



Committee Name: Cabinet

Committee Date: 16/11/2022

Report Title: Managing Assets (Non-Housing)

Portfolio:	Councilor Kendrick, Cabinet member for resources
Report from:	Executive Director of Development and City Services
Wards:	Mancroft

Purpose

For cabinet to consider the disposal of the land identified in this report.

Recommendation:

Cabinet is requested to:

- (1) approve the disposal of 4a Guildhall, Norwich.
- (2) delegate authority to dispose of 4b Guildhall, Norwich to the Executive Director of Development and City Services if the prospect of a let as an investment does not progress in a timely manner.
- (3) delegate acceptance of the most advantageous offer for recommendations 1 and 2 above to the Executive Director of Development and City Services in consultation with the Cabinet member for resources.

Policy Framework

The Council has five corporate aims, which are:

- People live independently and well in a diverse and safe city.
- Norwich is a sustainable and healthy city.
- Norwich has the infrastructure and housing it needs to be a successful city.
- The city has an inclusive economy in which residents have equal opportunity to flourish.
- Norwich City Council is in good shape to serve the city.

This report meets the aim of Norwich City Council being in a good shape to serve the city. The asset in question currently forms part of the investment portfolio but is also a listed building within the City's boundary. The asset is currently vacant but with substantial repair liabilities falling to the Council. Investment in the asset does not deliver a viable return and therefore a disposal is recommended to raise a

capital receipt.

Report Details

Background

1. 4a Guildhall is an 1837 Grade II Listed former 2 storey library constructed from buff brick with 3 storey wings.
2. The property was let until c.2020 and traded as The Library Restaurant. The leaseholders went into administration leaving the property in poor decorative order.
3. The adjacent property 4b Guildhall Hill is also owned by the City Council. It is also a Grade II listed building over 4 storeys and in better decorative order internally having most recently been occupied as offices by Norfolk and Waveney Enterprise Services until 2018. The property presents much better having been extensively refurbished externally during 2018/19 and offers frontage to the main retail parade with better levels of footfall.
4. Despite over 18 months of marketing, interest has been low in 4a due to the relative size of the building being too large for most retail, leisure and hospitality occupiers.
5. The Inspiration Trust have shown interest in both buildings on a long-term Full Repairing and Insuring basis. They are seeking to add to their city centre presence with a new 6th form building. Having agreed terms in late 2021, they have since withdrawn their interest in 4a due to rising building costs causing their fit out to be unviable. However, they are continuing with their interest in 4b and we are close to finalising agreed terms on this building.
6. We have commissioned our own detailed condition survey and this suggests circa £289k of immediate high priority and urgent works are needed relating to 4a before a new tenant could take occupation. A further £350k of longer-term works are required as an ongoing cyclical liability.
7. A summary of key asset information is provided in the table below:

Asset type	Investment Asset (General Fund)
Council interest	Freehold Interests with vacant possession
Current tenant	N/A
Lease term & expiry	N/A
Current rent	N/A
Rent review	N/A
Break clause	N/A
Repair liability	N/A
EPC	4a – D 4b – D
Floor space	4a – 509 sqm 4b – 159 sqm
Site area	0.06 hectares
Listing	Grade II

Adjacent land holdings	No
Condition Survey 10-year costs	£289k immediately (high priority) + 15% professional fees ; PLUS further £285k + 20% professional fees for less urgent works longer term (years 1-10). Total 658k exc VAT.
Void costs	4a - Circa 20k pa 4b - Circa 15k pa

Marketing history

8. 4a has been marketed without success. Since the pandemic the market for the restaurant sector has weakened and this is likely to worsen with rising inflation and altering spending habits.
9. The council has had some interest, however this has not resulted in any agreed terms. Occupiers willing to invest capital in the building are very hard to find and even then would expect a substantial rent free period or landlord works up front.

Valuation and Condition Survey Advice

10. Further detail on valuation and financial assumptions is provided in the exempt appendix to this report.
11. However, in summary a cash flow model has been undertaken to assess the return from upfront investment in the building, this returns a negative cash flow over a ten-year period.

Possible Combined Sale with 4b Guildhall Hill

12. 4b Guildhall Hill, whilst also a challenging property to market, is in far better condition. It has struggled to get offers from a single tenant as most prefer not to be arranged over 4 small separate floors.
13. We have recently agreed market terms with Inspiration Trust and this deal is progressing.
14. We have sought external advice on the merits of disposing 4a and 4b as a package to generate a higher financial return than a sale of the individual interests. However, this advice indicates that no obvious marriage value exists due to differing floor plates making it difficult to combine the two buildings. Combining a sale of both buildings may appeal to a larger operator and the relatively secure income over 4b may appeal to an owner occupier of 4a and help with debt funding. It also offers diversification for a small portfolio holder as the underlying dynamics for office use are different to retail, leisure and hospitality. This may help us with a sale of 4a, which if sold alone could seek opportunistic offers.
15. The sale of 4b would however result in the potential loss of revenue (assuming the Inspiration Trust deal is completed) in a building with limited repair obligations for us as landlord in the short term.

16. It is recommended that delegated authority is given to dispose of 4b Guildhall in addition to 4a should the Inspiration Trust deal not complete in a timely fashion.

Options

Financial and Resources

17. Any decision to reduce or increase resources or alternatively increase income must be made within the context of the council's stated priorities, as set out in its Corporate Plan 2022-26 and budget.

18. There are several options available for use of any receipt which will be considered in future budget and MTFS papers; similarly any associated loss of rental income will need to be reflected within budget reports once the sale timelines are known.

19. The service will continue to manage the overall income budget which varies throughout the year due to the changes in tenancy agreements as part of normal business activity.

Legal

20. By virtue of section 123 of the Local Government Act 1972 the city council has the necessary statutory powers to dispose of its land. This section also states that on a disposal, the council are under a statutory obligation to obtain the best consideration that can reasonably be obtained for the land.

21. Achieving best consideration will also ensure that the council is not caught by the European Commission's State Aid rules.

22. If any part of the site consists of open space land, section 123(2A) of this Act states that the council must follow certain statutory requirements to advertise the disposal of the said areas of open space land. In this case no open space land is affected by the decision.

Statutory Considerations

Consideration	Details of any implications and proposed measures to address:
Equality and Diversity	Sale of the asset will result in the transfer of the leasehold interest but this is not anticipated to have any material equality and diversity implications.
Health, Social and Economic Impact	There are no direct consequences flowing from these proposals.
Crime and Disorder	There are no direct consequences flowing from these proposals.
Children and Adults Safeguarding	Not applicable
Environmental Impact	There are no direct consequences flowing from these proposals.

Risk Management

Risk	Consequence	Controls Required
Further deterioration of market interest.	We lose any potential remaining interest from operators / don't get bidders and worse our position.	Recent sales suggest prominent city centre may appeal to a local investor / developer given lack of opportunities – although market is fluid
Reputational risk from further encampments/ break-ins	Impact on reputation of council managing own properties	Low likelihood, low impact. This is being managed through a comms strategy.
Mounting costs from infestation, vandalism	Property becomes blighted / attracts negative stigma and impacts surrounding buildings	Regular monitoring as Travelodge is delivered next door
Property placed on the Heritage at Risk Register following sale due to lack of investment	Bad publicity, expense to the council to enforce repairs/restoration	Low likelihood. Due diligence on purchaser and/or positive covenant on sale

Other Options Considered

23. Other options considered are outlined below;

- a) Do nothing, however this has been ruled out as the property condition will worsen and invite the wrong sort of attention from rough sleepers and break ins with potential for reputational consequences.
- b) Given current market conditions the disposal of 4a could be delayed however, it is currently a substantial liability and the building is deteriorating further.
- c) Progress with an off-market sale with a known to be interested party, evidence would suggest that this is unlikely to deliver best value and has therefore been discounted. Open market sale through local agents is likely to invite competing interests from investors.
- d) Capital spending to achieve a letting and to then dispose of as an 'as let' investment sale. We have modelled a discounted cashflow and this produces a negative cashflow and even worse Net Present Value.

24. The most financially efficient option is to seek a disposal with vacant possession as this requires no upfront costs and will appeal to a different category of buyer.

25. The asset has limited alternative use opportunity given its constraints in being listed and limited external frontage. Alternative use is likely limited to an institutional use (such as school), freehold disposal might be more attractive to such an investor.

Reasons for the decision/recommendation

26. The property has failed to consistently deliver a return that we would expect from a city centre investment asset and the asset offers poor investment potential. Therefore, disposal is recommended. Joint disposal with 4b is recommended if the current letting to Inspiration Trust falls through. If that deal is successful then it is proposed not to market 4b at the present time.

27. Whilst the property is not a viable proposition for the council to invest in, it may appeal to the wider market, who may take a longer term view on investment and/or be able to achieve some grant funding not available to the Council to assist in the properties renovation.

28. The capital receipt could be reinvested or be used to reduce future external borrowing need which could deliver a revenue saving to the council.

29. It is recommended to delegate authority to the Executive Director of Development and City Services in consultation with the Cabinet member for resources to accept the most advantageous offer. In this case, the most 'advantageous' offer will not necessarily result in the highest capital receipt, but will be assessed based on a financial return, proposed use, type and experience of purchaser and proposed investment in the property.

30. Prior to any sale, it is imperative to ensure any purchaser has the experience and financial ability to meet the demands of restoring a listed building to avoid the property being left vacant/derelict for years following the sale and ultimately being placed on the Heritage at Risk Register.

31. This could be achieved by undertaking due diligence on the purchaser, placing positive covenants to invest or develop within a defined timeframe and/or disposing of the property via formal/informal tender to have greater control of the type of purchaser.

Background papers: None

Appendices: Exempt Appendix

Contact Officer:

Name: Mark Brown

Telephone number: 07775 007897

Email address: markbrown@norwich.gov.uk

