

## CABINET

15 December 2020

<b>Title:</b> Purchase of Barking Business Centre, 25 Thames Road, Barking IG11 0JP	
<b>Report of the Cabinet Member for Finance, Performance and Core Services</b>	
<b>Open Report with Exempt Appendix 1</b> (relevant legislation: paragraph 3 of Part I of Schedule 12A of the Local Government Act 1972 as amended)	<b>For Decision</b>
<b>Wards Affected:</b> Thames	<b>Key Decision:</b> Yes
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<b>Accountable Director:</b> Ed Skeates, Development Director, Be First	
<b>Accountable Strategic Leadership Director:</b> Claire Symonds, Chief Operating Officer	
<b>Summary</b>	
<p>There is an opportunity for the Council to purchase a 4.75-acre industrial site known as the Barking Business Centre, 25 Thames Road ('the Site'). The Site is immediately adjacent to other landholdings owned by the Council that are intended to be redeveloped for industrial intensification in conjunction with residential accommodation. The Site therefore forms part of a strategic land assembly exercise that is in part funded by the GLA who have provided £30 million of grant for land assembly.</p>	
<p>The Site is an industrial estate comprising 84,476 ft<sup>2</sup>. The agreed purchase price detailed in Appendix 1 (which is in the exempt section of the agenda as it contains commercially confidential information (relevant legislation: paragraph 3 of Part I of Schedule 12A of the Local Government Act 1972) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information) is reflective of the competitive bidding process but comparable with values paid for similar industrial assets locally.</p>	
<p>In addition to the purchase price and associated fees there is likely to be an immediate requirement for a modest capital expenditure budget to secure the re-occupation of vacant units to improve short term income potential. The business case for the purchase and the immediate asset management strategy are set out in Appendix 1 to highlight the overall scheme costs.</p>	
<p>The acquisition of the Site would provide the Council with a significant controlling interest within the Thames Road regeneration area, increasing LBBDD's ownership to just under 50% of the likely medium-term development area on Thames Road. More specifically, the Site is located next to other land already held by the Council, namely 23 Thames Road. Therefore, with the proposed acquisition of the Site, there is an opportunity now to secure a comprehensive redevelopment plot with capacity for c525 new residential units. Securing this development plot will help LBBDD to deliver its vision for the area, as set out in the River Road / Thames Road masterplan which was approved at Cabinet in</p>	

November 2020. There is also an opportunity to work with adjacent landowners to secure an outline consent across a wider parcel of land.

The Site therefore is a viable acquisition with the support of the GLA grant, providing LBBB with an income surplus. It also represents a significant regeneration opportunity in terms of the wider context of the Thames Road area providing necessary scale to accelerate the delivery of the regeneration ambitions of the Council. A further paper will be presented dealing with Council options for the delivery of this and other sites in Thames Road which will likely require the procurement of a master developer/contractor and or joint ventures with existing owners.

This report recommends the Cabinet agree to the purchase of the Site and to authorise the development of an asset management strategy and subsequently a planning promotion strategy and potential disposal to be introduced in a separate report to the COO. The asset management strategy will bring vacant units into a lettable condition and the procurement of a managing agent who will operate the estate on LBBB's behalf. The bulk of the costs of planning promotion have already been addressed through the preparation of the masterplan and sufficient budgets have been allocated on previous acquisitions to support outline applications on this and adjacent sites.

### **Recommendation(s)**

The Cabinet is recommended to:

- (i) Agree to the purchase of the Barking Business Centre, 25 Thames Road, Barking, as shown edged red in Plan 2 at paragraph 2.2 of the report, on the terms set out in Appendix 1 to the report;
- (ii) Delegate authority to the Chief Operating Officer, in consultation with the Cabinet Members for Finance, Performance and Core Services and for Regeneration and Social Housing and the Director of Law and Governance, to conclude purchase agreements and any other related documents; and
- (iii) Delegate authority to the Chief Operating Officer, in consultation with the Cabinet Members for Finance, Performance and Core Services and for Regeneration and Social Housing and the Director of Inclusive Growth, to approve a site asset management strategy that shall address the related budget plan for planned refurbishment, future planning promotion, site preparation and potential later disposal.

### **Reason(s)**

The proposed purchase forms an important part of the Council's vision to see Thames Road redeveloped with a mixture of new residential and commercial properties that will both contribute towards housing delivery target, while also providing modern industrial floorspace which will help to improve the supply and quality of employment opportunities for residents.

To secure additional land for future housing land supply whilst maintaining a satisfactory income in the medium term.

Assisting in the early delivery of new residential accommodation and the re-provision of employment floorspace in line with the emerging Local Plan.

## **1. Introduction and Background**

- 1.1 Barking and Dagenham has a vision to transform Thames Road and River Road into a thriving community that mixes residential with modern commercial uses, providing new housing while also improving both the quality and density of jobs for residents.
- 1.2 Supported by GLA grant the Council has been acquiring income producing industrial properties in Thames Road over recent years to secure greater influence over the future of the area, while at the same time making a modest return on the property investments which supports the delivery of the Council's Investment and Acquisition Strategy.
- 1.3 Alongside acquiring these assets, the Council has also been working on a masterplan for Thames Road, which is at the public consultation stage. If the masterplan is adopted, then it will set the ambition for Thames Road into the borough's planning policy framework. This will help to secure the delivery of the Council's long-term aspirations for this part of the borough.
- 1.4 The purchase of this site is a strategically significant investment in the context of the delivery of the regeneration aspirations set out in the masterplan. If Cabinet agree to purchase this Site, then the Council would have ownership of approximately 50% of the deliverable properties on Thames Road. This would mean the Council would therefore exercise considerable influence over the delivery of the objectives of the masterplan over the coming years. Therefore, securing this purchase would contribute directly to the delivery of the Council's regeneration and inclusive growth ambitions for the borough.

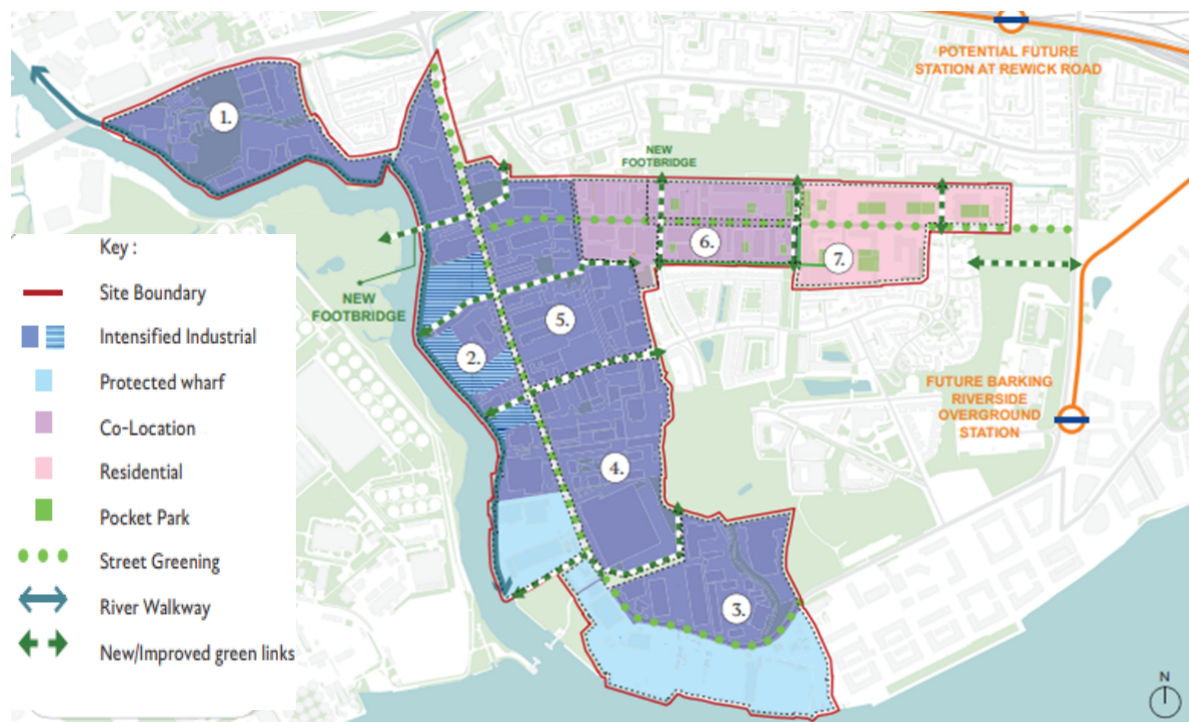
### **Development of the Masterplan and wider regeneration of Thames Road and River Road**

- 1.5 In 2018, the GLA established the Barking Riverside Gateways Housing Zone, with an ambition to deliver up to 3,000 new homes on Thames Road. While this zoning carries no formal planning status, it was designated as such with the specific intention of setting a clear direction of travel on Thames Road. The announcement of the creation of the Housing Zone was followed by an agreement between the GLA and LBBD to allocate £30m of grant to deliver interventions within the zone that would unlock and/or accelerate housing and regenerate the area, with the intention of building a significant landholding.
- 1.6 In order to support the delivery of these regeneration goals, the Council decided to refresh its planning policy framework for the area, through the production of a Masterplan; the Thames Road Masterplan Supplementary Planning Document Supplementary Planning Documents (the 'Thames Road SPD') was approved for consultation by the Council's Cabinet on 17th November 2020; and now a statutory public consultation currently underway over an 8-week period between December 2020 and January 2021. The Thames Road SPD identifies numerous issues the area currently experiences, including low density inefficient industrial uses, poor quality public realm and poor public transport connectivity. This environment

creates a physical and perceptual barrier between Barking Riverside and the residential areas to the south of Barking Town Centre. Additionally, the area is blighted by problems such as fly tipping and antisocial behaviour, creating an unappealing and poor standard of built environment. The area therefore offers real potential of being developed and improving a sense of connection to surrounding areas, while delivering new housing and improved industrial space in the borough.

- 1.7 The Thames Road SPD identifies River Road as having significant potential for the renewal and modernisation of its industrial stock and Thames Road for the introduction of new residential uses, with capacity of up to 2,000 new homes and industrial re-provision, known as ‘co-location’. Plan 1 below identifies area covered by the Thames Road SPD and the proposed zones of future use. The western zone of Thames Road has been allocated for continued but intensified industrial use, the central zone has been allocated for co-location development with industrial re-provision and residential uses, and the eastern zone has been allocated for residential development with no industrial re-provision.

**Plan 1: Thames Road Masterplan**



## 2. Proposal and Issues

- 2.1 The Barking Business Centre, 25 Thames Road (the ‘Site’) is a 4.75 acre multi-let light industrial estate, arranged over three terraces, which surround a central car parking courtyard. The Site is immediately adjacent to other landholdings owned by the Council on Thames Road, namely 23 Thames Road, and is located within the central co-location zone of the Thames Road SPD. A future development plot of 6.25 acres can be achieved if the Site is combined with 23 Thames, with capacity for c500 new residential units and industrial re-provision.

- 2.2 The Site currently provides 84,476 sq ft of commercial accommodation space, across 34 units ranging from 800 – 5,000 sq ft. The Site is an attractive income generating industrial estate, which is currently 73% let.

**Plan 2: Barking Business Centre – Site Plan**



- 2.3 By purchasing the Site, the Council will have the largest overall landownership on Thames Road, owning approximately 50% of land with medium term development potential. If the Site is acquired, the Council's landholding will be three times greater than the next largest landowner in the area, a private developer called Inland Homes. Inland Homes have part funded the Thames Road SDP.
- 2.4 Be First and the Council intend to progress a comprehensive delivery strategy for the provision of new homes and new industrial floorspace on Thames Road. The delivery strategy is currently reviewing a number of options that are available to the Council. However, further landholdings, such as the Site, are required if the Council desires to deliver the comprehensive vision of the Thames Road SPD. A delivery partner might be procured, reducing the Council's exposure to future development risk and funding requirements with a reduced profit share for LBBB. Alternatively, Be First and the Council may undertake all development works directly, with full exposure to development risk and funding requirements but a greater profit share. A proposal on the overall delivery options for Thames Road will be brought to Cabinet for consideration in due course.
- 2.5 To date the Council has been utilising GLA grant to acquire properties on Thames Road, and has therefore not yet made any significant direct invest of its own resources into the area. Appendix 1 provides a summary of LBBB's land ownership on Thames Road and summarises the grant received to date and expected to be received in the future. In order to complete the purchase of the Site, it is proposed that the Council funds the majority of this purchase through borrowing, with the remaining unallocated GLA grant contributing the balance of the purchase price, with further details provided in Appendix 1.
- 2.6 With the financial support of the unallocated GLA grant, the Site provides a surplus to the Council of 1.15% from Year 3, exceeding the minimum returns of the Council's investment and acquisition strategy hurdle rate of 1.13% for industrial properties. The anticipated rental income from the site will increase the total rental

profile of the overall Thames Road portfolio and will provide a net income return that significantly outperforms the investment hurdle rate when applying a simple interest at 3.25% or MRP at approximately 4.1%.

## **Management Strategy**

- 2.7 In acquiring the Site, the Council has the opportunity to implement a new asset management strategy. The vendor has not invested in the Site for a number of years, and this has resulted in the asset underperforming relative to its potential. Currently 27% of the floorspace is vacant and there is significant unrecoverable service charge. By adopting a more active approach to management the Council can improve the operational running of the Site and let vacant units and potentially improve the overall rental income. In order to achieve it is forecast that the capital expenditure budget has been included in the financial assumptions for the scheme at Appendix 1. This investment should be paid back through increased rent achieved following the improvements.
- 2.8 As 50% of the occupational leases are subject to lease events (rent reviews/lease renewals) before the end of 2022 it should be possible to increase rents quickly as shown in the cash flow in Appendix 1. It is proposed to let the vacant buildings by the end of Year 2 following the refurbishment works and the expiry of agreed rent-free periods. The asset will outperform the IAS hurdle rate from Year 3, allowing for an ongoing 5% vacancy rate.
- 2.9 If Cabinet agree to purchase this site and the deal is completed, officers will advance further work on developing this asset management strategy that enables the Council to maximise its return on investment. This will include the procurement of a consultants for rent and service charge collections as well as letting and lease advisory services. In addition, officers will consider how this site could be used to facilitate the delivery of the wider master plan in the shorter term, for instance by providing decant space for businesses which may need to relocate to enable delivery of earlier phases of the plan.
- 2.10 The scale of the Site would significantly accelerate the delivery of the Council's vision for Thames Road. Purchasing the Site provides the opportunity to combine it with an existing Council ownership at 23 Thames Road, to create a larger future development plot, which could delivery key objectives of the Thames Road SPD, including new homes, new industrial space, new pedestrian routes and public open spaces.
- 2.11 Increasing the Council's landholding on Thames Road provides security to the existing landholdings while also providing an opportunity to negotiate improved terms with existing landowners. The Council may take the view that it is worth investing in further acquisitions by purchasing additional sites, with a goal of maximising Council landholdings prior to procuring a development partner. As the Council builds a greater landholding in the area, the future development programme will become more attractive to future development partners.
- 2.12 Without a significant landholding in its own right the Council will not be able to attract a developer of sufficient scale to deal with the complexity of the proposed development and the scale of capital required. Therefore, the proposal to acquire

the Site presents a critical opportunity for the Council to secure the long-term viability of the Thames Road regeneration project.

### **3. Risk Assessment**

- 3.1 At this stage, a detailed cost assessment has not been undertaken for the proposed redevelopment works. Detailed costings would be undertaken as part of a separate resolution following the purchase.
- 3.2 Therefore, the main project risks are:
- 3.3 **Project Costs:** the forecast costs for redevelopment have been based upon industry benchmarks and detailed site investigations will be needed to substantiate the cost plan. In addition, advice will be needed from industrial letting agents to determine the nature of accommodation that should be provided given current occupational requirements and projected rental levels.
- 3.4 **Site Conditions:** Abnormal ground conditions resulting in increased cost: it will not be possible to undertake in faces ground investigations until vacant possession can be provided. There would be merit in undertaking initial investigations on parts of the Site in order to provide a broad indication of likely levels of contamination and this could be achieved by intrusive investigations being undertaken in around the vacant units.
- 3.5 **Exit Values:** the Site is part of a wider borough wide regeneration area and will achieve a significant improvement in place making which would justify a long-term investment in land assembly. Residual residential land values may improve by increasing densities and increasing the level of private rental stock. Detailed due diligence as part of the purchase will include scenario testing of various tenure combinations to determine what level of tenure mix and housing density is required to provide the economic justification for a change from industrial to residential use.

### **4. Options Appraisal**

- 4.1 **Option 1** – Do not acquire the Site
  - 4.1.1 In this case the asset is mostly likely to be acquired by the underbidder, who is an industrial investor who would retain it in its current use. Further investment in the industrial asset would mean it would be increasing unlikely to come forward for redevelopment for mixed uses as proposed in the Master plan.
- 4.2 **Option 2** – Acquire the Site (recommended)
  - 4.2.1 The Site is considered to be a prudent purchase given the Councils stated ambition of securing the regeneration of Thames Road, which inevitably brings construction and planning risks, which can be mitigated by employing the development expertise of Be First and potentially procuring a development partner. These risks are further mitigated by the income generation for other assets previously purchased with the benefit of GLA funding.
  - 4.2.2 The purchase provides the necessary scale for forward supply for the mixed-use redevelopment of the Site and enable larger plot sizes to be adopted elsewhere on

Thames Road to improve efficiencies in the scale and improved urban design treatments.

#### 4.3 **Option 3** - Facilitate a purchase by a third party

- 4.3.1 At the current time, the Council has not progressed the procurement of a master developer/ contractor for the Thames Road regeneration project. Moreover, it has not formed a JV with Inland Homes or other parties that have significant land holding in the area. Therefore, this opportunity does not currently exist.

### 5. **Consultation**

- 5.1 The proposals in this report were considered and endorsed by the Investment Panel at its meeting on 17 November 2020.

### 6 **Commissioning implications**

Implications completed by Darren Mackin, Head of Commissioning and Programmes, Inclusive Growth

- 6.1 The Council has a clear strategy to use investment strategy to support the delivery of its wider vision for regeneration and delivering inclusive growth in the borough. The proposal to purchase this scheme delivers benefits in both the short, medium, and long term for the Council. In the short term it provides a small income from rent on the space, which supports the financial position of the Council. In the medium to long term this purchase will form an important part of delivering our wider strategy for growth in the borough.
- 6.2 Thames Road has been identified as an area for redevelopment, to provide additional housing while re-providing modern, good quality industrial floor space. A Master Plan has been prepared and will go out for consultation in December that if adopted will place these aspirations within the planning policy framework. In purchasing this site, the Council will be increasing its land ownership, and therefore taking greater control over ensuring that the aims of the master plan will be delivered in the long term.

### 7. **Commercial Implications**

Implications completed by Hilary Morris, Commercial Director

- 7.1 The proposal recommends the purchase of the Barking Business Centre on Thames Road – an area which that Council already has land-holding and which is within an area identified by the GLA as a Housing Opportunity Area. This report notes that this acquisition could accelerate the re-development of the Thames Road by increasing the Council's landholding thus bringing forward a comprehensive re-development. The ability to have a big enough land holding to bring forward the comprehensive re-development is a significant factor in bringing forward this proposal.
- 7.2 Thames Road has featured within the Be First Business Plan as a target location to acquire more assets in order to bring forward a comprehensive re-development



strategy and a Masterplan for the area is already in development. This acquisition would support that objective.

- 7.3 The report proposes a purchase as outlined in Appendix 1. This it is above the value per acre seen for similar assets, however, this does come with existing tenancies that generate revenue. It is anticipated that due to the interest in assets in Thames Road that additional tenancies could be secured which could generate an increased income if the incumbent asset management agent were retained. On that basis the scheme would deliver a return of 1.4% if purchased at the price outlined. However it must be recognised that the additional income is anticipated, but not certain, and therefore the surplus is not guaranteed.
- 7.4 This acquisition is being funded primarily from borrowing with circa 25% of the purchase price being funded from unclaimed GLA grant to reduce the Council's overall borrowing as set out in the Private & Confidential Appendix 1.
- 7.5 Although this purchase supports the strategy to re-develop Thames Road and is supported, the Council has acquired a sufficient existing land-holding in the area and a comprehensive re-development may require funding subject to the final re-development strategy.

## **8. Financial and Investment Implications**

Implications completed by David Dickinson, Investment Fund Manager

- 8.1 The proposed purchase is a 4.75-acre site on Thames Road as part of the land assembly for Thames Road regeneration. The GLA has provided £30m to support the land assembly and this site purchase is seen as critical for the norther sector assembly. The allocation of the grant is outlined in Appendix 1.
- 8.2 While overall the GLA grant will help make the purchases on Thames Road initially viable, there are a number of issues with Thames Road that make it a difficult development, especially as it is currently an industrial area. The £30m is there to support the provision of residential housing in Thames Road and does result in an obligation for the Council to provide a minimum of 1500 units by 2026. Be First have estimated that it would cost over a quarter of a billion to build 625 units, with a 50/50 split between social and private rental. Therefore, it is likely that the provision of 1500 units would cost approximately £640m. This level of financing is currently not in the Be First business plan.
- 8.3 Further Financial Implications are provided in Appendix 1.

## **9. Legal Implications**

Implications completed by Dr Paul Feild, Senior Governance Solicitor

- 9.1 **Outline:** This report recommends the option of purchase of the site known as Barking Business Centre located at Thames Road Barking. The acquisition will be of the freehold interest. The assessment of the Site indicates that it is being sold with good title. The Site is not being sold with vacant possession indeed the current purpose of the site it to generate income from several business lettings of which there is approximately 73 % occupancy. The site is being sold as a "going concern"

and the Council will take the site subject to these leases and a key aspect of due diligence will be to understand the various existing third-party interests.

- 9.2 The Council has the power to acquire the land by virtue of the general power of competence under section 1 of the Localism Act 2011, which provides the Council with the power to do anything that individuals generally may do. Section 1(5) of the Localism Act provides that the general power of competence under section 1 is not limited by the existence of any other power of the authority which (to any extent) overlaps with the general power of competence. The use of the power in section 1 of the Localism Act 2011 is, akin to the use of any other powers, subject to Wednesbury reasonableness constraints and must be used for a proper purpose.
- 9.3 Whilst the general power of competence in section 1 of the Localism Act 2011 provides sufficient power for the Council to participate in the transaction and enter into the relevant project documents further support is available under Section 111 of the Local Government Act 1972 which enables the Council to do anything which is calculated to facilitate, or is conducive to or incidental to, the discharge of any of its functions, whether or not involving expenditure, borrowing or lending money, or the acquisition or disposal of any rights or property. Furthermore Section 120 of the Local Government Act 1972 gives the Council power to acquire land for the benefit, improvement and or development of the borough and finally Section 123 of the said 1972 enable the Council to grant leases over its land.
- 9.4 **Considerations:** In exercising the power of general competence and in making any investment decisions, the Council must also have regard to the following:
- i. Compliance with the Statutory Guidance on Local Government Investments.
  - ii. Fulfilling its fiduciary duty to taxpayers.
  - iii. Obtaining best consideration for any disposal.
  - iv. Compliance with Section 24 of the Local Government Act 1988 in relation to giving financial assistance to any person (which either benefits from a general consent or requires express consent by the Secretary of State);
  - v. Compliance with any other relevant considerations such as state aid and procurement.
- 9.5 In terms of future use by the Council, the immediate use would be consistent with the current use and it's potential for decanting to enable achievement of vacant possession of other sites. As set out in the report, to realise the sites full potential a master plan needs to be drafted with flexibility to take account of land assembly and potential joint ventures.
- 9.6 **Land Risks and Considerations:** There will be the imperative to ensure that all land, development and environmental risks are identified and managed through feasibility studies to ensure the preferred development option is deliverable before significant pre-development expenditure, and mitigation strategies put in place. Potential risk arising include, but are not limited to, any third-party rights or restrictions or incumbrances which may frustrate or prevent the Council's regeneration objectives and development of the land. In terms of environmental risks, caution must be exercised to ensure any land contamination is identified and if so, any remedial action and the costs of such remediation would need to be factored into the feasibility and viability considerations.
- 9.7 In terms of considerations there is no specific identified ground contamination, but asbestos presence has been identified within the rental units which will need to be addressed and costed for. Specifically, there should be early due diligence before

substantial investment and contractually committing to the project to ensuring that the site is suitable for the construction of dwellings and is without risk of historical contamination, or in the alternative that any contamination is capable of being remedied and costs are both factored into the acquisition price and do not compromise the viability of any residential development. A full environmental survey, development appraisals and sound understanding will be a necessity if the Council seek to pursue mixed use or residential development on the site.

- 9.8 **State Aid:** Although the UK has left the European Union as local government is an emanation of the state, it must at time of writing still comply with European Law regarding State Aid. This means that local authorities cannot subsidise commercial undertakings or confer upon them an unfair economic advantage. This report does not identify any specific aspect of the proposed development, which is other than on a commercial basis transaction or is it seeking to subsidise; thus this arrangement satisfies the requirement it is on market terms. Furthermore, in the event it may be needed, certain grants to remediate contaminated land are excluded from the State Aid Regime.
- 9.9 **Human Rights:** As the scheme as described does not seek the use of compulsory purchase powers or displacement of any residents there does not appear to be critical risks associated with a Human Rights Act challenge, nevertheless, matters should be kept under review in case such considerations should arise.
- 9.10 **Other Claims:** There may be a prospect that the development could be subject to claims and other incumbrances such as easements and claims for same such as right to light. To a degree the effect of such incumbrances will be dependent upon the masterplan and how the sites fit in. However, as a local authority the Council can appropriate the land in question for planning purposes pursuant to s. 227 of the Town and Country Planning Act 1990. In doing so the Council can utilise the power given by s.203 of the Housing and Planning Act 2016 to override any private rights subject to compensation payments. This power would normally be exercised after planning permission had been obtained, thus there would be time to negotiate the extinguishment of incumbrances beforehand which will enable swifter resolution.

## 10. Other Implications

- 10.1 Risk Management – The land purchase risk has been mitigated via the independent Red Book valuation.

**Public Background Papers Used in the Preparation of the Report:** None

### List of appendices:

- **Appendix 1:** Barking Business Centre Business Plan (exempt document)