



ADUR & WORTHING  
COUNCILS

Executive Members for Resources  
23 September 2021

Decision to be taken on or after  
1 October 2021

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.
- 1.2 The report outlines the project context, business case and the contractor procurement process, and the increased budget required to enable the refurbishment of 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 revised budget of up to £750,000 from the Strategic Property Investment Fund (excluding professional fees).
  - b. Delegate authority to the Head of Major Projects and Investment to enter into a build contract with Fit-out Refurbishment and Management Ltd (FORM Ltd) on the terms set out in the report.

##### **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 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 and outputs.

- 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 in 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. This includes the reception area.
- 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 the 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 we 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 and plant, 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 destinations.
- 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. The Council is also letting part of Portland House to the NHSPT at a headline rent of £15.00 per sq. ft.
- 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 following the Covid 19 Pandemic 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 aligns with the councils Platforms for Our Places: Going Further to deliver High Quality Office Space (1.1.4.c).

#### **4. Issues for consideration**

##### 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 repositioning and a local commercial agent to provide leasing advice and marketing strategy.
- 4.1.2. The initial build cost was estimated at £400,000 including professional costs. However, through the initial contractor procurement and tender stages, it's become apparent that this budget was not deliverable to achieve the Council's objectives and deliver future proofed high quality office accommodation.
- 4.1.3. 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 and return once occupied, and capital expenditure.

##### Demand and Re-letting

- 4.1.4. The Council will need to satisfy itself that there is sufficient demand for the finished office once completed, at an appropriate rental level to ensure viability against the capital outlay.
- 4.1.5. 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.

- 4.1.6. 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.
- 4.1.7. The Council has taken updated advice from its appointed leasing agent Stiles Harold Williams who are of the opinion that the target headline rent of £130,000 per annum is achievable and sits comfortably between the most relevant office rental comparable transactions at Teville Gate House and the Council's proposed part letting of Portland House to NHSPT.
- 4.1.8. The Council is still 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, lift and stair core
  - Remodeled reception area
  - Shower facilities and bike storage

#### Alternative Options

- 4.1.9. The Council has also evaluated more moderate refurbishment scenarios to reduce cost. This was undertaken during the initial due diligence stages as well as the tender stages through a value engineering process. 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 which an incoming tenant would not accept liability for.

4.1.10. The property might be suitable for alternative uses such as certain types of residential accommodation 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. Procurement and Tender Process

5.1 The proposed refurbishment works and contractor selection has been procured through an open procurement process via the Council's electronic procurement portal In-tend. The Invitation to Tender was published 16 December 2020 with a return date of 29 January 2021. The Council's appointed external project manager Hart Dixon managed the process with the Council's procurement team.

5.2 The tender assessment process is summarised in the table below:

<b>Criteria</b>	<b>Weighting %</b>
<b>Quality</b>	<b>60%</b>
1. Contract implementation and mobilisation	15%
2. Site Management	15%
3. Complaints procedure	5%
4. Risk Management	5%
5. Experience	10%
6. Social Value – Sustainability	10%
<b>Price</b>	<b>40%</b>
<b>Total</b>	<b>100%</b>

5.3 8 tenders were received, of which all were compliant in mandatory and verification responses. Due to the dispersion between bids prices, which were higher than expected, the Council revised and value engineered the tender specification with their appointed professional team, and requested that interested parties resubmit their bid prices based on an amended tender documentation.

5.3 6 tenders were received following the tender amendments with two of the original bidders pulling out of the process.

- 5.4 Having scored all the tenders from the revised submissions, it was in the opinion of the evaluators that the FORM Ltd submission best met Councils requirements of tender and project. The preferred bidders proposed tender sum for the project was £728,773.04 + VAT, which excludes our professional fees.
- 5.5 FORM Ltd scored 47% out of 60% for their quality submission and 38.24% out of 40% for their price submission, giving a total score of 85.24% out of a total available 100%.
- 5.6 As the price of their submission was still higher than the Council's expectations, officers undertook a further value engineering exercise with FORM Ltd directly, with the consent of the unsuccessful bidders, which resulted in a price reduction of 5.27%.
- 5.7 Following this exercise, the final tender sum is agreed at £690,373.04 + VAT (Six Hundred and Ninety Thousand, Three Hundred and Seventy Three Pounds and Four Pence).
- 5.8 Financial checks have been completed for the preferred bidder which indicates that the bidder has a lower than average risk of failure, with a high likelihood of continued operations.

## **6. Engagement and Communication**

- 6.1 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.
- 6.2 Both the Executive Member for Resources and Leader have also been engaged and any input provided has been taken into account in this report.
- 6.3 Officers will also seek to engage with the Local Enterprise Partnership to support the delivery of new, sustainable employment space within the town.
- 6.4 Officers will also engage with local employers at the right time to ensure that appropriate market feedback has been taken into account.

## 7. Financial Implications

7.1 The Council currently has £25.3m uncommitted budget remaining in the Strategic Property Investment Fund. Members had previously released £ from this to fund the refurbishment, however following the tender exercise the likely cost has now increased. The proposed refurbishment is estimated to cost up to £750,000 (including professional fees) and this can be funded from within this budget.

7.2 It is anticipated that the completed refurbishment will rent between £16.00 - £19.00 per sq. ft. Rental yields have increased steadily over the past year with suitable properties being rented for over £13.00 per sq.ft. Recent rentals in the local market of high quality spaces have achieved between £15.00 - £19.00 depending on the quality of the space. This is higher than the historic rental levels for offices in Worthing but there is limited supply, if any, of office accommodation of this nature and the upper rent assumption has reportedly been achieved elsewhere in the town. The office should generate a return of between £130,000 - £142,500 per annum (before any tenant incentives).

7.3 Overall the investment in Cannon House will now be £2,132,590. Based on the likely rental yields the Council should achieve the following returns once the building is occupied:

	Rent at £17.20 £	Rent at £19.00 £
Debt charges	112,810	112,810
Less: Rental	-130,000	-142,500
Net income	<u>-17,190</u>	<u>-29,690</u>
Yield	6.10%	6.68%
IRR	4.23%	4.63%
Net present value (net income + / net loss -)	302,181	460,617

7.4 The project will break even at a rental of £15.18 per sq ft.

## **8. Legal Implications**

- 8.1 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.
- 8.2 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
- 8.3 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.
- 8.4 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
- 8.5 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

### **Officer Contact Details:-**

Cian Cronin

Head of Major Projects and Investment

07824 343896

[cian.cronin@adur-worthing.gov.uk](mailto:cian.cronin@adur-worthing.gov.uk)

## **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 present 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.