

LETTING OF 26 - 28 PEMBROKE ROAD

Cabinet 9 February 2023

Report of: Strategic Head of Property & Commercial

Status: For decision

Also considered by:

Key Decision: Yes

Portfolio Holder: Cllr. Dickins

Contact Officer: Detlev Munster, Ext. 7099

Recommendation to Cabinet:

1. Cabinet approves the granting of a long-lease as outlined in Appendix A to this report and delegates authority to the Strategic Head of Property and Commercial Services in consultation with the Deputy Chief Executive and Chief Officer Finance and Trading to enter into the necessary legal agreements for the granting of a long lease at 26-28 Pembroke Road.

Reason for recommendation: To provide income and to ensure best consideration is obtained for what is considered a disposal under the Local Government Act, as the lease is in excess of 7 years.

Introduction and Background

- 1 The entire office building at 26 - 28 Pembroke Rd was occupied by Towergate Underwriting Group Ltd until August 2021 when they exercised their break option. They requested ongoing occupation of one floor only, which SDC granted having taken agency advice about the state of the office market during Covid and they took on a new lease of the first floor only on 8th Aug 2021.
- 2 Agency advice was sought and the remaining two floors were then marketed at a quoting rent of £27.50 per ft². The Council was advised that the office market coming out of Covid was weak with fluctuating demand due to the change in working patterns.
- 3 A number of enquiries were received. Several applicants showed interest in part of the ground floor, which would have entailed partitioning costs and

the remainder being a less attractive space. An unsuitable usage from a weak covenant was proposed. No firm offers were received.

- 4 The proposed tenant initially viewed in April 2022, expressed interest, SDC viewed their last 3 years profit and loss accounts, draft terms were initially drawn up in June 2022 for a 15 year term and amended in July to be for a 20 year term and to include an option over the first floor when Towergate vacated either at their break or on determination, together with a 9 month rent free period.
- 5 Final Heads of Terms for the ground and 2nd floors were agreed in Dec 2022 and are summarised in appendix A (which is exempt information).
- 6 Since then Towergate has requested an early surrender of their lease of the 1st floor and a new lease of the whole building has been agreed with the proposed tenant. The Agreement for Lease is to be conditional upon securing vacant possession of the First Floor of the Property at which point the Current Lease will be surrendered and the New Lease will complete.
- 7 It will be on the same terms as the above, save as to the rent, which adding in the first floor at £27.50 per ft². There will be no rent free period for the first floor.

Other options Considered and/or rejected

- 8 An alternative option is for the Council to dispose the asset. This is not recommended as market conditions do not lend themselves to a disposal. Irrespective the property forms part of the Council's investment portfolio, which provides much needed revenue income for the Council.

Key Implications

Financial

This letting will provide an income stream for a minimum of 15 years, contributing to Council revenue objectives. Income will be received quarterly in advance, with rent reviews every 5 years.

The rate per sq.ft being obtained is comparable within the market.

An additional financial benefit is that the Council would be liable for business rates on the premises from when Towergate provides vacant possession. With the proposed tenant taking occupation, the Council will not be liable for business rates.

Legal Implications and Risk Assessment Statement.

The Council is required under Section 123 of the LGA 1972 to seek best consideration for a disposal. Achieving the asking price for a longer rental term than anticipated can be considered to constitute this, as the LGA technically classifies a lease of longer than 7 years as a disposal.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Net Zero Implications

The decisions recommended through this paper have a remote or low relevance to the council's ambition to be Net Zero by 2030. There is no perceived impact regarding either an increase or decrease in carbon emissions in the district, or supporting the resilience of the natural environment.

Conclusions

Officers recommend this letting as being in the Council's best interests. It will provide a steady future revenue stream, negotiated on favourable terms and will reduce the Council's asset holding liabilities.

Appendices

Appendix A - Key Heads of Terms (Exempt information)

Background Documents

Draft Legal Agreement - (Exempt from publication)
CBRE UK Real Estate Market Outlook 2023 Chapter 4 Office
Carter Jonas Commercial Market Outlook Dec 2022

Detlev Munster
Strategic Head of Property & Commercial