

Part A For General Release

REPORT TO:	Cllr Tony Newman – Leader of the Council
SUBJECT:	Acquisition of the Freehold interest in the Croydon Park Hotel as a commercial investment
LEAD OFFICER:	Richard Simpson Executive Director(Resources) and s151 Officer
CABINET MEMBER:	Cllr Simon Hall Cabinet member for Finance and Resources
WARDS:	Fairfield
<p>Corporate Plan - the proposals presented in this report will help support:</p> <ul style="list-style-type: none"> • Growth – through investment in local business premises and help secure the facility within the borough • Independence – income generated will help support the provision of key services throughout the Borough 	
<p>FINANCIAL IMPACT</p> <p>The purchase of the freehold interest will secure a significant annual rental income for at least 13 years</p>	
<p>FORWARD PLAN KEY DECISION REFERENCE NO.: 2218FR</p> <p>This is a Key Decision as defined in the Council's Constitution. The decision may be implemented from 1300 hours on the 6th working day after it is made, unless the decision is referred to the Scrutiny & Strategic Overview Committee by the requisite number of Councillors.'</p>	

The Leader is asked to approve the following recommendations:

1. RECOMMENDATIONS

- 1.1 That the Leader agrees that the Council submit an initial bid and if successful purchases the freehold interest in the Croydon Park Hotel on the terms detailed in the associated Part B report.
- 1.2 Agrees that, for the reasons detailed in paragraph 3.10 of the report, the Executive Director (Resources) and s151 Officer be given delegated authority, acting in consultation with himself or the Cabinet Member for Finance and Resources, to make any amendments to the terms of the acquisition of the freehold interest considered necessary after the decision has been made.
- 1.3 Note that where any significant amendments are made under this delegation, the amended terms for the acquisition of the freehold interest for the Croydon Park Hotel will be published on the Council's website within 1 month of completion of completion of the lease

2. EXECUTIVE SUMMARY

- 2.1 As part of the Council's Financial Strategy which will be presented to Cabinet in September, there will be a proposal that the council have a much more active asset acquisition strategy to help generate income to help delivery the financial strategy of the council..
- 2.2 The proposal is for a strategy to reflect the Council's aspiration to secure medium to long term revenue returns from sound property investment within Borough. It is important to acknowledge that to maximise the benefits from property investments, the assets need to be held for a longer period due to the acquisition and disposal costs and the short term fluctuations in capital values. However, if chosen carefully the revenue returns should be consistent and less prone to fluctuation due to the protection within the lease agreements.
- 2.3 An opportunity has arisen in advance of this which to purchase a significant asset that will deliver a significant secure income over a period of at least 13 years on a key strategic site close to East Croydon Station. This is in line with current guidance in respect of prudential borrowing..

3. DETAIL

- 3.1 The Council is looking at the opportunity that investment in property can provide to help generate a secure revenue stream over the medium to long term and also the acquisition of assets that offer future revenue potential with higher returns and unlock the development of strategic sites.
- 3.2 The Strategy will be included within the Financial Strategy which is due to be submitted to Cabinet in September. To date an outline process has been proposed and provisionally agreed which sets out the process, targets and an assessment matrix. This process will allow the decision making process to be delegated to senior officers and the relevant cabinet member.
- 3.3 The key elements within the matrix will be:
- **Location** – the proposal is to have all investments within borough unless there are exceptional circumstances to justify an out of borough purchase (eg linked to a wider portfolio of assets, supports local employment or business retention) The split between locations is suggested as Prime 65%, Secondary 25%, Out of borough prime/secondary 10%
 - **Covenant Strength** – to secure the required security of revenue it is important to secure grade A covenants. By exception, weaker covenants may be considered if there are refurbishment/redevelopment benefits.
 - **Tenure** – unencumbered freehold or long leasehold titles without any restrictive covenant terms
 - **Lease terms** – ideally 15-20 years on Full Repairing basis in a single occupation to minimise management costs.
 - **Building Age** – new build or have been subject to a comprehensive refurbishment. Older buildings in sound condition, such as Davis House, may also be considered on the right terms

- **Lot size** – This will reflect the quality of the above requirements but a range of values should be considered to help reduce risk and offer some flexibility. Suggested split: £1-5m 20%, £5-12m 35%, £10-20m 25% and £20m+ 20%
- **Net Yields** - These must reflect the total costs including SDLT, Agents fees and legal costs together with the cost of borrowing to give a true return on the investment to the Council
- **Property use** – certain uses will not be considered and it is suggested that these follow the requirements of the pension fund
- **Portfolio mix** – to spread the type of investment so that not all investments are in one market sector (Suggested 35% Offices, 35% industrial, 20% other and 10% retail)

The matrix will have scoring against each of the above and categorise into Excellent, Fair, Good and Marginal investments

- 3.4 The Council have commissioned external advice from CBRE in respect of investment opportunities. This advice has been used together with the experience from other Council's and guidance from CIPFA to help formulate the proposed strategy.
- 3.5 The number of larger scale investment opportunities within the borough are limited with only 3 having come to the market in the last 12 months. Due to the short supply it is essential that the Council have a policy in place which allows a very quick response and the ability to commit to making an offer in a matter of weeks. Investment assets typically sell within 6-8 weeks of first coming to the market.
- 3.6 An opportunity to acquire the freehold interest in the Croydon Park Hotel has come to the market and although prior to the formal strategy being in place it is recommended that the purchase is taken forward as it offers a very good opportunity and is in line with the recommendations within the emerging strategy.
- 3.7 The Hotel was opened in 1984 and provides a large purpose built hotel on a 1.54 acre site. The building has approximately 121,000 sq ft of accommodation split over 5 floors with bedrooms being on first to fifth and the ancillary space on the ground floor with basement parking. The property was previously owned by the Council but sold off in the mid 1990's as part of a larger portfolio sale. It is currently trading as an independent operation and offers:
- 211 bedrooms,
 - a bar,
 - restaurant,
 - 6 meeting/conference rooms
 - Leisure club including pool and squash court
 - 110 car spaces

Two floors of the bedroom accommodation were refurbished 4 years ago and the lobby and restaurant areas have also been refurbished.

- 3.8 The terms of the acquisition are detailed in Part B of this report but offer a significant rental income over the remaining 13 year term of the lease. It is

located close to East Croydon Station and is within the Croydon Opportunity area and therefore any future redevelopment would support high rise developments.

- 3.9 The vendors have provided significant background information and advice on the existing use value and redevelopment values have been obtained by specialist valuers. Further consideration and advice has been obtained in respect of potential redevelopment of the site and this again supports the proposed purchase price.
- 3.10 The Council have been invited to submit an initial bid for the purchase of the property. Depending on the number of bids received a second and final offer will be submitted. If successful the Council will be required to agree heads of terms and complete the purchase in 10-14 days. At this stage it may be necessary to vary the terms agreed to accommodate minor changes to terms and values.
- 3.11 The terms detailed in the Part B report are considered to be competitive. favourably and would offer a sound medium to long term investment

4. CONSULTATION

- 4.1 Consultation regarding general investment strategy and advice has been obtained from CBRE and specialist valuation advice from Copping Joyce.

5 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

1. Risks

The principle risk is the commitment of a significant capital sum against the receipt of a rental income stream.

The existing lease has 13 years unexpired and is on a full repairing and insuring basis minimising the risks for the landlord. The lease has been in place since 2006 and the existing owners have confirmed that rent is currently being paid in full and on time. As with any tenancy agreement there is always a risk that the tenant could default but the lease is in a standard form that would allow the landlord to take action should difficulties arise. The lease allow for upward only rent reviews and therefore the current rental level will be guaranteed as the minimum for the remainder of the lease term.

The acquisition cost is classed as capital expenditure. The council has the opportunity in the current market to purchase at relatively low fixed interest rates which limit the revenue cost of the purchase.

The site is also in a prime location being close to the station and therefore offers a good opportunity for future redevelopment and consideration has been given to this option as part of the process.

2 Options

As this is the purchase of a freehold subject to a lease in place there are few options available other than not to purchase the asset. The Seller requires a straightforward clean disposal as is common with investments and therefore there are no alternative options around the purchase. The Council do not have to purchase the asset but opportunities of this type are very limited

3 Future savings/efficiencies

This property will be purchased specifically to generate a net revenue stream after financing costs in the short to medium term.

(Approved by: Richard Simpson, Executive Director Resources and S151 Officer)

6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

- 6.1 The Council Solicitor comments that in agreeing the basis of the acquisition, the Council must be satisfied that it is paying a fair market value for the lease. The best consideration test and requirements are set out in section 123 of the Local Government Act

(Approved by: Sean Murphy, Head of Commercial and Property Law and Deputy Monitoring Officer on behalf of the Director of Law and Monitoring Officer)

7. HUMAN RESOURCES IMPACT

- 7.1 There are no human resources impacts.

8. EQUALITIES IMPACT

- 8.1 An initial equality impact assessment has been undertaken and determined that:
- No major change - the Equality Analysis indicates that the proposal to secure the asset through the purchase of the freehold interest will not have a neutral effect.

9. ENVIRONMENTAL IMPACT

- 9.1 The purchase of the hotel will have no environmental impact. Any future changes to the building or redevelopment will be in line with current legislation.

10. CRIME AND DISORDER REDUCTION IMPACT

- 10.1 The hotel will continue to be managed responsibly and will look to minimise any risks.

11. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

The acquisition of the freehold asset will provide a significant rental income in the medium term and offer possible redevelopment opportunities in the longer term.

12. ALTERNATIVE OPTIONS CONSIDERED

The opportunity to acquire this asset has arisen through the work currently being done by the Assets team to develop an investment strategy and secure future revenue to support the Councils key service and strategy delivery. The only alternative option would be to reject the opportunity on the grounds that it did not represent value for money, was of unsuitable quality or did not meet the proposed investment requirements. The detail provided in the body of the report demonstrates this is not the case,

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BACKGROUND PAPERS: None.