

## COUNCIL

21 FEBRUARY 2019

### COMMERCIAL PROPERTY

Portfolio Holder: Councillor Alan Jarrett, Leader  
Councillor Adrian Gulvin, Resources

Report from/Author: Perry Holmes, Chief Legal Officer

#### Summary

This report seeks approval to add the acquisition of the head leases from Chatham LLP of the Pentagon Centre and other included freehold property and the proposed additional enabling capital works to the Capital Programme, following Cabinet's decisions to approve these acquisitions on 12 February 2019.

#### 1. Budget and Policy Framework

- 1.1 The decisions to invest in specific commercial property and to take steps to regenerate central Chatham are a matter for Cabinet. Adding new capital projects and the funding required to the Capital Programme is a decision for Full Council.
- 1.2 In addition, there is a constitutional requirement that Cabinet decisions in respect of land and property transactions over £500,000 are to be reported to the next Council meeting for information. This report fulfils this requirement.

#### 2. Background

- 2.1 The Cabinet considered an exempt report on 12 February 2019 regarding the proposal to acquire commercial property, a copy of which was provided to all Members in accordance with Rule 26.3 of the Council's Access to Information Rules. In summary, Medway Council is the freeholder of the Pentagon Centre. Chatham LLP is the head lessee (which includes the original as well as the re-gearred overriding lease granted in 2016) of the Pentagon Centre and the freeholder of 205 – 209a and 181a – 189 High Street. Mapeley Gamma (in receivership) are the sub-lessee of Mountbatten House. Medway Council is the separate freeholder of the Brook Multi-Storey Car Park. The below diagram illustrates the current real estate position.

**Mapeley Gamma** (in receivership)

Sub-lessee of Mountbatten House

**Chatham LLP**

Head lessee of Pentagon Centre

Freeholder of 205-209a and 181a-189 High Street, Chatham

**Medway Council**

Freeholder of Pentagon Centre

**Medway Council**

Freeholder of the Brook Car Park

2.2 The Council was approached by Chatham LLP confidentially, to discuss the potential acquisition of the head leases of the Pentagon and some additional freehold properties it had acquired on the High Street. Officers, in consultation with senior Members obtained independent specialist shopping centre professional advice and a valuation from Knight Frank on whether the opportunity:

- Represents a good commercial investment

2.3 The Cabinet report included detailed advice on the proposal. This advice is attached in the Exempt Appendix. The Cabinet report also addressed the fact that the opportunity:

- Contributes to the regeneration of Chatham, Medway's "city centre" and aligns with other Council plans and initiatives to develop residential and commercial property in central Chatham.
- Mitigates against the kinds of development in our "city centre" that would not enhance it.

2.4 Following consideration of the exempt report on 12 February 2019, the Cabinet agreed the following:

2.4.1 the acquisition of the head leases of the property identified in paragraph 2.1 of the (Cabinet) report and the freehold properties also identified in paragraph 2.1 of the (Cabinet) report for a price within the tolerance provided by the professional valuation obtained from Knight Frank, as set out in Appendix 1 to the (Cabinet) report (decision no. 31/2019).

2.4.2 to delegate authority to the Chief Legal Officer in consultation with the Leader, the Portfolio Holder for Resources and the Chief Finance Officer to take all reasonable steps and due diligence to complete acquisition of the head leases of the property identified in paragraph 2.1 of the (Cabinet) report and the freehold

properties also identified in paragraph 2.1 of the (Cabinet) report including obtaining necessary professional legal and tax advice and to complete all the necessary legal steps (decision no. 32/2019).

2.4.3 to delegate authority to the Chief Legal Officer in consultation with the Leader and Portfolio Holder for Resources to carry out the re-configuration and improvement works to the property identified in paragraph 2.1 of the (Cabinet) report, as detailed in paragraph 5.10 of the (Cabinet report) (decision no. 33/2019).

2.4.4 to delegate authority to the Chief Legal Officer in consultation with the Leader, the Portfolio Holder for Resources and the Chief Finance Officer to arrange management of the property identified in paragraph 2.1 of the (Cabinet) report and the freehold properties identified after acquisition and to let, cease letting and sell premises subject to an agreed criteria within the property identified at paragraph 2.1 and the freehold properties also identified in paragraph 2.1 of the (Cabinet) report (decision no. 34/2019).

2.4.5 to recommend to Council that this acquisition, including the re-configuration and improvement works to the property identified in paragraph 2.1 of the (Cabinet) report, as detailed in paragraph 5.10 of the (Cabinet) report, is added to the Capital Programme (decision no. 35/2019).

2.4.6 that decisions 31-35/2019 are considered urgent and therefore should not be subject to call in (decision no. 36/2019).

### **3. Options**

3.1 The Cabinet has recommended to Council to add this acquisition and the associated re-configuration and improvement works to the Capital Programme. Council has the option to accept or reject the recommendation.

### **4. Advice and analysis**

4.1 The detailed advice considered by the Cabinet on 12 February 2019 is set out in the Exempt Appendix.

### **5. Risk Management**

5.1 Detailed risk management issues, including a Risk Register were considered by the Cabinet on 12 February 2019. This information is set out in the exempt appendix.

### **6. Financial and Legal Implications**

6.1 The overall projected costs of acquisition are presented in the exempt appendices and **the details are commercially confidential at this stage**. If Council approves this acquisition it is suggested a figure of up to £45 million is added to the capital programme.

6.2 Knight Frank have provided specialist property advice at an agreed fee of £50,000 at this stage. If the acquisition does not proceed, that will be the only

costs incurred to date. Additional fees are envisaged of specialist legal advice, specialist VAT advice and additional agents' fees which would be negotiated as part of the overall costs.

- 6.3 This investment is in accordance with the Council's agreed investment criteria.
- 6.4 The Council has investment and regeneration powers to enable this investment. It will take specialist legal advice on the acquisition, if approved.
- 6.5 The Revenue Budget impacts of this acquisition could be a 2.69% investment return.

## **7. Recommendation**

- 7.1 Council is asked to add the acquisition of the Pentagon Centre head leases and 205-209a and 181a-189 High Street, Chatham, the fees and additional enabling capital works, to the Capital Programme, up to an overall cost of £45 million.

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### **Appendices:**

Exempt Appendix - detailed advice and analysis

### **Background papers:**

None