

12 December 2018		ITEM: 18
Decision: 110494		
Cabinet		
Acquisition of Employment Land Use		
Wards and communities affected: West Thurrock and South Stifford	Key Decision: Yes	
Report of: Councillor Mark Coxshall – Portfolio Holder for Regeneration		
Accountable Assistant Director: Detlev Munster, Assistant Director of Property and Development		
Accountable Directors: Steve Cox, Corporate Director of Place and Sean Clark, Director of Finance and IT		
This report is Part Exempt – Appendix A and certain background documents as noted are exempt by virtue that, in accordance with Schedule 12A of the Local Government Act 1972 (category 3), it contains information relating to the financial or business affairs of any particular person (including the authority holding that information).		
Date of notice given of exempt or confidential report: 2 October 2018		

Executive Summary

On the 25 October 2017, Council approved the Investment and Treasury Management indicators to support an investment strategy as part of the wider requirement to deliver a balanced budget. The latest Treasury Management Strategy was approved in February 2018. The October 2017 report outlined the approach for future cash investment decisions and in particular noted in section 3.10 that the investment approach would include “the need to acquire or build revenue generating assets, especially where this meets regeneration or economic need”.

A unique opportunity has come to the market for a large parcel of land in West Thurrock which is strategically located within close proximity to the M25. It is suitable for commercial use and in close proximity to Purfleet, existing industrial units will need to be relocated.

Acquisition of the site would support the wider regeneration of the area. It could also provide “lift and shift” space for businesses located in other industrial estates in Thurrock. The acquisition and subsequent industrial development of the site could result in 850 people being employed at the site, whilst generating in excess of 80 direct and indirect jobs during the construction period. This site would support the

Council's wider economic development objectives, creating new jobs and retaining businesses in Thurrock that would potentially relocate outside of the Borough.

The Council commissioned property consultancy Lambert Smith Hampton (LSH) to advise on the potential acquisition of the industrial development land. An initial report was submitted in April 2018 and the company was commissioned to undertake further due diligence, including the commissioning of preliminary architectural and cost consultancy advice. An additional consultancy, GVA, was commissioned to carry out due diligence checks on the LSH report including land value and the feasibility of the proposed scheme – these were all confirmed as being reasonable.

Discussions have progressed with the land owner and on 31 August 2018 a provisional offer was made with the request to allow the Council to enter into a 3 month exclusivity period. This exclusivity period will allow for;

- the Council to carry out additional checks on the land including soil investigations allowing for a more accurate land valuation and assessment of development risks
- the Council to enter into pre-planning application discussions regarding the site's future use
- Council to reevaluate the proposed financial offer to the land owner
- receive the approval of Cabinet to enter into final negotiations with the land owner and make a final offer up to an authorised maximum offer as advised by LSH

1. Recommendation(s)

That Cabinet:

- 1.1 notes the regeneration and investment opportunity presented by the acquisition of land identified in Appendix A which could be used for employment use purposes.**
- 1.2 approves the proposed freehold acquisition of the site as outlined in Appendix A of this report pursuant to Section 227 of the Town and Country Planning Act 1990 as well as Section 120 of the Local Government Act 1972, and delegates authority to the Corporate Director of Place and Director of Finance in consultation with the Cabinet Member for Regeneration to negotiate and agree final terms for the site's acquisition and to enter into any necessary agreements for the purchase of the site for the Council.**
- 1.3 approves the development of the site as outlined in the report and delegates authority to the Corporate Director of Place to finalise the scheme, submit a planning application and enter into appropriate development agreements for its development in accordance with the planning permission.**

2. Introduction and Background

- 2.1 The Council has been exploring potential options to increase the industrial offering. The proposed acquisition site (described in Appendix A) has been identified by the Council as a potential relocation site and would support the Council's wider economic development objectives viz.; retaining businesses in Thurrock and creating new jobs. The site could also potentially be used as "lift and shift" space for businesses to move from other industrial estates in the borough.
- 2.2 Lambert Smith Hampton (LSH) was appointed to advise on the potential acquisition of the site. Due diligence work, including obtaining architectural and cost consultancy advice was undertaken. In addition, legal due diligence and property searches for the site have been carried out. An indicative masterplan for the site was prepared to identify how best the site could be optimised. LSH has subsequently appraised the proposed scheme, and further internal reviews were undertaken.

3. The Opportunity

- 3.1 The site is located in West Thurrock and is undesignated land in the Local Plan and has not been previously developed. The Vendor was originally intending to expand their operation into this area, but their business model and needs have changed.
- 3.2 A detailed feasibility study was undertaken to determine the suitability and viability of this site for commercial purposes. The site would also facilitate the relocation of businesses from other industrial estates and provide modern fit-for purpose facilities with opportunities for businesses to expand.
- 3.3 The feasibility report prepared by LSH suggests that a business/industrial park can be developed on the site. Constraining factors, such as ground conditions, flood risk, COMAH restrictions, etc. were taken into account in preparing this feasibility report.
- 3.4 For investment analysis purposes, a commercial scheme with a built area of 185,000 sq.ft. with the balance for open storage uses could be developed on the site.
- 3.5 If the scheme were developed as per the feasibility study, the economic benefits could be summarised as follows:
- Relocation space for businesses requiring industrial space
 - Location for 800 jobs
 - Creation of 80 direct and indirectly related construction jobs
 - Net contribution to business rates of c. £1m per annum.
- 3.6 Market research suggests that there is strong demand (well into the foreseeable future) for open storage and larger B8 sheds in Thurrock. Indeed the market is considered to be buoyant and current economic trends, Brexit and the site's strategic location all suggest that this site will contribute

positively to the regional supply of commercial space and that there will be significant interest. In addition, in-house research and requests received for commercial accommodation support the research indicating that there is also strong local demand for such space.

- 3.7 The proposed acquisitions financial information can be found in Appendix A, which together with the Feasibility Report noted as a background document, are commercially sensitive and exempt from publication. It is, however, worth mentioning that a number of development options for the site and sensitivity tests were prepared.
- 3.8 The development appraisal assumptions for the baseline scenarios are current and considered to be robust. However, sensitivity tests were undertaken. In particular, the scenarios were modelled with a compounded sensitivity effect where development costs were increased by 10% and future rental income was decreased by 10%. These test suggests that the open storage and industrial sheds remained a viable proposition with positive NPVs and net rental streams.
- 3.9 A further scenario was also modelled to consider an increase in interest rates of 0.5% above the Council's finance rate. The scheme remained viable under both modelled scenarios. A final sensitivity analysis was also conducted which incorporated a further modelled contingency over the project life. The NPVs remained positive. Hence the scheme is considered viable after the consideration of a number of modelled outcomes.
- 3.10 The acquisition of the site is considered to be a viable proposition, and has been tested by our property consultants and reviewed by the Council's Property/Regeneration and Finance teams. In addition, an independent valuer, GVA, was appointed to review the proposed acquisition and the various development scenarios and concluded that the proposed land value is appropriate and that the various assumptions and comparable evidence are robust and sound.
- 3.11 The acquisition and development of the site presents a significant investment for the Council. The cashflows are outlined in Appendix A.
- 3.12 If the Council is successful in securing this site, the Council will appoint a development manager to finalise planning matters and secure planning permission, undertake the construction of the site and businesses to the new industrial park. The cost of this development manager are included in the financial model.
- 3.13 Details of the exclusivity agreement are included in Appendix A.

4. Issues and Options

- 4.1 The acquisition also provides the opportunity to relocate (“lift and shift”) other commercial businesses that are located in predominantly residential areas in Thurrock. This would release these areas for other uses better suited in predominantly residential areas and support the Council in its aim to promote sustainable housing development in appropriate areas.
- 4.2 Two development options have been considered for this site and both of these options are considered feasible and viable.
- 4.3 The Investment and Treasury Management Strategy identifies the need for the Council to assess investment opportunities against other investment classes. While this is restricted by legislation, the Council could consider investing in cash, but returns from such an investment would only yield returns of about 2% per annum at most. Investment in other asset classes such as bonds and stocks is not permitted under current legislation.

5. Property Considerations

- 5.1 The proposed acquisition site is not designated in the Local Plan. Discussions with colleagues in planning suggest that the site would be suitable for industrial use, but would require planning permission.
- 5.2 The site is located within a COMAH zone, and its use and development is restricted. These restrictions have been considered in the indicative masterplan and consequently these constraints are included in the scheme’s financial model. Additionally, the site is potentially contaminated and further investigations will need to be undertaken. The cost of remediating the site is factored into the Council’s proposed offer and has been modelled in the financial analysis. These costs are considered to be a reasonable assumption based on local comparables. Should the cost be greater than this amount, it will be deducted from the proposed land value.
- 5.3 The scheme assumptions used for financial analysis purposes are considered reasonable and reflective of current local market conditions. While the market is considered buoyant and the site is strategically located, the market may fluctuate in terms of costs and future rents given uncertainties pertaining to Brexit and unforeseen global economic shocks. However, in this regard we note that the scenarios have been subjected to compounded sensitivity tests (in terms of increased costs and decreased rents) and even under these conditions, the proposition appears to be viable.
- 5.4 The acquisitions HoTs are outlined in Appendix A. These are considered to be prudent and safeguard the Council’s position.
- 5.5 The land has been valued by LSH and at this value the proposed scheme presents a solid investment return for the Council. However, given interest in this land by other organisations, this value can be surpassed, and the Council

has modelled an acquisition on an upper limit. While this is considered to be at the upper end of the industrial land value range, the site's strategic location, the unique opportunity of a such a large site coming onto the market, the site's condition, market conditions, together with the Council's regeneration agenda, places the Council in a "special purchaser" position. Notwithstanding this position, an external independent valuer, GVA, was commissioned to review this acquisition. GVA concurs with LSH's findings and as such we believe the scheme presents good value for money.

- 5.6 If the Council is successful with the acquisition, it will need to immediately embark on securing planning permission, constructing the access road and developing the scheme as considered appropriate. This is to ensure the Council meets its conditions in the proposed land transaction deal as outlined in Appendix A.

6. Reasons for Recommendation

- 6.1 The proposed acquisition site has been identified as a potential relocation site that would support the Council's wider economic objectives, creating new jobs and retaining jobs, and assisting in the retention of business within the Borough.
- 6.2 The council could generate additional business rates revenue in excess of £1 million.
- 6.3 The acquisition provides the Council with an opportunity to generate a long-term revenue stream. The proposal would be to submit an offer on terms outlined in Appendix A and would also be subject to further due diligence checks.
- 6.4 It is envisaged that the site could be acquired for the sum disclosed in Appendix A but this is subject to negotiation. The Council is considered a special purchaser given its regeneration requirements, but the transaction still represents value for money and is financially viable. Our independent valuer, GVA, has reviewed the proposed transaction.

7. Consultation

- 7.1 This report will be presented to Cabinet on the 12 December.

8. Impact on corporate policies, priorities, performance and community impact

- 8.1 The proposed acquisition not only supports the Council's regeneration agenda, but also provides additional economic benefits aligned with the Council's Place and Prosperity Corporate Priorities. These economic benefits include additional work space for SMEs in the borough, the potential to retain businesses in the borough and thereby retain and create new jobs.

- 8.2 The proposed acquisition and development of a scheme at this site also aligns with the Council's Investment and Treasury Management Strategy. This strategy requires appropriate due diligence to be undertaken, for appropriate external consultants to be employed to assist the Council in its decision, and for the investment opportunity to meet key performance indicators. All of these requirements have been met and further information is provided in the Financial Implications section.

9. Implications

9.1 Financial Implications

Implications verified by: **Jonathan Wilson**
Assistant Director, Corporate Finance

The financial implications are set out in Appendix A and B. The financial assessment of the project has been completed by Lambert Smith Hampton and the underlying assumptions have been assessed as reasonable by an external valuer (GVA) and also reviewed by the Property and Regeneration teams.

The model underpinning the calculation has been subject to a high level review and supports the outcomes set out in the body of the report. There has been further sensitivity analysis conducted on the proposed scheme to demonstrate the scheme remains viable if a number of core factors move unfavourably. Further consideration needs to be given to how MRP may be applied to the scheme.

The proposed acquisition and development of the scheme is expected to have a positive impact on the Council's MTFS. Based on the supporting model, it is estimated there will be a net ongoing contribution to the base budget of approx. £1.27m by year 6 (increased by rent reviews in future periods) from 2021/22 when the scheme is projected to be fully operational.

9.2 Legal Implications

Implications verified by: **Emmanuel Essien**
Property Lawyer

Local Authorities are empowered under the Localism Act 2011 and the Local Government Act 1972 to acquire land. A Local Authority has the power under Section 120 of the Local Government Act 1972 to buy any land by agreement for the purposes of any of its functions. Furthermore, Section 227 of the Town and Country Planning Act 1990 gives local authority the power to acquire land by agreement for planning purposes. The Power can only be used (a) if the local authority thinks that the acquisition will facilitate the carrying out of development, re-development or improvement on or in relation to the land, or

(b) the land is required for a purpose which is necessary to achieve in the interests of the proper planning of an area in which the land is situated. A local authority must not exercise its power under paragraph (a) above unless it thinks that the development is likely to contribute to the achievement of the promotion of one or more of the following objectives namely the economic, social or environmental well-being of their area. The Council would need to conclude that the acquisition would satisfy these tests to take further action.

It is intended that in acquiring the land for planning purposes, Section 203 (4) of the Housing and Planning Act 2016 will be engaged so that on such acquisition, third party rights or easements in respect of the land are overridden and converted into compensation on the statutory basis under Section 204 of the 2016 Act.

Legal due diligence has been undertaken for the site's acquisition and there are no title encumbrances. However, there is the potential that the site may be contaminated and appropriate site investigations should be undertaken. It is recommended that further investigations are undertaken, and as far as possible completed during an exclusivity period and as a result, the Council is to enter into Exclusivity Agreement with the Vendor. The result of the further investigation will determine whether or not to proceed with the acquisition. Given the nature of some of the studies to be undertaken, in particular the ground investigation reports, a waiver to the Council's Standing Orders (Procurement Rules) may be required for these studies so that they can be completed prior to the end of the Exclusivity Agreement.

The Exclusivity Agreement is not an option and does not bind the Council to the purchase of the site. The Exclusivity Agreement purely grants the Council additional time (3 months) to undertake further due diligence work and to negotiate a final settlement.

The proposed acquisition will be conditional upon the Council obtaining satisfactory planning permission.

9.3 **Diversity and Equality**

Implications verified by: **Rebecca Price**
Community Development and Equalities Officer

The proposed acquisition could potentially facilitate regeneration and also promote the creation of new jobs in the Borough.

10. **Background papers used in preparing the report**

- Investment and Treasury Management Strategy, October 2017, Thurrock Council
- Medium Term Financial Strategy, February 2017, Thurrock Council
- Core Strategy, 2011 updated 2015, Thurrock Council

- Commercial Market Update 2018, Savills
- Big Sheds Briefing, July 2018, Savills
- Nationwide Overview of the UK Logistics and Industrial Market, July 2018, Savills
- Logistics and Industrial Market in the East of England, July 2018, Savills
- Industrial and Logistics Market Report 2018, LSH
- Intelligent Insight, Databook Q1 2018, Glenny
- Site Feasibility Report, October 2018, LSH (exempt from publication)
- Site Legal Due Diligence, July 2018, Thurrock Council (exempt from publication)
- Review of Proposed Acquisition, July 2018, GVA (exempt from publication)

11. Appendices to the report

Appendix A: Overview of Acquisition and Financial Information (exempt from publication)

Report Author

Camille James

Regeneration Programme Manager