

## PART 2 – CONFIDENTIAL FACTS AND ADVICE

**MD2935**

**Title:**               **Disposal of Non-Strategic Assets**

*Information may have to be disclosed in the event of a request under the Freedom of Information Act 2000. In the event of a request for confidential facts and advice, please consult the Information Governance team for advice.*

**This information is not suitable for publication until the stated date because:**

This paper contains commercially sensitive information that would distort genuine competition for the future disposal price of these assets and may affect GLAP's ability to secure best consideration. This would prejudice the commercial interests of GLAP and is not in the public interest.

**Date** at which Part 2 will cease to be sensitive or when this information should be reviewed with a view to publication: **March 2023**

**Legal adviser recommendation on the grounds for not publishing information at this time:**

The contents of Part 2 include sensitive information that relates to the GLAP's commercial interests, the disclosure of which could prejudice those interests.

In the event of any request for access to the information contained in this document and/or its appendices under section 1 of the Freedom of Information Act 2000 (the Act), it is considered that access can be denied on the basis that the information constitutes exempt information under section 43 of the Act. Section 43 provides that information is exempt information if its disclosure under the Act would or would be likely to prejudice the commercial interests of any person (including the public authority holding it). Section 43 exemption is a qualified exemption and, as such, is subject to a public interest assessment.

**Public interest assessment**

On balance it is considered that the public interest is best served if the information is not disclosed at this point. Disclosure by GLAP could have a detrimental effect on GLAP's bargaining position and result in the capital receipt being reduced. This would not only mean a reduction in income to GLAP but could also impact on GLAP's ability to meet its best-consideration obligations; this could prevent or delay disposal and realisation of the corresponding benefits mentioned in Part 1.

For these reasons, it is considered that the information in this Part 2 is exempt from publication in reliance upon the exclusions contained in section 43 (commercial interests) of the Act; and because the public interest in withholding the information outweighs the public interest in releasing it.

**Legal Adviser** – I make the above recommendations that this information is not suitable for publication at this time.

**Name:** Victoria Newman

**Date:** 02.03.2022

*Once this form is fully authorised, it should be circulated with Part 1.*

This Part 2 should be read in conjunction with Part 1.

## **1. Decision and/or advice:**

- 1.1. This decision seeks approval for GLAP to dispose of four assets from the GLAP portfolio. The table at Appendix 2 provides an overview of the disposal route; advice from valuers; and the minimum disposal price being authorised in this decision. Should the minimum disposal price not be obtained through the designated routes, GLA officers will return for an additional approval should it be appropriate. Where it is not appropriate GLAP will retain the asset.
- 1.2. The sale of the assets identified in the table at Appendix 2 is expected to realise income of £985,001.

## **2. Commercial issues**

- 2.1. The table at Appendix 2 sets out advice provided by the valuers; reasons for the proposed disposal method; and the minimum purchase price that GLAP will accept when proceeding with the disposal of these assets.

### Risks and issues

#### *Lease expiry at 23-25 East Street*

- 2.2. The lease came to an end in March 2022 and there is no guarantee that the tenant will renew the lease. This would result in a loss of income until a new tenant is found. The retail market is weak, and it could take several months to re-let the property. On the positive side, if the tenant is considering buying the premises, it would seem unlikely that they would not wish to renew the lease.

#### *Rental value at 23-25 East Street*

- 2.3. The rental value is currently considered to be £55,000 per annum, which is significantly lower than then rent paid by the tenant. Rents could also decline further in line with current trends, as more customers shop online. The current income of £80,000 per annum is likely to fall this year on re-letting or on lease renewal.

#### *Covenant strength at 23-25 East Street*

- 2.4. SAM 99p Ltd is a relatively small company with a turnover of £18.4m, operating profit of £254k and net assets of £1m (published accounts, year ended 31 August 2020) so there is a risk of the tenant going into receivership at some point in the future, even if they agree to renew their lease next year.

## **3. Tax considerations**

- 3.1. As the properties are held as investments, their disposal is a capital gains matter. Capital gains/losses are computed by deducting from the sales proceeds: the capital gains basis in the properties; relevant indexation allowance; and any incidental costs of acquisition or disposal (e.g. legal fees, land agent fees, advertising costs, etc). The costs at which the properties are held for accounting purposes is not relevant to the capital gains calculation. Capital losses incurred in the same accounting period, or brought forward from previous accounting periods, can be offset against capital gains. Capital losses on the disposal of investment assets cannot be carried back to previous accounting periods, so it is generally better to dispose of assets that will realise a capital loss before those which realise a capital gain.
- 3.2. Appendix 2 includes details of expected capital gains basis plus relevant indexation allowance and taxable gains have been calculated. None of the properties seem as though they will yield a capital loss, and the total capital gain is estimated to be £911,865 – but the exact figure will not be known until sales have been agreed and the properties disposed.

- 3.3. If GLAP incurs losses on its other activities these can be offset against capital gains of the same accounting period. It is also now possible to offset carried-forward trading losses incurred after April 2017 against other income and gains of future periods (previously trading losses carried forward could only be offset against future profits of the same trade).
- 3.4. GLAP would pay 19 per cent tax on any capital gains not offset by losses up until 31 March 2023; but the rate is due to increase to 25 per cent from 1 April 2023.

There are no particular tax concerns about delaying or accelerating disposals.

#### **4. Finance comments**

- 4.1. The decision is seeking approval to dispose of four properties from GLAP's Investment property portfolio, as listed in the table in paragraph 1.5 part 1. As part of the asset management strategy review the properties were identified as not being strategic to achieving the Mayor's strategic objectives and the sites did not have potential for redevelopment.
- 4.2. Options for the disposal of each site were appraised by an independent consultant (Montague Evans) and they have recommended options that would maximise the returns on the disposal of each site. Further details on the disposal of the properties are disclosed in section 2, above.
- 4.3. If all the properties were disposed as planned and the recommended options were chosen, GLAP will generate gross disposal proceeds of £985k, capital gains of £911k and taxable capital gains of £73k, see details in Appendix 2.
- 4.4. VAT must be charged on all disposals and the legal agreement must be drafted to allow VAT to be added.

## Appendix 2 – Minimum sale price

Property	Disposal method	Comments	Minimum disposal price being sought	Asset value on GLAP accounts	Capital gains basis including indexation	Taxable gain
23-25 East Street, Barking	Direct sale to special purchasers	<p>The valuer's initial valuation in October 2020 arrived at a figure of £1,100,000. Due to the impact of COVID-19 and the deterioration of the retail market, a revised figure of circa £940,000 was cited, as they considered the rent for the property to now be over-rented. As such the offer received from the current occupiers is in line with the top end of the market's value for this property.</p> <p>Although an auction may provide a slightly higher purchase price, there is some comfort in the current occupier retaining the property to ensure the presence of continued retail on the high street.</p>	£950,000. This is following negotiations with the current occupier of the premises.	£910,000	£894,660	£55,340
Orchard Wharf	Auction	<p>Due to the nature of this asset and limited value in the freehold due to the long leasehold interest attached to it, the valuer placed a figure of £30,000 for this asset.</p> <p>Discussions with the current long leaseholder revealed they were not interested in acquiring the freehold of the property. It is likely that the freehold would be of more interest to parties wanting a long-term reversionary interest, such as a family trust for example. An auction would be a suitable way forward of disposing of this asset whilst demonstrating best value. Should approval be obtained for the disposal, a minimum price would be placed on the asset of £30,000 at auction, in line with the valuation.</p>	£30,000. The valuer's assessment is being used to place a benchmark here for a minimum disposal price.	£0	£17,205	£12,795
Land adjacent to Gallions Reach	Direct sale to special purchaser	The valuer's valuation for this small vacant piece of land is nominal. However, due to the interest of the adjacent occupier looking to acquire it to ensure certainty over security and other estate management matters, they have offered £5,000 for the land.	£5,000. This is based on negotiations that have taken place	£0	£0	£5,000

			with an adjacent land owner.			
Bridgewater Road land	Direct sale to special purchaser	These three small parcels of land have been valued at a nominal amount of £1. Their location, limited size and nature of the surrounding areas provide no value to GLAP. As set out in Appendix 1 of Part 1, these parcels of land have been discovered as part of a title exercise for the Bridgewater Road development being undertaken by the LLDC. It is proposed that this land is transferred to the LLDC so as not to disrupt or delay the wider development.	£1	£0	£0	£0
<b>Total</b>			<b>£985,001</b>	<b>£910,000</b>	<b>£911,865</b>	<b>£73,135</b>