



ADUR & WORTHING
COUNCILS

Joint Strategic Committee
7 July 2020
Agenda Item 17

Key Decision - Yes

Ward(s) Affected: Broadwater

Acquisition of Industrial Development Site

Report by the Director for the Economy

Executive Summary

To approve the acquisition of an industrial development site on Southdownview Road for the delivery of new employment floorspace for the town

1. Purpose

- 1.1 To seek authority to purchase the approximately 2.5 acre site for the development of new employment floorspace within Worthing.

2. Recommendations

- 2.1 The Joint Strategic Committee is recommended to:
- i. Approve the acquisition of the development site at Southdownview Road for a residual land price of up to £1,800,000.
 - ii. Authorise the Head of Major Projects and Investment to agree detailed terms of the transaction and enter the contract for the purchase subject to satisfactory legal and technical due diligence
 - iii. Authorise the Head of Major Projects and Development to undertake procurement and enter into a construction contract subject to a viable business case to deliver the site in consultation with the Executive Member for Resources
 - iv. Authorise an overall budget of £5.8m to meet the costs of acquisition

and construction to be funded from the Strategic Property Investment Fund.

3. Context

- 3.1. Worthing Borough Council, like most other councils, is a significant landholder. The council has circa 500 assets and in excess of 300 tenancies within the borough. As part of the Asset Management Plan and in order to meet the needs of the councils Medium Term Financial Strategy the use of these assets are balanced across both our operational and investment needs, with assets used to generate both social and commercial value.
- 3.2. Officers continue to seek to add value to the historic estate through proactive management of the assets as well as seeking new opportunities by purchasing, renovating and disposing of assets according to the principles of the strategy set out in the Asset Management Plan.
- 3.3. The councils have been proactive in acquiring properties for investment purposes to generate additional revenue for the council, usually out of borough and in accordance with the Strategic Commercial Property Investment Strategy, as well as sites in borough which facilitate increased housing delivery, or strategic and long term regeneration opportunities.
- 3.4. As a result of this ongoing work, officers have identified a new opportunity to acquire the former 'EDF car park' on Southdownview Road and have agreed terms to purchase the site, subject to member approval and satisfactory legal and technical due diligence.
- 3.5. The site comprises a surplus surface car park providing approximately 2.5 acres of underutilised land with an existing planning permission for 22 new light industrial units totalling 26,000 ft² of light industrial B1c accommodation with 97 parking spaces and cycling provision.
- 3.6. A site plan is shown at Appendix 1, along with site layout plans from the planning permission that was granted in April 2020, under reference AWDM/1008/19.

- 3.7. This acquisition presents an opportunity for the council to invest in a site to secure the delivery of new, modern and fit for purpose employment space within the borough, that can be used to generate economic growth, positive revenue return as well as business rate income for the council.
- 3.8. This acquisition will provide the council with the opportunity to develop this new space and safeguard employment space for local economic generation as we seek to kick start and boost the local economy following the impacts of Covid-19.
- 3.9. It has been identified that there is a shortage of both affordable and fit for purpose modern industrial units within the town. This shortage often means that occupiers valuable to the town's local economy cannot find suitable business space to lease or they are constrained to existing poorer quality properties with little room for growth. By seeking to control the development of the site, the council can work with local occupiers and trusted partners, to deliver a well managed, high spec employment and business incubation hub.
- 3.10. The council can ensure the development is delivered in such a way it supports our local economy and business community with a different approach to the private developer market, but focusing on recycling the developers standard profit back into the development and securing the delivery of the new space. With uncertainty surrounding lending markets and developer's current risk approach due to Covid-19, delivery may be delayed. The council can seek to ensure the development's full potential and existing planning permission is delivered and ensure that the site is not mothballed for better market conditions or land banked/traded in the future, by the private sector.
- 3.11. Through a clear tenant mix policy, the council can curate a mix of like minded occupiers that align with the councils strategic goals of generating positive local employment and social-economic outputs. Work on the detail of this will involve teams across the Economy directorate, ensuring a cohesive approach to cultivating this employment space.
- 3.12. An initial review of the scheme shows the site will create up to 47 new FTE jobs.

- 3.13. The council through its delivery and ownership of the site can ensure affordability whilst remaining commercial - industrial rents and demand has undergone significant growth within the town due to a lack of existing supply and future development pipeline. This has resulted in typical rents currently range from £7.00ft² - £13.00ft² per annum, depending on size and specification. By the council delivering the scheme, there is no requirement for a developer's profit, usually 20% of construction cost, which can be recycled and reinvested into the development to deliver a higher quality specification, with sustainability at its heart, and a more affordable and flexible workspace environment which supports business growth.
- 3.14. The council can also work to standardise the leasing procedure for tenants, providing flexible leases that adjust to their business needs, supporting growth without tying them into lengthy inflexible agreements.
- 3.15. The council can also seize opportunities with its trusted partners, to join with our local businesses, and those with active requirements in the town which cannot be satisfied, by delivering 'build to suit' units on a pre-let basis which meet their specific needs and reduce future letting risk and exposure for the council.
- 3.16. Through delivering and managing this key site the council will also have a better ability to monitor economic benefit through curating a landmark employment hub for the town.
- 3.17. The current business case and proposed purchase price shows a net positive return to the council and therefore can be recommended to members.

4. Issues for consideration

- 4.1. An initial risk assessment has been undertaken and identified the following key risks to delivery:
- 4.2. Acquisition
 - 4.2.1. As with all property acquisitions there are risks associated with the purchase including purchase price and technical due diligence. The council has commissioned two separate red book valuations of the site in accordance with RICS standards and full

technical and legal due diligence will be undertaken by appropriate colleagues or outsourced where required.

4.3. Development

- 4.3.1. With any proposed development there is risk and uncertainty in construction cost and management, as well as future letting risk. This site has been de-risked as it is already in receipt of a full planning permission. Construction and development risk cost is a risk to delivery and the council has commissioned a robust cost analysis has been undertaken by a qualified cost consultant (RLF) with significant experience in industrial development. This has been used to underwrite development appraisal assumptions, business case and the proposed purchase price.
- 4.3.2. This cost plan will continue to be refined and value engineered as the scheme progresses.
- 4.3.3. The council is also in the process of undertaking intrusive geotechnical surveys which will identify any contamination, ground condition and utility issues. This will be used to inform the risk contingencies of the financial modelling and the purchase price if there are unforeseen factors identified which impact value.
- 4.3.4. The council is already delivering a number of key housing sites and with the support of professionally qualified consultants, and it is felt that the subject development risk can be managed through robust pre-acquisition due diligence and ongoing risk management.

4.4. Demand

- 4.4.1. The council will need to satisfy itself that there is sufficient demand for the development once completed, at a rent level to ensure viability of the scheme. As part of the pre-acquisition process, a comprehensive occupational report has been commissioned which includes data surrounding existing supply and occupiers, rents, current availability and future competing development stock to inform the council's business case.
- 4.4.2. This work is being undertaken by a local RICS regulated consultancy with input from the Economy Team and LEP to fully understand occupier demand and requirements. This will help

de-risk future lettings and ensure a 'future proofed' development is delivered which accommodates a range of business types and sizes.

4.4.3. To improve viability and unlock additional value during the pre-acquisition process, we have further appointed a specialist industrial architectural firm to review the existing permission and identify alternative layout and design options which improve site coverage and lettable area, optimise unit sizes based on local demand, and reduce construction costs by identify cost efficiencies such as minimising the amount of roadways and hard landscaped areas or other items that may impact viability.

4.4.4. Given the lead time to delivery, the council has sufficient time to refine its marketing strategy working with local businesses and agents to ensure the proposed development is a success.

5. Engagement and Communication

5.1 Engagement with internal council officers, Chief Financial Officer, Place and Economy Team has been undertaken to date and input has been considered in progressing with this transaction.

5.2 Both the Executive Member for Resources and Leader have also been engaged and any input provided has been taken into account in this report.

5.3 Officers will also seek to engage with the Local Enterprise Partnership to support the delivery of new, sustainable employment space within the town.

5.4 Officers will also engage with local employers at the right time to ensure that appropriate market feedback and involvement in the proposals

5.5 Councils also propose to engage with local educational establishments regarding potential incubator opportunities

6. Financial Implications

6.1 Worthing Borough Council has a budget of £34,217,000 in 2020/21 for the purpose of acquiring and developing commercial property.

6.2 The proposed scheme is estimated to cost £5.8m comprising of land costs and subsequent development costs as follows:

	£
Purchase of land	1,800,000
Stamp duty	79,500
Fees on purchase of land	36,000
Cost of land purchase	1,915,500
Potential build cost	2,890,000
Optimism bias @ 25%	731,630
Other fees	36,500
Interest	227,290
Proposed scheme budget	5,800,920

- 6.3 It is expected that the units developed will be let for £13.50 per sq ft. This is higher than normal within the Worthing market (£12.50- £13.00) but there has been very little development of such units for some substantial time, and the occupier will benefit from a newly built premise. At this rental level, the units will generate an initial return of £149,170 per year, although even lower rents in line with the current market will still give the Council a reasonable level of return

	Industrial units	Industrial units	Industrial units
Rental yield per sq ft	£13.50	£13.00	£12.50
	£	£	£
Minimum Revenue Provision	59,510	59,510	59,510
Interest costs at 2.5%	145,020	145,020	145,020
Total debt charges	204,530	204,530	204,530
Less: Income	-353,700	-340,600	-315,370
Overall net cost / income (-)	-149,170	-136,070	-110,840
Yield	6.10%	5.87%	5.44%

- 6.4 The investment has a net present value of £3.5m (net income) and an internal rate of return of 5.375%.
- 6.5 Interest rates are currently 2.44% for a 50 year maturity loan. The investment has been appraised using a 2.5% interest rate and rates are expected to

remain stable. However if the interest rate was to rise to say 3.5%, the Council would still receive a net income from the project of £87,890 per year.

Legal Implications

- 7.1 Under Section 111 of the Local Government Act 1972, the Council has the power to do anything to facilitate or which is conducive or incidental to the discharge of any of their functions.
- 7.2 Section 1 of the Localism Act 2011 empowers the Council to do anything an individual can do apart from that which is specifically prohibited by pre-existing legislation.
- 7.3 Section 1 of the Local Government (Contracts) Act 1997 allows the Council to enter into a contract in relation to any of its functions.
- 7.4 In procuring for a preferred developer the Council is required to follow a lawful process as required by its Contract Standing Orders and have regard to the Public Contracts Regulations 2015 and the Concession Contracts Regulations 2016. All the terms of the proposed arrangement are to be set out in a fair and transparent manner to all potential bidders.

Background Papers

- Commercial Property Asset Management Plan 2020
- Platforms for our Places: Going Further

Officer Contact Details:-

Robert Crossan

Property and Investment Manager

07795856195

robert.crossan@adur-worthing.gov.uk

Sustainability & Risk Assessment

1. Economic

- This report will provide the council with control over positively influencing the local economy with the creation of new employment opportunities (47 FTE equivalent), much needed creative incubator space, a positive financial return to the council and business rates income

2. Social

2.1 Social Value

- In addition to economic output, through controlling the occupational mix at the site there is opportunity to increase social value through the occupiers and business operations at the site

2.2 Equality Issues

- Matter considered, no issues identified

2.3 Community Safety Issues (Section 17)

- Matter considered, no issues identified

2.4 Human Rights Issues

Matter considered, no issues identified

3. Environmental

- The proposed development presents an opportunity to incorporate where viability permits, sustainable design and measures such as EV charging points, solar panels and other opportunities to deliver a truly sustainable development. Sustainable development will also lead to lower running costs for occupiers increasing business sustainability.
- The acquisition of the site will also be subject to an intrusive phase I and II geotechnical environmental survey

4. Governance

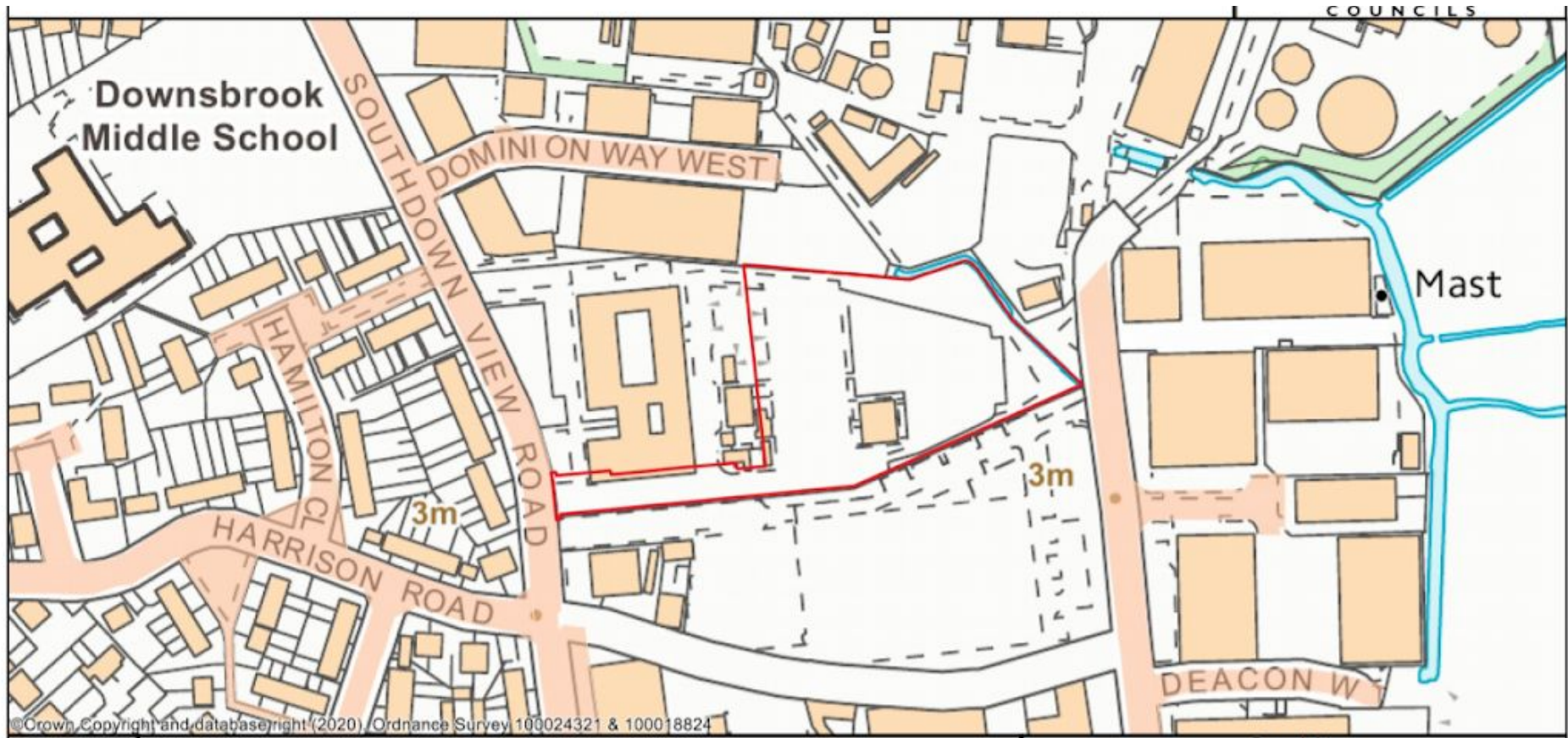
- This purchase accords with the objectives of the asset management plan as well as the Platforms For Our Places: Going Further and demonstrate a strong response from the local authority in supporting and investing in local businesses following Covid-19



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Appendix 1:

Site Plan - edged red





PROPOSED CAR PARKING SPACES PLAN

1000

Permitted Development Scheme

97 spaces

Unit 1 - 831sqm

Unit 2 - 387sqm

Unit 3 - 290sqm

Unit 4 - 580sqm

Unit 5 - 343sqm

Total - 2431sqm

Parking - 97spaces

Cycles - 48no.

Planning Application Boundary

New Site Levels

New 2.4m High Boundary Fence

New tactile paving

New 2.0m High Acoustic Fence

edge architect



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Sample proposed floor plates and elevations:

