

REQUEST FOR MAYORAL DECISION – MD1241

Title: Disposal of the View (Inward Investment Centre), 15th & 16th Floors, Payne Road, including disposal of the chattels.

Executive Summary:

The purpose of this paper is to seek Mayoral approval to the disposal of the View Inward Investment Centre, located adjacent to the A12 in Bromley-by-Bow, LB Tower Hamlets for conversion to residential accommodation.

The GLA currently holds a 125 year lease (commenced 31 March 2009) over the 15th & 16th floors of a residential block from the freeholder East Thames Group (ETG).

It is proposed that GLA surrender its lease to ETG given the lack of demand for the marketing suite post-Olympics, in return for a capital land receipt.

Decision:

That the Mayor:

1. Approves the surrender of the View (Inward Investment Centre) lease to East Thames group in return for a premium, as set out in part 2;
2. Delegates authority to finalise the terms of the surrender of the lease to the Deputy Mayor for Housing Land and Property and the Executive Director for Housing & Land;
3. Approve the reallocation within GLA, or the disposal at public auction of residual items of fixtures and fittings in respect of The View with a current book value of £494,018.

Mayor of London

I confirm I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with the Code of Conduct for elected Members of the Authority. Any such interests are recorded below.

The above request has my approval.

Signature

Date

PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR

Decision required – supporting report

1. Introduction and background

- 1.1 The View was transferred to GLA from London Thames Gateway Development Corporation on 16th April 2012 under the London Thames Gateway Development Corporation (Transfer of Property, Rights and Liabilities) (Greater London Authority) Order 2012 (LTGDC Transfer Order).
- 1.2 LTGDC acquired a 125 year leasehold interest, over 4 private for sale, duplex apartments on the 15th & 16th floors of a residential block owned by East Thames Group Ltd (ETG). The lease commenced on 31st March 2009 for the payment of a premium of £1,350,000. LTGDC proceeded to convert the units at a gross cost of circa £1m to provide an Inward Investment Centre. The View was managed by the London Borough of Tower Hamlets (LBTH) under a Shared Facilities Agreement separately entered into with LTGDC. A location plan, an image of the building and floor plans of the centre are attached at appendices 1 & 2.
- 1.3 The View provided (leading up to the Olympics) an important venue to demonstrate the regeneration of the Thames Gateway, but with a particular focus on East London and the Olympics. It provided meeting rooms and conference facilities and attracted nine organisations that signed up as members, paid a membership fee and were provided time allocations to use the facility.
- 1.4 None of the organisations remain as members of the Inward Investment Centre. The membership agreements expired upon the closure of the Games and LBTH terminated its management agreement for The View on 1st November 2012. The management of the facility and running costs now fall to the GLA. Since the Olympics, there has been limited demand for bookings and there are now other facilities available closer to the Olympic Park.
- 1.5 The View as an Inward Investment Centre was most successful pre-Games; if the facility is to be maintained, a great deal of upgrading to the video messaging, art work and décor would be required to be relevant to the area post-Olympics.

2. Issues for consideration

- 2.1 As the property is now vacant, running costs, rates, maintenance and security costs are the responsibility of GLA and are estimated to be circa £35,000 per annum. Therefore, the property cannot remain vacant, with a conversion to residential representing the most viable, disposal route.
- 2.2 The option for GLA to undertake these conversion works directly has been discounted due to the high level of construction risk in carrying out works on the 15th & 16th floors of a now fully occupied residential block with limited access.
- 2.3 ETG holds a right of pre-emption exercisable if GLA wishes to assign its lease, entitling ETG, to repurchase these units for 80% of open market value. The right of pre-emption is exercisable for 20 years from commencement of the lease and has circa 17 years remaining. ETG must only pay 80% of open market value to reflect the cost of converting the premises for residential use. In order to achieve best value, and in light of the pre-emption option, the GLA has investigated three redevelopment options, involving 4, 5 and 6 unit schemes, but which also include the surrender of the lease to ETG for a related premium; the options to trigger the pre-emption option, as well as another of direct development have been discounted due to restricted land receipt and construction risk respectively.

- 2.4 The redevelopment options have now been subject to further detailed investigation concerning planning policy requirements, in discussion with London Borough of Tower Hamlets; valuation considerations of differing unit sizes and tenures; interrogation of design elements such as amenity space, access and fire evacuation; as well as construction budgets related to all options. Following this further investigation the recommended disposal option for GLA is:

Recommended scenario: Four duplex apartments for affordable tenure

- 2.5 GLA surrender the lease to ETG for a premium as set out in part 2 of this paper. GLA hold no further involvement within the project, with ETG bearing the development and sales risk, whilst receiving a profit of 16% on GDV. Conversion works are expected to take one year, with the surrender estimated to be complete within August 2013. GLA would require a clawback arrangement should the units sell in excess of the estimated development value. GLA will receive 50% of any overage realised. Furthermore, in order to maximise the receipt to GLA, it is proposed that the land receipt is received upon completion of the construction works.
- 2.6 Planning permission to create the View, converting it from 4 residential apartments, was granted on 17th March 2009 for a limited period until 31st March 2014. Beyond this date, the current commercial use ceases to be permitted, and the permission requires residential use (C3) to be reinstated. As the original permission detailed four residential apartments, no new permission will be needed for this conversion, and therefore the surrender will not be conditional upon any further planning consent being obtained.
- 2.7 There is some uncertainty concerning whether VAT is payable upon the conversion. Normally, VAT would be payable upon a conversion from commercial to residential, however given the fact that the commercial planning permission was temporary there is a case that the residential units are to be re-instated and not converted. In order to accommodate this uncertainty, a VAT allowance has been deducted from the land receipt, however ETG will be under an obligation to challenge the VAT payment; the money being returned to GLA as overage should payment not be required.

Disposal of Fixture & Fittings

- 2.8 In order to operate the suite as an investment centre, it was necessary to provide the property with furniture, fixture and fittings necessary to carry out this role. This equipment will now be redundant for residential use, and it will be GLA's responsibility to remove these items prior to surrender of lease. This equipment is of a very high quality specification, being no more than 3 years old. As such it is proposed to relocate the equipment to other GLA departments/ projects/ initiatives at no cost. Significant interest in the fixtures/ fittings has been presented by 639 Tottenham High Street, as well as the London Sustainable Industries marketing suite. However, should any items not be required elsewhere, approval is sought to dispose of these via public auction.

3. Risk

Reputational Risk

- 3.1 The LTGDC created the View as a marketing/ investment suite to be used throughout the Olympic Games period, with the original units to be re-instated post games. As demand for the suite no longer exists, this unit sits vacant, and it is now necessary to complete the original plan and re-create residential accommodation.

Financial Risk

- 3.2 GLA will receive a premium for the surrender of the lease to ETG, with additional receipt should the units sell for greater than expected. A further sum of money will be delivered to GLA should VAT not be payable upon the conversion works, as discussed above. Therefore, there is no risk to GLA.

Delivery Risk

- 3.3 As construction will be undertaken by ETG, there is no risk to GLA.

4. Financial Comments

- 4.1 The property known as 'The View' or also known as 'The Inward Investment Centre' was transferred to GLA from LTGDC under the LTGDC Transfer Order at a value of £1.280m. This asset was revaluated by GVA as at 31st March 2013 with a value of £650,000 and is held on the asset register at the lower of cost and net realisable value (fair value less costs to sell) which is £627,250.
- 4.2 The capital programme currently holds a budget of £25,000 to cover the estimated legal cost of the disposal of this asset which should be significantly less than that budgeted amount.
- 4.3 There is an inward investment provision of £686,125 relating to the future contractual obligation to convert the Inward Investment Centre accommodation back from non-residential to residential usage. The refurbishment/restoration back to residential usage was expected to be completed by March 2014.
- 4.4 The GLA would now be relieved of the contractual obligation to convert the centre back to residential use, and the contingent liability of £686,125 could be removed.
- 4.5 The premium payable for the lease surrender is in excess of the current market value held, as determined by GVA Grimley.

5. Legal Comments

- 5.1 LTGDC has been advised by Eversheds LLP throughout this project including in relation to the disposals and associated matters as noted above and have been retained to act for GLA.
- 5.2 Section 30 of the Greater London Authority Act 1999 (as amended) (GLA Act) gives the Mayor a general power to do anything which he considers will further one or more of the principal purposes of the GLA as set out in section 30(2) which are:
- (a) Promoting economic development and wealth creation in Greater London
 - (b) Promoting social development in greater London and
 - (c) Promoting the improvement of the environment in Greater London
- 5.3 Given this, and section 34 of the GLA Act which allows the Mayor to do anything which is calculated to facilitate or is conducive or incidental to the exercise of any of his functions (including his functions under section 30) the Mayor has the power to agree to the Decisions set out above.
- 5.4 The Mayor is able to delegate to members of GLA staff under Section 38 of the GLA Act.

6. HIG, Investment & Performance Board

- 6.1 HIG considered the surrender of the lease of The View investment centre to ETG, as well as the re-use/disposal of the chattels on 28th February 2013. Two options were considered: whether to surrender the property for £840,000 in order to create 6 affordable, residential units, but subject to planning; or whether to surrender the lease for 4 market units for a premium of £700,000. HIG recommended approval of the first option; however reverting to the four unit option should planning be unfavourable. Following discussions with the planning authority, it is clear that the 6 unit scheme will not receive planning permission owing to the limited amenity space afforded to each dwelling. Therefore, the GLA has re-negotiated the 4 unit option, increasing the land receipt, and obliging the units to be delivered on to the affordable market.

7. Supporting documentation

- 7.1 A location plan, an image of the building and floor plans of the centre are attached at appendices 1 & 2.

Public access to information

Information in this form is subject to the Freedom of Information Act 2000 (FOI Act) and other legislation. Part 1 of this form will be made available on the GLA website within 1 working day of approval. Any facts and advice that should not be made automatically available on request should not be included in Part 1 but instead on the separate Part 2 form. Deferment is only applicable where release before that date would compromise the implementation of the decision being approved.

Is the publication of this approval to be deferred? Yes

If yes, for what reason:

As the land receipt will not be received until construction completion, it is recommended to defer MD release until the contracts are signed.

Until what date: 13 December 2013.

Is there a part 2 form - Yes

ORIGINATING OFFICER DECLARATION:

	Tick to indicate approval (✓)
Drafting officer: <u>Peter Elliott</u> has drafted this report in accordance with GLA procedures and confirms the following have been consulted on the final decision.	✓
Assistant Director/Head of Service: <u>Fiona Duncan/ Simon Powell</u> have reviewed the documentation and are satisfied for it to be referred to the Sponsoring Director for approval.	✓
Sponsoring Director: <u>David Lunts</u> has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.	✓
Mayoral Adviser: <u>Richard Blakeway</u> has been consulted about the proposal and agrees the recommendations.	✓
Advice: The Finance and Legal teams have commented on this proposal.	✓

OFFICER APPROVAL

Executive Director, Resources

I have been consulted about the proposal and confirm that financial and legal advice have been taken into account in the preparation of this report.

Signature

Date

Chief of Staff

I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature

Date