

FAREHAM

BOROUGH COUNCIL

Report to the Executive for Decision 05 December 2016

Portfolio:	Policy and Resources
Subject:	Acquisition and lease back of Commercial Property at Daedalus
Report of:	Director of Finance and Resources
Strategy/Policy:	Asset Management Plan
Corporate Objective:	A dynamic, prudent, progressive and best practice Council

Purpose:

To consider an opportunity for the Council to purchase and lease back Plot 15/16 Faraday Business Park, Daedalus on the terms as set out in the confidential Appendix A.

Executive summary:

This report sets out terms for the potential purchase and lease back of a property at Solent Airport, Daedalus.

The Council's vision for Daedalus is for the site to become a premier location for aviation, aerospace engineering and advanced manufacturing businesses creating many skilled employment opportunities for local people, which is under-pinned by a vibrant and sustainable airfield. This potential purchase and lease back supports this vision as well as complementing the Council's existing commercial investments.

The confidential Appendix A sets out an analysis of the investment, financial information and heads of terms agreed with the owner to enable the Executive to decide if the investment property should be purchased.

The first phase of commercial development is now underway at Daedalus with the establishment of Faraday Business Park on the eastern side of the Solent Airport estate. When the Council acquired Daedalus in March 2015 the first building was under construction and this project has now been completed.

If the Council proceeds with the acquisition, it would do so with a pre-let agreement with a tenant to occupy the building, which has been built to their specification, providing an energy-efficient modern manufacturing facility with room for future expansion. The company is currently located in the borough and has been trading since 1952, providing precision engineering services to the aerospace, oil and gas industries. The company has good covenant strength as a prospective tenant of the estate.

Originally it was intended that the company would acquire a long leasehold interest in the building when completed, however the opportunity has arisen for the Council to acquire building and let on an occupational lease basis, providing an ongoing revenue stream rather than a capital receipt. The business plan for Daedalus relies on an ongoing rental income from property to offset the ongoing running costs, and this property would contribute positively towards this objective.

Heads of Terms have been agreed in principle, which would allow UTP to occupy the building at the earliest opportunity and the Council to secure an important income stream for the Estate.

Recommendation/Recommended Option:

That the Executive:

- (a) agrees the Heads of Terms for the acquisition of the completed building and subsequent lease back, as set out in confidential appendix A; and
- (b) delegates authority to the Director of Finance and Resources, following consultation with the Executive Leader, to agree minor amendments to the terms as appropriate.

Reason:

To obtain the approval of the Executive for the Council to proceed to purchase and lease back Plot 15/16 Faraday Business Park, Daedalus

Cost of proposals:

The purchase price and ancillary costs are set out in Confidential Appendix A.

Appendices: **A:** Confidential appendix setting out the terms agreed for the purchase and lease back of 15/16 Faraday Business Park, Daedalus (Exempt by virtue of paragraphs (3) of Part 1 of Schedule 12A of the Local Government Act 1972)

Background papers:

Reference papers:

Executive Briefing Paper

Date:	05 December 2016
Subject:	Acquisition and lease back of Commercial Property at Daedalus
Briefing by:	Director of Finance and Resources
Portfolio:	Policy and Resources

INTRODUCTION

1. The Council's plans for Daedalus focus on the creation and safeguarding of jobs in the target sectors of aviation, aerospace, marine engineering and advanced manufacturing.
2. This report sets out terms for the acquisition of a new-build industrial facility on Faraday Business Park providing approximately 30,000 sqft of warehouse and office space and subsequent leaseback to the tenant to operate its precision engineering business.

BACKGROUND

3. The first phase of commercial development is now underway at Daedalus with the establishment of Faraday Business Park on the eastern side of the Solent Airport estate.
4. The tenant is currently located in the borough and has been trading since 1952, providing precision engineering services to the aerospace, oil and gas industries. The company employs 57 local people in skilled precision tooling jobs and was one of the foundation company sponsors of CEMAST. The company is keen to expand on its close working relationship with students as part of its apprenticeship programme.
5. The new building occupies an area of approximately two plots on Faraday Business Park and provides approximately 30,000 sqft at the entrance of Daedalus East. The site provides future expansion space should the company require this.

TERMS FOR THE LEASE OF LAND

6. The terms for the lease of land are set out in Appendix A, and a plan of the area is attached as Appendix B.
7. The terms provide for occupation at a market level of rent, providing a return on investment which is consistent with the requirements of the Council's Commercial Property Acquisition Investment Strategy. It also provides for the tenant to re-acquire the building in the future, in order to facilitate expansion in the future.
8. As with other commercial property investments, normal due diligence checks will be carried out prior to the acquisition and lease back, although initial checks have been satisfactory. An independent market assessment has also been undertaken, and

concluded that there is a strong requirement from other potential occupiers for a building such as this, in the event that the preferred tenant vacated.

9. If the Executive agree the Heads of Terms, the tenant will be able, upon satisfactory completion of legal work, to carry out internal fit-out works to accommodate its new state of the art machinery, early in the new year.

NEXT STEPS

10. If the Heads of Terms are agreed by the Executive, the Council's legal team will be instructed to prepare the relevant documentation for the Council to acquire the building, subject to detailed due diligence and satisfaction of any outstanding planning or other conditions. An occupational lease would also be prepared on the agreed terms.

FINANCIAL IMPLICATIONS

11. The opportunity to acquire the facility and let on an occupational lease, allows the Council to secure a rental income stream, instead of the capital receipt which would otherwise be secured upon occupation. The business plan for Daedalus relies on an ongoing rental income from property to offset the ongoing running costs, and this property would contribute positively towards this objective.
12. The Council's capital programme provides £2m for a speculative commercial building, and it is proposed that this budget is used for the acquisition and supplemented with borrowing.

CONCLUSION

13. The proposal to acquire this newly constructed industrial building as an addition to the Council's commercial investment portfolio will help to secure a state of the art precision tooling facility at Daedalus on terms that provide a sound return on investment for the Council. It also presents an opportunity to safeguard over 50 jobs in the local area and secure opportunities for a further 40 jobs, to support the work of CEMAST and potentially to create future employment opportunities in a relevant target sector at Daedalus.
14. As a large and well-established employer, the tenant may well attract other supply-chain businesses to the area, and would make a significant and positive contribution to the economic targets for the Solent Enterprise Zone, generating early interest in the wider estate.
15. As such, it is recommended that the Executive agree the Heads of Terms, as set out in the appendix, and delegates authority to the Director of Finance and Resources in consultation with the Executive Member for Policy and Resources, to agree the detailed terms for the legal agreements.

Enquiries:

For further information on this report please contact Andrew Wannell. (Ext 4620)