

EAST HERTS COUNCIL

EXECUTIVE – 7 JUNE 2016

NO 1, THE CAUSEWAY DEVELOPMENT

REPORT BY THE EXECUTIVE MEMBER FOR FINANCE AND SUPPORT SERVICES

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WARD (S) AFFECTED: All

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Purpose/Summary of Report:

- This report sets out proposals for the interim development of the site of No 1, The Causeway, Bishop's Stortford, prior to full redevelopment of the Old River Lane site.

**RECOMMENDATIONS TO THE EXECUTIVE: That, in relation to No 1, The Causeway:**

<b>(A)</b>	<b>The request to demolish the existing structure and repurpose for short term use, as detailed throughout the report and recommended by the Old River Lane Steering Group, be approved.</b>
<b>(B)</b>	<b>The funding for the cost of demolition and resurfacing from the Commercial Property Fund, recommended by the Old River Lane Steering Group, be approved.</b>

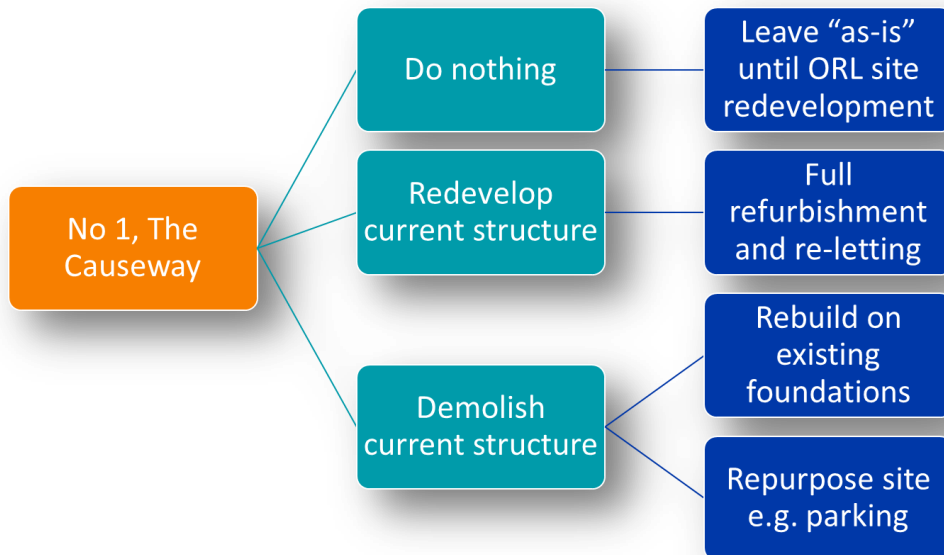
## **1 BACKGROUND**

- 1.1 East Herts Council purchased the Old River Lane site in Bishop's Stortford in October 2015 as an investment property. The site comprises Charringtons House, the Causeway and Waitrose car parks, 1, 2, and 3 Old River Lane and No 1, The Causeway.
- 1.2 No 1, The Causeway is a detached office building on a site of 0.69 acres formerly occupied as the headquarter offices for East Herts Council adjacent to Charringtons House.

- 1.3 The three storey building was constructed in 1973 and was occupied until 2013. The building has been vacant since 2013 and is now an un-refurbished condition having being prepared for demolition by the previous owners.

## **2 REPORT**

- 2.1 A planning framework has been commissioned for Bishop's Stortford town centre. This will inform the mix of uses and form that should be considered for the future development of the whole town centre including the Old River Lane site.
- 2.2 The Old River Lane site was purchased as an investment property by the council for £19.55m. Within the overall purchase, No 1, The Causeway was acquired for £1.37m.
- 2.3 The site of No 1, The Causeway is strategically important to any future development of the Old River Lane site. The previous owner had planning permission for redevelopment of the site which included the demolition of No 1, The Causeway to make way for a department store and provide access to the remainder of the site.
- 2.4 Following the publication of the planning framework a detailed plan will be developed for the Old River Lane site. It is anticipated that this piece of work, obtaining the subsequent planning permission and procuring contractors will take a number of years.
- 2.5 In acknowledgment of the length of time between now and the completion of a future redevelopment scheme there is a need to assess the options for redeveloping No 1, The Causeway.
- 2.6 There are a number of options that are may be considered. These are summarised in diagram 1 below:



**Diagram 1: Summary of development options for No 1, The Causeway**

2.7 Four options have been considered and will be outlined in the report sections that follow. These are summarised in section 7.

### **3 OPTION 1: LEAVE “AS-IS”**

3.1 The simplest option is to leave the building as it stands. The preparation for demolition undertaken by the previous owner has been substantial. The fabric of the building has been extensively surveyed which has resulted in asbestos fibres being disturbed.

3.2 Whilst this option does not involve significant capital expenditure it also does not present an opportunity to realise an income stream from a significant asset.

3.3 There are also likely to be a number of liabilities that arise if the building is left as it stands. The condition of the building is such that major repairs may be necessary to attempt to maintain the current condition of the building. These could include repairs to the roof and/or to the chimneys. The building also has a significant amount of glazing which poses a vandalism risk the longer the building remains unoccupied.

3.4 The current rateable value of the building is £145k per annum for which an exemption has been granted due to the presence of asbestos rendering the building un-useable. Leaving the building in its current condition has a direct impact on the Non Domestic Rates (NDR) income of the council.

## 4 OPTION 2: FULL REFURBISHMENT AND RE-LETTING

- 4.1 It would also be possible to refurbish the existing building. This would involve substantial work to remedy the damage caused by the demolition survey and the sealing of any exposed asbestos.
- 4.2 The space created would be lettable on the current market, although the building has some features that would prove challenging to remodel including the former council chamber and the disused plant. The refurbished space would need to be carefully configured to ensure that maximum return on investment was obtained.
- 4.3 The estimated cost of a sustainable refurbishment to a suitable standard is £2.8m plus fees (a total of £3.0m). This has been calculated by applying the values from the RICS publication 'Spon's Architect's and Builders' Price Book 2016' and the size of the occupied areas from the LSH sales documents and the council's historic records from previous occupation.
- 4.4 The expected income based on 18,000 ft<sup>2</sup> let at a rent of £17.00/ft<sup>2</sup> would yield a gross rental income of £306k per annum. This would be subject to management fees resulting in an estimated net rental of £270k per annum representing a gross yield of 9.0% and a simple payback period of 11 years, 1 month.
- 4.5 Refurbishing the existing building would also generate the ability to charge NDR which would be charged to occupying businesses. Based on the current rating of the building this would result in additional NDR income of £145k, which would be subject to the usual apportionment of 40% to East Herts, 10% to Herts County Council and 50% to central government.
- 4.6 The major disadvantage to refurbishing the existing building is the opportunity cost to the future redevelopment of the Old River Lane site. Reinstating the building would limit the potential of any scheme and to agree this now, in advance of the publication of the Bishop's Stortford planning framework, would be imprudent.
- 4.7 A refurbished building would also be a direct competitor to Charringtons House. The floor plates would be of a similar size and the market for office suites of this size is limited. The current layout of the building is likely to make the creation of smaller units challenging due to the position of the stairwells and common areas at one end of the building. If there is a downturn in the economy and suites become difficult to let in Charringtons House, a refurbished No 1, The Causeway would also be difficult to let. This would increase the

financial risk of extended void periods and the resulting loss of income would require savings to be found from other council budgets.

## **5 OPTION 3: REBUILD ON EXISTING FOUNDATIONS**

- 5.1 It should be possible to demolish the current building and rebuild on the existing foundations. The foundations of both No 1, The Causeway and Charringtons House are secured on concrete piles which are sunk to a depth of several metres due to the permeable nature of the land within a flood plain. Reusing these foundations would negate the need to both remove the existing foundations and re-provide foundations for a new structure.
- 5.2 This option will, however, place limitations on the scope and design of any new structure to ensure that the foundations are capable of providing adequate, load-bearing support. Any proposal of this nature will therefore require expert engineering and surveying advice to ensure that any new structure is stable.
- 5.3 This option will require the demolition of the existing, above ground, structure of No 1, The Causeway.
- 5.4 The estimated cost of demolition and rebuilding to a suitable standard is £3.4m plus fees (a total of £4.0m). This has been calculated by applying the RICS Spon's guide to building prices and by estimating the space creating based on use as an office building with a similar size to the current building.
- 5.5 The expected income based on office space of 18,000 ft<sup>2</sup> let at a rent of £18.00/ft<sup>2</sup> would yield a gross rental income of £324k per annum. This would be subject to management fees resulting in an estimated net rental of £288k per annum representing a gross yield of 7.2% and a simple payback period of 13 years, 10 months.
- 5.6 A new building would also generate the ability to charge NDR which would be charged to occupying businesses. Based on the current rating of the building this would result in additional NDR income of £145k, which would be subject to the usual apportionment of 40% to East Herts, 10% to Herts County Council and 50% to central government.
- 5.7 The calculations in this report have assumed that any new building would offer office space on long term lease arrangements reflecting the premium, town centre, location. This allows a simple comparison to be made between the options outlined in this report.
- 5.8 There may be more suitable uses for a new building other than office

space which will be informed by the Bishop's Stortford Planning framework and could include a mixture of uses, e.g. retail, residential and/or office space.

- 5.9 The layout of any new building would need to be carefully designed to ensure that it delivers the requirements for any prospective tenant and is sufficiently different to the scale of suites in Charringtons House in order to minimise the effect of competition and maximise rental potential. A careful consideration would need to be made to assess the parking provision for a new building and how this would be provided.
- 5.10 In a similar way to refurbishing the current building a major disadvantage of deciding to create a new building on the existing site is the opportunity cost to the future redevelopment of the Old River Lane site. A new building would limit the potential of any scheme and to agree this now, in advance of the publication of the Bishop's Stortford planning framework, would be imprudent. If the existing building were demolished and not reconstructed, as outlined in option 4 below, this would not preclude a future building being constructed using the work of the Bishop's Stortford Planning framework to inform the most appropriate use.

## **6 OPTION 4: REPURPOSE SITE**

- 6.1 The final option proposed is to demolish No 1, The Causeway, and repurpose the site for a short term use until a permanent decision can be made on the future of the site following the publication of the Bishop's Stortford Planning framework.
- 6.2 The cost of demolishing the existing building, leaving a flat surface and the foundations intact, is estimated to be £0.5m. The costs estimates are based on survey works completed by the previous owner of the site and would need to be validated with a quantity surveyor.
- 6.3 The interim use proposed is to create 58 parking spaces in the footprint of the existing building. The parking spaces could be offered to business users and/or residents on an annual licence basis for a fee of approximately £1,500 per annum. For comparison a season ticket in the railway station car park is £1,254 per annum and a season ticket in Grange Paddocks is £831 per annum. A number of tenants at Charringtons House have indicated that they require additional parking.
- 6.4 The expected proceeds would yield gross income of £87k per annum.

This would be subject to NDR charges of £11k (estimated from the NDR charge per space in the Causeway car park) resulting in an estimated net income of £76k per annum representing a gross yield of 15.2% and a simple payback period of 6 years, 6 months.

- 6.5 This proposal has the significant benefit of not restricting the future use of the site in the context of the future development of the Old River Lane site, allowing either reconstruction on the existing foundations or the development of an entirely new structure, whilst also generating an income in the short term.

## 7 SUMMARY AND CONCLUSIONS

- 7.1 The four options presented above, the costs, income, yield and payback are summarised in table 1 below.

**Table 1: summary of options presented**

OPTION	INITIAL COST £'000	ANNUAL RETURN £'000	YIELD %	PAYBACK
1: Do nothing	-	-	0.0%	n/a
2: Refurbishment	3,000	270	9.0%	11 years, 1 months
3: Rebuild	4,000	288	7.2%	13 years, 10 months
4: Re-purpose	500	76	15.2%	6 years, 6 months

- 7.2 The calculation of the yield above does not include the original purchase cost of No 1, The Causeway. If this is factored in the yield and payback periods change as shown in table 2 below.

**Table 2: summary of options including initial purchase cost**

OPTION	INITIAL COST £'000	ANNUAL RETURN £'000	YIELD %	PAYBACK
1: Do nothing	1,370	-	0.0%	n/a
2: Refurbishment	4,370	270	6.2%	16 years, 2 months
3: Rebuild	5,370	288	5.4%	18 years, 7 months
4: Re-purpose	1,870	76	4.1%	24 years, 7 months

- 7.3 By including the initial purchase cost the assumption is that the use outlined in each option would continue for the foreseeable future. This is a valid assumption for refurbishing or rebuilding but does not take into account the short term nature of repurposing. Refurbishing or rebuilding would create a building that would be in place for many years to come, whereas repurposing is a short term option pending future development.
- 7.4 Maintaining the current status and doing nothing with the building has the benefit of not tying up the plot in advance of the development of the rest of the site. There are significant risks that may arise as the condition of the building will decline and that the ultimate conclusion

should this be the case would result in demolition of the building. Leaving a vacant building in the town centre carries a reputational risk and has the potential to deter potential future tenants at Charringtons House.

- 7.5 The options to refurbish or demolish and rebuild both have the significant disadvantage of determining the future of the building/plot in advance of the publication of the Bishop's Stortford Planning framework. Investing significant sums of capital in a long term scheme, a new building would have a useful economic life of at least 20 years, which has the potential to damage the viability and success of a future scheme on the Old River Lane site is not recommended.
- 7.6 The current building is not configured to a modern floorplan and refurbishing the building with the same floorplan could make the resulting office suites difficult to let. If these office suites were completed and remained empty, this would cause a significant financial risk to the council due to the lack of rental income and the NDR liability that would result.
- 7.7 The option which seems most attractive and prudent is to demolish the existing building, leaving a flat surface at ground level. This space could be used to generate income from parking in the short term. The long term future of the plot could then be included in the scheme to redevelop the Old River Lane site. This has the benefit of reducing the liabilities arising from leaving the existing building "as-is" whilst not pre-determining the future potential of the site to generate a significant income for the council.
- 7.8 The revenue funding for the demolition works will come from the Commercial Property Fund and any net income will be used to replenish the fund for use in future development schemes.

## **8 IMPLICATIONS/CONSULTATIONS**

- 8.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper A**.

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