

## PROPERTY MANAGEMENT

### Executive Summary

This report sets out the proposal for the sale of the freehold interests in Cleary Court and 2 Christchurch Way to allow the entire redevelopment of the Cleary Court Island site.

The island site is bounded by Chobham Road, Christchurch Way and Church Street East. Cleary Court is located to the southern end of the site and 2 Christchurch Way at the northern end of the site. Together these properties 'bookend' and constitute 34% of the island site by area. Cleary Court is of an age and condition that warrants significant investment to provide accommodation that will attract good quality tenants. Currently Cleary Court is a financial burden to the Council of approximately £100k per annum as a result of lower than expected rental income, payment of service charge and business rates for void areas.

The proposed purchaser and majority landowner of approximately 49% of the island site owns six late Victorian commercial buildings (Nos, 33, 35, 37, 39, 41 and 41a Chobham Road) which have or are reaching the end of their economic life.

The remaining 17% of the island site (43 and 45 Chobham Road) are owned by individuals who have also agreed sale terms with the majority landowner. Again, these properties have remained part unlet for a number of years and have reached the end of their economic life.

The proposed purchaser's current redevelopment proposal is to deliver a Grade A specification office building over the entire island site. The aim being to create a market leading HQ building for a major new occupier in Woking. This aspiration is supported by the Council's letting agents who believe the supply of Grade A office accommodation will be extremely diminished by 2024 given current letting trends. It is therefore unlikely there will be any self-contained new Grade A office properties over 30,000 sq. ft by this time thus limiting any opportunity for a major corporate business to expand or more importantly relocate to the town.

The proposed sale value for both freehold interests is outlined in the associated Part 2 report.

The Council's external advisors (Vail Williams) have advised that the proposed sale value is an acceptable level and believe the Council should proceed with the sale.

### Recommendations

The Executive is requested to:

#### **RESOLVE That**

the Council dispose of the freehold interests in Cleary Court and 2 Christchurch Way.

**Reasons for Decision**

Reason: This sale should allow the progression of a redevelopment scheme which will support the Council's aspirations for the continued regeneration of the town centre and provision of employment opportunities in line with the emerging Town Centre Masterplan whilst also removing an asset which currently represents a financial burden to the Council.

The Executive has the authority to determine the recommendations set out above.

**Background Papers:** None.

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### 1.0 Introduction

- 1.1 This report seeks approval to sell the freehold interests in two Council owned properties (Cleary Court and 2 Christchurch Way) located on the Cleary Court island site to the majority landowner of the island site. This sale should allow the progression of a redevelopment scheme which will support the aspirations of the Council to regenerate the town centre.

### 2.0 Background and Current Position

- 2.1 The Council acquired Cleary Court, a multi-let office building with ground floor retail space, on 31 May 2016 for £3,450,000. The building is located at the southern end of the site, bounded by Chobham Road, Christchurch Way and Church Street East. The building was substantially let at the time it was acquired but was purchased not for investment reasons but as a strategic acquisition for the future redevelopment of the site. That ambition was supported by the policy to only grant short leases when existing tenants vacated.
- 2.2 The Council has owned 2 Christchurch Way since 1981, a small brick building at the northern end of the site, let as a 'Noodle Bar'. Together these properties bookend the site and occupy 34% of the island site by area.
- 2.3 The six late Victorian commercial buildings (Nos, 33, 35, 37, 39, 41 and 41a Chobham Road) which have or are reaching the end of their economic life are owned by the majority landowner and represent approximately 49% of the island site.
- 2.4 The remaining 17% of the island site comprises two late Victorian buildings: 43 and 45 Chobham Road each owned by individuals. Number 43 trades as Horace Smith locksmiths and Number 45 accommodates ABCO Taxis on the first floor above a vacant ground floor retail unit. The retail unit has not let despite being on the market for several years. These buildings are effectively at the end of their economic life.
- 2.5 Appendix A includes a site plan showing the extent of the island site and the various landownerships.
- 2.6 Cleary Court was originally acquired for the purpose of securing a council led comprehensive redevelopment of the whole island site. With that understanding, the Council instructed Vail Williams to undertake a formal valuation of all properties on the island site to identify the redevelopment value and they provided a comprehensive report in early January 2020. The report also identified the existing use values of each building. At that time, Vail Williams identified that a commercial scheme for the entire site would be viable and produce a greater value than the existing use values.
- 2.7 To progress matters, the majority landowner commissioned various detailed designs for a redevelopment of the entire site. However, the onset of the pandemic and its financial implications on the Council, the Council's scale of borrowing and the ambition to secure private sector investment in the town following the Council funded regeneration of the town centre resulted in further discussions with the majority landowner. Subsequently, a proposal to acquire Cleary Court and 2 Christchurch Way from the Council and progress the redevelopment of the whole site themselves was received.
- 2.8 On this basis officers have continued negotiations with the majority landowner regarding the type (for example, retail, office, residential) and scale of development, including a detailed review of the site within the Town Centre Master Plan. The value of the Council freehold interests have been established, reflecting post pandemic market conditions, inflation, interest rates and the principles set out in the Town Centre Master Plan.

### **3.0 Property Condition / Financial Risks (Cleary Court):**

- 3.1 Cleary Court is of an age and condition that clearly warrants significant investment to provide office and retail accommodation that are future proofed in terms of sustainability and condition that will attract tenants at a market rental. Condition concerns include replacement of two lifts (budget cost circa £60k), roof and dormer facing resurfacing, boiler upgrades and energy efficiency works to improve Energy Performance Certificate rating (currently a D).
- 3.2 The poor condition of Cleary Court and constraints in the length of lease periods due to the historical aspirations of the Council to redevelop the site, has resulted in Cleary Court's financial performance not being in line with the original business case. This business case indicated a net budget benefit of £120k. Currently Cleary Court is representing a financial burden to the Council of approximately £100k per annum as a result of lower than expected rental income, payment of service charge and business rates for void areas.

### **4.0 Development Proposal**

- 4.1 The proposed purchaser's current proposal is to deliver an office building across the entire site with an active frontage of circa 120,000 sq. ft. The building will be Grade A specification, with strong health, sustainability and wellbeing features, multiple outdoor spaces and excellent public realm, all with the aim of delivering a market leading HQ building for a major new occupier in Woking. Appendix A of the associated Part 2 report includes a very initial image of the scheme which will be developed with the Council through the Planning Performance Agreement and the pre-planning application process.

### **5.0 Financial Offer for Sale of Freehold Interests**

- 5.1 The proposed sale value for both freehold interests is outlined in the associated Part 2 report.
- 5.2 The offer includes a condition of a 12 month period between exchange and completion with all income and liabilities during this period remaining with the Council.
- 5.3 To provide comfort to the Council that sale of these properties will result in the entire redevelopment of the island site, the majority landowner has confirmed their intentions to incur costs of circa £1.4 million towards professional design fees in the preparation of the planning application during the 12 month period between exchange and completion.
- 5.4 The Council's external advisors (Vail Williams) have advised that the proposed sale value is at an acceptable level and believe the Council should proceed with the sale.
- 5.5 Vail Williams reasoning for this advice is as follows:
  - Cleary Court is of an age and condition that it now warrants significant investment to provide offices and retail that are future proofed in terms of sustainability and a condition that will attract tenants at a market rental.
  - The building has been and continues to be a financial liability to the Council.
  - There is limited chance of a Joint Venture (JV) opportunity. The likely level of profit obtained from a JV position would be less than the proposed sale value.
  - The offer is unconditional and therefore not subject to the granting of planning consent.
  - Realistically given the financial position of the Council and indeed the risk of the economy (rising inflation/interest rates/cost of materials/ rising cost of living etc) this deal takes away all these risks should there be the thought to actively redevelop the site by the Council.

- Vail Williams have undertaken limited market testing but given the majority landowners “special purchaser” position Vail Williams do not believe the Council will achieve an unconditional proposal at this level.

5.6 The proposed purchaser has shared with the Council a copy of their consultant’s formal valuation report. These values are outlined in the Part 2 report.

5.7 A red book valuation commissioned by the Council has been undertaken which indicates the market value of the properties is in line with the proposed sale value. Further details are outlined in the Part 2 report. A Red Book valuation involves a RICS Registered Valuer assessing the property and providing a formal report on the current market value of the property. To help calculate this market value, the valuer will look at several comparable properties that have recently been sold in the same or similar area.

### **6.0 Consideration of this Development on Other Council Assets**

6.1 Consideration has been given to whether development of the Cleary Court Island Site will have an impact on redevelopment proposals for other Council owned sites. This is a question of timing; the majority landowner has assembled a strong team of consultants who have carried out a significant amount of due diligence and their ambition is to have a Planning Performance Agreement and the pre-planning application in place by late 2022 and hope to submit a formal planning application by Spring 2023 with the application being determined by the end of 2023. Should the island site be developed this would be a major new asset within the town and the Council’s letting agents believe by 2024 there will be little or no Grade A space within the town. It is therefore felt allowing this development brings an asset to the town at no risk to the Council’s future development aspirations for other Council owned sites.

### **7.0 Corporate Strategy**

7.1 The decision to allowing the sale of these two freeholds to bring forward the redevelopment of the entire Cleary Court island site is underpinned by a number of objectives outlined in the Corporate Strategy. The proposed redevelopment will have a strong emphasis on health, sustainability and wellbeing whilst providing a new office provision to the town centre supporting economic growth and employment opportunities in line with the emerging town centre. The disposal of the asset and securing a capital receipt would support the Council’s financial position as would the removal of an income liability.

### **8.0 Implications**

#### Finance and Risk

8.1 Consideration has been given to financial risk associated with the retention of the condition of a 12 month period between exchange and completion. This is a question of risk appetite and management; between accepting a greater loss now by reducing the sale value. Based on discussions with the Council’s managing agent (Vail Williams) and the Council’s Facilities Management Team it is felt this burden can be appropriately managed during this period and therefore the Council should proceed with the 12 months condition.

#### Equalities and Human Resources

8.2 None arising from this report.

#### Legal

8.3 There are no legal implications, other than those outlined in this report.

**9.0 Engagement and Consultation**

9.1 None arising from this report.

REPORT ENDS

APPENDIX A – Site planning showing the extent of the island site and the various landownerships.

