

## **EAST AYRSHIRE COUNCIL**

### **DEVELOPMENT SERVICES COMMITTEE – 2 MAY 2006**

#### **ASSET MANAGEMENT – INVESTMENT PROPERTY PORTFOLIO – INDUSTRIAL LAND / PROPERTY – POLICY PROPOSALS**

##### **Report by the Executive Director of Development and Property Services**

## **1 PURPOSE OF REPORT**

- 1.1** To seek Committee approval to the proposed introduction of an Economic Development Policy in relation to the sale and acquisition of industrial land and buildings held within the Investment Property Portfolio.

## **2 BACKGROUND**

- 2.1** Past decisions relating to the disposal of industrial land / property have been based on an informal approach with the details being reported to Committee on a case by case basis. The proposal is to introduce a formal policy with the details as detailed within this report.
- 2.2** In the past, the industrial property market was considered to be a high risk investment and, as a result, the Private Sector would only invest in this type of development if the property lease was to a secure “blue chip” company. In order to provide industrial units and subsequent employment opportunities in either rural areas or areas of high unemployment, the provision of industrial units was either undertaken directly by the local authorities who constructed their own units, or in partnership with the Development Agencies, e.g. Scottish Development Agency / Enterprise Ayrshire.
- 2.3** The previous partnership arrangements normally involved the Enterprise Agencies funding the construction of the developments which were then leased in their entirety to the Local Authorities, with permission to sub-let the individual units to private individuals/companies. Under these arrangements, all risks, including payment of rent, property maintenance/management, etc. transferred to the Local Authorities.
- 2.4** Although due diligence in connection with the proposed tenants was and is still carried out, it is recognised that risks associated with start up or small businesses are high. The Local Authorities were prepared to accept these risks in order to assist in the creation of business and employment opportunities. Flexible lease terms and conditions were also made available.
- 2.5** At the same time as the Local Authorities and Enterprise Agencies were providing industrial units, the New Town Development Corporations, who were funded by Central Government, were also developing and providing on a large scale new industrial development sites and properties.

### **3 CURRENT POSITION**

- 3.1** During the interim period circumstances have changed, especially in relation to the industrial investment market. These changes have resulted in the Private Sector now becoming actively involved in owning and managing a wide range of industrial properties and estates. This has arisen because of changes in the economy and because of the wind up of the New Town Development Corporations, who sold their industrial property portfolios to the Private Sector, and also decisions taken by the Enterprise Agencies to dispose of their industrial property portfolios.
- 3.2** As a result of these changes, Local Authorities and the Enterprise Agencies are now working in partnership with the Private Sector in order to secure industrial development opportunities with many of the risks now being transferred to the Private Sector.
- 3.3** This Council is actively involved in partnership working with the Private Sector as can be demonstrated by the provision of industrial units at Skerrington Mains, Cumnock, business units at Rowallan Business Park, Kilmarnock and industrial sites at Moorfield, Kilmarnock. Without the Council's involvement, it is unlikely that these developments would have occurred.
- 3.4** In addition to the new development opportunities, the Department of Development and Property Services continues to manage the Council's traditional industrial property portfolio. This comprises properties which are either owned by the Council or leased from private landlords as successors to the Enterprise Agencies. At the present time, 95% of the properties within the industrial portfolio are fully occupied, with only five vacant units available to let which have a total floor area of 349 square metres (3,780 square feet) or thereby .
- 3.5** Enquiries have been received from various parties wishing to purchase industrial units and it is considered that the Council should adopt a policy which can be applied when considering requests of this nature. Details of any proposed disposals will still require to be reported to this Committee for the appropriate surplus declaration.

### **4 POLICY PROPOSALS - DISPOSALS**

- 4.1** The Industrial Property Portfolio currently produces rental income in the region of £500,000 which is a source of revenue to the Council. Allowances will require to be made for the loss of revenue if an industrial property is sold.
- 4.2** Enquiries to purchase industrial units are likely to come from either private investors, private companies with occupancy proposals or sitting tenants. It is proposed that the undernoted criteria should be applied when considering applications to purchase industrial property.

#### **4.3 Requests to Purchase Industrial Units / Sites for Investment Purposes-**

Requests of this nature are likely to come from private individuals or companies who wish to purchase either a group of units or all units / land within an industrial estate for the purpose of receiving the rental income generated from the lease of the units / land. In these instances, the purchaser would not occupy the units/land but merely replace the Council as landlord and continue to lease the units/land to the existing tenants or new tenants when units become vacant. The units / sites affected by requests of this nature are likely to be let or in high demand areas and available to let

**4.3.1** It is recommended that the policy should be to approve requests of this nature only if an option appraisal demonstrates that the Capital Receipt can be used to generate net income at least equal to the rent income foregone.

#### **4.4 Request to Purchase Industrial Units / Sites from Private Individuals or Companies with Occupancy Proposals**

– Requests of this nature are likely to come from private individuals or companies, including existing tenants, wishing to either relocate or expand existing businesses within East Ayrshire or from outwith the area. The individuals or companies may require to invest large sums of money in order to adapt or fit out the units to meet their requirements and, as a result, may wish to own their properties as opposed to entering into a lease. In the case of sites, the parties may have proposals to construct their own units. The units / sites affected by requests of this nature are likely to be vacant and available to let.

**4.4.1** It is recommended that the policy should be to consider the economic implications associated with requests of this nature, taking into account the size and location of the units / sites. If it is established that the applicants have major investment proposals which will provide long term protection of existing jobs or create new employment opportunities, then consideration should be given to selling the units / sites where it is considered that the sale will have no detrimental affect on the investment value of the units / land at the same location remaining within Council ownership. In these circumstances, the rent income foregone will require to be replaced either from other areas of the Development and Property Services overall budget, or by reducing the Department's Capital Programme to release equivalent savings in loan charges.

**4.4.2** It is recommended that the policy should be to refuse requests of this nature if it is established that the applicants have no major investment proposals and are merely seeking to acquire premises as opposed to leasing them, or if the sale would have a detrimental affect on the investment value of the subjects remaining within Council ownership.

**4.4.3** It is recommended that where the Council is disposing of a unit or units within part of an industrial estate that the Council's position relating to the future management of the industrial estate and maintenance of the common parts be regulated by a Deed of Conditions which will require to be finalised prior to the disposal being concluded. It is also recommended that in terms of the Council's Economic Development function, the Council's position is further protected by the creation within the Deed of Conditions of a right of pre-emption which will endure for as long as the council remains proprietors of

one of the units within the estate and can demonstrate that the terms of a subsequent disposal would frustrate identified economic development purposes.

#### **4.5 Requests to Purchase Industrial Units / Sites from Existing Tenants –**

Requests of this nature may come from existing tenants who wish to acquire their units or sites as opposed to continuing with a lease and paying a rental. Alternatively, requests may come from existing tenants with major investments proposals.

- 4.5.1** It is recommended that the Policies proposed within paragraphs 4.4.1, 4.4.2 and 4.4.3 should apply in respect of requests falling within the categories identified in paragraph 4.5 above.

### **5 POLICY PROPOSALS – INVESTMENT OPPORTUNITIES / ACQUISITIONS**

- 5.1** It is recommended that as part of the ongoing Asset Management Property Review, that the Department of Development and Property Services continues to explore investment opportunities in relation to economic development, with the aim of ensuring that the Council continues to contribute to the regeneration of the area and also to secure investment income for the future. This may involve the Council being proactive in relation to property / land acquisition and partnership working with the private sector, with details being reported to the appropriate Committee for approval at the appropriate time.

- 5.2** The new rules relating to borrowing may be of assistance in respect of the above as the Prudential Code for Capital Finance, as set out within Part 7 of the Local Government in Scotland Act 2003 allows the Council to determine the level of capital investment that it considers is most appropriate for the delivery of local services. This level should take into consideration locally assessed needs and priorities within an overall framework of affordability and sustainability.

- 5.3** Graham & Sibbald have been appointed by the Council to undertake a review of the industrial land supply within East Ayrshire in connection with the proposed revision of the East Ayrshire Local Plan. Consideration will be given to the outcome of this report which may require the council to be proactive in dealing with any issues which may be identified.

- 5.4** It is recommended that a programme of planned maintenance be implemented to ensure the continued maintenance of the fabric of the existing industrial units / estates in order to retain their attractiveness and maintain their investment value.

### **6 POLICY PROPOSALS – INDUSTRIAL UNITS / ESTATES LEASED TO THE COUNCIL**

- 6.1** It is recommended that in respect of the industrial units / estates where the Council has succeeded the previous authorities as head tenants that at the termination of the leases, the Council does not enter into new leases allowing the owners of the units / estates to manage and market the units. This will enable the risks associated with these units / estates to be transferred to the

owners with the Council as head tenants saving on payment of the head rentals together with associated management and maintenance costs, etc. as all of these costs require to be paid, even although units may be vacant.

## **7 LEGAL IMPLICATIONS**

- 7.1** There are no direct legal implications arising from the adoption of an Economic Development Policy regarding the acquisition and disposal of land / properties. The Council's position as adjoining landowner will be protected by the use of Deeds of Conditions as proposed in Paragraphs 4.4.3 and 4.5.1 of this report.

## **8 FINANCIAL IMPLICATIONS**

- 8.1** Arrangements will require to be made within Development and Property Services budgets to replace the loss of revenue if an industrial property is sold.
- 8.2** In certain circumstances, the Policy and Resources Committee may consider that the non-financial benefits from a proposed disposal are sufficient to merit specific additional budgetary provision but this should be determined before the surplus property declaration is made by the Development Services Committee.
- 8.3** Funding to implement the proposed planned maintenance programme will require to be identified.

## **9 RECOMMENDATION**

- 9.1** It is recommended that the Committee agree to the proposed introduction of an Economic Development Policy in relation to the sale and acquisition of industrial land and buildings held within the Investment Property Portfolio and approve the policy proposals identified within the report

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**Executive Director of Development and**  
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**JL/SMcV/MB**  
**19 April 2006**

**BACKGROUND PAPERS – Nil**

**For further information on this report, please contact Sam McVie, Principal Surveyor, Property Unit (Tel: 01563 576099)**

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