Report to the Cabinet

Report reference: C-059-2020/21
Date of meeting: 11 February 2021

Epping Forest District Council

Portfolio: **Asset Management and Economic Development**

Subject: **Proposed Re-development of Units 50, 51-52, 60 and Unit 10 Cartersfield Road, Waltham Abbey, EN9**

Responsible Officer: **Karim Pabani (01992 564123).**

Democratic Services: **Adrian Hendry (01992 564246).**

Recommendations/Decisions Required:

(1) Cabinet recommends to Council to approve the inclusion of the re-development of Units 50, 51-52, 60 and Unit 10 Cartersfield Road, Waltham Abbey, EN9, in the Capital Programmes Budget for 2021/22; and

(2) Cabinet grants Delegated Authority to the Portfolio Holder for Commercial & Regulatory Services to appoint a Project Manager on completion of the tender process and approve the indicative budget for projected costs from commencement to completion.

Executive Summary:

Units 50, 51-52, 60 and Unit 10 are industrial warehouse units located at Brooker Road Industrial Estate, Waltham Abbey. They form part of the long-term commercial property investment holdings of the Council, generating employment in the District and regular rental investment income for the Council.

The Asset Management Team have identified an opportunity for active asset management on this part of the estate. This follows a substantial fire in March 2018, subsequent demolition and the expiry of a number of the commercial lease agreements.

Market appraisals have confirmed that there is opportunity to demolish the remainder of the site, re-develop into modern industrial units and thereby improve the regeneration of the area, the employment prospects and the rental income and capital value of EFDCs property holdings.

In September 2020 planning consent was granted for such a scheme of light industrial units as set out in Appendix 1-3. EFDC is now required to formally tender for the Professional and Project Management Services in order to undertake the redevelopment from pre-works, demolition through to construction and post-completion sign-off.

Reasons for Proposed Decision:

Adopting the Recommendations will allow completion of the project. This is in line with the adopted Asset Management Strategy, Medium Term Financial Strategy and Corporate Plan.

Specifically this pursues:

1. Stronger Council: building improved units will increase the rental income once let achievable on this land, the capital value of EFDCs holdings and therefore long-term financial security.
2. Stronger Place: enhancing local regeneration via new high quality environmentally friendly units. Existing units are partially demolished following the fire, and the remainder are old asbestos containing stock coming to the end of economic life and will require increasing expenditure and decreasing rental income.
3. Stronger Communities: improving opportunities for immediate employment (via the project works and building works) and high value employment (from the completed units once let).

Other Options for Action:

Alternative options are:

1. Take no further action in progressing re-development. This will save initial development costs. It however should be noted that the planning consent will lapse, and the rental and capital value of the existing units is declining due to age and in the medium term the units will need to be demolished and redeveloped due to necessity. It should be further noted that Energy Performance Certificate regulations may soon make it impossible to let these units at all if they cannot be bought into certain categories of energy performance.

Report:

The Property/Situation:

The properties are situated to either side of Cartersfield Road, Waltham Abbey, EN9 approximately 500 yards to the west of its junction with Sewardstone Road. This forms part of a larger established industrial area adjacent to the M25. EFDC currently own approximately 2/3rds of the landholdings of Brooker Road Industrial Estate, of which part is let to tenants on long term ground leases and part of which is increasingly coming directly back into EFDCs control for commercial letting and redevelopment as the existing ground leases either expire or the EDFC Asset Management Team negotiate early surrenders of the ground leases in order to better utilise the assets in a modern commercial investment market.

Units 50, 51/52 and 60 collectively comprise the western site comprising approximately 1492 sq m (16,061 sq ft) prior to significant fire damage and demolition from March 2018. After the fire, useable built parts of the property extend to around 11,164 sq ft (1037 sq m). Unit 60 extends to approximately 672 sq m (7236 sq ft). There is therefore, currently around 18,400 sq ft (1709 sq m) on the western site.

This accommodation is mainly provided in a series of low-rise steel-framed workshop and storage buildings. We believe that the buildings were originally constructed in the mid-1960s. The buildings appear to be enclosed with fibre-cement roofing sheets and wall cladding which given the time of construction is likely to have an asbestos content. We estimate that western site extends to approximately 0.96 acres in total.

The eastern site comprises a single property, namely 10/10a, which extends to approximately 858 sq m (9236 sq ft). The building is of comparable specification to that described above and is of similar age. We estimate that the eastern site extends to approximately 0.46 acres.

Tenancies:

Unit 50 is let to the Abbey Motorist Centre. This tenant enjoys a right of occupation until 2025, but they are prepared to move earlier to facilitate the re-development provided EFDC can relocate them on the wider estate and cover their reasonable costs of doing so.

Unit 51/52 is let to Abbey Metal Reclaim and they have occupation rights until March 2021, after which they have to vacate the premises.

Unit 60 is let to DDSM Materials. Their lease has expired, and they occupy under existing legislation 'holding over' on the terms of this lease. It can be brought to an end with at least 6 month's prior written notice. The tenant has explained that they are happy to leave by mutual consent in the latter part of 2021 as they are winding down the business with a view to retiring.

Unit 10 is part utilised by EFDC's Facilities Team for storage, which can be easily vacated. The remainder is let until 2025 to Krunch Gym. This tenant may be prepared to leave early if we can offer suitable compensation.

We would suggest any existing tenancies are extended temporarily until the development is ready to commence.

Proposed Project and Planning:

On 16 September 2020 EFDC was granted planning permission for the proposed scheme under designation **EPF/0983/20** unanimously (with conditions):

http://plan1.eppingforestdc.gov.uk/Northgate/PlanningExplorer/GeneralSearch.aspx

As will be seen from the planning, permission is granted for the demolition of Unit 10/10A, Unit 50, Unit 51/52 and Unit 60 Cartersfield Road and replacement with four steel portal frame warehouse units with ancillary parking/forecourts.

With planning permission granted EFDC now needs to procure a suitable project management firm to carry out all necessary professional work from post planning and site investigation works, competitive tendering for the construction contract, commissioning, monitoring and oversight of construction contract(s) and all sub-contractors, health and safety monitoring and sign-off, CDM regulations, liaising with all authorities and stakeholders, project sign-off, snagging and all other matters that may be required to bring the project from planning to completion.

This may be done in one stage or two stages depending on vacant possession of the respective sites.

EFDC will undertake a formal procurement exercise for professional services (project management) to execute the re-development of 10, 50, 51-52 and 60 Cartersfield Road Industrial Estate.

Benefits/Commercial Appraisal:

The combined existing rental income of the properties is £81,000 annually. The most recent valuation of February 2020 by external valuers gave a capital value of £1.89 million.

External agents appraisals have analysed the rate currently achievable on new commercial properties of this construction and specification in this location and could on completion achieve a total rental income in the region of £360,000 annually. The appraisal concluded that the capital value of such a completed scheme would be in the region of £7.1 million.

High quality light industrial units in this area continue to attract high demand and increasing rental levels, as evidenced by the immediately adjacent Meadow Storage units (which are subject to long ground leases) which were demolished and re-developed by the ground tenant.

Resources and timescales:

We note that the insurance claim for the fire damage to 51 Cartersfield Road was successfully concluded, with the insurer meeting the estimated cost of like for like rebuilding. This was settled at £473,977 in April 2020 and this capital sum should be used towards the intended purpose via this proposed redevelopment.

EFDC would need to finance the project, including estimated:

1. Construction costs of £2.39 million.
2. Professional fees of £217,000.
3. Finance costs of £108,602.
4. Contingency budget of £107,000.

These indicative costs have been budgeted for within the proposed 2021/22 financial year budget (subject to approval).

The fees for the Project Manager, from appointment, building works oversight to post-works sign off is projected to be in the region of £200,000-£250,000 based on industry averages for a project of this size and build cost. This would be competitively tendered by EFDCs Procurement Team and the EFDC Asset Management Team to ensure cost control and appointment of suitable professionals against our Procurement Policy and all associated governing legislation.

These costs do not include any subsequent costs associated with agency letting fees, valuation fees or property management fees once the project is completed.

The construction costs would be competitively tendered by the Project Manager, in an EFDC Procurement Policy compliant manner before site clearance and construction began.

The project itself should take 9-15 months from start to completion. This is subject to vacant possession of the site and bringing existing tenancies to an end.

Full cash flow and projected timescales are set out in Appendix 4. The total cumulative capital cost of the project between 2021-2023 is estimated at £2.511 million.

Finance Team project that the project would be financed via a load from the Public Works Loan Board. As of the date of this report, prevailing rates of borrowing are 1.73% with the projected period of the loan being 50 years.

It is anticipated that, assuming completion of the project by September 2022 (i.e. 12 months), rental income would be received from March 2023, allowing for an initial 6 month market standard rent free period.

Resource Implications:

Please refer to above and included external appraisal in the appendices.

Legal and Governance Implications:

This project will be subject to Delegated Authority if granted, and subject to our Procurement Policy.

The appointed Project Manager would be responsible for all CDM, Health & Safety and other relevant legislation in carrying out the day to day oversight of the project.

Safer, Cleaner and Greener Implications:

The proposed development has specifically been approved by Planning on the basis of no intensification of vehicle use on the site, in compliance with existing local planning and Council policies for the District. The Units themselves would be of a more environmentally friendly modern construction in comparison to the existing increasingly dilapidated structures. This would include the safe removal of all asbestos containing materials as part of the demolition process.

The existing structures are unlikely to meet UK government regulations for the minimum requirements of Energy Performance Certification ratings moving forwards. Therefore keeping the existing environmentally unfriendly properties in situ is expected to lead to the existing buildings becoming unlettable in the near future, which will have a significantly adverse effect on their value and lead to increasing costs and security issues for EFDC.

Consultation Undertaken:

The existing tenants have been notified of EFDC's broad intentions for the site via combination of written and verbal correspondence as appropriate and they will also have been publicly notified by the planning submission process.

Background Papers:

Please refer to the appendices. These set out the existing site plan, the proposed development site plan along with indicative drawings of the proposed structural elevations, and the independent surveyors commercial appraisal setting out the detailed commercial investment figures along with projected construction and project costs and gross development and residual values.

Risk Management:

The appointed Project Manager would be responsible for risk management as part of their brief. More broadly, the proposed project is aimed at reducing EFDCs immediate risk of the existing properties becoming unlettable due to age, deterioration and Energy Performance legislation. In the medium to long term the project is aimed at further de-risking EFDC's financial liabilities by significantly increasing rental income streams and capital valuation levels of the existing portfolio in this area.

Appendixes:

1. Existing site plan.
2. Proposed site plan.
3. Commercial appraisal.
4. Cash Flow Analysis (Finance Team).