

12 OTFORD ROAD, SEVENOAKS - BUSINESS PARK DEVELOPMENT PROJECT

Finance and Investment Advisory Committee – 11 January 2024

Report of: Strategic Head of Property and Commercial

Status: For Decision

Also considered by:

- Cabinet – 8 February 2024
- Council – 20th February 2024

Key Decision: Yes (part)

Executive Summary:

The Council has considered various options for land it owns on Otford Road, Sevenoaks. It has identified a mixed-use commercial development project with potential to deliver new employment space (4 industrial units) and a café/drive-through (amenity space for residents and visitors to the district). Employment use land, particularly small industrial units, is needed within the district and is identified as a key intervention within the Council's Economic Development Strategy. Once the development is completed, it will be retained by the Council and will be marketed for rent.

The site is currently under-optimised as an SDC depot (bins store). The site location for development benefits from the conglomeration of commercial activities at Vestry Road, with substantial future residential development planned at the Quarry site and new allocations within the emerging Local Plan.

High level feasibility and design work and other due diligence studies have been undertaken and we are now seeking approval to proceed with this project and appoint a professional team to undertake detailed design and development work, submit a planning application, and subject to the project remaining viable, affordable and obtaining planning consent, to procure a contractor and commence with development. Subject to planning consent being obtained and funding being finalised, start on site could commence early 2025.

This report supports the Key Aim of: supporting economic development and a thriving commercial and retail centre at Sevenoaks and its immediate environs.

Portfolio Holder: Cllr. Thornton

Contact Officers: Detlev Munster, Ext. 7099

Recommendation to Finance & Investment Advisory Committee

That the recommendations to Cabinet be considered.

Recommendation to Cabinet:

That

- (a) it be recommended to Council that the capital funding of the scheme as outlined at Appendix B (Project Costs & Funding) be agreed and it be noted that the scheme will only progress subject to financial viability being confirmed and planning permission granted.
- (b) subject to approval of the recommendation by Council at (a) above, provision of the project cost estimated at £3,635,004 is made within the Capital Programme; and
- (c) subject to approval of the recommendation (a) by Council, authority be delegated to the Strategic Head of Property and Commercial, following consultation with the Head of Legal Services and the Chief Officer Finance and Trading, to enter into necessary professional appointments/contracts to deliver the scheme.

Recommendation to Council:

- (a) Council approves the provision of £3,635,004 in the Capital Programme for the Otford Road development scheme and notes that the scheme will only progress subject to financial viability and planning consent being received.

Reason for recommendation: To progress the scheme providing new employment space to assist the Council's wider economic development role and to provide amenity offered by a new café/drive-through for both visitors (including those on business in the area) and the local community.

Introduction and Background

1. Vestry Road business/retail park is the main out-of-town commercial area on the fringes of Sevenoaks town, accessed via the busy Otford Road (A225). The council depot site is accessed directly from the Otford Road and is situated close to the Aldi food-store, almost opposite Sainsbury's supermarket and on route to Vestry Road when leaving Sevenoaks on the A225.

2. The proposed development site is currently used as a depot/bin-store and there is a small building on site and hard standing. The total site area is 3.2 acres, including some SSSI. The developable area, excluding protected service runs, is 1.2 acres. The site constitutes previously developed land and forms a small part of SDC land which wraps around the Aldi, which was used as a council tip historically. The depot site backs onto a site designated as a site of special scientific interest (SSSI). These characteristics have been factored into the feasibility process, including ground borehole testing for contamination. Contamination was present, however, within acceptable parameters for the proposed development, but not considered suitable for housing development.
3. The site is within the green belt and has been put forward as an employment designation in both the current and emerging Local Plan. As previously developed land within the greenbelt, we are advised it has reasonably good prospects for coming forward for commercial development.
4. The development proposal is mixed use, retail and employment/industrial, involving 4 small industrial units and café/drive-through at the front of the site. The site benefits from existing access which is suitable for this purpose without major alterations or implications for the main highway. We have carried out a pre-application meeting with the Planning Authority and in particular with KCC Highways which confirmed no significant changes are required to the highway.
5. As a council owned site, vacant possession is available although we are liaising with Direct Services on a suitable site to relocate the bins.
6. Public consultation will take place when design and plans are at a more advanced stage and before making any planning application.

The Development Scheme

7. There is a need for employment use land within the District. In particular industrial units are required and this is evidenced by recent research published by JLL (Nov, 2023), Gleeds (Nov 2023), LSH (Oct, 2023) and Avison Young (Oct, 2023), and the Kent Property Market Report 2024 notes this as well. Furthermore, discussions with Locate in Kent also confirm this need, especially highlighting the need for smaller units and multi-let units and the locational advantage the district has. Additionally, the Economic Development Team receives and has received numerous enquiries for additional and grow on spaces. Several companies have indeed pointed out their desire to locate in Sevenoaks and/or consolidate their businesses and provide grow-on space in Sevenoaks but are unable to do so due to poor land availability and planning restrictions within the District.
8. LSH (Oct, 2023) reports that the industrial property sector is characterised by tight supply and on-going rental growth which is driving activity in the market. LSH (Oct, 2023) notes that that prime yields for the South East are c. £5.25% and recent national annual rental growth rates have been between 4% and 5%. LSH (Oct, 2023), JLL (Nov, 2023) and Gleeds (Nov, 2023) state that there are

numerous factors affecting demand (ESG, post-Brexit demands, supply chain security, on/re-shoring of manufacturing, limited supply, price, etc) all suggesting strong fundamentals in the sector. LSH (Oct, 2023) points out that London only has a supply availability of about 1.6 years whereas the rest of the Southeast region has a supply availability of about 1.3 years. This too is confirmed by JLL (Nov, 2023) with similar claims. LSH (Oct, 2023) also notes that labour and transport costs are dwarfing property costs meaning that places with good transport links will be highly sought and the relative lack of development in multi-lets and mid-box sheds presents a significant opportunity. This too is confirmed by Locate in Kent. LSH and JLL reflect further that recent transactions are achieving very high rental levels with an annual rent increase of 24% in Barking and Dagenham and secondary stock rental growth in London at about 22%. JLL (Nov, 2023) reports that take-up of speculative built space in Greater London is robust with occupiers seeking sites on London's outskirts due to tight supply and high rents. Market fundamentals are therefore strong.

9. JLL (Nov, 2023) also suggests that demand for new buildings which reduce carbon emissions in construction and during their operational life and end-of-life, is high and that new developments should seek BREEAM ratings above very good and EPC A.

10. The size of the scheme is dictated by several constraints including the need to provide an ecological buffer but also by its speculative nature. That is, the Council does not have any pre-lets at this stage and is dependent on strong market forces. To mitigate this commercial risk, only 4 business units are proposed and a drive-thru commercial unit to diversify this commercial risk. The drive-thru will take-up around half the site (the unit itself will be around 1,800sqft) with parking and a drive-thru lane. The total area of the industrial units is approximately 10,300sqft (2,500sqft average unit size). Outline specification is, eaves heights to 6.5m (21.3ft), steel portal frames with composite metal cladding. Dividing walls will be block-work and probably left out until lettings confirmed to allow flexibility in letting. See appendix A for the emerging scheme details.

11. The proposed scheme is at feasibility stage with outline drawings and initial survey work, including phase 2 ground investigations (borehole testing). Geotechnical studies note that the site has made-up ground and alluvium to around 10m depth, which means that deep foundations (piles) are necessary. Preliminary designs take this into account and this additional cost has been factored into the high-level cost plan and development appraisal.

12. Site searches highway and road assessments and legal due diligence have also been undertaken.

13. Detailed or coordinated drawings or specification will be developed once funding is approved. It is proposed to develop the scheme to RIBA Stage 3/4 design, which will allow further cost planning and development appraisal work to be undertaken (see finance section below). Should the scheme remain viable, a planning application will then be submitted, a design and build specification will be prepared and procurement will commence for a contractor (see procurement section below).
14. It is proposed that the Council will retain the freehold of the completed scheme. Once built, the units will be leased to 5 tenants (or less), providing a diversified income stream. Leases will include upward only rent reviews, which provide the opportunity for rental/income growth over the leasing cycle. Lease terms are likely to be 5 -10 years. The Drive-through/Café could attract a 15-year lease without break, and a substantial covenant, with a positive impact on investment value. The business units could be let to local businesses. The units will therefore be managed by the Council's Property Team on commercial terms.
15. To minimise design and commercial risk, an agreement for lease with a development agreement will be entered into for the drive-thru element only.
16. The café/drive-through could be built first and handed over to an operator for fit-out within the construction programme, to allow for early income generation. This will need to be confirmed by the contractor after planning permission and before delivery, and as part of negotiations for an agreement to lease with an operator. The access road and services to the business park will be built during this first phase of construction.
17. The 4 industrial units will be built as a phase 2 and agreements to lease put in place as early as possible after planning permission granted. The rents are based on £17.50psf, which is the average for the area. It is possible actual rents will be higher given the location, size and specification of the units.

Procurement

18. The procurement of consultants and a contractor will need to be in accordance with the Public Contracts Regulation 2015 and the Council's procurement regulations as outlined in the Council's Constitution.
19. The project has been presented to the Procurement Assurance Group for appointment of the following consultants:
 - Quantity surveyor/Employer's agent
 - Architect
 - Multi-disciplinary engineer(s)
 - Planning adviser
 - Valuer/Estate agent for lettings and 3rd party valuation

20. Procurement will be through a compliant framework for the major appointments with flexibility to retain through to delivery, subject to key milestones being achieved, such as planning permission.
21. Subject to the scheme remaining viable, the procurement exercise for a design and build contractor will be undertaken in parallel to the planning application being determined. An appointment will only be made if planning consent is obtained.
22. The Council envisages using a suitable framework agreement to appoint a design and build contractor and depending on the framework agreement's rules, tenders will be evaluated on a 60:40 (price:quality) basis. Quality evaluation criteria will include, amongst others: design quality, environmental sustainability measures, low maintenance, social value, construction technology, rapid deployment and previous experience.
23. Depending on the Framework Agreements rules, it is envisaged that the design and build contractor will be appointed under a JCT form of contract.

Provisional Delivery Programme

24. The project's indicative delivery programme assuming planning is granted is outlined in the table below, and is subject to change:

Stage	Date
SMT approval	11 December 2023
Finance & Investment Advisory Committee	11 January 2024
Cabinet	19 January 2024
Full Council	20 February 2024
Appoint consulting team	March 2024
Public consultation on emerging designs	June 2024
Finalise RIBA Stage 3/4 Drawings and details	July 2024
Finalise cost plan & development appraisal	August 2024
Submit planning application	September 2024
Commence D&B contractor procurement	September 2024
Planning determination	December 2024
Contractor Appointment/award	January 2025
Start on site	March 2025
Completion	Summer 2026

Project Costs and Funding

25. Preliminary cost plans and development appraisals have been undertaken. These remain at a high-level and will be refined as design and development studies are finalised. The current cost plan is not only informed by the current outline designs and site constraints and BCIS figures, but a second opinion from a cost consultant (Academy Consulting) obtained as a check on piling and

drainage for abnormal ground conditions, which Academy has confirmed is not unreasonable in the circumstances.

26. Appendix B (which is exempt from publication) provides project finance information. Appendix B notes that the scheme is viable and affordable to the Council.

Project Governance

27. A Project Team has been set up within the Council and will be supported by external consultants. In particular, the Council will appoint a specialist cost consultancy firm to act as Employers Agent and QS.
28. The Project Team will be adapting PRINCE2 methodologies to manage the project.
29. All procurement exercises are reviewed by the Procurement Assurance Group.
30. The Project Team will be reporting to the Corporate Programme Board and Capital Projects Progress Meeting (CPPM), which will have oversight of the project. Monitoring reports (including highlight reports/exception reports, budget monitors and the risk register) will be submitted monthly to the CPB/CPPM. The CPB and CPPM consist of senior officers and Councillors respectively and are respectively chaired by the Chief Executive and the Leader.
31. Key decisions, for example the approval of this project to proceed and project capital budgeting matters (such as this report), will be submitted through the Council's committee process for members to discuss and decide. The appropriate portfolio-holders will also provide updates at the respective Committees.

Key Risks

32. A detailed risk register for the scheme has been opened. The scheme presents several risks and the key risks and their mitigation measures are outlined in Appendix C, which is exempt from publication.

Other Options Considered and Rejected

33. Do nothing. The Council will forego an opportunity to optimise part of its land holding at Otford Road for commercial development to support its role on economic development in the district, together with the opportunity for an income stream and return on capital. The planned increase in residential development in the emerging local plan needs to be supported by development for employment and other facilities such as retail and leisure.

34. Alternative uses for the site were also considered, in particular for housing. Land conditions (in particular contamination) preclude the ability to provide housing on this site and would be very costly rendering housing economically and financially unviable. Housing was also ruled out due to the predominantly commercial uses in the area and increase of planned new housing in the area e.g. Sevenoaks Quarry.
35. Alternative employment use design options for the site were also considered. These sought to optimise the developable area for the site and provide additional business units rather than a drive-thru. While this option provided a slightly higher return and provided more business units to support the local economy, it was considered prudent to diversify the offer and reduce commercial risk. It is important to note that the Council has received requests from several organisations for a drive-thru at this site.
36. Consideration was given to other commercial uses but they were found to be unviable because of low value to build cost ratios, together with high parking requirements and low site coverage.
37. The Council also has the option to dispose the site and obtain a capital receipt. Site constraints will suppress a reasonable land value and would not result in the Council meeting its objectives in its EDS. An alternative option would be to dispose of the site with planning permission if granted. This is likely to increase the site's value to a certain degree but the Council would not be able to control its development other than through planning measures.
38. The Council has also considered disposing the freehold of the units once built. While this is considered a viable proposition, the Council wishes to retain the units to drive its economic development ambitions and simultaneously derive future income streams and asset values.

Key Implications

Resource Implications

39. The project will be managed using existing internal resources within the Council and this will be supported with external professional consultants.
40. Should the project receive planning permission and is developed and retained by the Council, the properties will be added to the Council's property register and will be managed by the Council. The property team will be responsible for both asset management and maintenance (depending on the lease structures entered into).
41. A suitable site to relocate the bins will need to be found in consultation with Direct Services.

Financial Implications

42. The financial implications are noted in Appendix B, which is exempt from publication. The scheme is sensitive to interest rate fluctuations, amongst other factors, and this is noted in Appendix B.
43. Different financing options are also outlined in Appendix B, and the Council has a variety of exit strategies it could deploy.
44. A mix of short-term and long-term capital loans will be used to provide a blended rate that is profiled to the scheme's construction programme and operational cycle. In particular, the bulk of funding will be through the use of external borrowing over a 30-year term, during which period the repayment is covered through rents received.
45. The scheme is considered to be viable and affordable to the Council.

Legal Implications and Risk Assessment Statement

46. The Council has freehold title of the site. There are no title encumbrances. Access to land at the rear is with SDC permission via a locked gate and there are no rights of way.
47. KCC environmental monitoring equipment is located on the site and will need to be relocated on site.
48. The procurement of a design and build contractor, while below the Public Contract Regulations 2015 thresholds, will need to comply with the Council's Contract Procedure Rules. Legal advice will need to be sought in ensuring the final form of contract is appropriate and provides the Council with the necessary contractual safeguards.
49. The Council will need to comply with the conditions associated with any loans taken out, such as PWLB. The Council is aware of the generality of PWLB loan terms.
50. Statutory consents (planning, environmental, building control, etc.) will need to be applied for and the project team is aware of these.
51. There are no subsidy control implications associated with the proposed scheme.
52. Due diligence assessments have identified that it would be suitable to appropriate the site for Planning purposes including to ensure proper planning. The Council is authorised to appropriate land that it owns under Section 122 of the Local Government Act where no longer required for the purpose for which it was previously held. It is intended that, if the development is approved, an appropriation would take place at a later stage.

Equality Assessment

53. The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. A positive impact on end users is, however, anticipated. In particular, it is worth noting that appropriate “equalities requirements” will be specified in the various contracts to be entered into for the demolition and construction of the scheme. In addition, the scheme is designed to promote an inclusive environment, especially for users of the retail unit, formal car parks and landscaped areas.

Sustainability

54. Services to be from increasingly sustainable electricity grid with composite cladding with good insulation to contain emissions and to lower energy use. A checklist will be completed, and a positive impact is anticipated. It is proposed to put in landscaping to have a positive impact on biodiversity and to provide a “green” buffer between the built area and the SSSI at the rear of the site.

Conclusion

55. The project will result in the optimisation of Council land for economic development purposes. As a council depot, which is underutilised, the site is somewhat unsightly and would be replaced with a mini-business park, enhancing the offer to businesses and residents. In financial terms, the return on Council investment is attractive, subject to final viability testing (rents/yields/construction costs/interest rates). Profit is likely to be realised by holding the development over a long term as there are good prospects for increased asset value/ROI, which can be managed in-house.

Appendices

Appendix A – Plans and Visuals

Appendix B – Project Finances and Financial Implications

Appendix C – Outline Risk Assessment

Appendices B and C are exempt from publication. The applicable reason for this redaction is paragraph 3 of Schedule 12A of the Local Government Act 1972: Information relating to the financial or business affairs of any particular person (including the authority holding that information). This is because it could prejudice the returns of a commercial tender that the Council will be undertaking and provides commercially sensitive information.

Background Papers

- Avison Young (2023): 10 Key Market Trends
- Avison Young (Nov, 2023): Property Market Review
- Avison Young (Oct, 2023): Industrial Sector Review
- SDC (2022): Economic Development Strategy
- Gleeds (Nov, 2023): Quarter 4 Property Review
- JLL (Nov, 2023): Multi-let and Mid-box Industrial Market Overview
- LSH (2023): Economic Outlook
- LSH (Oct, 2023): Industrial and Logistics Market Outlook
- Locate in Kent (Nov 2023): Kent Property Market Review 2024
- Project Sustainability Checklist
- [Sevenoaks District Council \(2019\): Emerging Local Plan](#) (as submitted with evidence base to Planning Inspectorate)

The following background documents are exempt from publication. The applicable reason for this redaction is paragraph 3 of Schedule 12A of the Local Government Act 1972: Information relating to the financial or business affairs of any particular person (including the authority holding that information). This is because it could prejudice the returns of a commercial tender that the Council will be undertaking and provides commercially sensitive information.

- Development Appraisal V4 dated 06 December 2023
- Greenwood Projects (2023): Cost Plan May 2023
- Greenwood Projects (2023): Cost Plan September 2023
- Project Risk Register

Detlev Munster

Strategic Head of Property & Commercial

Appendix A – Proposed Plan

Café with drive-through and parking and 4 small warehouses with 10% office space..

