



Leicester
City Council

Purchase of 22 Market Place

Decision to be taken by: City Mayor

Decision to be taken on: 19 July 2022

Lead director: Matthew Wallace

Useful information

- Ward(s) affected: Castle
- Report author: Hiren Vaitha
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- Report version: Final

1. Summary:

- 1.1 To seek approval to the freehold purchase of 22 Market Place for £975,000 plus Stamp Duty Land Tax (SDLT) of approximately £48,000 and legal fees of £10,000. Then entering into a new lease with the Seller for the shop on a 3-year rent free period, subject to agreement of Heads of Terms.
- 1.2 The purchase price of £975,000 for the entire building and land on a freehold interest has been agreed on the basis of £800,000 for the shop premises and £175,000 for the rear car park land.
- 1.3 The purchase of 22 Market Place has strategic benefit to the Council.

2. Recommendations

2.1 The City Mayor is recommended to:

- Approve the purchase of the freehold interest of 22 Market Place for £975,000 plus SDLT of approximately £48,000 and legal fees of £10,000. Then enter into a 3-year new lease (contracted out of Landlord & Tenant Act 1954) with the Seller for the shop only on a 3-year rent free period, subject to agreement of Heads of Terms.
- Approve the release of £1,033,000 from the Capital Programme policy provision for Strategic Acquisitions to fund the strategic purchase of 22 Market Place.

3 Report

- 3.1 22 Market Place is in private ownership of W. Frank Gadsby Limited with the Fine Art shop at the front of Market Place, along with a rear car park with space for about 7-8 vehicles. The property is a commercial property with basement over the ground, first, second and third floors used for retail purposes with ancillary office use, storage use, mess/staff room and WCs. The total (GIA) of the whole site is approximately 497.92 m² / 5,357.62 sq. ft and the total site area - including land and building - is approximately 347 sq.m / 0.034 hectare / 0.085 acre as identified on the attached plan in Appendix A.

- 3.2 Built in the mid 1800's it is part of the Market Place conservation area and situated between two blocks of 1980s infill properties that are of low conservation and architectural value.
- 3.3 The Council has agreed to purchase the entire freehold interest of 22 Market Place (shop and rear car park land) Under Section 120 of the Local Government Act for the improvement and development of the Market Place area and will then enter into a new lease for the shop on a 3-year term to the existing freeholder on a peppercorn rent and develop the rear car parking space. Beyond 3 years the rent for the shop will be chargeable at a market rate. The purchase price has been agreed at £975,000 plus VAT subject to agreement of Heads of Terms and undertaking all necessary pre-acquisition and due diligence, which is supported by an independent valuation. The Council will then enter a new lease with the seller for the shop on a 3-year rent free period subject to agreement of Heads of Terms. Due to the covenant strength of the well-established tenant, who has been a consistent supplier for high quality framing and art supplies to a vast array of well-known Clients, a 3-year rent free period is viewed as advantageous in order to serve the needs of the public of Leicester/Leicester and across the Midlands.
- 3.4 22 Market Place is located in an important regeneration area of the City which will enable the Council to retain the existing retail element of the site within the Council's Corporate Estate (as a long-term investment) or to dispose of it for a capital receipt, subject to future asset strategy and corporate plans.
- 3.5 The building is split over 4 floors but used in its entirety for retail space. Technical due diligence undertaken by the Council has determined there is a maintenance requirement of approximately £46k which is currently back logged and due. Maintenance back logs are not uncommon on private sector commercial retail spaces, particularly in a building of this age. However, the Council recognises this future maintenance liability as it proceeds with the purchase of this asset.
- 3.6 The asset comes with the potential for conversion in the future to 6 x residential flats on the upper floors (subject to planning) which would bear synergy with other retail unit developments in the immediate area. The ground floor offers a good location for trading onto Green Dragon Square and is permitted for class E (a) use.
- 3.7 The Council are under obligation to obtain best value in property transactions. In line with this principle, the Council has undertaken due diligence relating to the value and condition of the land and property, including commissioning an independent valuation of the site on the basis of existing use and development purposes.

The proposed purchase price of £975,000 plus VAT for the entire building and land has been independently valued and internally assessed against local comparables. Whilst the independent valuation does not take into account the special purchase value to the Council, it ensures that the Council is satisfied that the purchase price offered is reasonable and within the parameters of the valuation guidance.

It should be noted that if the Council were to compulsorily purchase the property from the owners this would have an impact on the potential value and cost and any other associated risk factors of at least a 10% premium of the purchase price.

The Council already owns significant freehold interests in similar assets in the Market Place and Greyfriars areas. A potential yield of 5% is consistent with that of the Corporate Estate under which this asset will be managed, however, for the shop element, a typical yield of around 6% to 7% could be achieved as an investment following the expiry of the agreed three-year leaseback arrangement with the current occupier. Therefore, this is seen as a 'safe' investment that does not diversify away from the Councils current asset interests.

- 3.8 The 3-year lease is proposed as a peppercorn on an internal repairing and insuring basis. The Council will be responsible for keeping in good repair the external structure of the building and the Tenant will keep the whole of the internal property in good and substantial repair condition, also keeping it clean and tidy throughout the term. In addition, the Tenant is to undertake the necessary essential works to the interior of the building that have been identified as backlogged in the Council's condition survey as a minimum requirement and the Tenant will also be responsible for the service charges during this period which will amount to £15k. The lease will be contracted out of the provisions in the Landlord and Tenant Acts relating to the right for the tenant to request a renewal of the lease.

4.1 Financial implications

- 4.1 The report proposes to release £1,033,000 from the Capital Programme policy provision for Strategic Acquisitions to facilitate the purchase of 22 Market Place. The purchase price of the property is £975k, with Stamp Duty estimated to be £48k and legal fees estimated at £10k. Repair and maintenance work will be required over the life of the asset and there will be a requirement to fund this from corporate estate maintenance budgets as it falls due.
- 4.2.1 A 3-year rent free period has been agreed with the seller to facilitate the strategic purchase. Following this period there is then the option to either charge market rent for this property as part of the Corporate Estate, explore conversion to residential dwellings or utilise for some other purpose.

Stuart McAvoy, Head of Finance, ext. 37- 4004

4.2 Legal implications

Under section 120 Local Government Act 1972 (as amended), the Council may acquire by agreement any land inside or outside its area for the purposes of (a) any of its statutory functions or (b) the benefit, improvement or development of its area. The acquisition will be subject to such detailed terms as may be negotiated with the freehold owner as part of the acquisition process, as are more particularly outlined in the detail of this Report. The acquisition of this property for the purposes set out above would come within these powers. The terms of the purchase will be as agreed between the Council and the Seller.

In respect of the proposed lease, this will be contracted out of the provisions of the Landlord & tenant Act 1954 (as amended) with the agreement of the tenant in order to remove the right for the tenant to apply for a new or renewal of the lease. The lease terms will be as agreed between the Council and tenant and the principle terms are as set out above.

John McIvor, Principal Lawyer, ext. 37-1409

4.3 Climate Change and Carbon Reduction implications

Commercial buildings are estimated to be responsible for 10% of Leicester's carbon emissions. Following the council's declaration of a climate emergency and the development of the Climate Emergency Strategy addressing these emissions is vital to meet Leicester City Council's ambition to reach carbon neutrality, particularly in areas where the council has the greatest level of control, such as its own property portfolio.

Depending on its current state, the energy efficiency of the building could potentially be increased through improvements to insulation and installation of measures including low carbon heating (such as heat pumps), LED lighting and renewables. Whilst the energy efficiency of the building is not addressed in the report, the tenant or the council should also consider opportunities to improve efficiency alongside required maintenance works, as relevant. As well as reducing carbon emissions, these measures could reduce energy bills, make the building more comfortable and potentially increase its value. In addition, if the EPC of the property were below E, Minimum Energy Efficiency Standards improvements may also be required for it to be let.

Aidan Davis, Sustainability Officer, Ext 37 2284

4.4 Equalities Implications

Under the Equality Act 2010, public authorities have a Public Sector Equality Duty (PSED) which means that, in carrying out their functions, they have a statutory duty to pay due regard to the need to eliminate unlawful discrimination, harassment and victimisation and any other conduct prohibited by the Act, to advance equality of opportunity between people who share a protected characteristic and those who don't and to foster good relations between people who share a protected characteristic and those who don't.

Due regard to the Public Sector Equality Duty should be paid before and at the time a decision is taken, in such a way that it can influence the final decision. The PSED cannot be delegated and therefore, the responsibility remains with the authority to put into place mechanisms by which these statutory duties can be stipulated as a requirement and monitored.

Protected Characteristics under the Equality Act 2010 are age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, and sexual orientation.

There are no direct equalities implications arising from this report. It is important that any future development should be mindful to ensure that the space meets the needs of those with a range of disabilities including physical and mental health conditions, sensory impairments and people who are neuro diverse.

Surinder Singh, Equality officer ext. 37 4148

4.5 Other Implications (You will need to have considered other implications in preparing this report. Please indicate which ones apply?)

4. Background information and other papers:

None

5. Summary of appendices:

None

6. Is this a private report (If so, please indicated the reasons and state why it is not in the public interest to be dealt with publicly)?

No

7. Is this a "key decision"?

Yes

8. If a key decision please explain reason.

Capital expenditure of over £1m is to be committed on a scheme that has not been specifically authorised by Council.

