

### ***The purchase of Old River Lane***

- 1.1. The purchase of the Old River Lane site in Bishop's Stortford completed on 13 October 2015. The Council was involved in a competitive process to acquire the site where a good level of interest was shown from property companies and institutional investors. An external market valuation by an experienced, qualified RICS Registered Valuer has confirmed the valuation at the price agreed.
- 1.2. Prior to an offer being submitted and the subsequent exchange of contracts a number of Council and Executive meetings were held between members, officers and property experts. These meetings were held to determine whether the council should submit a bid for the site, to ascertain the market value of the site and to approve the value of the bid submitted by the council. Throughout this process expert valuation and legal advice has been provided by independent, external partners.
- 1.3. As a result of local government funding reductions the council is seeking to generate additional sources of income instead of placing an additional burden on local taxpayers. This investment is part of a wider investment strategy which aims to realise best value from council assets without exposing the council to undue risk. Full Council approved the direct purchase of property as an investment within the Investment Strategy in February 2014 following Executive approval in November 2013.
- 1.4. The investment principles agreed in those meetings have been adhered to with careful consideration of treasury management principles, in summary:
  - Security of the council's capital; this is 'institutional' grade property in a prime site and the quality of tenancies has been assessed through credit checks and the spread of lease lengths.
  - Yield of at least 4% on property; the expected yield is 5.02% "as-is" with a yield up to 7.20% if fully re-furnished and occupied.
  - Liquidity; the council were one of several parties who submitted offers for this site and could re-market the site to realise the cash invested should the council decide to do so.
- 1.5. The purchase of Old River Lane was treated as an investment decision, representing good value for money, delivering a return on investment in excess of 5%. Old River Lane is made up of the freehold interest of 5 constituent parts. The Council now owns the following key assets:
  - Charrington's House; a multi-let office with 8 suites over 4 floors, with one suite currently vacant. The value attributed to Charrington's House takes into account the expected yield from rental income and the cost to refurbish the

vacant office suite. It is worth noting that the lease expiry dates are well spread which should minimise the impact of any void periods.

- 1, The Causeway; a vacant office building. The value attributed to No 1, The Causeway takes into account the estimated refurbishment costs of £1.6m which would be necessary to bring the building back into use as 3 office suites, should the Council choose to do so. The value is based on the expected yield once refurbished less the cost of refurbishment.
- The Causeway Car Park; a surface car park with 242 spaces let to East Herts Council subject to upwards only rent reviews every five years to the higher of market value or RPI. The value of the Car Parks is based upon the yield from the rental income, allowing for the long lease term until 2044.
- The Waitrose Car Park; a surface car park with 160 spaces let to East Herts Council and sublet to Waitrose Ltd subject to upwards only rent reviews every five years. The value of the Car Parks is based upon the yield from the rental income, allowing for the long lease term until 2042.
- 1, 2 and 3 Old River Lane; 2/3 bedroom homes on Assured Shorthold Tenancies with mutual break options to break on two months notice.

1.6. In addition to representing a good investment, the council has secured a site of strategic value to the local community. A range of benefits can be realised through the 'place shaping' opportunities that the site offers for future development. This includes the ability to implement high quality design and environmental sustainability through any future scheme the council may propose in consultation with local residents and stakeholders.

### ***Funding the purchase of Old River Lane***

2.1. The purchase prices for the constituent parts of Old River Lane are shown in table 1 below.

**Table 1: Purchase price**

ASSET	PURCHASE PRICE
Charrington's House	£8,400,000
No 1, The Causeway	£1,370,000
Car Parks	£8,050,000
1, 2 & 3 Old River Lane	£690,000
Redevelopment Hope Value (excl. Charrington's House)	£1,040,000
<b>TOTAL:</b>	<b>£19,550,000</b>

- 2.2. In addition to the purchase of the properties detailed above, other costs associated with the purchase were incurred and are shown in Table 2 below. The Commercial Property Fund was established in February 2015 to support the development of investment opportunities in commercial property. The balance of this reserve was £500k as at 1 April 2015 prior to the transactions in Table 2 being incurred.

**Table 2: Purchase transaction costs**

ITEM	COST £'000	FUNDED FROM
Pre-purchase advice and site valuation	69.6	Commercial Property Fund
Legal advice and conveyancing	24.4	Commercial Property Fund
Geo-environmental site survey	3.4	Commercial Property Fund
Land Registry Fee	1.0	Commercial Property Fund
VAT advice	0.9	Commercial Property Fund
<b>SUB-TOTAL:</b>	<b>99.3</b>	
VAT payable to HMRC	1,610.0	Recoverable VAT
Stamp Duty Land Tax	846.4	NHB Priority Spend Reserve
<b>TOTAL:</b>	<b>2,555.7</b>	

***Ongoing revenue budget implications from the purchase of Old River Lane***

- 3.1. There are a number of ongoing revenue costs associated with the purchase of Old River Lane. These are summarised in Table 3 below.
- 3.2. The service charge income and expenditure for Charrington's House are included to highlight that the council is not subsidising the tenants of Charrington's House nor is the council making a surplus from the service charge.
- 3.3. In using cash to fund the purchase of Old River Lane there is an opportunity cost in the form of interest which will no longer be received. This has been calculated using the average return on cash and short term investments in 2014/15 of 1.47%. This reduction in funding will be matched by a corresponding reduction in the Net Cost of Services from 2016/17 to ensure that this is not an additional burden to Council Tax payers.

**Table 3: Ongoing revenue implications**

ITEM	£'000
Estates and Facilities Management contract	33.2
Charrington's House: Service Charge income	(281.0)
Charrington's House: Service Charge expenditure	281.0
1-3 Old River Lane: Letting Agent Fees	3.3
Property maintenance recharge	20.0
Increased insurance cover	30.0
<b>SUB-TOTAL:</b>	<b>86.5</b>
Opportunity cost of reduction in cash balances	287.4
<b>TOTAL:</b>	<b>373.9</b>

- 3.4. The full year rental income from the constituent parts of Old River Lane are summarised in Table 4 below. The income due in 2015/16 will be on a pro-rata basis. The expected income from the vacant suite at Charrington's House is included and will be realised once the suite has been refurbished and let.

**Table 4: Rental Income from Bishop's Quarter**

ASSET	INCOME £'000
Charrington's House (let suites)	629.1
Charrington's House (vacant suite)	95.7
1, The Causeway (parking space leases)	7.8
Car Parks	376.6
1 – 3 Old River Lane	32.9
<b>TOTAL:</b>	<b>1,142.1</b>

- 3.5. The net surplus of income less costs is £768.2k. It is proposed that an Old River Lane reserve is created to ensure that any surplus from 2015/16 or 2016/17 is retained to fund future capital works and any costs that may be incurred preparing and assessing future schemes on the site. This position will be subject to annual review as part of the budget setting process and the surplus may be used to fund the cost of services in future years.