

PART 2 – CONFIDENTIAL FACTS AND ADVICE

MD2722

Title: Crystal Repair and Lease

This information is not for publication until the stated date, because:

The accompanying tables contain confidential commercial information pertaining to the breakdown of budget of work on specific items. Containing this information in this paper intends to protect GLAP in securing best value in the procurement of such work.

A commercial report is additionally appended to Part 2 and this references previous commercial work undertaken at the Crystal, which is confidential.

Landlord negotiations with owners of City Hall (More London) are ongoing and publication of the Heads of Terms or Dilapidations Survey could impede the GLA's negotiating position and are therefore appended to Part 2 of this form.

Date at which Part 2 will cease to be confidential or when confidentiality should be reviewed: to be reviewed in December 2021, at which point all works should be complete.

Legal recommendation on the grounds of keeping the information confidential:

The contents of Part 2 include sensitive information which relate to the GLAP's commercial interests, the disclosure of which could prejudice those interests. For those reasons it is considered that the information contained in this report and appendices is exempt from publication in reliance upon the exclusions contained in section 43 (2) (Commercial Interests) of the FOI Act 2000 and because the public interest in withholding the information outweighs the public interest in releasing it.

If this information is considered for release pursuant to the provisions of the Environmental Information Regulations 2004, this information should be considered exempt information under regulation 12(5)(e) – where disclosure would adversely affect the confidentiality of commercial or industrial information where such confidentiality is provided by law to protect a legitimate economic interest.

Legal Adviser -

Name: TFL Legal

Date: 20/11/20

Confidential decision and/or advice:

Decision required – supporting report

1. Costs

- 1.1 Appendix 2 contains anticipated costs for work required to upgrade and maintain the energy efficiency of the building, including updating the BREEAM rating of the building. The landlord contribution of £2.8m will cover these sustainability costs.
- 1.2 General repair and maintenance activities have a total anticipated budget of £400,000.
- 1.3 A further £100,000 budget is advised as contingency to cover any unanticipated maintenance costs that may have arisen in the year since the dilapidations report was carried out.
- 1.4 A budget of £150,000 for professional fees approved under MD2476 can be spent in this Decision. This will cover the legal fees to draft the new lease and provide tax advice. A new Schedule of Condition to record the building prior to the tenant moving in will also be procured. The fees are estimated as follows:

Legal Fees – corporation tax, stamp duty land tax and property documentation	£35,000
Property Fees – Schedule of Condition	£15,000
Contingency and Underspend from MD2476	£100,000
Total	£150,000

- 1.5 Officers will monitor professional costs.

2. Commercial assessment

- 2.1 GLAP commissioned JLL to review the commercial market and advise on a rental figure for the Crystal building in September 2020. The valuation advice also included standard market provisions expected in commercial leases of 25 years (with a 20-year break). Included in this advice was a landlord contribution of approximately £2.8 million to incentivise a new tenant and assist with costs to refurbish the building.
- 2.2 The £2.8m contribution was calculated on the basis that a prudent landlord would maximise rental income by converting the Crystal to office use and this was estimated to cost £2.8m. However, considering the letting of the property to GLA for a civic use, the report assumed that the refurbishment would be delivered by the GLA as tenant with GLAP making a financial contribution to secure the letting.
- 2.3 Notwithstanding the above, GLAP and the GLA have considered the various packages of works that need to be carried out to the building and identified that the £2.8m will be best spent on repairing and upgrading the MEP items that have either reached the end of their life, or do not provide the most energy efficient means of servicing the building considering its new use. It is proposed that these will be carried out as Landlord's works, prior to the completion of the lease. It is considered that this investment is supported by the JLL report as the report identifies that an investment of £2.8m would be required in some format.

- 2.4 Rather than contribute to the fit-out costs directly to the GLA, GLAP will pay for general repair and MEP works directly to the supplier. This approach is for accounting and tax purposes which will maximise the value of GLAP's investment.
- 2.5 If GLAP as landlord were to not invest in the building, JLL have advised that GLAP would receive a lower rental sum of £1.2m compared to £1.68m. This means that this investment over a 25-year lease (including two years rent free) will generate a greater commercial benefit to GLAP.

3. Financial comments

- 3.1 MD2476 sets out the approval to terminate the Siemens PLC lease and adjust the Estates budget in Housing and Land to fund the loss of rental income and increased operational costs for the years 2019-20 to 2022-23. The total additional cost was anticipated to be £15.75m, incorporating the refurbishment works (the majority of which were planned to take place in 2021-22) at a cost of £3.3m.
- 3.2 This decision seeks approval for GLAP to spend £3.3m of the anticipated costs in advance of the GLA relocating City Hall to the Crystal building as a new tenant to GLAP. This will be spent earlier between 2020-21 and 2021-2022.
- 3.3 The breakdown of costs is set out in Section 2 of this decision form where anticipated MEP costs will be to the value of £2.8m and dilapidations repair works of £0.4m with a £0.1m contingency on repair to a total of £0.5m.

4. Lease

- 4.1 The London Borough of Newham (LBN) currently have unlimited access to the rear of the Crystal. GLAP as landlord will secure alternative arrangements with LBN in line with security requirements for City Hall. This will require limiting LBN's access to the site.

Appendices and supporting papers:

Appendix 1 – JLL Valuation Report

Appendix 2 – ARUP Schedule of Sustainability Work and costs

Appendix 3 – GLAP and GLA Heads of Terms

Appendix 4 – 2019 Crystal Dilapidations Report