

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD1251

Title Disposal, in part, of Beam Reach 8.C.

Executive Summary:

This Mayoral Decision is for the disposal, in part, of Beam Reach 8, located in Rainham, LB Havering, to H. Smith Food Group plc. (H Smith), a food distribution company.

H Smith has offered a headline figure of £650,000 per acre, exclusive of VAT, for the freehold of 1.36 acres of the site. This sale is also subject to deductions for abnormal construction costs, as set out in the part 2 confidential paper. Further costs for road construction repayment to Easter Developments, and disposal costs, that will provide a net receipt, are also defined within the part 2 paper.

The Mayor is also asked to endorse the apportioned repayment for the previous road construction as undertaken by the estate developer (Easter Developments).

Decision:

That the Mayor:

1. Approves the sale of part of Beam Reach 8.C, plot 2. (ref 03/012/002) to H. Smith for a headline figure of £650,000 per acres, exclusive of VAT, together with the expenditure of associated professional fees, resulting in a net receipt as set out in the part 2 confidential paper;
2. Delegates authority to finalise the terms of the sale to the Deputy Mayor for Housing, Land and Property and the Executive Director for Housing & Land; and
3. Approves the apportioned repayment mechanism for the previous road construction.

Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision, and take the decision in compliance with the Code of Conduct for elected Members of the Authority.
The above request has my approval.

Signature



Date

29-08-2013

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

Decision required – supporting report

1. Introduction and background

- 1.1 In April 2012, the GLA inherited large tracts of land in London Riverside from the London Development Agency (LDA). The LDA had spent the previous decade assembling land at Beam Reach 8, CEME/Beam Reach 6, and at Beam Reach 5, in order to support industrial activity through the development of small, medium and large units, respectively.
- 1.2 Easter Developments (Rainham) entered into a long-term leasehold agreement in February 2010 to develop 23 small units (242,000 sq ft in total) upon the Beam Reach 8 (BR8) site. These were constructed and sold/let within the next two years. As part of this development, it was necessary for Easter Developments to remediate the site and construct an access road, in accordance with a planning permission gained by the LDA in 2005, later renewed in 2009.
- 1.3 Following the Easter Development, the LDA entered into two further disposals to MJF and Wincanton, at the southern boundary of BR8 – see aerial photograph at Appendix A. This now leaves 7 hectares for the GLA to dispose of at BR8.

Planning

- 1.4 BR8 comprises four distinct strategic industrial, brownfield development sites, located between Coldharbour Lane, Ferry Lane and the River Thames in Rainham, Essex. In total this incorporates 12.4 hectares of developable land and is within the London Riverside Opportunity Area.
- 1.5 On 30th October 2005, Havering Council granted permission for an outline application for the BR8 business park for 100,000 sqm of B1b, B1c, B2 and B8 industrial and warehousing uses. The GLA supported the scheme. This original outline planning permission was renewed on 19th January 2009, via an application to vary existing conditions from the 2005 permission, and further renewed on 4th April 2013, again via condition variation, but owing to the partially implemented nature of the original permission.

2. Issues for consideration

H. Smith offer

- 2.1 H. Smith Food Group plc is a food distribution company, employing 16 staff located presently in Dagenham. The company has been served notice to vacate from their existing landlord, and wishes to expand its business whilst remaining within the M25, and as such has approached the GLA, in conjunction with Marick, a development management firm, to purchase land at BR8. All 16 jobs will be safeguarded.
- 2.2 H. Smith wishes to purchase 1.36 acres (0.55 hectares), as shaded in yellow upon the plan at Appendix B, for a headline figure of £650,000 per acre. This parcel represents part of plot 2, site reference 03/012/002. CBRE has provided a valuation assessment, and this figure is in line with current market value in their opinion. However, an allowance has been made for additional costs (abnormals) as outlined in the part 2 paper.

Conditions

2.3 The H. Smith offer is subject to the following conditions:

- Subject to Mayoral approval.
- Subject to planning, however as the outline permission was extended on 4th April 2013 as detailed above, this permission will be a reserved matters application, and therefore a much reduced risk.
- H Smith Plc will enter into a Development Agreement with Marick Management Ltd to deliver a bespoke cold store extending to 23,825 sq. ft. [This Development Agreement will be entered into simultaneously with the sale/purchase Agreement, therefore isn't strictly a condition of purchase].
- Exchange to take place within 4 weeks of receipt of full legal documents with completion upon practical completion of the building.

Abnormals

2.4 Although the site has undergone extensive works to remove contaminated material and remediation in order to undertake any development, the site will require further works which will incur additional costs, including external levelling, extra over cost for piling, extra over costs for suspended slabs, and raising of the site's level:

i. Piling

The ground conditions on this site are very poor, with made ground, peat and soft clays extending down to approximately 8m below existing ground level. As such the only viable foundation solution is piling.

ii. Suspended slabs

The ground conditions also require fully suspended floor slabs to be supported on these piles.

iii. Building level

There is ground contamination on this site with heavy metals and low levels of radioactivity. The existing reports covering the complete area recommend a covering of clean inert fill over the existing ground.

The site is at risk of fluvial flooding from the River Thames. Finished floor levels for new development need to be set at 1.5m AOD.

The requirement to provide cover over the contaminated ground together with the minimum flood level raises the slab level artificially above existing ground levels, with the need to import large quantities of fill material.

2.5 The above factors have been assessed internally, as well as externally by Bradbrook Consulting, and CBRE. It is felt that a deduction as set out in part 2 of this paper, from the headline purchase figure, is commensurate.

Access Road

- 2.6 In February 2010, the LDA entered into a long-leasehold with Easter Developments relating to the development of industrial units upon BR8.
- 2.7 BR8 required a new estate road to be built to provide access to the highway at Ferry Lane. The estate road would serve both the plot of land being developed and the LDA's retained land, which together comprise Phase 8C of the business park. Since the LDA did not have the resource to construct the estate road and did not want to own or maintain an unadoptable estate road, it was agreed that the developer would carry out the construction and take a lease of the land on which it was sited. The LDA was paid a premium sum for the land on which the estate road was to be built.
- 2.8 Since the estate road would, in due course, serve the LDA's retained land, it was agreed that Easter would be reimbursed both the land cost and the construction cost on a pro-rata basis as-and-when the retained land was itself developed and sold.
- 2.9 The land cost element of this equation was agreed at the time of the sale and is set out in the agreement as a gross sum of £81,543. The construction cost was to be assessed upon practical completion of the works, based on the actual cost of construction. The resultant total sum is then repaid by dividing that sum by 31,237 square metres (i.e. the total area of phase 8C) and multiplying by the area of subsequent development plots as they come forward for development.
- 2.10 The land has now transferred to GLA Land & Property Ltd ("GLAP") under the GLA/LDA transfer scheme. Easter has completed the works and wishes to agree the construction cost element so that it can be recorded formally. There is some urgency, as Easter has passed into administration and wishes to tidy-up its affairs.
- 2.11 A worked example, containing defined and agreed sums, is contained within part 2 of this paper.

3. Risk

Reputational Risk

- 3.1 The Beam Reach 8 site was purchased by the public sector to support small scale industrial units and business growth. H. Smith is now offering market value for the site in order to further these aspirations. There is therefore little risk associated with this proposal.

Financial Risk

- 3.2 There is no financial risk to GLAP as the site is being sold for market value and any risk associated with construction borne by H. Smith.

Delivery Risk

- 3.3 As GLAP's involvement within the scheme is solely to dispose of the site to H. Smith, the risks to GLAP are negligible, with overall project risks resting firmly with H. Smith and their development partners, Marick.

4. Financial Comments

- 4.1 There is currently no capital budget to meet any costs of disposal of Beam Reach 8 in the approved capital spending plan.
- 4.2 The proposed sale is a part disposal of Plot 2 Beam Reach reference 0003/012/002 currently valued as at 31st March at £3.088m covering an area of 5.31 acres.
- 4.3 Based on land area of 1.36 acres the proposed disposal site can be apportioned a value as at 31st march 2013 of £700,900. The difference between this and the net receipt of £583,000 does not exceed 30% and so does not conflict with the general consent for best consideration.
- 4.4 The desktop valuation carried out at 31st March 2013 would have made no allowance for abnormals, so the apportioned valuation aligns with gross offer. Based upon this and CBRE's advice, this is considered to offer the best value reasonably attainable for the site.

5. Legal Comments

- 5.1 Section 30 of the Greater London Authority Act 1999 (as amended) ("GLA Act") give the Mayor a general power to do anything which he considers will further one or more of the principal purposes of the GLA. The principal purposes, as set out in section 30(2), 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.
- 5.2 Given the above, section 34 of the 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); and the Mayor's powers (under section 38 of the GLA Act) to delegate to any GLA member of staff functions of the Authority that are exercisable by him, the Mayor has power to agree to the Decisions set out above.
- 5.3 Eversheds LLP have been instructed to act for GLAP in connection with this proposed disposal.

6. Housing Investment Group / Investment & Performance Board

- 6.1 HIG recommended the sale of the Beam Reach 8.C site to H. Smith Group, as set out above, on 23rd May 2013.

7. Supporting documentation

- Appendix 1: Aerial photograph of BR8
- Appendix 2: BR8 site plan

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: The information is commercially sensitive until the sale has completed. If the Mayoral Decision is approved the publication of this paper should be deferred until such time as the GLA has exchanged and completed contracts.

Until what date: 31 December 2013

Is there a part 2 form – Yes

ORIGINATING OFFICER DECLARATION:

	Tick to indicate approval (✓)
Drafting officer: Peter Elliott 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: Simon Powell has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.	✓
Sponsoring Director: David Lunts has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.	✓
Mayoral Adviser: Richard Blakeway 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 27 August 2013

Chief of Staff

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

Signature

Date 28/08/2013