

<b>DECISION-MAKER:</b>	CABINET
<b>SUBJECT:</b>	MILLBROOK TRADING ESTATE – FREEHOLD INVESTMENT DISPOSAL
<b>DATE OF DECISION:</b>	6 JUNE 2011
<b>REPORT OF:</b>	CABINET MEMBER FOR RESOURCES, LEISURE AND CULTURE

#### **STATEMENT OF CONFIDENTIALITY**

Confidential Appendix 2 contains information deemed to be exempt from general publication based on Category 3 of paragraph 10.4 of the Council's Access to Information Procedure Rules. The appendix includes details of a proposed transaction which, if disclosed prior to entering into a Legal contract, could put the Council at a commercial disadvantage. In applying the public interest test it is not considered appropriate to make public the bids received as this could lead to a revision of bids and, in the event of the transaction failing to complete, prejudice re-tendering of the property, therefore reducing the amount receivable by the Council

#### **BRIEF SUMMARY**

This report sets out the results of the marketing of the freehold investment in the Millbrook Trading Estate in order to obtain a major capital receipt, and seeks approval for the acceptance of the highest recommended offer.

#### **RECOMMENDATIONS:**

- (i) To approve the sale of the freehold investment in the Millbrook Trading Estate to the recommended bidder as set out in Confidential Appendix 2 and to delegate authority to Head of Property and Procurement to negotiate final terms and to accept the next best bid in the event of the selected bidder not proceeding and to continue such process as necessary.
- (ii) That the Head of Legal and Democratic be authorised to enter into any legal documentation necessary in respect of the sale.
- (iii) To note that the capital receipt will be used to reduce the current funding deficit in the capital programme.

#### **REASONS FOR REPORT RECOMMENDATIONS**

- 1. This freehold investment is no longer considered a strategic part of the Council's investment portfolio and its disposal would realise best consideration and enable the Council to raise a significant capital receipt.

#### **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

- 2. The options are to sell the site to the recommended bidder, sell the site to a different bidder, or not to sell at all following this tender. If the Council still wished to sell the site then it would be possible to remarket the site as a whole, or sell individual units to tenants or by auction. It is considered that no significant benefit would be gained from remarketing the site as the offer of the recommended bidder realises best consideration.

## **DETAIL (Including consultation carried out)**

3. SCC has owned the freehold of the Millbrook Trading Estate since it was built in the 1950s and early 1960s. There are 25 plots within the estate, 17 of which were let on ground rent leases expiring between 2052-4, 5 variable geared ground rents properties expiring between 2052 and 2124 plus 3 rack rented car parks expiring in the next 10 years. A conditional Agreement for Lease has been entered into with Selex Galileo Limited concerning their 150 car parking spaces at Second Avenue, for completion in February 2013 subject to them actually still being in occupation at that time. This is highly likely as they have recently completed a 10 year lease on a major building on the adjoining Millbrook Technology Campus whose staff use the Second Ave car park.
4. The property has been widely marketed over a 6 week period with prominent advertising in the main property journal and property investment websites attracting over 100 enquiries from which 35 detailed legal and information packs were requested. Offers were invited on an unconditional basis by way of tender in accordance with the Council's normal sale procedures. 17 bids were received as set out in Confidential Appendix 2.
5. The marketing included the option of bidding for the freehold of the Millbrook Technology Campus (broken red line on plan) let out on a 999 year lease at a peppercorn rent. This is a very low value freehold (due to the length of unexpired term) and many of the bidders opted not to bid additionally for the campus freehold. The marketing excluded the freehold of the City Depot Annexe site labelled 1892 on the plan in Appendix 1. No decision has been taken on the future of this Council operated site and will likely remain a freehold whilst still occupied by the Council.
6. **Consultations** have taken place with officers within Southampton City Council.
7. **Highways** has no objection to sale of the subsoil of First and Second Avenues subject to subsisting highway and utilities rights.
8. **Planning policy** supports the retention, in terms of use, of the estate for employment generation. Retail or other forms of development would be opposed.
9. **Head of City Development and Economy** – has considered industrial sites around the city for potential intervention by the Council, and has suggested that the Millbrook Trading Estate may be suited to an active investment strategy to enhance employment generating opportunities. However this could involve either a lengthy multi-million pound input of resources by the Council, or seeking a joint venture with a developer before any future capital receipt could be realised. No proposal of this nature would be expected to viable in at least the next five years.

## **RESOURCE IMPLICATIONS**

### **Capital/Revenue**

10. The capital receipt to be received by Southampton City Council as detailed in confidential appendix 2 will be allocated to the general fund.

11. The capital receipt may be used to reduce the Council's borrowing. Confidential Appendix 2 sets out the level of borrowing costs that would be saved over a 40 year period at current interest rates by using the capital receipt to reduce borrowing and compares this figure with the existing rent roll of £171,500 p.a.
12. The disposal will result in a £171,500 loss of income per annum to the Resources Portfolio Investment Property Account. This loss of income has not been built into the 2011/12 approved estimates. Assuming completion of the sale in September 2011, there will be a part-year loss of income in the current financial year, increasing to £171,500 per annum on an ongoing basis from 2012/13.

### **Property/Other**

13. The highest (and recommended) offer submitted is unconditional, which will enable the Council to proceed to the exchange of contracts and a subsequent sale without any undue delays.
14. The opportunities for potential rental growth in the next 5 years are limited.
15. Disposal as a whole, as opposed to piecemeal to tenants, provides a much quicker capital receipt. It also provides better medium and long term opportunities for planned and phased redevelopment of parts of the Estate with opportunities to enhance the generation of employment uses, and much needed public realm improvements. Many investors are taking a long term view and will identify opportunities to asset manage parts (or the whole) of the estate to promote redevelopment / improvements over a number of years

### **LEGAL IMPLICATIONS**

#### **Statutory power to undertake proposals in the report:**

16. **Legal Implications** – The land is held under Section 233 Town and Country Planning Act 1990 disposal may proceed in order to secure best use of the site and/or proper planning of the area. Provided the disposal is for best consideration then no separate consent for such disposal need be sought from the Secretary of State.

#### **Other Legal Implications:**

17. None.

### **POLICY FRAMEWORK IMPLICATIONS**

18. The disposal of a council property for capital receipt supports the Councils capital programme.

<b>AUTHOR:</b>	Name:	David Reece	Tel:	023 8083 2796
	E-mail:	david.reece@southampton.gov.uk		

**KEY DECISION?** Yes

<b>WARDS/COMMUNITIES AFFECTED:</b>	Millbrook
------------------------------------	-----------

**SUPPORTING DOCUMENTATION**

**Non-confidential appendices are in the Members' Rooms and can be accessed on-line**

**Appendices**

1.	Plan of the site
2.	Confidential: list of offers, property and financial analysis and recommendations

**Documents In Members' Rooms**

1.	None
----	------

**Integrated Impact Assessment**

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	No
--	----

**Other Background Documents**

**Integrated Impact Assessment and Other Background documents available for inspection at:**

Title of Background Paper(s)

Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	None	
----	------	--