

The proposed leasing of 72 South Street, Yeovil, BA20 1QF

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Purpose of the Report

The purpose of this report is to seek member's approval to lease 72 South Street, Yeovil, BA20 1QT to Somerset Care & Repair.

Forward Plan

This report did not appear on the District Executive Forward Plan as the options for the property since its return to us from Somerset County Council have only just been concluded.

Public Interest

This report concerns the potential leasing of a prominent building in Yeovil to Somerset Care & Repair (SC&R) to be converted into two flats to provide low cost housing for council nominated tenants.

Recommendations

That the members agree, subject to the outcome of successful negotiations on the rear access rights with Yarlington Housing Group, to approve;

1. The granting of a full repairing lease for 15 years to Somerset Care & Repair subject to break clauses after five years.
2. A requirement for Somerset Care & Repair to pay a rent of £600 per month during the lease period to SSDC, and to ensure that the new flats to be converted are occupied by council nominated tenants at LHA rental rates.
3. The addition of £7,200 to the 17/18 Medium Term Financial Plan (MTFP).

Background

72 South Street is a two storey corner property near the Yeovil Library that has recently become vacant. Since its return to SSDC in August 2015, the SSDC Land and Property officer instructed SSDC's commercial agents with regard to marketing the property, on a commercial basis. To date, whilst there has been some interest in the property, no suitable tenant has yet to come forward.

At the same time as the property was marketed for a commercial tenant SSDC also advertised the property in the Western Gazette asking for expressions of interest from developers who might be interested in developing the building on a partnership basis with SSDC. Only one developer has replied, Somerset Care & Repair (a not for profit charity managed by Kevin Lake). Somerset Care & Repair is an organisation that SSDC has

worked successfully with on a number of other projects within the District. It is now proposed to lease the property to Somerset Care & Repair.

Report

SSDC's Development Valuer, Clare Pestell, recently prepared a valuation report on the property in which she was asked to provide valuation advice on what was proposed. She commented as follows;

- Under the GPDO criteria and with the high level of vacant secondary and tertiary office accommodation(In Yeovil) an alternative use to bring this property back into repair and use would seem to be a sensible course of action, subject to planning permission for conversion works being granted and the financial viability of conversion being considered.(note: planning permission to convert the property into two apartments has now been granted and conversion costs calculated)
- If the property is retained as an empty asset it will deteriorate over time and become a liability; and it is already in need of work and maintenance both externally and internally.
- In my opinion, the property location, on the fringe of the town centre with no car parking may not appeal to many business uses in the current market nor in its current condition. Therefore, the likely rental income from the property as offices is unlikely to offset repair and maintenance costs going forward, even if a tenant could be found.
- Therefore, the property could be considered for disposal with potential for an alternative use. There is little to no local or recent market evidence of which we are aware. However, in my opinion, the Market Value probably lies within the region of £100,000 – to £150,000, depending on the cost of works needed to bring it back into reasonable repair. I have only undertaken a limited visual inspection and a more thorough inspection may reveal more works required and costly repairs.
- Alternatively, if the property were in good repair and converted to two 2 bedroom apartments, its likely Market Value with vacant possession and shared freehold in my opinion would be in the region of £90,000 - £105,000 each, so a total of £180,000-£210,000. This will depend on the quality of the finish, space and facilities offered, as well as the overall condition of the main structure and fabric of the building.
- According to Land Registry information, few 2 bedroom apartments are available in this area of Yeovil, in what could be an attractive period property, conveniently located for the town centre.
- In the last two years, residential property prices have risen in the area by approximately 11% according to nationally recognised housing price indices (Nationwide and Halifax combined). Supply to the market is still restricted whilst demand continues to steadily grow for the right property product in sought after locations. More households are living in smaller accommodation, and convenient living in the town centre close to services, is often more appropriate for those on lower incomes without transport. Therefore, this property, if repaired and converted well could meet this market sector.
- The alternative is that the property is disposed of in its current condition without any expenditure and residual capital value is released upon sale to reinvest into a more appropriate asset, without the risk of planning permission, cost of conversion, unknown

rising repair costs during this process and delay in receiving a future rental income stream.

At the time of the Housing Stock transfer, rear access rights for this property were not retained. This means that the residential access needed to deliver this scheme requires officers to enter into negotiations with the Yarlinton Housing Group (YHG) who are the neighbouring land owners. Negotiations are currently underway that will take some weeks and it is suggested that in order to avoid delays that this report and the lease of the property to Somerset Care & Repair be agreed subject to the satisfactory outcome of these negotiations. The legal costs associated with the access right negotiations are to be £650 plus VAT, plus a one off consideration payment of £1,000. These payments would be payable on top of the usual legal and professional costs incurred as result of the leasing of the property. These and any other costs that arise can be included within the empty property grants that it is proposed to award to SC&R.

Subject to SSDC obtaining the required rights from YHG, preliminary discussions have been entered into with Somerset Care & Repair. The following proposal has been provisionally brokered:

- The property will be leased to SC&R on a 15 year lease for a rent of £7,200 a year (total return to SSDC over 15 years =£108,000).
- The lease will be a full repairing lease, meaning that the tenant has responsibility to ongoing repairs and maintenance.
- The lease will include break clauses allowing SSDC to give notice to terminate the lease on the fifth and tenth anniversary, as well as automatic break clauses for default in payment of lease costs.
- The property will be converted into two, two bedroom apartments. Funding will be as follows:

Empty property grants from SSDC = £12,000 per flat x 2 = £24,000
All other development cost borne by SC&R = £6,000
Total build cost £30,000

Rental income at LHA rates = £530pm for each two bed flat.
Annual rental income from two flats x 12 = £12,720 pa
Lease cost for building payable to SSDC at 600 per month = £7,200 pa
SC&R maintenance cost/voids/profit = £5,520 pa

Advantages of this proposal

- 72 South Street will be brought back into use and will no longer be a liability to SSDC.
- Two flats will be created that will increase the asset value of the building giving SSDC the option to sell them at a later date should this be desirable.
- SSDC will have nomination rights to the building and two local households from the Housing Needs Register will be rehoused during the lease period at the LHA rate which will be below the open market rate.
- This project and deal should not be looked upon purely in terms of economic return. The fact that the new flats will be let to local residents at LHA rates arguably puts it in the same position as new build projects which SSDC helps fund in partnership with Registered Providers to create affordable housing for rent-often at much greater cost.
- This development has the potential to generate approx. £16,000 in New Homes Bonus and will attract extra council tax.

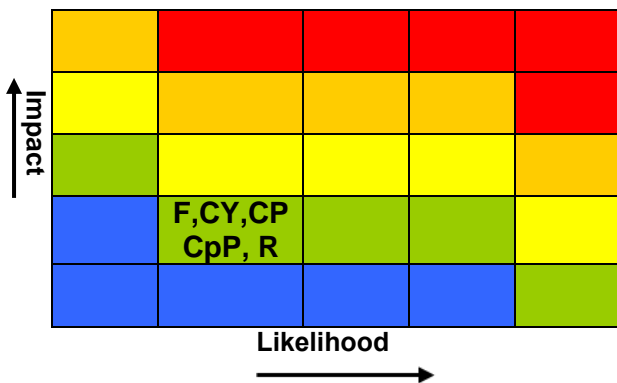
Financial Implications

If this proposal goes ahead it will add £7,200 p.a. to the 17/18 MTFP. If one takes the estimated mid value of the property at £125,000 this proposal would generate a return on investment of 5.8%.

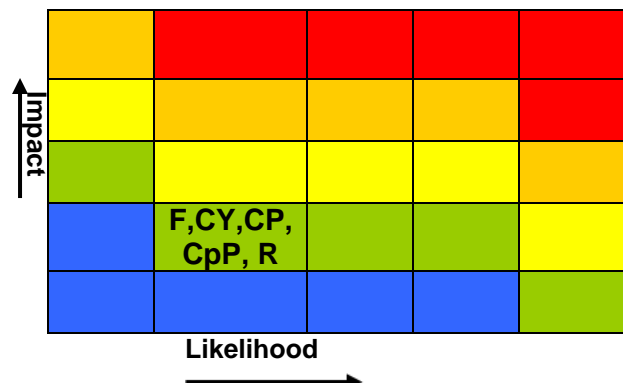
Legal costs of £650 and, subject to written confirmation, a consideration payment of £1,000 to YHG are additional costs that will be met from the empty property grant.

Risk Matrix

Risk Profile before officer recommendations



Risk Profile after officer recommendations



Key

Categories	Colours (for further detail please refer to Risk management strategy)
R = Reputation	Red = High impact and high probability
CpP = Corporate Plan Priorities	Orange = Major impact and major probability
CP = Community Priorities	Yellow = Moderate impact and moderate probability
CY = Capacity	Green = Minor impact and minor probability
F = Financial	Blue = Insignificant impact and insignificant probability

Carbon Emissions and Climate Change Implications

There are no adverse carbon or climate change implications to this report.

Equality and Diversity Implications

There are no adverse Equality policy or diversity implications to this report.

Privacy Impact Assessment

There are no adverse personal data implications to this report.

Background Papers

Valuation report from Development Valuer