

MUNICIPAL YEAR 2019/2020 REPORT NO.

ACTION TO BE TAKEN UNDER DELEGATED AUTHORITY

Part 1 Report

KD Num: 4955

PORTFOLIO DECISION OF:

**Subject: Four Anthony Way: Lease for
Building Bloqs**

Cllr Nesil Caliskan, Leader

REPORT OF:

Executive Director
Place

Wards: Upper Edmonton

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1. EXECUTIVE SUMMARY

- 1.1 The Council acquired 4 Anthony Way in November 2018, with Building BLOQs as ongoing tenant.
- 1.2 In Feb 2019, the Council authorised entering into an Agreement for Lease with Building BLOQs who will let the neighbouring VOSA building, which is being refurbished and extended as their future home (KD 4796).
- 1.3 While the works are underway, and to cover the period of transition from BLOQs' current workshop to their new home in VOSA, a new lease first needs to be entered into for their current premises.
- 1.4 This report seeks authority to renew an expired lease on the front part of the property, and to grant a new lease on the rear part of the property.
- 1.5 The leases include a rent-free period (until 1st February 2020 12 months on the front, and for a period of 6 months from the start of the lease on the rear) in lieu of the extensive refurbishment work that BLOQs undertake to bring the rear yard and ancillary buildings into a good state of repair.
- 1.6 The full rental terms are set out in Part 2 of this report
- 1.7 STACE, as part of their role as project manager and quantity surveyor for Meridian Water, have verified the value of the schedule of refurbishment works that will be undertaken to the rear part of the demise, and will oversee and verify that works are undertaken to a satisfactory standard.
- 1.8 The rent payable has been confirmed as market rent through a Red Book valuation undertaken by Wilks Head and Eve on 10th December 2019

2. RECOMMENDATIONS

That the Leader:

- 2.1. Delegate authority to the Director of Meridian Water to approve the final version of Heads of Terms to enter into a lease agreement for 4 Anthony Way.
- 2.2. Entrust the authorised legal officer on behalf of the Director of Law and Governance to enter into the leases with Building Bloqs as per the commercial terms set out in the Confidential Briefing Note.

3. BACKGROUND

- 3.1. LBE acquired 4 Anthony Way (**4AW**) on 5th November 2018. The full address is: Unit 4, Cobden Works, Patisserie House, Lee Valley Trading Estate, Edmonton, N18 3QT. The decision to acquire was authorised at Cabinet on 25th July 2018 (KD 4717).
- 3.2. The site was acquired with vacant possession to the rear building and the yard, but with the existing tenant, Building Bloqs (**Bloqs**), still in tenancy in the Main Unit. Historically the rear yard and ancillary buildings were not included in the Building Bloqs demise but were let to third party tenants on informal terms. At the time of acquisition, the Council therefore insisted on securing full vacant possession of this part of the demise which was achieved.
- 3.3. At the time of acquisition, the rear yard and ancillary buildings were in a state of disrepair and due to rubbish and the poor condition of its surface, the yard was unusable. The potential value of the letting the rear part of the demise in its current condition is very low and given its ancillary nature and relatively small size Glenny, our property agent advised that it would be very difficult to secure a new tenant even at low rents. Bloqs expressed an interest in extending its demise to include this neighbouring part of the property, and a proposal has been put forward as set out in this report. The proposal has also been tested against a Red Book valuation as described in Part 2 of this report.
- 3.4. Bloqs is an open workshop providing flexible and affordable access to industrial standard space equipped with specialist machinery for freelance makers, small businesses and designers.

3.5. Bloqs had a lease on the front building of 4AW from 13th July 2012 until 31st January 2019. They wish to renew the lease to provide the organisation with secure accommodation while their new home is being delivered in the neighbouring building through a joint project between the GLA, Enfield Council and Bloqs (see below for details).

3.6. The building schedule is as follows:

	Area sq. m	Area sq. ft
Main Unit (including both front office/shop and main warehouse) <i>Demise of Building Bloqs former lease</i>	901.43	9,703
Rear Building (Garage 2 & 3) “Extension”	332.85	3,582
Garage 1 (at back of main building)	113 m2	1,216 sq. ft
Yard	c. 449 m2	4,836 ft2
Total Site		0.55 acres

Table 1: Building Schedule Property 4 Anthony Way



Meridian Works and VOSA

- 3.7 Bloqs have been working for 3 years to develop and deliver a landmark employment and meanwhile project at Meridian Water, called Meridian Works. On 5th February 2019, the Leader authorised entering into an Agreement for Lease with Bloqs on the VOSA site for 12 years (KD 4796).
- 3.8 Under the agreement, the Council will undertake works to the VOSA building to refurbish it and extend it to provide 35,000 sq. ft of refurbished and new commercial space. Enabling works are expected to start early in 2020; planning permission for the refurbishment project is expected to be received in February 2020, with main works commencing in the spring and lasting between 9 and 12 months.
- 3.9 The Council has made grant funding available to Bloqs to deliver Meridian Works and support Bloqs through the transition.

Proposed Lease

- 3.10 Bloqs have requested that their existing tenancy is extended pending completion of the works at VOSA. Granting a new lease to Bloqs allows the organisation to stay at their existing premises during the refurbishment works and prevents major disruption to the current operation of the business. It was therefore decided not to market 4 Anthony Way but instead to offer a direct off-market renewal of their lease. However, the rental level agreed is market rent as verified through a Valuation undertaken by Wilks Head & Eve (see Confidential Briefing Note below).
- 3.11 It was decided not to let the rear part of the premises separately because, this would be difficult to achieve without significant disruption to the Bloqs' operation. Instead it was decided to extend the Bloqs' demise to include the rear part of the property (albeit this will subject to a separate lease) thereby facilitating Bloqs' operational arrangement by using the rear yard for servicing, deliveries and access and allowing Bloqs to refurbish and bring back into use currently redundant and unusable ancillary buildings.
- 3.12 A Condition Report undertaken by LSH at the time of the acquisition, shows that it would cost the Council c. £100k to refurbish this space and bring it up to lettable condition. (see Alternative Option 4.2).
- 3.13 Heads of Terms have been agreed with Building Bloqs for two parallel leases: one for the front part of the demise; and one for the rear demise. The leases will commence as soon as legal documents can be

agreed (likely to be Feb 2020). Both leases will then have the same termination date and rolling break provisions.

3.14 The main terms for Lease for **Unit 4 Front Building, Anthony Way** are as follows:

- The lease will complete as soon as possible.
- The lease will be granted until to 31st January 2023.
- Mutual break operable at any time from start of lease subject to six months' prior notice.
- Rent-free period will last up until 31st January 2020 in lieu of the work undertaken in bringing the rear yard area and ancillary buildings into a state of repair
- Full rent is payable from 1 February 2020

3.15 The main terms for Lease for **Land/Ancillary Buildings at Rear of Unit 4, Anthony Way** are as follows

- The lease will complete as soon as possible.
- The lease will run up to a set termination date of 31st January 2023
- Mutual break operable at any time from start of lease subject to six months' prior notice.
- 6 month rent-free period in lieu of the work undertaken in bringing the rear yard area and ancillary buildings into a state of repair
- Full rent is payable after the 6 month rent free period expires.

3.16 The 12-month rent free period will be retrospective, covering a period from 1st February 2019 until 31st January 2020. The value of this plus the value of the 6-month rent free period for the rear lease will be the equivalent consideration for the works. The refurbishment works that will be undertaken in lieu of rent have been jointly specified by STACE and Building Bloqs. The schedule of works can be found at Appendix 2. The value of these works exceeds the value of the combined rent-free periods for the two leases. The cost of these works is being directly met by Bloqs and includes labour, materials, machinery, fees and any other associated outlay. The works will deliver a suite of newly refurbished and useable buildings surrounding a rear yard that will be resurfaced. Works also include repair of roofs and renewal of utilities. A quantity surveyor at STACE has reviewed the schedule to verify the value of works. When Bloqs vacate the building and move into their new premises at VOSA, the Council will be able to immediately market the refurbished property as a single ready-to-let property.

3.17 A project manager from STACE will visit the site monthly to sign off works as they are completed. It is anticipated that the works should be

complete by the by early 2020. This fee for this will be met as part of the Meridian Water budget allocated for the delivery of meanwhile uses and preparation of sites for letting (see financial implications on the attached Confidential Briefing Note).

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 Terminate Building Bloqs lease by serving notice and remarket 4 Anthony Way.

This is not considered a viable alternative as the Council has a contractual agreement to prepare their new premises at VOSA. It is in the Council's interest to ensure that Building Bloqs are protected in their current premises while contractual obligations are met because they are the future tenant of the VOSA building, and Bloqs are delivering the Meridian Works, and employment and placemaking project at Meridian Water.

4.2 Let the rear part of the premises separately

Before 4AW was acquired by the Council in November 2019, there were separate tenants occupying the rear part of the building. However, these tenants were occupying on an informal basis without proper leases in place (unlike Bloqs which did have a proper lease in place). This was an unsatisfactory arrangement for both property management because there were not clearly separated demises in place and for legal reasons as these occupational arrangements were not properly documented. It was for this reason that the Council sought to acquire 4AW with full vacant possession to the rear of the property, which it achieved.

Going forward, the Council wants to put in place a sensible letting structure in place that works from a property management point of view. It is therefore not recommended to let the rear part of the premises separately as this would be both impractical and costly.

In terms of costs, significant investment would be required in the rear yard and ancillary buildings in order to bring them up to a lettable condition and to create a properly separated demise from the front portion of the building, which never previously existed. The Council would have to procure these works, maintain site security while the property is empty, re-market this site and forego potential income during the void period.

In practical terms, Bloqs' business would benefit from using the rear yard for access and vehicular servicing, which is important for delivery of materials, equipment and machinery. From a property management perspective, it is sensible to join the front portion with the back yard and ancillary buildings to make one single demise for all of 4 Antony Way.

Furthermore, the proposal agreed with Bloqs secures the required refurbishment to the yard and ancillary buildings for the Council at no direct cost to the Council. It is also in the interest of the Meridian Works project that Bloqs has some immediate expansion space so that it can begin to grow the business in preparation for moving into VOSA, and thereby begin to deliver against GLA funding outputs.

4.3 *LBE undertakes the works to refurbish the rear of the property and then remarkets the site.*

While this option has the advantage of greater control over standard of the works. The timescale considerations mean that this would not be a recommended option.

It would take up to 8 weeks to procure a contractor (including writing up the brief for works, getting authority to procure, going through procurement requesting competitive tenders, and selecting a contractor). Works could then take up to 6 months, because they are varied and would need to be undertaken in phased way to minimise disruption to Bloqs as neighbouring tenant. Only once works were complete could the site be properly marketed, which would take another 4 weeks. After this 9 month period, we could still grant a lease but it would have to be subject to an immediate rolling break with no term certain. This is because once Building Bloqs vacate (which could be any time from June 2020), the Council need to have the offer to remarket the whole site as one to secure a single tenant for all of 4 Antony Way going forward.

Giving this situation the marketing offer would be weak and difficult to secure a tenant on such terms. It is likely that the Council would have to wait until Bloqs vacated the front of the property and market the whole site properly. Thereby the Council would have had to have paid for the refurbishment (rather than having it undertaken at no cost under the current proposal), and not be able to recover this cost through rental income until such time as Bloqs relocate.

5. REASONS FOR RECOMMENDATIONS

- 5.1 Heads of Terms have been agreed with Building Bloqs that would secure them as tenant in 4 Anthony Way for the period during which their new premises are prepared by the Council at VOSA.
- 5.2 Building Bloqs are paying market rent, the contribution of which overall helps to meet the Meridian Water revenue income target.
- 5.3 By refurbishing the building, Building Bloqs are increasing the value of the property, transforming what is currently an unusable demise into a series of buildings and outdoor space. This will help the Council secure a replacement tenant paying full market rent for the entire premises once Bloqs have relocated into the VOSA building.
- 5.4 The letting is in support of the Meridian Water Place-making pillar: “A Place to Make and Create” because it provides tenure for Bloqs to continue to operate and expand in their existing premises thereby growing the strength and resilience of their maker-space, and contributing to encouraging highly skilled jobs (particularly self-employed) in Meridian Water.

6. COMMENTS FROM OTHER DEPARTMENTS

6.1 Financial Implications

See Part 2 report

6.2 Legal Implications

MD 18th December 2019

- 6.2.1 The Council has a general power of competence under section 1(1) of the Localism Act 2011 to do anything that individuals may do, provided it is not prohibited by legislation and subject to Public Law principles.
- 6.2.2 The Council’s Property Procedure Rules set out mandatory procedures regarding the acquisition, management and disposal of property assets, must be followed when transacting with another party using property in which the Council has an interest and commit the Council to a rigorous and business-like approach to the management of its property assets.
- 6.2.3 The grant of lease in respect of the premises at 4 Anthony Way is an off-market disposal. The Property Procedure Rules require such disposals to be approved by the relevant Cabinet member. In accordance with those rules, this report contains justification for the disposal as being in the best interest of the Council (see Property Implications below) and written advice, including a market value, from an external registered valuer is appended to this report.

6.2.4 Officers must ensure that there is adequate insurance cover in place over the property, in particular in relation to the works required to be completed by the tenant.

6.2.5 The lease must be in a form approved by Legal Services on behalf of the Council's Director of Law and Governance.

6.2.6 See Part 2 report.

6.3 Property Implications

The Property Procedure Rules (the Rules):

- *Set out mandatory procedures regarding the acquisition, management and disposal of property assets*
- *Must be followed when transacting with another party using property in which the Council has an interest*
- *Commit the Council to a rigorous and business-like approach to the management of its property assets*

It is noted that there are two aspects to the proposal as set out within this report namely a lease renewal of an existing asset currently let to Bloqs and a new lease for an additional yard / garage area which is currently vacant and which hasn't been offered to the market but is adjoining to the property subject to the lease renewal.

Section 14 sets out the requirement governing:

Disposal - Off Market

There may be instances where a disposal by way of open market sale would not achieve the best consideration reasonably obtainable. Examples include (but are not limited to) sales to a tenant, disposal to a development partner, disposal to an adjoining owner.

Such disposals are subject to a report prepared by the Responsible Senior Officer, and approved by the relevant Cabinet member, that includes:

- *Justification for such a disposal as being in the best interest of the Council*
- *Written advice, including a market value, from an external registered valuer.*

It is noted that a Red Book valuation by an external registered valuer has been obtained which confirms that the proposed rent is at a market value

Section 19 sets out the requirements governing:

19. Leased-Out Property

19.1 Requirements of the Local Government Act 1972 s 123 (that except with the specific consent of the Secretary of State) the Council may not dispose of land for a consideration less than the best that can reasonably be obtained other than by way of a short tenancy. A short tenancy is one not exceeding seven years.

19.2 Leased-out property must be advertised in the open market and must comply with the process set out in the Operational Procedures. However, there will be instances where letting a property on the open market would not be in the best interest of the Council. Examples include (but are not limited to) providing premises to an individual or organisation that has been displaced by compulsory purchase. In such cases officers will act with due probity, good governance and transparency.

19.3 No Property Asset (or part) shall be occupied without appropriate legal documentation authorising the occupation.

It is noted that whilst the proposal as set out within this report do not fully comply with the Council's PPR's in terms of ensuring that the vacant yard / garage area was placed on the open market and advertised publicly, the proposals do comply with the PPR section which governs Disposal Off Market in that Regeneration have:

- Provided justification for the disposal as being in the best interest of the Council
- Obtained a red book valuation prepared by a Registered valuer at Wilks Head & Eve dated 10th December 2019, which confirms that the proposed rent, for both the lease renewal and yard / garage area is at a market value

Accordingly, Strategic Property Services fully endorse the proposals as set out within the report

7. KEY RISKS

Risk: Building Bloqs do not vacate 4AW once the Council had completed Landlord works on VOSA

Mitigation: The new lease will include a break clause which can be served at any time from the 18-month anniversary of the lease (i.e. from 31st July 2020. Furthermore, the Lease on the VOSA site is conditional on Bloqs ceding occupation of 4AW.

Risk: Works are not completed to a satisfactory standard so the building is not lettable, and the Council has to undertake works at the end of the lease term.

Mitigation: All works being undertaken are being overseen by STACE, who are also project managing the refurbishment of VOSA on behalf of the Council. STACE are verifying the quality and satisfactory completion of work to a mutually agreed specification.

8. IMPACT ON COUNCIL PRIORITIES – CREATING A LIFETIME OF OPPORTUNITIES IN ENFIELD

8.1 Good homes in well-connected neighbourhoods

Meridian Works of which Building Bloqs is the key delivery partner, is the forefront regeneration project at Meridian Water. This project is a central catalyst for regeneration across the area, helping to make happen an ambitious project to deliver 10,000 homes in Edmonton.

8.2 Sustain strong and healthy communities

8.3 Build our local economy to create a thriving place

This lease supports a local and growing business. The lease is one of a series of steps to facilitate growth for the small entrepreneurial maker business, Building Bloqs. As activity and membership of Building Bloqs maker hub increases, this will strengthen the local economy in this part of Enfield and contribute to this area being a thriving place. This is particularly important given that a lot of the neighbouring space is currently vacant and unoccupied.

9. EQUALITIES IMPACT IMPLICATIONS

There are no quality impact implications for this letting.

10. HEALTH AND SAFETY IMPLICATIONS

The work proposed in this report to refurbish currently redundant and potentially dangerous building on 4 Anthony Way will have the impact of bringing back unusable and unsafe buildings back into profitable use.

BACKGROUND PAPERS

None

