

EAST HERTS COUNCIL

PERFORMANCE, AUDIT AND GOVERNANCE COMMITTEE – 16
JANUARY 2018

REPORT BY HEAD OF STRATEGIC FINANCE AND PROPERTY

CHARRINGTON'S HOUSE, BISHOP'S STORTFORD: UPDATE

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- To review the performance of Charringtons House as an investment and the transition into a potential development site.

<u>RECOMMENDATIONS FOR PERFORMANCE, AUDIT AND GOVERNANCE COMMITTEE:</u>	
(A)	To note the report and
(B)	Members' views and comments be forwarded to the Head of Strategic Finance and Property.

1.0 Background

1.1 Charrington's House, Bishop's Stortford was purchased as part of a larger acquisition of several interests in Old River Lane and is currently held in the investment portfolio pending the progression of a town centre re-development scheme of which it will form part of.

1.2 It is a four storey modern office building originally constructed in 1973 adjacent to No.1 The Causeway a similar building which has now been demolished to provide surface parking, and fronting The Causeway (Bishop's Stortford).

1.3 It comprises of 4722m² net lettable area (50,828 sqft) of floor plates laid out as a north wing and south wing office suites.

1.4 It was purchased as a going concern with tenants producing an income flow circa £640,000 per annum but with leases due to expire shortly following acquisition.

- 1.5 Some leases have expired and the building is currently generating circa £450,000 per annum.
- 2.0 Report
- 2.1 The building is currently let to four tenants and part of the ground floor is used by the Council as offices. One of the tenants has vacated their space but continues to make rent payments until their lease expires on 1 May 2018. Part of the ground floor, unused by EHC, has been fitted out as a start-up business hot desking facility.
- 2.2 A recent lease renewal to BIFM (British Institute of Facilities Management Ltd) was agreed for the first floor south wing at the same level of rent and which expires in 2022. Other tenants left the building early in 2017 for business reasons; RBS and Circle Anglia.
- 2.3 Because the land the building occupies is a key part of the Old River Lane re-development site, it has been the expectation to demolish the building to allow construction of the new development and whilst there is no fixed date for this, the anticipation is that negotiations will be required with tenants to provide early vacant possession than their leases allow.
- 2.4 There are three large vacant suites in the building. There was firm interest, for all the space but one of these did not proceed because the tenant wanted a 10 year lease which could not be offered. With leases only being available on a short term basis large businesses cannot justify the investment of a move with a short pay-back period.
- 2.5 Officers have worked with the managing and letting agent, Lambert Smith Hampton (LSH) and agreed that because of the timescale for the redevelopment of Old River Lane and that accordingly the Council does not want to offer leases any longer than those already in existence i.e. 5 years until 2023 then the vacant space should be re-modelled into smaller spaces offered on shorter more flexible leases more suitable for this timescale.
- 2.6 The asset management team have agreed to fund a pilot scheme to offer and construct custom size suites on flexible terms and conditions with a rent that includes service charge but exclusive of other outgoings. It is intended to start with one suite and then create more, should there be sufficient demand.
- 2.7 LSH have updated the condition report and identified a number of repairs required in order that EHC complies with their responsibilities as

landlord. These, together with a redecoration of the common areas which will be funded by the service charge and this should help to generate more interest from the market.

- 2.8 LSH have advised a re-launch of the marketing of the building on this basis with a refresh of all the marketing particulars and plan a local business and agents breakfast with a pre-constructed “show suite” to demonstrate what will be on offer.
 - 2.9 This is already showing signs of success and generated lettings of the 2nd Floor North and a part of Floor South and generating an additional rental income of £141,000 per annum inclusive of service charge. Both new tenants are due to take occupation early in 2018.
 - 2.10 The building was purchased with an estate management contract in place with LSH to manage the building and tenants including the collection of rent, day to day facilities management and provision of annual service charge accounts. They continue to do this, but the contract requires reviewing which will happen early in 2018. LSH also act as EHC letting agents and this is a separate contract. LSH have an arrangement with local town agents Coke Gearing as joint agent and with whom they share any letting fees.
 - 2.11 The “Launchpad” was introduced earlier this year in June and was in response to a requirement for hot desking space in the town and provide competition for this type of space available at higher prices on the Stansted airport campus. The first 3 months were offered with no basic rent but “top ups” for added services. The centre has generated interest in permanent lettings in the building and will go onto add to the buildings revenue stream.
- 3.0 Implications/Consultations
- 3.1 That plans to demolish the building have not yet provided any concrete time frames has meant that only short terms can be offered. Larger business cannot afford the disruption this could cause. It was only recently that funding was identified for the re-fits so smaller suites can be offered. Only one suite will be constructed with others being built to order.
 - 3.2 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper ‘A’**.

Background Papers - None

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