



<p><b>CABINET REPORT</b></p> <p><b>FREEHOLD ACQUISITION OF 333-337 MARE STREET HACKNEY E8</b></p> <p><b>5 May 2015</b></p>	<p><b>CLASSIFICATION:</b></p> <p><b>OPEN</b></p> <p><b>If exempt, the reason will be listed in the main body of this report.</b></p>
<p><b>WARD(S) AFFECTED</b></p> <p><b>Hackney Central</b></p>	
<p><b>KEY DECISION</b></p> <p><b>Yes</b></p> <p><b>REASON</b></p> <p><b>Spending or Savings</b></p>	
<p><b>CORPORATE DIRECTOR</b></p> <p><b>Ian Williams Corporate Director of Finance and Resources</b></p>	

## **SPECIAL URGENCY**

**Pursuant to Regulation 11 of The Local Authority (Executive Authority) (Meeting and Access to Information) (England) Regulations 2012 this report is submitted under Special Urgency.**

**The reason for urgency is that deferring the process until the next Cabinet meeting is not possible given the deadline to exchange contracts and complete this purchase. The vendor might otherwise decide to dispose to another party from whom they have already received a competitive offer to purchase this property. In view of the Strategic significance of this property to the both the Council's Regeneration agenda for Hackney Central together with the desire to acquire commercial investments to generate additional rental income for the future it is considered vital therefore that this opportunity is not lost.**

### **1. CABINET MEMBER'S INTRODUCTION**

- 1.1 This property acquisition enables the Council to secure ownership that it currently does not have within the heart of Hackney Central and adjacent to the station. The location of this property is such that potentially it could also give the Council the opportunity to further shape Hackney Central in the future.
- 1.2 This property is not only strategically located but further provides the Council with an excellent investment being leased to a high street brand producing a sizeable rental income which has significant growth prospects at the next rent review.
- 1.3 I commend this report and the recommendation to acquire the freehold interest in this property.

### **2. CORPORATE DIRECTOR'S INTRODUCTION**

- 2.1 This report seeks approval to purchase a freehold interest in a substantial building prominently located within Hackney Central with a significant frontage onto Mare Street and the adjoining Hackney Central station
- 2.2 The acquisition of this property will enable the Council to secure ownership of a key site within Hackney Central with also the potential to further shape this part of Hackney in the future. In addition it is a further building block in ensuring that Hackney becomes more financially self-sustainable a key aspect of the Medium Term Financial Strategy.

- 2.3 The business case setting out the financial justification for this purchase is set out within Appendix C. This shows a modest initial yield and also demonstrates on the basis of the estimated current rental value that this yield should dramatically improve at the first rent review in December 2017. Aside from this however the purchase of this property is also predicated on the basis of its strategic significance within Hackney Central and its adjacency with the station.

### **3. RECOMMENDATIONS**

- 3.1 **To approve the Council's purchase of the freehold interest in 333-337 Mare Street Hackney E8 as shown outlined in red on the plan in Appendix A and on the terms indicated in Appendix B both as annexed to this report.**
- 3.2 **To authorise the Corporate Director of Finance and Resources to agree the commercial terms for the acquisition to achieve exchange and completion of the acquisition.**
- 3.3 **To authorise the Corporate Director of Legal, HR and Regulatory Services to agree the contractual terms for the acquisition of the freehold interest in 333-337 Mare Street and to sign and complete all other relevant and ancillary legal documentation arising thereto on behalf of the Council.**
- 3.4 **To delegate to the Corporate Director of Finance and Resources authority to determine the most cost effective option in terms of financing the acquisition provided that it represents best value on the part of the Council.**

### **4. REASONS FOR DECISION**

- 4.1 The acquisition of this property is seen as further support for and around the Council's regeneration objectives and aspirations for Hackney Central. Whilst this purchase is essentially to provide the Council with a commercial investment opportunity it may however offer the potential for further improvement/development in the future.

### **5. DETAILS OF ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

- 5.1 No alternative options have been considered as this is a standalone opportunity supported on its own merits.

## 6. BACKGROUND

- 6.1 The regeneration of Hackney Central Town Centre is a key priority for the Council and the acquisition of buildings is a key strand of the work to unlock all of the development potential of the area. Our partners on the Fashion Hub Manhattan Loft Corporation and Chatham Works have been purchasing considerable amounts of land surrounding the fashion hub in recent months to enable the development to reach its full potential. The reach of the scheme has considerably expanded and will enable much more retail, studio and manufacturing space to be incorporated into the scheme helping to create considerable economic growth and prosperity for the town centre and the Borough. The location of this property is in close proximity to the fashion hub and will complement the Council's desire to regenerate Hackney Central.
- 6.2 This property is located within the heart of Hackney Central lying both adjacent to Hackney Central Station and in proximity of The Narrowway. It comprises a building of approximately 21,000 square feet and is arranged over ground and first floors. The ground floor has 10,972 square feet and is devoted to retail and storage/ancillary space. The first floor of 10,060 square feet is also used as ancillary space and provides staff accommodation. Approximately 5000 square feet of the first floor is unused with scope for further development subject to negotiation with the existing tenant.
- 6.3 The entire premises are let to Iceland Foods Limited on a 15 year lease from 25<sup>th</sup> December 2012 subject to 5 yearly open market rent reviews at a current rent payable of £245,000 per annum.
- 6.4 This commercial investment has not been openly marketed but there has been various interest expressed and the Council was made aware of this opportunity through intelligence by one of our framework surveying firms. The vendor has already accepted an offer to purchase this property from another party and they have agreed a timeframe to exchange on the 1<sup>st</sup> May. This however is not now going to be achieved and the vendor in view of our interest and the higher offer we have made has agreed that a contract should also be issued to the Council. The Council and the other party have until noon on the 12<sup>th</sup> May 2015 to be in a position to exchange contracts and to submit their best and final offers. It is proposed should it be necessary that we increase our offer further and this increase is reflected within both Appendices B & C. All due diligence is also to be carried out and necessary authority obtained to meet this timeframe if not before.

6.5 The financial terms that have subsequently been offered for the purchase of this property are as set out within Appendix B along with the financial analysis and rationale for the purchase price being paid within Appendix C.

#### 6.6 **Policy Context**

The purchase of the freehold interest in this property is seen as complimenting the existing regeneration that is taking shape with the fashion hub along with other developments within Hackney Central. This acquisition also seeks to meet the Council's objective of securing commercial investments to generate further rental streams in the face of further austerity plans facing Local Authorities over the next few years.

#### 6.7 **Equality Impact Assessment**

No equalities issues are believed to arise from this report.

#### 6.8 **Sustainability**

No sustainability issues arise from this report.

#### 6.9 **Consultations**

No consultations have been conducted with Ward Members although there have been prior discussions at Cabinet/HMT together with the Lead Member for Property the Mayor.

#### 6.10 **Risk Assessment**

This acquisition is regarded as low risk as this property is let on a lease with 12 years remaining to a high street brand representing a good covenant. The existing rent passing is also considerably below the current market rental value providing significant prospects for rental growth by the time of the next rent review in 2017. Aside from this there may also be good prospects of achieving further income from additional development of this site subject to addressing any existing restrictions and other rights/interests that may impact the implementation of potential development proposals.

### 7 **COMMENTS FROM INTERIM ASSISTANT DIRECTOR STRATEGIC PROPERTY SERVICES**

- 7.1 The purchase price offered (as shown in the attached Appendix B) is for an off market deal and has taken account of current market conditions and the offer the vendor has already received.
- 7.2 The offer that has been made by the Council however represents a fair price having regard to the existing rent and that anticipated at the next rent review. This price can also be further predicated on the strategic significance and location of this property within Hackney Central.

## **8 COMMENTS OF THE CORPORATE DIRECTOR OF FINANCE & RESOURCES**

- 8.1 The purchase price as set out in exempt Appendix B is considered to be a fair price given the interest in the site that has already been expressed by other potential buyers and current values for retail investments in the area. It is anticipated that the purchase will be financed from reserves held by the authority although the final option for financing will be considered as part of the wider financing of the capital programme to ensure that the option representing best value is used.
- 8.2 As set out in this report, the acquisition is considered low risk given the current lease arrangement in place and whilst initial yields based on current rents are modest, it is anticipated that there will be considerable rental growth at the time of the next rent review in 2017.
- 8.3 Further to the financial aspects above which provide further opportunity for the Council to secure ongoing revenue streams, the site is seen as a major key site that will assist the Council in its ambition to influence the future of the Hackney Central area.

## **9 COMMENTS OF THE CORPORATE DIRECTOR OF LEGAL, HR & REGULATORY SERVICES**

- 9.1 The Local Government Act 1972, Section 120 empowers the Council to acquire land by agreement with a third party for (a) the purpose of any of its functions, or (b) the benefit, improvement or development of its area.
- 9.2 The report, paragraph 8 and Appendix B outlines the financial benefits of the acquisition and the strategic significance of the site within Hackney Central which will contribute to the regeneration of the area to achieve economic growth. Paragraph 8 also notes that the acquisition is at a fair price with the potential for considerable rental growth. The reasons given are in line with the statutory power under section 120.
- 9.3 The opportunity to acquire the site has been given to the Council and a third party under the terms of a contract race that the Seller will sell to the

party with the best offer coupled with the ability to exchange contracts by noon on Tuesday 12 May 2015. A thorough due diligence exercise must be undertaken to assess the rights and interests affecting the property and the potential future use of the site.

## **10 COMMENTS OF THE HEAD OF REGENERATION DELIVERY**

- 10.1 This property is in an area that is rapidly developing as an economic hub of activity for the fashion and creative industries.
- 10.2 Market data suggests that rents are escalating in this area for start up and grow-on workspace and a current lack of availability of this type of commercial accommodation is driving prices up and making them unaffordable for local businesses.
- 10.3 The Regeneration Delivery team therefore supports the council's purchase of this building and the opportunity it presents to bring new market rent and affordable workspace into this growing market.

## **APPENDIX B AND C**

**The appendices are classified as Exempt on the following basis:**

By virtue of Paragraph (3) Part 1 of schedule 12A of the Local Government Act 1972 Appendix B and C to the Report are exempt because it contains information relating to the financial or business affairs of any particular person (including the authority holding the information) and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

## **BACKGROUND PAPERS**

**NONE**

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**AUTHORISATION OF the Mayor Jules Pipe:**

**Signature:** .....

**Date:** .....