



ADUR & WORTHING
COUNCILS

Executive Members for Resources
1 December 2020

Decision to be taken on or after
9 December 2020

Key Decision: Yes
Ward Affected: Central Ward

Cannon House Refurbishment

Report by the Director for the Economy

Executive Summary

1. Purpose

- 1.1 To seek authority to comprehensively refurbish Cannon House, Chatsworth Road, Worthing.

2. Recommendations

- 2.1 The Executive Member for Resources is recommended to:
 - a. Approve the refurbishment of Cannon House and authorise the release of a budget of up to £400,000 from the Strategic Property Investment Fund (including professional fees) to meet the forecasted build costs
 - b. Delegate authority to the Head of Major Projects and Investment to undertake a procurement exercise; and to enter into a construction contract after consulting with executive members on the outcome of that procurement process.

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

requirements, with assets used to generate both social and commercial value.

- 3.2 In accordance with the Strategic Commercial Property Investment Strategy, the council has been proactive in acquiring property for investment purposes to generate revenue for council functions but also to facilitate and enable local regeneration.
- 3.3 As a result of this work, the council has recently acquired an office building near central Worthing town centre known as Cannon House, Chatsworth Road. The office was formerly occupied by the Worthing Herald.
- 3.4 Cannon House is a four storey detached office property which was constructed in early 1990's and benefits from parking areas on both the east and west elevation.
- 3.5 The property extends to approximately 7,500 sq. ft of net internal area office accommodation with floor plate sizes ranging from 1,705 - 2,529 sq. ft.
- 3.6 The acquisition provided the council with the opportunity to invest into a local office asset to generate a positive revenue return and promote economic growth and inward investment in the borough. It also presented other strategic opportunities to council as it adjoins the Union Place development, providing another access route to the site and removing any risk associated with rights of light infringement claims. It further safeguards office and employment accommodation in Worthing town centre where supply has reduced significantly due to residential redevelopment and conversion.
- 3.7 The council through it's new ownership of the asset can ensure that employment space is safeguarded in the town centre and support our local business community by repositioning and refurbishing the property to deliver high quality office accommodation, which is future proofed and aligned with modern occupier needs.
- 3.8 Officers have taken advice from external consultants to understand the current repair and condition of the office, and what works are required in order to successfully re-let the premises. Following the results of these surveys and advice, it's been established that the current internal condition and specification, in particular the existing mechanical, electrical and plumbing services, are not salvageable or repairable, and that the office requires significant capital expenditure to comprehensively refurbish, reposition and re-let.

- 3.9 It has been identified that there is a supply shortage of good quality offices within the town. For instance, there is only currently a single conventional leased option available within the town which can accommodate a business above 30 staff. This shortage means that existing occupiers, and those who are wanting to relocate into the town, are unable to find suitable options or are limited to existing poorer quality properties with little room for growth.
- 3.10 This lack of modern office space also results in occupiers within the town relocating outside the borough and satisfying their requirements in other local competing West and East Sussex office locations.
- 3.11 Current headline rents for larger floor plates in the town currently sit at approximately £13.50 per sq. ft and have remained at these levels for some time. This is likely due to a lack of inward investment from the private sector due to viability challenges coupled with a general lack of demand for Worthing as an office destination. Headline rents in competing locations such as Brighton are now close to £35.00 per sq. ft having grown significantly over the past five years (25% growth in the last 3 years).
- 3.12 This is predominantly due to greater capital investment from landlords to provide higher specification and occupier amenity as well as low levels of supply which has resulted from a lack of speculative new build office development and the redevelopment of secondary stock into residential uses.
- 3.13 Anecdotal evidence from a large office building which is currently under construction near to the town centre, has reportedly achieved a headline rent of approximately £19.50 per sq. ft. The full terms are confidential but the transaction demonstrates a positive precedent that rental growth is achievable with the right quality office space and engagement with local occupiers.
- 3.14 By seeking to deliver the refurbishment, the council can deliver much needed high quality office space with the objective of setting a new standard for office accommodation in the town and an improved rental tone. The ambition is that the project will help kick start a renaissance in the office sector locally and encourage private sector investment into office refurbishment projects, and new build office developments, due to improved viability and confidence.

3.15 The repositioning of this office coincides with the councils Platforms for Our Places: Going Further to deliver High Quality Office Space (1.1.4.c).

4. Issues for consideration

4.1. Construction

4.1.1. With any proposed refurbishment, there is risk and uncertainty in construction cost and performance, as well as future letting risk. In order to manage this risk, the council has instructed a professional team including a cost consultant to manage the project and cost, an architect to inform design and positioning and a local commercial agent to provide leasing advice and marketing strategy.

4.1.2. The forecasted initial build cost is estimated up to £400,000 including professional costs. The budget will continue to be refined and value engineered through the contractor procurement process to ensure value for money to the council and a balance is struck between investment value once occupied and capital expenditure.

4.2. Demand and Re-letting

4.2.1. The council will need to satisfy itself that there is sufficient demand for the development once completed, at an appropriate rental level to ensure viability against the capital outlay.

4.2.2. To ensure good letting prospects, the council has instructed an architectural firm which specialises in the office sector to advise on the design, specification and finishes to ensure it meets the needs of the modern day occupant but also appeals to a wide range of tenant sectors including creatives and more traditional corporate businesses.

4.2.3. In terms of marketing strategy, the council will seek to identify an occupier during the construction period to de-risk the project and mitigate future letting risk. This will be achieved through a proactive pre-letting campaign via our appointed commercial agent and internal council media resource. This will include the use of digital marketing and bespoke marketing collateral using

computer aided images to allow interested parties to visualise the finished product.

4.2.4. The council is recommending that the office undergo a full and comprehensive Category A refurbishment. This will include, but is not limited to:

- Removal of existing suspended ceiling to expose the concrete slab and frame
- Wall mounted perimeter fan coil air conditioning units
- Fully raised access floor system
- LED suspended lighting
- Refurbished WC's and stairwell core
- Remodeled reception area
- Shower facilities and bike storage
- EV charging points, roof mounted photovoltaics and other energy efficient measures, subject to viability

4.3. Alternative Options

4.3.1. The council has also evaluated more moderate refurbishment scenarios to reduce cost. Due to the current condition of the internal specification, this is not recommended as there is risk that this will harm re-letting and rental prospects, investment value, and expose the council to further capital expenditure in the short and medium term.

4.3.2. The property might be suitable for alternative uses such as residential but following consultation with internal stakeholders and councillors it has been decided to not explore this option in order to protect employment space in the town.

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 has been taken into account.

6. Financial Implications

- 6.1 The Council currently has £25.3m uncommitted budget remaining in the Strategic Property Investment Fund. The proposed refurbishment is estimated to cost up to £400,000 including professional fees and it can be accommodated within this budget.
- 6.2 It is anticipated that the completed refurbishment will rent between £16.00 - £19.00 per sq. ft. This is higher than the current rental levels for offices in Worthing but there is limited supply, if any, of high specification office accommodation of this nature and the upper rent assumption has reportedly been achieved elsewhere in the town. At this rental level assumption, the office will generate a return of between £120,000 - £142,500 per annum (before any tenant incentives).
- 6.3 Overall the investment in Cannon House will be £1,782,600. Based on the likely rental yields the Council should achieve the following returns once the building is occupied:

	<u>Rent at £16.00</u> <u>per sq ft</u> £	<u>Rent at £19.00</u> <u>per sq ft</u> £
Debt charges	90,990	90,990
Less: Rental	-120,000	-142,500
Net income	<hr/> -29,010 <hr/>	<hr/> -51,510 <hr/>
Yield	6.73%	7.99%
IRR	4.93%	5.74%
Net present value (net income + / net loss -)	524,120	810,617

- 6.4 The project will break even at a rental of £12.14 per sq ft.

7. Legal Implications

- 7.1 Under Section 111 of the Local Government Act 1972, the Council has the power to do anything that is calculated to facilitate, or which is conducive or incidental to, the discharge of any of their functions.
- 7.2 s1 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 3(1) of the Local Government Act 1999 (LGA 1999) contains a general duty on a best value authority to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 7.4 s1 Local Government (Contracts) Act 1997 confers power on the local authority to enter into a contract for the provision of making available assets or services for the purposes of, or in connection with, the discharge of the function by the local authority
- 7.5 Under the Public Contract Regulations 2015 where a Public Authority is to enter into a contract for the supply of goods & services, and the value of those goods and services exceeds a financial limit of £189,333 or for works £4,733,252, any procurement exercise to contract for those goods and services must be conducted in accordance with the Regulations

Background Papers

- Commercial Property Asset Management Plan 2020
- Strategic Property Investment Strategy 2020-2021
- Platforms for our Places: Going Further

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Sustainability & Risk Assessment

1. Economic

- The development of high quality employment space for the town will encourage inward investment and growth, delivering high quality employment space as per 1.1.4 of Platforms for our Places: Support preparation and delivery of the Local Industrial Strategy (LIS) in partnership with Coast to Capital Local Enterprise Partnership and ensure Adur and Worthing provide a distinct offer that:
 - attracts investment
 - drives innovation
 - delivers high quality office space
 - supports the delivery of digital infrastructure, creative industries and visitor economy
- This development will reinstate 7,500 sq. ft of office space and deliver 58 new FTE jobs as well as jobs created as a result of the refurbishment works
- It also shows the council's commitments to investing in its local economy, leading the way in supporting businesses with high quality employment space

2. Social

2.1 Social Value

- Matters considered but no issues identified.

2.2 Equality Issues

- Matters considered but no issues identified. The refurbishment works will be compliant with Building Regulations which will be independently assessed.

2.3 Community Safety Issues (Section 17)

- Matters considered but no issues identified.

2.4 Human Rights Issues

- Matters considered but no issues identified.

3. Environmental

- The proposed refurbishment works presents an opportunity to incorporate new environmental technologies into an older building to reduce its operational carbon footprint in the future. Where viability permits, the council is considering new energy and water reduction measures including roof mounted photovoltaics, water efficient fittings, air source heat pumps and LED lighting amongst other measures. The installation of electric vehicle charging points and bikes / shower facilities will also encourage the use of sustainable modes of transport.
- In order to achieve this, the council is involving a SKA assessor in the design, delivery and occupancy phases of the project. SKA rating is the environmental assessment method and benchmark for non domestic fit-out projects, such as this specific project, which is led by the Royal Institution of Chartered Surveyors. The council hopes to achieve a Silver award and the rating system encourages the use of specifications and products with a good environmental performance.

4. Governance

- This refurbishment accords with the objectives of the asset management plan, Strategic Property Investment Strategy as well as the Platforms For Our Places: Going Further. This demonstrates a strong response from the local authority in supporting and investing in local assets and businesses following Covid-19.