

**Agenda Item No:**

**Report To:** Cabinet

**Date of Meeting:** 11<sup>th</sup> April 2019

**Report Title:** Strategic Acquisition – Matalan Site, Brookfield Road, Ashford

**Report Author & Job Title:** Paul McKenner, Head of Corporate Property & Projects

**Portfolio Holders:** Cllr Galpin, Portfolio Holder for Corporate Property

Cllr Shorter, Portfolio Holder for Finance and IT



**Summary:**

This report sets out a proposal to purchase the freehold of the Matalan site in Brookfield Road, Ashford. The opportunity presented itself when the existing owners brought the investment to the market in February. The site is a key strategic site and as such forms one of the gateway sites marking the change from rural Ashford to town centre Ashford located on the approach into Ashford on the A28.

The freehold is subject to a long lease to Matalan for a remaining term of 6.5 years. The Council has made a conditional offer for the property on the terms set out in the exempt Appendix 2, subject to further due diligence and approval from both Cabinet and Council.

The investment will provide an income stream to the Council on the basis set out in the report.

**Key Decision:** YES

**Significantly Affected Wards:** All

**Recommendations:** **Cabinet is asked to recommend to Council to:**

- I. Note the Chief Executive's use of her urgency powers in relation to the submission of a bid to purchase the Property.
- II. Purchase the property as outlined within the Report subject to the detailed due diligence being carried out to the satisfaction of the Chief Executive, Director of Finance and Economy and the Director of Law and Governance in consultation with the Leader, the Portfolio Holder for Finance and IT and the Portfolio Holder for Property.

- III. To finance the cost of purchase as outlined in the exempt appendix 2 to be funded from Prudential Borrowing.
- IV. To delegate authority to the Head of Legal & Democracy in consultation with the Head of Corporate Property and Projects to agree, execute and complete all necessary documents required to give effect to the above recommendations.

**Policy Overview:** The proposed purchase would assist in the delivery of a viable and sustainable replacement for Formula Grant through the generation of income for the Council as detailed in the report.

**Financial Implications:** The purchase of this property has been considered to be a viable proposition in order to enable the Council to secure an income stream over the short term, with longer term investment possibilities. This will increase the Council's financial resilience over time rather than be reliant on the continually decreasing Central Government Funding. The funding of this purchase is to be from Prudential Borrowing.

**Legal Implications** As set out in the Report.

**Equalities Impact Assessment** Not Required

**Other Material Implications:** The Council will be required to manage the property and to arrange for rent collection from the leaseholder. There will be some resources required for this but it is considered limited and within the capacity of existing services.

**Exempt from Publication:** **YES – Appendix 2**  
**Appendix 2 is not For Publication by virtue of Paragraph 3 of Part 1 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**

**Background Papers:** Not applicable

**Contact:** Paul.mckenner@ashford.gov.uk – Tel: (01233) 330419

## **Report Title: Strategic Acquisition – Matalan, Brookfield Road, Ashford**

### **Introduction and Background**

1. The freehold interest in the Matalan site at Brookfield Road, Ashford recently came to the market.
2. Particulars of sale are attached at Appendix 1, a summary of which is provided below:
  - The land and buildings for sale total 1.4 hectares and are shown on the sales particulars. The gross internal area of the retail warehouse building on the site is approximately 3,681 sq m.
  - This is a freehold disposal subject to the Matalan lease.
  - The property has an 'Open A1' planning use meaning that in addition to the current use, a food retail outlet is permitted.
  - The current rental (which will be reviewed in July 2020) is £365,000 per annum.
3. The agent requested bids by midday Tuesday 26th March 2019. In order to move quickly, the Chief Executive using her urgency powers approved the submission of a conditional bid. The Council's bid was accepted on the understanding that this matched the other highest bid but would be acceptable to the vendor based on the Council's credibility as a purchaser. The bid was subsequently approved by the Economic Regeneration and Investment Board meeting on 28<sup>th</sup> March 2019 subject to the purchase being approved by Cabinet and Council.
4. Discussions have been held with the leaseholder, Matalan Retail Limited, to establish their medium to long term plans. This has revealed that the unit trades well and that Matalan are happy in this location. They have no desire to vacate or cease trading from here. Indeed, they would be prepared to consider a longer lease term.
5. In order to establish likely alternative occupier demand in the event that the current leaseholder vacated, discussions have been held with two national supermarkets. Both have indicated that this unit would be very attractive to them and both have active requirements in Ashford.
6. Discussions have been held with the planning service to consider possible long term uses of the site. These suggest that alternative uses would be considered appropriate. These uses could include other retail units, offices, industrial or residential. As the adjoining site is allocated for residential, it would appear that this use would be the preferred alternative use. There is a view that this site is appropriate for a 'gateway' development marking the change from rural Ashford to town centre Ashford along this major A28 approach route.

7. Residential use is considered the most valuable alternative long term use for the site, but no proposals are being put forward at this stage.
8. Various appraisals have been undertaken and details of these are set out in the exempt Appendix 2.
9. Asset management opportunities have also been considered and are set out in the exempt Appendix 2.

## **Proposal/Current Position**

10. Outline terms have been agreed for the purchase of the site and the relevant due diligence is being undertaken. This includes:
  - Appraisal of the site value;
  - Analysis of the data included in the sales data room – both legal and financial;
  - A ‘red book’ professional valuation supporting the purchase price;
  - Legal due diligence and the preparation of a report on title to cover all matters affecting the acquisition of the site; and
  - Surveys of the existing site/building including Asbestos, Phase 1 environmental, Measured and Building.

## **Implications and Risk Assessment**

11. There are a number of risks associated with the purchase.

### **A: Leaseholder default**

The property is let to Matalan Retail Ltd., who have a 5A1 Dun and Bradstreet rating indicating a minimum risk of business failure. Nevertheless, should the business fail then an alternative use/occupier would need to be found.

**Mitigation:** The leaseholder has a minimum risk rating. Nevertheless, there are other potential occupiers expressing interest in the site. The site value underpins the purchase price.

### **B: Future Development Risks**

In the event that the property is vacated at lease expiry in July 2025, and no suitable occupiers are sought/found, a development of the site would include risk.

**Mitigation:** The site value is estimated to be in excess of the existing investment value. The site could therefore be sold for redevelopment passing the development risk on to a third party.

### **C: Flood Risk**

The site is partially within both flood risk zones 2 and 3. There is a Flood Risk Assessment as part of the sales information. This indicates a low risk of flooding in the event that existing flood defences do not fail.

**Mitigation:** Full consideration will be given to the appropriate mitigation required in the event of the development of the site for other uses.

### **D: Reputation**

The Council has a track record of successful market intervention but there exists the possibility of reputational damage if the investment purchase proves commercially unsuccessful

**Mitigation:** The risks are considered low as the leaseholder has a strong credit rating, there is a healthy net yield derived from the investment, the site value underpins the investment price.

## **Equalities Impact Assessment**

12. Not required.

## **Consultation Planned or Undertaken**

13. The proposed purchase was the subject of a report to the Economic and Regeneration Investment Board meeting on 28<sup>th</sup> March 2019 when Members supported the action taken by the Chief Executive and approved the presentation of this opportunity to Cabinet and subsequently to Council.

## **Other Options Considered**

14. Not to bid for the property.

## **Reasons for Supporting Option Recommended**

15. This is a well let investment in a strategic 'gateway' location in Ashford. There is a low site coverage meaning the site has good medium-long term development prospects.
16. As it stands, the purchase offers the opportunity to provide a healthy net return on holding costs.

## **Next Steps in Process**

17. Full legal and financial due diligence is being carried out.
18. Once this has been completed, and if the acquisition is approved by Council, the Chief Executive, Director for Finance and the Economy and the Director for Law and Governance will consult with the Leader, the Portfolio Holder for Finance and IT and the Portfolio Holder, before confirming that contracts can be exchanged and the purchase completed.

## **Conclusion**

19. The site is a strategic purchase for the Council of a long term strategically important site.
20. The site is well let to a strong leaseholder and will deliver an acceptable return to the Council in the short term. In addition, there are a number of options available to the Council for the longer term occupation or development of the site, should the current leaseholder vacate.

## **Portfolio Holder's Views**

21. CLlr Galpin

The purchase of this site makes a considerable and secure contribution to the sustainability of the Council and its ability to fund services to the People of Ashford Borough. Matalan have 6 years remaining on their lease, which they

are expected to renew; if not then there is active interest from two national chains.

In addition to the opportunity to receive revenue, there is the development option for the remainder of the site, or all of the site is it becomes vacant. I am content that the procurement of this site will be a great and secure investment for the Council and the people of Ashford.

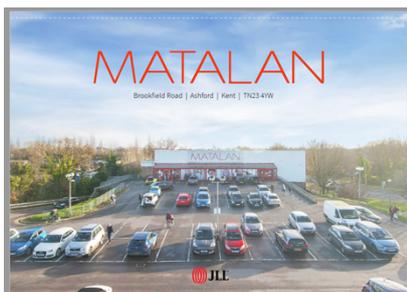
22. Cllr Shorter

To follow.

## **Contact and Email**

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# Appendix 1 – Particulars of Sale



**INVESTMENT SUMMARY**

- Excellent location, benefiting excellent transport connections, with direct access to London and Europe via the Eurostar.
- The location has a growing and affluent settlement population, with an above average retail catchment profile.
- The site is a designated area for regeneration, investment and population development.
- The current property is a substantial retail warehouse, totaling 85,000 sq ft of floor ground and lower ground floors.
- Fully let to Matalan Retail Limited (MRL) under a lease for a term of 21 years, expiring in July 2028 (3.4 years).
- The current letting price is £260,000 per annum reflecting a 12.1% per cent forward.
- Open to planning consent.
- Potential asset management opportunities.

Offers sought in excess of **£4,410,000** (Four Million, Four Hundred and Ten Thousand Pounds), subject to contract, and including 10% deposit towards the price would reflect an all active net initial yield of 7.75%, assuming a standard purchase costs of 6.00%.





**TENURE**

The property is held freehold with the title abstracted in red on the plan below.

**TENANCY**

The property is let to Hodge Road Limited for a maximum of 25 years from 1st July 2002, expiring on 31st July 2027 (if any). The current lease is for 15 years from 1st July 2012, expiring on 31st July 2027. The lease is a full repairing and maintaining lease. The lease is a full repairing and maintaining lease. The lease is a full repairing and maintaining lease.



**TENANT INFORMATION**

Hodge Road Limited Company Number 02028866, was founded in 2002 and is a leading national chain of retail and leisure centres. The company has 227 stores, all of which are currently open and trading. The company is a leading national chain of retail and leisure centres. The company is a leading national chain of retail and leisure centres.

	2015/16	2014/15	2013/14
Turnover (2015)	£1,000,000	£1,000,000	£1,000,000
Profit before interest	£100,000	£100,000	£100,000
Net assets (2015)	£100,000	£100,000	£100,000

15 Hodge Road is part of a new estate, the majority of which will be built on the ground.

**INVESTMENT COMPARABLES**

Our table below is a number of similar investment opportunities, all of which have transacted over the last 12 months.

Date	Address	Size (sq ft)	Tenants	Price	Yield	Leasehold Term	Purchaser
October 2014	100-102 High Street	1,200	Retail and Foodservice	£1,200,000	7.5%	99 years	JP Trust Funds
August 2014	100-102 High Street	1,200	Retail	£1,100,000	7.2%	99 years	JP Trust Funds
December 2013	100-102 High Street	1,200	Retail	£1,000,000	7.2%	99 years	JP Trust Funds



**ASSET MANAGEMENT OPPORTUNITIES**

- High quality, well-located retail premises in a prime location.
- Excellent potential for future development and expansion.
- Long leasehold terms (99 years) and strong rental income.
- Proven track record of successful retail operations.

**RESIDENTIAL OPPORTUNITY IN ASHFORD**

The Ashford Local Plan 2018-2036, published by the local authority, sets out the strategic vision for the town and its surrounding areas. It has been prepared following extensive consultation with the community and is a key document in the development of the town. The plan sets out the strategic vision for the town and its surrounding areas, including the provision of housing, transport, and other services. The plan also sets out the strategic vision for the town and its surrounding areas, including the provision of housing, transport, and other services.

**PLANNING**  
Further information can be found in the document.

**ERC & ENVIRONMENTAL**  
The project has an ERC rating of B2, a leading score, and is considered to be a low risk project for the environment. A full ERC report is available on the project website.

**VAT**  
The project is eligible for VAT and is a registered business. It is a registered business and is eligible for VAT.

**MATALAN**

**PROPOSAL**  
The proposal is to build a new Matalan store in Ashford. The store will be a new build and will be a large store. It will be a new build and will be a large store.

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