

# Asset Management Report

Project name	Suffolk House, Sevenoaks – 3 <sup>rd</sup> Floor	Version	01
Date	9 <sup>th</sup> December 2015		
Author	Mark Bradbury (01732 227099 mark.bradbury@sevenoaks.gov.uk)		
Project Sponsor	Pav Ramewal		
Lead Member	Cllr Fleming		
Project lead	Mark Bradbury		
Client section	Strategic Programme Board		

## Project details

The 3<sup>rd</sup> Floor of Suffolk House is currently leased to Cygnet Healthcare on a lease expiring on 26<sup>th</sup> June 2018. There is a tenant only option to break on 26<sup>th</sup> June 2016 subject to 6 months prior notice.

The current rent is £39,855 per annum which equates to £19.50 per square foot for the 2,715 sq ft office area and £6.00 per square foot for the 475 sq ft storage area.

The tenant has advised that they are consolidating two offices and relocating to larger premises in Maidstone. They have instructed solicitors to serve the break notice but wish to agree terms for an early surrender. Following negotiation a final offer of £25,000 in exchange for a termination with effect from 24<sup>th</sup> December 2015 and an offer of £12,500 in full and final settlement of any dilapidations has been accepted.

The tenants liabilities under the lease up to the break date (including rent, service charge and insurance) totalled £30,236.32.

Planning consent has recently been granted to convert two areas of storage on the 3<sup>rd</sup> floor to office accommodation including the installation of 2 dormer windows. This will create office space of 3,457 sq. ft. (321.16 sq. m) with an additional 205 sq. ft. (19.04 sq. m) of storage space. At a current estimated rental value (ERV) of £25 per square foot this increases the potential rental income from a re-letting to c. £85,000 per annum.

## Summary and background

The proper management of the Council's property assets supports the Council's Corporate Plan aim to achieve financial self-sufficiency. In support of this the Council's Property Investment Strategy authorises investment in income producing property assets that meet the following criteria:-

- i. Income yield of 6%+ (flexibility may be applied to those opportunities that show an acceptable social return on investment).
- ii. Individual properties or portfolios.
- iii. Lot size of £1m - £5m.
- v. Freehold / long leasehold.
- v. Single or multi tenanted.
- vi. Asset categories: Industrial, Office, Retail, Trade Counter and Private Rented Residential.
- vii. Initially, geographically located within the District.
- viii. Potential to increase rental income, through proactive Asset Management.

The Acquisition of Suffolk House at £4,000,000 met these criteria and delivered an initial income yield of 6.95% after purchaser's costs.

#### **Business requirement**

Recent increased interest in office investments around the M25 together with increased demand and a reduction in supply in the Sevenoaks market has meant that the investment might attract a yield below 6.5% and a purchase price in excess of £4,500,000 in the current market.

The shortage in supply has also seen rents rise from a medium term average of around £20 per square foot with recent deals now attracting c. £25 per square foot. Securing early possession, extension and re-letting of the space will allow the Council to take full advantage of the current market. It is also expected that the current market will allow a letting on a longer lease than previously achieved.

A To Let board has been erected on the premises and this has already attracted serious interest from 5 parties. Detailed negotiations are currently being undertaken with one of these parties with a view to agree Heads of Terms. That party is also interested in securing a pre-let of the second floor accommodation that is expected to become available in 2018.

A specification has been agreed with the Council's letting agents and property managers and drawn up by Helme & Partners Building Surveyors. It is proposed that Helme & Partners will manage the procurement and completion of the extension and refurbishment works. These have been estimated at £240,000 plus VAT (including fees) and a 10% contingency is proposed.

The programme including procurement and completion of the works is estimated at 15 weeks.

## Due Diligence

Due Diligence will be carried out by the Council's Property, Legal and Finance teams and external consultants where appropriate prior to any re-letting.

The 3<sup>rd</sup> floor premises would have been vacant from 26<sup>th</sup> June 2016 in any event as the tenant had advised of its intention to serve notice. The tenants liabilities under the lease up to the break date (including rent, service charge and insurance) total £30,236.32.

Heads of terms have been agreed to accept an earlier surrender subject to a surrender premium of £25,000 plus VAT in exchange for a termination with effect from 24<sup>th</sup> December 2015 and an offer of £12,500 in full and final settlement of any dilapidations. Costs associated with negotiating and documenting the surrender will amount to c. £5,000 plus VAT.

This will provide rental cover (including service charge and insurance) to 25<sup>th</sup> May 2016. It is expected that the extension and refurbishment works can be completed by this date and the interested party we are currently negotiating heads of terms with is looking to occupy from June 2016.

## Financial

If terms are agreed on a re-letting at £25 per square foot assuming extension and refurbishment costs of £240,000 including fees plus a 10% contingency the return on investment will be c. 17.5% with an increase in rental of c. £40-£45,000 per annum. Letting the accommodation on a longer lease will also reduce future risk of voids.

Assuming a current yield of 6.5% the investment and re-letting would also increase the value of the investment value to c. £5,200,000.

If similar terms are agreed on a pre-letting of the 2<sup>nd</sup> floor this would result in an increase in rental of c. £40,000 per annum from 2018.

## Risks

The presence of Break Options in Leases was identified in the original Acquisition report as a risk. A contingency of 10% of rental income was recommended to be reserved to cover costs.

There is a risk in accepting a surrender and carrying out of works in advance of agreeing a new letting. This is however

considered to be more than mitigated by the acceptance of a surrender premium which provides cover for all but 1 month of the period up until the lease break date the opportunity to extend and refurbish the space whilst rental cover is provided by the surrender premium.

Property Investment is inherently more risky than leaving reserves in the bank but this has been taken to account when approving the Property Investment Strategy and setting the investment criteria.

Community impact	Investment in property assets is a key part of the Council's strategy to be financially self-sufficient and will help reduce the council's dependence on funding from tax payers
Completion target date	June 2016
Impact of delay	A delay will result in this opportunity being lost
Priority assessment	High

Sign Off	
Chief Officer Finance	
Date	17 <sup>th</sup> December 2015 /
Head of Economic Development & Property	
Date	17 <sup>th</sup> December 2015

Attn: Leigh Keating  
The District Council of Sevenoaks  
Council Offices  
Argyle Road  
Sevenoaks  
Kent  
TN13 1HG

7<sup>th</sup> December 2015

Dear Leigh,

**RE: The District Council of Sevenoaks  
Third Floor, Suffolk House, 154 High Street, Sevenoaks - Recommendation for  
Surrender of Lease**

Cygnat Healthcare hold a lease of the third floor at Suffolk House which is due to expire on 26<sup>th</sup> June 2018. There is a tenant only option to break on 26<sup>th</sup> June 2016. The current rent passing is £39,855 per annum which equates to £19.50 per sq ft for the offices and £6.00 per sq ft for the storage area. The current ERV is £25.00 per sq ft.

The tenant has advised that they are consolidating their offices and are relocating to Maidstone. Cygnat have instructed their solicitors to serve the break notice to terminate the lease in June, however they would like to agree terms for an early surrender. Cygnat have made an offer of £25,000 in exchange for the termination of the lease with effect from 24<sup>th</sup> December 2015, and an offer of £12,500 in full and final settlement of their dilapidations liability.

The tenants liabilities under the lease to the break date equate to circa £50,000 which comprises the following:

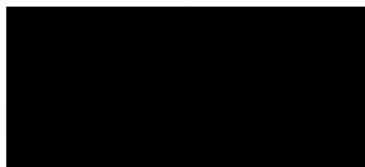
	cost per annum	current quarter day	break date	days	day rate	costs to break
Rent	£ 39,855.00	25/12/2015	26/06/2016	185	109.19	£ 20,200.48
Service charge	£ 19,596.99	25/12/2015	26/06/2016	185	53.69	£ 9,932.72
Insurance	£ 203.45	25/12/2015	26/06/2016	185	0.36	£ 103.12
					163.44	
						<b>£ 30,236.32</b>
Dilapidations					326.88	£ 19,267.53
<b>Total</b>						<b>£ 49,503.85</b>

The surrender premium offered by Cygnet would provide rent, service charge and insurance cover for circa 152 days which would cover the period from the December quarter to the 25<sup>th</sup> May 2016. On the basis that this covers the tenant's liabilities in full for the duration of the third floor refurbishment works which we anticipate will complete in mid-May, we would recommend that this offer is accepted.

In respect of the dilapidations, as you will recall Helme and Partners prepared a schedule of dilapidations which estimated the total liability at £19,267.53. Whilst the offer of £12,500 from Cygnet is below this, the proposed works to the third floor supersede a number of the items included in the dilapidations claim and in light of this we are of the opinion that the offer reflects Cygnet's liability.

We look forward to receiving your instructions in this regard however in the meantime should you have any queries at all, please do not hesitate to contact me.

Yours sincerely,



Laura Cook  
**For and on behalf of**  
**Helix Property Advisors Ltd**

Enc: (1) Draft Heads of Terms for Surrender