.

3.5 Proposal and Structure

3.5.1 The Council will enter into legal agreements to enable the funding of the building development by Stoford. and subsequent letting to Metaswitch. The original proposal for an option agreement has now fallen away and has been replaced by terms for a conditional contract subject to planning consent with a subsequent requirement for completion of a funding agreement , a building lease and institutional (occupational) lease.

3.5.3 The terms include a requirement for the car park associated with the Metaswich development to be available for public use during evenings and weekends.

3.6 The Development

Construction of the proposed office building will be subject to planning processes including approval by committee.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 Not seeking retain Metaswitch Networks Ltd in the Town Centre is likely to see Metaswitch relocate outside the borough. This would result in the loss of 370 jobs and a lost opportunity to enhance the Town Centre.

4.2 A further option which retains Metaswitch is to sell the Car Park land freehold to Metaswitch, who will finance the proposed office development separately. This results in a one-off cash receipt of to the council. Officers do not recommend this as it harms the Council's ability to shape the Town Centre over time as well as loses out on a valuable property investment opportunity.

5. REASONS FOR RECOMMENDATIONS

5.1 The development of a new grade A office building and pre-letting to a local business represents a solid financial investment opportunity for the Council. The council will receive ongoing rental income significantly above the car park income and make a reasonable return on the expenditure to build the development.

5.2 It also retains a key business in the borough and support the expansion of a significant employer to create a global HQ building in the London Borough of Enfield. It could help act as a catalyst for further employment development in the Town Centre.

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

6.1 Financial Implications

The Council currently receives an income from the existing car park. This income would be lost should the site be disposed of or if the site was given an alternative

use. However, the lost income would be replaced by a lease rent for an office building (funded by the Council) significantly above the car park income. Final Financial Implications are also reserved pending receipt of full and agreed Heads of Terms.

6.2 Legal Implications TBC pending final recommendation]

- 6.2.1 By Section 123 of the Local Government Act 1972 (“S.123 of the LGA”) and Section 1 of the Localism Act 2011 the Council has the power to dispose of land in any manner it wishes, subject to certain conditions.
- 6.2.3 The Council has a statutory duty to obtain the best price reasonably obtainable, subject to certain exemptions.
- 6.2.4 In accordance with the Council's Property Procedure Rules the inclusion of property on the disposals programme requires approval either by the appropriate Cabinet member or by Cabinet itself.
- 6.2.5 The Property Procedure Rules require all disposals to be made on a competitive basis, unless justified and approved otherwise.
- 6.2.6 In this particular case, as the intended transaction is to be on a non-competitive basis, a valuation report will be required in order to justify the disposal on the terms proposed, and in particular that it achieves best value.
- 6.2.7 Final legal implications are also reserved pending receipt of full and final Heads of Terms.

6.3 Property Implications

- 6.3.1 External consultants (GVA Grimley) have undertaken valuations that estimate the market value of the land at the Genotin Road.
- 6.3.2 The Council is of the opinion that the disposal is in line with the Council Property Procedure Rules and the Council have obtained best value under s123 of the LGA (1972); the valuation received confirms the price offered for the land.

7. PERFORMANCE MANAGEMENT IMPLICATIONS

The legal agreements will have deadlines and dates for both Metaswitch and the Council to adhere to and will be managed accordingly.

8. KEY RISKS

In undertaking a commercial property investment transaction there are risks to consider and further risks to consider in respect of a development project, these include the following:-

Commercial Property Investment Risk

Market Risk Commercial Property Yields increase and decrease depending on market conditions. Commercial Property Yields are relatively low at present but this transaction will provide a yield on cost which is higher than the average commercial property office yield measured by the IPD data base.

Covenant Risk The lease is secured on the covenant of Metaswitch Networks Ltd who have reported a turnover of £152,653,000 and pre-tax profits of £6,223,000. The company was first established in 1981 and employs over 700 people (the majority of whom are based in Enfield).

The Council as part of their due diligence will appoint an independent financial advisor to comment on the covenant.

Building Risk The proposed development will be a new Grade A HQ office building with an excellent car parking ratio situated adjacent to Enfield Town railway station. As part of our due diligence we will be seeking commentary via our property advisors on the building flexibility (letting on a floor by floor basis, future expansion of the site) to limit future risk of maintaining on income stream.

Rental Risk The transaction has been structured to provide the tenant with an “economic rent” below the headline market rent for a building of this specification.

The lease to Metaswitch Networks Ltd is geared to inflation with linked rent reviews. Assuming Retail Price Index increases, the lease will be subject to rental fixes every 5 years regardless of market growth.

Commercial Property Development Risk

Professional Team The main risk is the main contractor. Financial due diligence will be undertaken on the proposed main contractor ahead of unconditional exchange. The Development Agreement will shortlist a number of main contractors and the appointed main contractor will be approved by the Council.

Financial Risk The Council’s financial obligation will be limited to the Maximum Commitment sum. Any costs overruns or delays will be responsibility of the main contractor and/or developer, which may result in the erosion of some or all of

the development profit.

Fund Monitoring Surveyor	The Council will appoint an independent Fund Monitoring Surveyor to oversee the development, make representation to the developer/professional team and verify all financial payments.
Development Agreement	This will cater for any disputes between parties but will also provide “step in” rights to finalise the development if necessary in the event of default. The profit cover is deemed to be an acceptable amount for a development of this nature.
Ground Conditions	Prior to development commencing detailed ground condition surveys will be undertaken to ensure there is no unexpected ground conditions (including environmental). These reports will be readdressed to the Council.
Warranties	Collateral warranties will be provided by all members of the professional team particularly those with direct input and the main contractor.

9. EQUALITIES IMPACT ASSESSMENT

Not required for this report.

10. PUBLIC HEALTH IMPLICATIONS

Not required for this Report

11. IMPACT ON COUNCIL PRIORITIES

11.1 Fairness for All

By retaining Metaswitch in the Borough, families are not uprooted and moved and the local economy is not damaged with the long term future of Enfield Town secured.

11.2 Growth and Sustainability

The development of the office and global headquarters building will confirm to the wider arena that Enfield is about opportunity, creation and retention of jobs and business friendly which will lead to onward supply chains seeking to relocate to Enfield thereby creating jobs and prosperity.

11.3 Strong Communities

Metaswitch are a community company with over 52% of the workforce residing in Enfield. The Company are also very charitable with donations to local charities and hospices high on their agenda every year. Together this company has been part of Enfield since its conception and it would be a sad day for Enfield if they were to leave the Borough.

12. HR IMPLICATIONS

Delivering this development scheme within the tight time constraints together with various other complex projects and schemes in the pipeline will require additional resources, initially will be met from within existing sources, however specialist areas where delivery is concerned may need to be met from external sources.

BACKGROUND PAPERS

None.