

To: Councillor: Mike Davey - Chair Richard Robertson – Executive Councillor for Finance & Resources Jamie Dalzell – Opposition Spokesperson To Officer: Caroline Ryba – Head of Finance	Return to: Dave Prinsep Head of Property Services The Guildhall Cambridge CB2 9QJ
Date: 9 July 2019	Tel: 7318
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MEMBER CONSULTATION

This is a formal consultation letter seeking your views in the following circumstances:

- ✓ Councillors: your views are sought on a matter which officers are required to consult you prior to exercising delegated powers.

Please reply in writing by **12 noon on 15 July 2019** by completing and returning one copy of this consultation letter.

Subject : Acquisition of long leasehold interest in Units 1-10, Nuffield Close, Nuffield Road Industrial Estate, Cambridge, CB4 1SS.

Background: The Strategy and Resources Scrutiny Committee on 10/10/2016 approved the allocation of £20.0m for investment in acquiring commercial property through the General Fund Medium-Term Financial Strategy, £1.2m remains.

An opportunity has arisen for a strategic acquisition of a long leasehold interest where the Council already owns the freehold. The purchase price of £5.0m plus costs will require £4.13m in additional funding, which will be recouped through the disposal of various assets approved for disposal over the next two years as part of the Commercial Property Portfolio Review.

Units 1-10 Nuffield Close is a multi-let industrial/trade-counter estate investment, comprising 2,903 sq.m (31,242 sq.ft). The existing long lease will be surrendered with the council inheriting the six under-leases, generating additional income of £272,672 per annum, once the ground rent is deducted.

The acquisition does offer strategic benefits, being within the Cambridge Northern Fringe East Area Action Plan area and the possibility of residential redevelopment in the medium to long term.

Recommended Action: The Executive Councillor is recommended to approve the purchase of Units 1-10 Nuffield Close, Cambridge for £5.0m plus acquisition costs.

Member Response:

I support / do not support the action recommended above.

Member Comments/Reason:

Signed **Councillor** **Date**.....



Cambridge City Council

To: Executive Councillor for Finance and Resources:
Councillor Richard Robertson

Report by: Philip Taylor – Principal Property Surveyor

Relevant scrutiny committee: Strategy & Resources Scrutiny Committee

Wards affected: All

Acquisition of Units 1-10, Nuffield Close, Nuffield Road Industrial Estate, Cambridge, CB4 1SS

NOT FOR PUBLICATION: The report relates to an item during which the public is likely to be excluded from the meeting by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

1. Executive summary

- The Strategy and Resources Scrutiny Committee on 10/10/2016 approved the allocation of £20.0m for investment in acquiring commercial property through the General Fund Medium-Term Financial Strategy, £1.2m remains.
- An opportunity has arisen for a strategic acquisition of a long leasehold interest where the Council already owns the freehold. The purchase price of £5.0m plus costs will require £4.13m in additional funding, which will be recouped through the disposal of various assets approved for disposal over the next two years as part of the Commercial Property Portfolio Review. The vendor, Aviva Investors, is insisting on the transaction completing within 20 working days from receipt of contract documentation and has only offered exclusivity for this period.
- Units 1-10 Nuffield Close is a multi-let industrial/trade-counter estate investment, comprising 2,903 sq.m (31,242 sq.ft). The existing long lease will be surrendered with the council inheriting the six under-leases, generating additional income of £272,672 per annum once the ground rent is deducted.
- The acquisition does offer strategic benefits including greater control, being within the Cambridge Northern Fringe East Area Action Plan area and the possibility of residential redevelopment in the medium to long term.

2. Recommendations

The Executive Councillor is recommended to:-

- 2.1 Approve the purchase of Units 1-10 Nuffield Close, Cambridge, for £5.0m plus acquisition costs.

3. Background

- 3.1 The 'Commercial Property Investment' report to the Strategy & Resources Scrutiny Committee on 19/01/2015 set out objectives to be met in relation to any investment acquisition.
- 3.2 The proposed purchase will meet those objectives with the exception of its EPC ratings - see 4.7.
 - The Council is the freeholder of Nuffield Road Industrial Estate, having significant landholdings in the vicinity along Cowley Road, which all form part of the Cambridge Northern Fringe East Action Plan.
 - Light industrial units with trade counter and ancillary offices within Use Class B1(c) & B8, which complement the existing property portfolio as the type and size, 290 sq.m (3,129 sq.ft) to 376 sq.m (4,064 sq.ft.) is currently under represented and will provide mid-size units, allowing step-up/follow on space from our existing industrial estates.
 - A strategic acquisition of a long leasehold multi-let estate with 61 years to run (with an option to extend by 26 years) so opportunity for the Council to acquire an enhanced investment return and greater control over a key site.
 - The property is let in accordance with the tenancy schedule (Appendix 1), generating £340,840 per annum gross, on full repairing and insuring terms, with a fully recoverable service charge provision for the management of the communal estate.
 - The tenants have the following D&B ratings, with 88% of income rated 1 and 2 being minimum and lower than average risk.

Unit No.	Tenant	Rating
1	CityFibre Ltd	5A3
2	Saint-Gobain Building Distribution Ltd.	A2
3-4	CityStay Ltd.	5A1

5	Verizon UK Ltd.	5A1
6	Sodexo Ltd.	5A1
7-10	Howden Joinery Properties Ltd.	1A1

- Expected rate of return achieves our minimum net initial yield of 5.10% after taking acquisition costs including SDLT into account. There is such a strong demand for multi-let industrial estates in Cambridge that yields have been driven down significantly over the last couple of years, with the limited supply and shift in demand from retail and office sectors.
- 3.4 The property was constructed in the early 1980's. The accommodation extends to 2,903 sq.m (31,242 sq.ft.), in three blocks, totalling 10 units with yard and parking. The property is in satisfactory condition for its age and construction.
- 3.5 Located to the North of Cambridge city centre, just off Milton Road with easy access to the A14. This is an established commercial location adjacent to Cambridge Business Park and close to Cambridge Science Park, St. John's Innovation Park and Cowley Road Industrial Area.
- 3.6 The acquisition represents a strategic acquisition in the context of the Council's adjoining land ownership and opportunity to invest in the existing property portfolio. As Cambridge grows, there will be pressure on B1(c) and B8 uses and so it is expected that demand for this type of use will increase, given the limited industrial supply.
- 3.3 A conditional offer of £5.0m, has been accepted subject to:
- Contract
 - Verification of the information contained within the tenancy schedule.
 - 20 day exclusivity period.
 - Satisfactory measured, building and desktop environmental surveys
 - Surrender of the existing head-lease.

4. Implications

(a) Financial Implications

- 4.1 The purchase price of £5.0m will be subject to Stamp Duty Land Tax, agents and survey fees, totalling £335,000.

- 4.2 The purchase will be funded, initially through borrowing from reserves, pending the disposal of other commercial property as was approved at Strategy and Resources Scrutiny Committee on 1st July 2019.
- 4.3 The property produces £340,840 per annum. The initial return will be 5.1% taking into account acquisition costs and future ground rent, being £68,168 per annum based upon 20% of income, which will cease when the existing lease is surrendered.
- 4.4 Minimum Revenue Provisions (MRP) of 2.5% will be applied to £1.2m and the balance until the disposal programme is complete. MRP represents the minimum amount that must be charged to an authority's revenue account each year for financing of capital expenditure.
- 4.5 The property is elected for VAT. However the purchase will be treated as a Transfer of a Going Concern (TOGC) so VAT won't be applied to the purchase price.

(b) Staffing Implications

- 4.6 Property Services is tasked with identifying and reviewing investment opportunities and undertaking due diligence in conjunction with MP Real Estate.
- 4.7 Day to day management will be dealt with by the Property Services team with existing resources.

(c) Equality and Poverty Implications

- 4.8 An Equality Impact Assessment has not been conducted as this will be an acquisition of tenanted commercial property to generate an income stream. We believe the property to be compliant with current DDA requirements.

(d) Environmental Implications

- 4.9 The majority of the units fall below our minimum 'C' EPC criteria with Units 7-10 being F rated. As the assessments were undertaken before the current tenants fit-out, it would seem prudent to obtain up to date reports to understand if improvements have already been made. The original reports did provide a number of 'high' impact improvements so we envisage that the ratings can be enhanced at minimal cost. The current investment criterion does allow variance from this requirement where an investment represents a strategic acquisition, for example where there is adjoining ownership or an opportunity for future re-development.

Unit No.	Tenant	EPC Rating (date of)
1	CityFibre Ltd	E101 (08/2013)
2	Saint-Gobain Building Distribution Ltd.	D82 (09/2011)
3-4	CityStay Ltd.	D78 (08/2013)
5	Verizon UK Ltd.	D96 (08/2013)
6	Sodexo Ltd.	C75 (09/2011)
7-10	Howden Joinery Properties Ltd.	F142 (03/2011)

(e) Procurement

4.10 The acquisition was brokered by MP Real Estate and agency fees based on 0.75% of the purchase price will be payable.

(f) Consultation and communication

4.11 This is a specialised area and no public consultation has taken place.

(g) Community Safety

4.12 There are no Community Safety implications.

5. Background papers

These background papers were used in the preparation of this report:

Strategy & Resource Scrutiny Committee – Commercial Property Investment Report 19/01/2015

General Fund Medium-Term Financial Strategy 10/10/2016.

Strategy & Resource Scrutiny Committee – General Fund Property Review 01/07/2019

6. Appendices

Appendix 1 - Tenancy Schedule.

7. Inspection of Papers

To inspect the background papers or if you have a query on the report please contact:

Author's Name: Philip Taylor
Author's Phone Number: 01223 – 457431
Author's Email: philip.taylor@cambridge.gov.uk

Appendix 1 - Tenancy Schedule



Tenancy Schedule

Units 1-10 Nuffield Close
Nuffield Road Industrial Estate
Cambridge, CB4 1SS

Unit	Area (Sqft)	Tenant	Lease From	Lease To	Current Annual Rent (£)	Rent (£ per sq ft)	ERV (£ per sq ft)	ERV Annual Rent (£)	Next review	Break
Unit 1	3,129	City Fibre	01/02/2019	31/01/2039	37,540	12.00	12.00	37,548	01/02/2024	01/02/2029
Unit 2	3,105	Citystay Limited	11/03/2018	10/03/2023	34,500	11.11	12.00	37,260		
Unit 3 & 4	6,281	Salint Gobain	07/11/2017	06/11/2027	69,100	11.00	12.00	75,372	07/11/2022	07/11/2022
Unit 5	4,052	Venzon UK Limited	29/09/2003	29/09/2028	47,500	11.72	12.00	48,624	29/09/2023	
Unit 6	4,064	Sodexo Limited	11/02/2018	10/02/2028	48,750	12.00	12.00	48,768	11/02/2023	11/02/2023
Unit 7 -10	10,611	Howden Joinery Properties Ltd	10/05/2011	09/05/2026	103,450	9.75	11.75	124,679	10/05/2021	10/05/2021
	31,242				340,840			372,251		