



# Cabinet

18 JULY 2011

## CABINET MEMBER FOR HOUSING

*Councillor Andrew Johnson*

## REVIEW OF SHOPS PORTFOLIO

This report considers the options available for the shops portfolio, 87 of these are held in the Housing Revenue Account (HRA), the remaining 10 being held in the General Fund. It seeks to maximise the use of the assets to both maximise income and minimise debt by optimising the management of the portfolio.

**Wards  
All**

A separate report on the exempt part of the agenda provides exempt information about the disposal process.

### Recommendations:

## CONTRIBUTORS

AD Finance & Resources  
AD Building and Property Services  
DFCS  
ADLDS

**HAS A EIA BEEN COMPLETED?  
YES**

**HAS THE REPORT CONTENT BEEN RISK ASSESSED?  
YES**

1. That authority be given to dispose of the twenty seven properties specified in the report (on such terms as are indicated in this report and otherwise as the Head of Asset Strategy and Portfolio Management and Assistant Director (Legal and Democratic Services) consider appropriate).
2. That the net capital raised from these disposals be used to recover the costs involved, set aside for housing and regeneration purposes and in so far as is possible to repay debt
3. That authority be delegated to the Cabinet Member for Housing, in conjunction with the Director of Housing and Regeneration, the Director of Finance and Corporate Services, the Assistant Director Building Property Management and the Assistant Director (Legal and

**Democratic Services), to tender out to source the property management for the remaining properties in the portfolio (on such terms as are indicated in this report and otherwise as the Head of Asset Strategy and Portfolio Management and Assistant Director (Legal and Democratic Services) consider appropriate).**

## **1. BACKGROUND**

- 1.1 As part of the review of all property assets owned by the Council, Officers have been considering the future options for the Council's shops portfolio the majority of which are held within the Housing Revenue Account. These are mainly made up of shops under Council owned property. There are currently 115 units which are currently configured as 97 shops.
- 1.2 For the purposes of this report we have excluded a number of commercial properties from the options as they are being dealt with separately i.e. Townmead and Sullivan Industrial Estates, the Advertising Hoardings and the Novotel/Metro Centre.
- 1.3 The portfolio is currently managed in-house by Valuers in the Valuation and Property Services Team.

## **2. OPTIONS AVAILABLE TO THE COUNCIL**

- 2.1 The options considered are as follows:
  - Retention of the portfolio, LBHF continue to manage the properties.
  - Retention of the portfolio, outsource the property management of the properties.
  - Outright sale of complete portfolio
  - Sale of the portfolio with retention of small income stream (10% gearing)
  - Asset Backed Joint Venture.
  - A mixed sale and retain option: Prime and "problem" properties are sold with the capital receipts from the "problem" properties reinvested in the retained portfolio.
- 2.2 An evaluation of these options has been carried out by Lambert Smith Hampton. The net present values for these options are summarised in Appendix 1. The options with the three highest net present values were considered further, the reasons for rejecting two of these options are also set out in Appendix 1. The preferred option and the rationale for the acceptance of this option is set out below:

## **3. MIXED SALE AND RETENTION WITH OUTSOURCED PROPERTY MANAGEMENT**

- 3.1 This option is designed to balance the requirement for a revenue stream with the councils need for a capital receipt, the requirement to invest in the portfolio and the desire to repay debt. It can be summarised as:

- Sell the prime element of the portfolio which is located in Fulham Road, New Kings Road, Kings Road and Fulham Palace Road. Further details are set out in the exempt report. Our advisors Lambert Smith Hampton have indicated that as the availability of prime assets such as these continues to be very limited, strong sale prices are achieved when such assets do come to the market due to the number of cash rich investors seeking investments
  - Dispose of three other shops (73 Moore Park Road, 19 Seagrave Road and 5a Uxbridge Road) which are currently vacant, these shops are held within the Housing Revenue Account. These properties require significant capital investment before they could be re-let, this is not factored into the net present value calculations used for the retention options.
  - Retain and outsource the management of the rest of the portfolio. The portfolio requires some investment in order to maximise rental income, the receipt generated by the sale of the three shops noted above will be re-invested in the portfolio subject to an appropriate business case. The financial impact of this is broadly neutral in the short term and should be beneficial in the longer term as rental income should be maximised.
- 3.2 A number of the retained properties are in potential regeneration areas such as Bloemfontein Road in White City. Selling off properties in a regeneration area has the potential to make delivering regeneration plans more difficult and the inclusion of a 'buy back' provision would significantly reduce the sale price. The retained portfolio will be reviewed again in 2014/15 by which date it is hoped the performance of the retained portfolio will have improved and the market for secondary commercial property investments may also have changed.

## **4. IMPLEMENTATION**

### **4.1 Sale of the properties**

- 4.1.2 The bulk of the shops are held under Part II of the Housing Act 1985 and will almost certainly have been provided under Section 12 (power to provide shops and recreation grounds in connection with housing accommodation) or predecessor powers. As such shops are often in the nature of estate amenities, it is important that the Council be satisfied that disposal will not lead to an unacceptable loss of amenity for Council tenants and leaseholders (particularly elderly and other vulnerable residents with impaired mobility) e.g. if grocers, butchers, chemists etc. are subsequently forced out to make way for less essential businesses, without there being suitable alternative shops available within a short distance. An initial assessment indicates that suitable other alternative facilities exist and indicates that the disposal will not lead to an unacceptable loss of amenity for Council tenants and leaseholders.

- 4.1.2 We will write to tenants prior immediately following the decision being made by Cabinet setting out the Council's intentions. One property, Fulham Palace Garden Centre, is let to a Registered Charity, Fairbridge, who are part of the Prince's Trust Group. It is proposed that this property is initially offered to them for sale. It is possible that some of the other tenants will express an interest in purchasing their properties however we believe that the way to achieve the best price for the prime portfolio is not to sell these on an individual basis and therefore (subject to formal written confirmation from Lambert Smith Hampton that the Council will achieve overall best consideration) do not recommend that we offer each individual unit to the shop tenant.
- 4.1.3 A Gantt chart showing the timescales is included in Appendix 3.

#### **4.2 Outsourcing property management**

- 4.2.1 This could be out sourced via Tri Borough or tendered separately, both options will be explored as part of the tendering process. On completion of the process a tender acceptance report will be brought to Cabinet.

### **7. RISK MANAGEMENT**

- 7.1. The sale of the prime property portfolio will remove the risk associated with the income collection on these properties and result instead in a substantial capital receipt.
- 7.2. We will have to manage the risk associated with outsourcing the management of the remaining properties by conducting appropriate due diligence on the selected supplier, however it is considered that the benefits of a fully professionalised service will reduce the risk around income collection on the remaining portfolio.

### **8. COMMENTS OF THE DIRECTOR OF FINANCE AND CORPORATE SERVICES**

- 8.1. The sale of the prime element of the shops portfolio would result in a capital receipt, this would have to be used substantially for debt repayment in order to mitigate the loss of income as noted in paragraph 3.1 above.
- 8.2. The HRA element of capital receipt is caught by capital pooling regulations which enable 50% of any such receipt to be used to repay debt or for other purposes), the other half, caught by pooling, will be set aside for Housing and Regeneration purposes. This will however free up funds elsewhere enabling a HRA debt repayment equal to the size of the HRA capital receipt to be repaid. Assuming this the net effect of the lost income and reduced interest costs (and revenue sums required to be set aside to repay General fund debt) would be a benefit to the HRA

of £74k per annum and to the General Fund of £110k In addition the cost of managing these properties would be saved, resulting in estimated ongoing minimum savings per annum to the HRA of circa £120k.

- 8.3. The disposal of three other shops (73 Moore Park Road, 19 Seagrave Road and 5a Uxbridge Road) which are currently vacant would not result in any significant loss of income as they are currently unsuitable for letting and would result in a substantial capital receipt which would be set aside for Housing and Regeneration purposes. These three shops are all held within the HRA and the reinvestment of the proceeds into the remaining portfolio would be subject to both a business case and capital accounting rules.
- 8.4. Out sourcing the management of the remaining portfolio should result in more focused property management which will maximise income while retaining the flexibility required for future regeneration schemes.

## **9. EQUALITY IMPLICATIONS**

- 9.1 It is considered that the sale of these properties has no equality implications as a preliminary assessment of the properties provided for sale will not lead to an unacceptable loss of amenity for Council tenants and leaseholders.

## **10. COMMENTS OF THE ASSISTANT DIRECTOR (LEGAL AND DEMOCRATIC SERVICES)**

- 10.1. The bulk of the shops are held under Part II of the Housing Act 1985 and will almost certainly have been provided under Section 12 (power to provide shops and recreation grounds in connection with housing accommodation) or predecessor powers. As such shops are often in the nature of estate amenities, it is important that the Council be satisfied that disposal will not lead to an unacceptable loss of amenity for Council tenants and leaseholders (particularly elderly and other vulnerable residents with impaired mobility) e.g. if grocers, butchers, chemists etc. are subsequently forced out to make way for less essential businesses, without there being suitable alternative shops available within a short distance. This is a factor that should be taken into account in discharging the duty under Section 149 Equalities Act 2010 (to consider the likely impact on persons having “protected characteristics”). Consultation with any tenants’ and residents’ associations on any neighbouring Council estates would be advisable too.
- 10.2. The Council has power to dispose. In the case of HRA shops, consent is necessary from the Secretary of State at DCLG under Section 32 Housing Act 1985. General Consent E of the General Housing Consents 2005 does, however, permit sale at the best consideration that can reasonably be obtained, provided no dwelling is

included in the sale (or is vacant and will be demolished without being used again as housing).

- 10.3. In the case of non-HRA shops, disposal for the best consideration that can reasonably be obtained is permitted by Section 123 Local Government Act 1972. Secretary of State consent is only needed if the sale is at less than best consideration. Even then, the General Disposal Consent 2003 allows disposal at an undervalue of up to £2m if the Council consider that this would promote the economic, social or environmental well-being of the borough or anyone present in it.
- 10.4. Tenants of the shops are potentially “special purchasers” of their respective premises (i.e. likely to offer more than others). If therefore it is not intended to invite bids from them, this could only be justified if the overall premium obtained from disposing as a portfolio exceeds the aggregate premium that could have been obtained from those tenants likely to be willing and able to purchase. Very clear written advice should therefore be obtained from Lambert Smith Hampton that this is most likely to be the case.
- 10.5. Where portfolios of let properties are sold, this can sometimes amount to the sale of a business as a going concern, giving rise to issues in relation to VAT and the transfer of undertakings protection of employment rules (TUPE). This will need to be considered in detail and specialist advice possibly obtained.
- 10.6 Where shops are part of larger buildings, there will be implications for service charges, not only in relation to the shops themselves but any flats in the same building (so as to ensure, as far as possible, that all contribute fairly to the costs of maintaining, repairing and renewing the structure, exterior etc.). Difficulties may occur where the current shop tenant in practice has been asked to pay no service charge, if the Council is expecting its purchaser nonetheless to pay a service to the Council.
- 10.7 Legal services will assist the client department in procuring property management services in accordance with EU Procurement rules and the Council's contract standing orders.

**LOCAL GOVERNMENT ACT 2000**  
**LIST OF BACKGROUND PAPERS**

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext of holder of file/copy</b>	<b>Department/ Location</b>
2.	Lambert Smith Hampton UKIT Quarterly Bulletin 2011 Q1	Kathleen Corbett X3031	Housing and Regeneration, 3 <sup>rd</sup> Floor Town Hall Extension
<b>CONTACT OFFICER:</b>		<b>NAME: Kathleen Corbett EXT. 3031</b>	



## **Appendix 1: Summary of options considered and Net Present Value (NPV)**

<b>Option Considered</b>	<b>NPV</b>
Retention of the Portfolio, LBHF continue to manage the properties. <b>N.B</b> Please note that this NPV does not allow for the additional investment that will be required in both maintenance and management to achieve this level of income. This will substantially lower the NPV resulting in a lower figure than the mixed sale and retain option below.	£36.9m
Retention of the Portfolio, outsource the Property Management of the properties. <b>N.B</b> Please note that this NPV does not allow for the additional investment that will be required in both maintenance and management to achieve this level of income. This will substantially lower the NPV resulting in a lower figure than the mixed sale and retain option below.	£37.6m
Outright sale of complete portfolio	£24.6m
Sale of the portfolio with retention of small income stream (10% gearing)	£26.8m
Asset Backed Joint Venture.	£32.8m
A mixed sale and retain option: Prime and “problem” properties are sold with the capital receipts from the “problem” properties reinvested in the retained portfolio.	£35.4m

### **Rationale for not progressing full retention options:**

#### **Retain All Properties , Continue Managing In-house**

- This is not sustainable unless a larger part of the gross income is invested in the portfolio as little or no investment has been put into the portfolio over a long period of time. A significant investment would be required which would reduce the net present value of this option to that of the mixed sale and retain option detailed below. Lambert Smith Hampton have not made any allowance for this in their financial appraisal and this would substantially reduce the net present value of this option.
- No capital receipt would be raised under this option and no debt is repaid.
- The Council would continue to have a direct relationship with the tenants which can make effective management of the commercial portfolio more difficult and time consuming.
- The management of such properties is not a core activity of the Council and outsourcing property management is more beneficial so this option has been discounted.

#### **Retain All Properties, Outsource Property Management**

- A number of London Boroughs have outsourced the property management and rent collection of their investment portfolios; Westminster, Wandsworth, Lambeth & Ealing have adopted this strategy.
- The Council does not have a direct relationship with the tenants but remains the landlord.

- This is not sustainable unless a larger part of the gross income is invested in the portfolio as little or no investment has been put into the portfolio over a long period of time. Both a significant initial and ongoing investment would be required which would reduce the net present value of this option to that of the mixed sale and retain option detailed below. Lambert Smith Hampton have not made any allowance for this in their financial appraisal and this would substantially reduce the net present value of this option..
- This option would not produce a capital receipt and no debt is repaid.

## Appendix 2: Properties to be disposed of

UPRN	Address	PostCode	Tenure
34045207/1	602 Fulham Road	SW6 5PA	Freehold
34074339/1	496 Fulham Road	SW6 5NH	Freehold
34069490/05	673 Fulham Road	SW6 5PZ	Freehold
34069490/11	681 Fulham Road	SW6 5PZ	Freehold
34069490/07	675 Fulham Road	SW6 5PZ	Freehold
34074351/1	651 Fulham Road	SW6 5PU	Freehold
34045205/1	600 Fulham Road	SW6 5PA	Freehold
34069490/09	677 - 679 Fulham Road	SW6 5PZ	Freehold
34069490/06	673a Fulham Road	SW6 5PZ	Freehold
34069490/12	683 Fulham Road	SW6 5PZ	Freehold
34069490/03	665 - 671 Fulham Road	SW6 5PZ	Freehold
34064838/1	Shop 1 Broxholme House	SW6 4AA	Freehold
34064838/7	Shop 7 Broxholme House	SW6 4AA	Freehold
34064838/8	Shop 8 Broxholme House	SW6 4AA	Freehold
34064838/5	Shop 5 Broxholme House	SW6 4AA	Freehold
34064838/6	Shop 6 Broxholme House	SW6 4AA	Freehold
34064838/2	Shop 2 Broxholme House	SW6 4AA	Freehold
34064838/3	Shop 3 & 4 Broxholme House	SW6 4AA	Freehold
34029441/1	28 Fulham Palace Road	W6 9PH	Freehold
34029442/1	30 Fulham Palace Road	W6 9PH	Freehold
34030441/1	24 Fulham Palace Road	W6 9PH	Freehold
34074002/1	582 King's Road	SW6 2DY	Freehold
34074049/1	618-620 Kings Road	SW6 2DU	Freehold
34047392/1	Fulham Palace Garden Centre	SW6 6EE	Freehold

### Appendix 3: Indicative timeline for disposal of prime portfolio

Week Commencing	25/07/11	01/08/11	08/08/11	15/08/11	22/08/11	29/08/11	05/09/11
Title checks on all properties identified for sale							
Undertake a 'due diligence' examination of the commercial portfolio (i.e. agree and document any outstanding rent reviews and lease renewals)							
Obtain planning consent for alternative use for 73 Moore Park Road, 19 Seagrave Road and 5a Uxbridge Road.							
Pre Marketing Due Diligence							
Marketing of properties							
Short listing and final proposals invited							
Evaluation of bids and preferred bidder selected							
Confirm heads of Terms							
Legal Documentation							

Week Commencing	12/09/11	19/09/11	26/09/11	03/10/11	10/10/11	17/10/11	24/10/11
Title checks on all properties identified for sale							
Undertake a 'due diligence' examination of the commercial portfolio (i.e. agree and document any outstanding rent reviews and lease renewals)							
Obtain planning consent for alternative use for 73 Moore Park Road, 19 Seagrave Road and 5a Uxbridge Road.							
Pre Marketing Due Diligence							
Marketing of properties							
Short listing and final proposals invited							
Evaluation of bids and preferred bidder selected							
Confirm heads of Terms							
Legal Documentation							

### Appendix 3: Indicative timeline for disposal of prime portfolio - continued

Week Commencing	31/10/11	07/11/11	14/11/11	21/11/11	28/11/11	05/12/11	12/12/11
Title checks on all properties identified for sale							
Undertake a 'due diligence' examination of the commercial portfolio (i.e. agree and document any outstanding rent reviews and lease renewals)							
Obtain planning consent for alternative use for 73 Moore Park Road, 19 Seagrave Road and 5a Uxbridge Road.							
Pre Marketing Due Diligence							
Marketing of properties							
Short listing and final proposals invited							
Evaluation of bids and preferred bidder selected							
Confirm heads of Terms							
Legal Documentation							

Week Commencing	19/12/11	26/12/11	02/01/12	09/01/12	16/01/12	23/01/12	30/01/12
Title checks on all properties identified for sale							
Undertake a 'due diligence' examination of the commercial portfolio (i.e. agree and document any outstanding rent reviews and lease renewals)							
Obtain planning consent for alternative use for 73 Moore Park Road, 19 Seagrave Road and 5a Uxbridge Road.							
Pre Marketing Due Diligence							
Marketing of properties							
Short listing and final proposals invited							
Evaluation of bids and preferred bidder selected							
Confirm heads of Terms							
Legal Documentation							

**Appendix 3: Indicative timeline for disposal of prime portfolio – continued**

Week Commencing	06/02/12	13/02/12	20/02/12
Title checks on all properties identified for sale			
Undertake a 'due diligence' examination of the commercial portfolio (i.e. agree and document any outstanding rent reviews and lease renewals)			
Obtain planning consent for alternative use for 73 Moore Park Road, 19 Seagrave Road and 5a Uxbridge Road.			
Pre Marketing Due Diligence			
Marketing of properties			
Short listing and final proposals invited			
Evaluation of bids and preferred bidder selected			
Confirm heads of Terms			
Legal Documentation			