

To: City Executive Board
Date: 17 December 2015
Report of: Director of Regeneration & Housing
Title of Report: The Old School, Gloucester Green

Summary and Recommendations

Purpose of report: Approve the principle of acquiring the long leasehold interest in The Old School, Gloucester Green.

Key decision: Yes

Executive lead member: Councillor Ed Turner

Policy Framework: Efficient and effective Council

Recommendation(s): That the City Executive Board resolves to:

1. **Approve** the acquisition of the long leasehold interest in The Old School, Gloucester Green providing the Council's investment portfolio with additional income of £58,000 per annum, and make a recommendation to Council to increase the budget within the Council's capital programme by the requisite amount in 2015/16.

Appendices

Appendix 1 – Not for publication (Acquisition price and impact on return profile of investment portfolio)

Appendix 2 - Risk Register

Background

1. The Council has an opportunity to acquire the long leasehold interest in The Old School, Gloucester Green.

2. The City Council owns the freehold interest in the whole property comprising a total of 7,091 ft². The property is occupied by a restaurant (My Sichuan Restaurant) on two separate leases. The majority (i.e. 5,796 ft² being 81.7%) is subject to a long lease to a private investor for a peppercorn only, meaning the City Council receives no economic benefit from the majority of the building. The long lease expires in 2122. The private investor has a lease with the restaurant which occupies the property. The proposal is for the Council to acquire the long leasehold interest, and benefit from the income from the occupational lease.
3. The remaining 1,295 ft² (18.3% by area) which is not subject to a long lease is let by the Council on an occupational lease to My Sichuan Restaurant Limited at a rent of £35,000 per annum, which equates to £27.03 per ft². This lease runs until September 2031.
4. The long leasehold part of the property - i.e. the target acquisition – is also let to My Sichuan Restaurant Limited on an occupational lease expiring in 2025 at a current rent of £58,000 per annum (equating to £10.01 per ft²). There are two further rent reviews in 2018 and 2022.
5. The City Council believes an offer would be taken seriously by the Vendor.
6. In summary, the acquisition:-
 - Would fit with the City Council's strategic plans for Gloucester Green in terms of ownership and control.
 - Is priced attractively for a City Centre retail property with good income potential in the medium-term.
 - May present the City Council with some valuation uplift as a direct result of the financial covenant of My Sichuan Restaurant improving in the medium to long-term; the restaurant has an improving national profile.
7. The proposed acquisition price and the positive impact on the return profile of the investment portfolio is set in Appendix 1 (confidential).

Legal Issues

8. The property, and its Title, is well known to the City Council. By acquiring the long leasehold interest, the City Council will be creating an unencumbered freehold interest across the whole property in effect

because the long lease (currently in favour of the Vendor) can be dissolved at the City Council's discretion.

9. The required legal due diligence can be readily managed in-house.

Financial Issues

10. The acquisition would be funded through prudential borrowing the revenue cost for which, including the repayment of borrowing, would be around £42k per annum. The additional rent would be £58k per annum i.e. a net increase in income of around £16k per annum (post the cost of borrowing).

Environmental Impact

11. There is no environmental impact.

Risk Register

12. The Risk Register is included as Appendix 2.

Equalities Impact

13. There is no equalities impact.

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