

Subject:	Disposal of 43 Belmont Street and adjacent land – update		
Date of Meeting:	11 October 2018		
Report of:	Executive Director of Economy, Environment & Culture		
Contact Officer:	Name:	Angela Dymott Jenna Cafolla	Tel: 01273 29 1450 01273 29 3991
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Ward(s) affected:	St Peter's & North Laine		

FOR GENERAL RELEASE**1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 At Policy, Resources and Growth Committee on 12th July 2018 the committee agreed in principle to the disposal of Belmont Street Annexe and 26 and 27 St Peter's Street to the adjacent occupier. However, prior to the final decision, the committee requested a report providing further information on the social value impact of displacing current occupiers of Belmont Street Annexe and considering mitigating measures that may be taken to ensure alternative accommodation at New England House is affordable.
- 1.2 The purpose of this report is to provide further information as detailed above and to seek approval for the disposal of Belmont Street Annexe and adjacent land to provide a capital receipt for reinvestment in the council's urban investment property portfolio. The disposal and reinvestment will generate additional revenue streams, supporting the council's asset investment strategy of re-balancing the urban investment portfolio and is in line with the principles of the Corporate Property Strategy & Asset Management Plan 2014-18 (AMP), the Corporate Plan and the Medium Term Financial Strategy.

2. RECOMMENDATIONS:

- 2.1 That the committee authorises the freehold disposal of Belmont Street Annexe and 26 and 27 St Peter's Street to the adjacent owner and the surrender of rights to use the adjacent garage, and that delegated powers be given to the Executive Director of Economy, Environment and Culture and Executive Lead Strategy, Governance and Law to agree terms and take any necessary steps to facilitate this recommendation.
- 2.2 That the committee authorises the retention of the net capital receipt to be used with capital receipts from previous disposals approved by Policy, Resources & Growth committee, to add to the "investment capital pot" that is accumulating to acquire commercial investment property or properties, in support of the asset investment rebalancing strategy in accordance with the council's Asset Management Plan and budget strategy.

3. CONTEXT/ BACKGROUND INFORMATION

- 3.1 The council's investment portfolio produces a rental income in the region of £10m per annum, which helps fund the provision of services. The council's Corporate Property Strategy & Asset Management Plan 2014-18 (AMP) outlines the agreed rebalancing strategy for the council's urban portfolio, as only a small proportion of the portfolio is primary investment stock, with most of it consisting of ageing secondary and tertiary properties, with a limited ability to continue to achieve increasing rents and income for the council.
- 3.2 The strategy aims to rebalance the portfolio by identifying under-performing assets for disposal and ring fencing receipts for reinvestment, focusing on the disposal of secondary and tertiary properties to improve returns medium and long term, and reduce liabilities and risk for the council. Through disposal of underperforming assets a fund is accumulating for re-investment to enable the acquisition of better quality investment properties when opportunities present themselves. The council is developing the asset investment strategy with support from the Asset Member Board.
- 3.3 The building known as The Annexe at 43 Belmont Street was constructed c.1950's. The council's ownership extends to adjacent land, used as parking, at 26-27 St Peters Street. The council also has the right to occupy a garage located within the freehold of 45-47 Cheapside which interlocks the site (Plan shown in Appendix 1).
- 3.4 The building has been identified for redevelopment for some years and in that time the building's condition has deteriorated due to lack of investment. A recent condition survey identified immediate repair needs of approximately £44,000-55,000 and recommended a structural survey, electrical survey, Fire Risk Assessment and boiler inspection. It is anticipated further works would be identified following completion of these surveys and detailed investigations. The condition survey did not consider future planned maintenance requirements however the building requires significant investment to bring it up to a good condition.
- 3.5 There are 4 tenants (3 in the building and the 4th occupying the garage) all on flexible short term leases and licences, excluded from security of tenure provisions and with low rental levels reflecting the short term nature of the leases/licences granted as well as the building condition. The total gross rental income is £23,750pa.
- 3.6 The three main tenants of the building (excluding the garage tenant) are all within creative industries and have been in occupation for 20-35 years. The tenants include a wide range of creative illustrators, designers and makers. From our discussions with the tenants we are aware they would prefer to remain in the building for as long as possible.
- 3.7 The Brighton Cultural Strategy recognises the need for connectivity, creative co-operation, affordable spaces, grassroots inclusion and security. The council is therefore committed to supporting the creative tenants in providing alternative

accommodation which is suitable for their industry needs and keeps them located within the creative community. New England House is the ideal location for this.

- 3.8 The market value for the property has been assessed by Cluttons, an independent valuer commissioned by the council. The site has been considered for redevelopment in isolation of the adjacent interlocking property at 45-47 Cheapside, but advice from the council's Estates and Architecture teams has confirmed that this site could not be practically, economically or sensibly developed in isolation due to a number of site constraints, including its narrow dimensions and orientation, proximity to current housing, the inability to have habitable windows on both the North and South elevations, the potential complexity of Party Wall Agreements and challenges of foundation designs.
- 3.9 Given these site constraints we consider isolated re-development of the site unviable whereas a comprehensive redevelopment of this site and the interlocking adjoining site for residential and employment space is deliverable and is likely to produce a better scheme for the site. This larger integrated development would be more efficient with the potential to provide 31 homes plus an element of commercial space which, as currently proposed, would be more commercial space than is contained within the council's as existing property.
- 3.10 The New Homes for Neighbourhoods Team and the New Homes for Brighton & Hove JV have no interest in developing this site for affordable housing due to the site constraints detailed at 3.8 and do not wish to pursue a redevelopment scheme themselves.
- 3.11 The owner of 45-47 Cheapside has made an unsolicited offer to purchase the council's freehold interest to facilitate the redevelopment of the combined site for 31 new flats with commercial space on the ground floor and as a special purchaser is willing to pay above the market value for the property. The offer therefore represents best consideration.
- 3.12 A second unsolicited offer has also been received from another special purchaser who wishes to retain the building for its existing use. This second offer is also above the market value but is lower than the first offer received.
- 3.13 Cluttons valued Belmont Street Annex & Garage as at 17 November 2017. The valuer reviewed this in May 2018 and confirmed this value is still current and has not changed.
- 3.14 Social Value can be defined in several ways. The Brighton & Hove Social Value Framework defines Social Value as about securing maximum impact on local priorities from all public investment and the city maximises social value by focusing particularly on strengthening communities through collaborative working across the public, private and community and voluntary sectors. In addition, the HM Government Civil Society Strategy defines Social Value as meaning 'enriched lives and a fairer society for all'.

Social Impact

- 3.15 In terms of relevance to the sale of council buildings Social Impact is a better suited measure than Social Value. There may be a negative Social Impact from displacing tenants from a property that can be mitigated by certain measures

which might allow them to return or be re-located. However, the council has no process to assess Social Value other than as part of a procurement process (the council does not rate actions in terms of how much positive or negative Social Value they produce, other than in very specific procurement contexts). As such, the Policy Team have recommended that we focus on the Social Impact of the sale of Belmont Street annexe to meet the committee’s requirements. Social Impact being defined “*the effect an organisation's actions have on the well being of the community that happens as the result of an action.*” The social impact analysis for each bid is set out below.

3.16 The following table analyses the Social Impact of the sale of the subject building both bidder A and B and includes actions considered to mitigate any negative impact, based on the 5 foundations of Social Value, which are:

- PEOPLE: Enabling a lifetime of contribution
- PLACES: Empowerment and investment for local communities
- THE SOCIAL SECTOR: Supporting charities and social enterprises
- THE PRIVATE SECTOR: Promoting business, finance and tech for good
- THE PUBLIC SECTOR: Ensuring collaborative commissioning

Government action is to strengthen these 5 foundations.

3.17 Analysis of the Social Impact of disposing of the property to Bidder A:

Section	Impact	Contribution Summary
<p>PEOPLE: Enabling a lifetime of contribution</p>	<p>Employment The redevelopment plans for Belmont Street Annexe will unlock the following employment demonstrated by a Social Value Impact paper produced by the developer’s consultant in August 2018:</p> <ol style="list-style-type: none"> 1) 46 gross full-time equivalent jobs of which 4 are full-time equivalent construction jobs 2) 8 work placements and 4 new apprenticeship opportunities for local people; 3) A further 14 full-time equivalent indirect jobs to the local economy through new homes. 	<p>Overall positive contribution on employment and people’s contribution in the community.</p>
<p>PLACES: Empowerment and investment for local communities</p>	<p>Energy Efficiency The redevelopment of Belmont Street Annexe will produce a more energy efficient building in line with current construction standards as a result.</p> <p>Public Safety A safer building in line with current construction standards for health and fire safety.</p> <p>Community More aesthetically enjoyable building in the town centre adding to the regeneration of this area.</p>	<p>Overall positive contribution to environmental safety, energy efficiency and the built environment in the community.</p>

<p>THE PUBLIC SECTOR: Ensuring collaborative commissioning</p>	<p>According to the developer, the new development of Belmont Street Annexe will be a £6.5m capital investment. Once occupied by both commercial and residential occupiers it will release approximately:</p> <ol style="list-style-type: none"> 1) £1.11m in local salary and new household expenditure locally; 2) £94,000 in public sector revenues through local business rates and council tax receipts; 3) £12.4.m contribution to the local economy over a ten-year period. 	<p>Overall positive contribution on long term monetary contribution to the community.</p>
<p>THE SOCIAL SECTOR: Supporting charities and social enterprises</p>	<p>It is reported by the purchaser that the proposed development will provide:</p> <ol style="list-style-type: none"> 1) 31 new homes of which 40% will be affordable; 2) Up to £254,000 in S106 payments will directly benefit the local area by paying for key items such as education provision, new and improved bus stops and play areas within local parks. 	<p>Overall positive contribution on housing supply in the community.</p>
<p>THE PRIVATE SECTOR: Promoting business, finance and tech for good</p>	<p>Current Tenants The current tenants will be required to relocate if the building is redeveloped which could result in a negative social impact for both the tenants (as rental outgoings will increase), and the community as a whole if the tenants leave Brighton altogether or close their businesses. However an Affordability Contribution has been agreed as part of the proposed sale to mitigate this impact.</p> <p>Affordability Contribution: The rent at New England House is approximately £9.50 per square foot with an additional service charge of approximately £4.15 per square foot.</p> <p>This is higher than the tenants' current rent of approximately £5 per square foot. (At present service charge is not charged as there has not been ongoing maintenance carried out at the building). However the market rental value of Belmont Street Annexe is approximately £12.30 per square foot on a full repairing basis (with the tenant responsible for the additional cost of repairs). The tenants have</p>	<p>Negative impact mitigated as developer to pat the tenants a financial contribution as a condition of the sale to support the move to more expensive alternative accommodation and support the retention of the cultural and social value generated by these tenants within the city and local</p>

	<p>benefitted from a reduced rent for a significant period because of the council's intention to sell the site for redevelopment.</p> <p>Given the increase in rent which will be inevitable for the tenants, whether they decide to relocate to New England House or another location, the developer has made an offer to subsidise future rent charges and ensure each tenants' continued business operations for the next 5 years as much as possible.</p> <p>The developer has offered a new lease to each tenant with a 3 year term, and landlord break at year 2 (and thereafter with 6 months notice) with tenant break options every 6 months which can be served by the tenant at any time.</p> <p>The above will secure the tenants' accommodation at Belmont Street Annexe for at least the next 2-3 years from the date of the sale whilst also freezing their current rental levels during this period.</p> <p>The developer has then offered to pay the tenants:</p> <ol style="list-style-type: none"> 1) A sum equivalent to 2 year's current rent, if the lease is broken at year 2. 2) A sum equivalent to 1 year's current rent if the lease is broken at year 3. <p>The contribution gives the additional financial support to make a relocation to New England House more affordable, helping secure their position in Brighton for the next 5 years - a reasonable period for companies to business plan.</p>	community.
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3.18 Analysis of the Social Impact of disposing of the property to Bidder B:

Section	Impact	Contribution Summary
PEOPLE: Enabling a lifetime of contribution	From the perspective of the tenants, the Annexe has allowed many individual creative freelancers to thrive, connect, create and be part of the community and these freelancers do not feel they can survive as a community without the annex. The occupiers state that on a daily basis their interactions as a group	Positive contribution on member of the community living in Brighton and

	<p>empowers them as the creative skills and achievements can be shared to educate each other.</p> <p>The occupiers believe Brighton & Hove has an identity rooted in individual expression, tolerance and visible communities which they together demonstrate.</p> <p>The occupiers have been in the Annexe for approx 35 years with a community and sense of identity.</p> <p>The wider creative community in Brighton and Hove are said to refer to the sale of the annexe as “the end of an era” and “a sadness that something irreplaceable is to be lost”.</p> <p>The bidder has stated that they are ambitious to own the building so they can retain their sense of community and belonging.</p> <p>Occupiers within the building:-</p> <ol style="list-style-type: none"> 1) John, a graphic designer, works part-time with autistic children at St Johns. He would not come to New England House due to the increased cost. 2) Kate, a freelance artist and illustrator, suffers from ME and would not be able to justify the rent at NEH. 3) Sami, a children’s book illustrator, is a single mother and would not be able to afford the rent at NEH. 4) Helen, a graphic designer, works part-time in London and would not be able to afford the extra rent at NEH. 5) Susan, is a textile designer and is on an illustration course at Brighton University and would not be able to afford the rents at NEH. 6) Joe, is a fine art graduate and would not be able to afford the rents at NEH. 7) Ryan is starting out as a freelance illustrator and would not be able to afford the rents at NEH. 8) Phil is attempting to leave web design, which is causing home stress, and is retraining as an illustrator. This year he was one of the artists chosen to illustrate one of the Martlets Snails which are about to be revealed. <p>The bidder has said that if they were to lose the Annexe then this community would be lost.</p>	<p>Hove within the creative industries.</p>
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<p>PLACES: Empowerment and investment for local communities</p>	<p>The occupiers view the Annexe as a favourable place to work in its current state as it incorporates co-operation and inclusion. It is said to be “a haven for many illustrators, designers and Samesky for many years and ownership of the space would empower us and our future”.</p> <p>The bidder has reported that the building is viable, solid and sustainable. It has lacked investment and long-term management which would be managed collaboratively by its inhabitants.</p> <p>The Bidder’s investigations with builders, architects, surveyors, estate agents, electricians and energy experts all have had uniform enthusiasm for the solidity, potential and viability of the building. The building has an EPC energy efficiency of D.</p> <p>Bidder B has been in the building for 35 years and maintained the area he occupies throughout this time. On purchasing the building he intends to invest further and fund the maintenance of all of it to secure its future. The tenants see the building as having integrity and a community who represent continuity of the diverse, creative and community spirit that typifies Brighton.</p>	<p>Positive contribution on maintaining the building but keeping the current character.</p>
<p>THE PUBLIC SECTOR: Ensuring collaborative commissioning</p>	<p>Designers and illustrators within the Annexe work with local organisations, including Brighton Museum, Brighton & Hove Council, the West Pier Trust, Queenspark Books, and Northbrook College Illustration Course.</p> <p>The occupants also support students doing work experience from local schools who have gone on to do a Foundation course at Brighton City College.</p> <p>Samesky have worked collaboratively with numerous local schools and organisations to foster community engagement and creative empowerment.</p>	<p>Positive contribution on education and local authority departments.</p>
<p>THE SOCIAL SECTOR: Supporting charities and social enterprises</p>	<p>Samesky has been an invaluable and creative part of Brighton’s culture and a thriving charity with a strong and creative local identity. By working within local communities it has empowered individual and collective expression and participation. The tenants’ bid is seen to strengthen its hand and support an established and highly valued local voice.</p> <p>They are responsible every year for the Children’s Parade as part of Brighton Festival and the unsubsidised Burning of the Clocks. They are also</p>	<p>Positive contribution on the community of securing the future for Samesky in Brighton and Hove.</p>

	<p>responsible for employing over 25 freelance artists and makers working with the Brighton community and beyond.</p> <p>If Samesky were to move it could put a community arts organisation (which has weathered the cuts so far) under increased financial stress which could jeopardise their ability to achieve the many and varied social benefits.</p> <p>Same sky projects include:</p> <ul style="list-style-type: none"> • Arts Charity founded by the Council after the wild park "babes in the wood" tragedy • The Otherworld Special Needs Project based in Sussex • Work with Royal Sussex Beacon • Brighton Festival children's Parade 26 years • Brighton Festival outdoor arts events support • Brighton Language Day • Apple Day event support • Pride Event Support • Phoenix Brighton young peoples projects • Burning The Clocks annual community civic celebration entirely funded from local people and the companys own 21years • Partner with carousel delivering a council funded 3 year inclusion project for learning disabled young people • Martletts assisting with remembrance events • Hummingbird Project working with refugees • Working with the Childrens Hospital • Housing the Euphoria Steelpan Band • Hove Park Project with Friends of Hove park • Community work in Moulescoomb celebrating 30 years of Samesky this year • Young People Arts Award - 16-24 year olds in Brighton • Employ 25 other local artists 	
<p>THE PRIVATE SECTOR: Promoting business, finance and tech for good</p>	<p>The building has been inhabited by a community of designers and makers for 35 years. The building also houses 25 other designers and illustrators who are an active and supportive community. Bidder B is aware on a daily basis of the interactions between the members of this community in supporting, educating and informing each other in their professional practice. In their opinion this community would not survive a move to New England House. It is true that a few of the designers here are</p>	<p>Positive contribution on the community of provide space for freelancers and supporting the creative industries.</p>

	<p>successful, but many have a more complicated work relationship.</p> <p>As a community, the creatives are able to add experience and knowledge whilst countering professional isolation which is very common amongst freelance individuals.</p>	
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4.0 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 The alternative options of do nothing, development by the general fund for special housing need, sale to the Housing Revenue Account, sale to the New Homes for Brighton Joint Venture, off market sale to the special purchaser for retained use and off market sale to the special purchaser for redevelopment are set out in the July Policy, Resources & Growth report.
- 4.2 The valuations completed by Cluttons included valuations based on the developer's proposed development schemes for the combined site. It would therefore only be beneficial for the council to seek a planning consent for the development of the combined site in advance of disposal if such consent delivered a more ambitious, valuable scheme than that already proposed and valued. In addition a planning application would add cost and delay to the process. Both bids are from special purchasers and are unconditional.
- 4.3 The social impact of both bids has been set out above and we recommend an off market sale to the special purchaser for redevelopment who will be able to realise maximum new homes and employment space from the redevelopment by doing it together with his own freehold, and as such has offered an above market price for the site reflecting his special purchaser status. The transfer is to include a restrictive covenant to protect future adjoining redevelopments and, guarantee an agreement for new 3 year leases to the existing tenants and to facilitate their relocation in the City by offering a financial rental rebate at the end of their leases. The council can re-locate the tenants to New England House with affordable rents and a large creative and digital industries community.
- 4.4 The other bid would present a lower capital receipt, with the building being refurbished and the uses retained.

5 COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 The tenants and the adjacent owner have discussed the terms offered for new leases, to be put in place in the event that a disposal to the adjacent owner is concluded, including the affordability contribution to be paid if the break notices are actioned. The tenants are in agreement with the lease terms in principle, subject to contract.

6. CONCLUSION

- 6.1 We have received two unsolicited offers from special purchasers, which are both above the independently assessed market value. The offer from the owner of

45-47 Cheapside is the higher of the 2 and represents best consideration and is above the independent market valuation.

- 6.2 The freehold disposal will facilitate the redevelopment of a larger site along with the adjacent site 45-47 Cheapside. To dispose of the site as long leasehold would complicate the site assembly, and make future ownership and occupation of the site once redeveloped complex as it would limit the purchaser's ability to dispose of the newly created residential units as freehold without going through an enfranchisement process with the council. This adds a layer of work and expense for both parties in the future.
- 6.3 The current proposed redevelopment plans from the owner of 45-47 Cheapside (subject to planning) would be an asset for the City providing an estimated 31 new residential apartments with 40% affordable, which would be an increase from the current 8 homes delivering new housing in the city and at least 500m² commercial employment space (currently only 430m²) which is above the current offering and would also help boost the undersupply in the city centre.
- 6.4 The net capital receipt is to be used for reinvestment in the council's urban investment portfolio in line with the council's asset investment rebalancing strategy providing an ongoing income stream with better growth potential.
- 6.5 The current proposed disposal terms, protects the current tenants occupation for a minimum of 24 months and the council has sought to re-provide space for the creative tenants in the council's CDIT building New England House which is approximately 400m away.
- 6.6 The proposed disposal to the adjoining owner represents an opportunity to provide regeneration to a small part of the New England Quarter, delivering a net gain of approximately 22 - 27 residential properties and an increase in workspace of an estimated 70m².
- 6.7 The offers are not subject to planning and whilst there is a risk that proposed schemes may not receive planning consent or be built out, the current condition of the building and restricted ability to develop the site without acquiring adjoining interests, means that the disposal of the site accords with Objective D (optimising value from our commercial portfolio) of the Corporate Property Strategy and Asset Management Plan, and the council's Medium Term Financial Strategy and can be recommended.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 The disposal of the site will generate a capital receipt, less any disposal costs, which will be pooled along with the net receipts from properties previously disposed of. The balance of the receipts will be reinvested back into the property portfolio to generate additional rental income streams over and above the existing rental streams and this strategy forms part of the council's Integrated Service and Financial Plans.
- 7.2 The building currently generates a low level of rental income at £23,750 pa. The current occupiers pay a lower than market value rent at circa £5.00 per square

foot (market rental value is estimated at £12.30 per square foot), however, this is driven by the council's intention to sell the building. There is likely to be a short period of time from which existing rental streams will not be generated and these will be reported through the Targeted Budget Monitoring reporting procedure to committee.

- 7.3 Other financial benefits that could be delivered include i) a reduction in the council's maintenance budget with an estimated current year cost of £26,000; ii) the potential to deliver additional business rates and council tax contributions; iii) and Section 106 payments. This is based on the assumption that additional housing and commercial space is developed.

Finance Officer Consulted: Rob Allen

Date: 18/09/19

Legal Implications:

- 7.4 Councils cannot dispose of land for consideration which is less than can reasonably be obtained except with the consent of the Secretary of State (section 123 of the Local Government Act 1972). This test is purely commercial; it is not permissible to take account of social value when determining whether an offer represents best consideration. The decision to dispose of the land to the adjacent owner does meet the best consideration test.

- 7.5 If the Committee were not minded to follow the recommendation, it is relevant to note that the Secretary of State has issued a general consent (Circular 06/03: Local Government Act 1972 general disposal consent (England) 2003) which allows local authorities to dispose of land for an undervalue provided it considers that the disposal will help it to secure the promotion or improvement of the economic, social or environmental well-being of its area AND the difference, between the unrestricted value of the land to be disposed of and the consideration for the disposal, does not exceed £2 million.

Lawyer Consulted:

Alice Rowland

Date: 18/09/18

Equalities Implications:

- 7.6 There are none.

Sustainability Implications:

- 7.7 These are captured through the Minimum Efficiency Energy Standards (MEES) process.

SUPPORTING DOCUMENTATION

Appendices:

1. Plan of site

Documents in Members' Rooms

None

Background Documents

None