



Report to Cabinet

Date:	30 March 2021
Title:	Vale Retail Park – Capital Works and New Lease
Relevant councillor(s):	Cllr John Chilver – Cabinet Member for Property & Assets
Author and/or contact officer:	John Reed/Robert Daniels
Ward(s) affected:	Aylesbury North
Recommendations:	<ol style="list-style-type: none">1. The Director of Property and Assets in consultation with the Cabinet Member for Property and Assets and S151 Officer is authorised to finalise and agree the emerging Heads of Terms with the retailer set out in the confidential appendices of this report and subsequently to finalise, agree, exchange and complete the lease documentation.2. The Director of Property and Assets in consultation with the Cabinet Member for Property and Assets and S151 Officer is authorised to arrange a loan from Public Works Loan Board to deliver the enabling works in accordance with the report considered in the confidential appendices and the heads of terms set out there.3. Cabinet note that the longer term strategic option is to bring the site forward for residential development as part of the emerging plans for Aylesbury Town Centre. More housing would improve the housing mix with more affordable and bring residents into the town centre to support local businesses. Consideration will be given to include the site in the new Local Buckinghamshire Plan. The site could also be considered for other uses for example leisure or offices to

potentially release other sites for residential development in the town centre.

Reason for decision:

With the onset of the recession in retail work has been ongoing on potential lettings to replace the retailers lost on the retail park as well as considering other options for the site. A suitable long term tenant has been identified but the terms of the deal requires enabling works to achieve a full market rent with the level of return set out in the report considered in the confidential appendices. The proposed works and letting deliver a high-quality covenant, reduces existing budget pressure by creating a secure income stream and raise the profile of the Retail Park, improving the prospects of further lettings of the remaining units to high-quality covenants at a full market rent.

At the same time, consideration has been given to the opportunity to bring forward the site for residential development. Such a development could create approximately 148 market flat units and 49 affordable flat units. However the purchase price paid for the site in 2015 means converting the site at this time is not viable without substantial gap funding. However, in the future as the residual value of the site with an appropriate Planning consent for residential is likely to increase, the site is likely to be viable for residential development. The longer-term aspiration for the site is to bring forward for residential development as part of the evolution of the Aylesbury Town Centre to support the provision of affordable housing and the support of businesses within the town centre. Alternatively, other uses could be considered for the site such as offices or leisure which might release other sites in the town centre for market and affordable housing.

Work has been done on the residential development viability and comparisons are set out in the appraisals considered in the confidential appendices of this report.

1. Executive summary

- 1.1 The property was acquired by County Council in 2015 and has suffered from the recession in retail and the move to online shopping, along with other retail assets. This has resulted in several tenants not renewing leases or entering administration and ultimately leading to a loss of income and increase in voids.
- 1.2 Redevelopment of the site for residential purposes has been explored given the existing pressures, and it is an option. However, residential development at this time is not commercially viable, because of the price originally paid for the site and would require substantial gap funding as set out in the confidential appendices.
- 1.3 Marketing for commercial uses has continued and a prospective tenant for parts of the retail park has been found and terms negotiated. Details are set out in the confidential appendices of this report.

2. Content of report

- 2.1 Vale Retail Park has struggled in recent years as a number of the previous occupiers have suffered from the recession in retail and the move to online shopping. This has led to the current situation where three of the five units at Vale Retail Park are vacant, one let to a temporary occupier and only one let to a national covenant.
- 2.2 Units 1-3 have been actively marketed for the last 18 months and Unit 5 since the previous occupier's lease was surrendered in March 2020. Interest has been limited with Aylesbury well served by several retail parks around the town and a decline in the number of retail businesses looking for this type of space. Vale Retail Park has been particularly hampered by the previous tenant mix succumbing over a short timescale. This has decreased footfall and the attractiveness of the scheme to those looking for space in Aylesbury compared to more active schemes.
- 2.3 Previous negotiations with an occupier for Units 1-3 in late 2019/early 2020 proved abortive as the income generated, compared to capital contribution proved unviable. Terms have now been agreed with a major national retailer expanding from an existing store in the town. As a commercial transaction the terms of the lease and the financial appraisal is set out in the confidential annex of this report.
- 2.4 Securing the tenant will require the Council to undertake capital works to the property to reconfigure the existing retail space, providing a shell-and-core unit ready for the tenant to take occupation and undertake their fit-out. The cost of these works and outline detail of the works are included in the confidential Annex.
- 2.5 Additional alternative development options have been considered for the site, the most likely being residential. Advice has been received from Consultants as to the likelihood of Planning consent and viability. The conclusion is that residential is a

possible alternative for the site, but that the financial appraisal considered in the confidential appendices of this report means such development is unlikely to be viable, although a break even point in the next 10 years whereby income from residential development meets debt finance costs, if historic and predicted assumptions for rental growth are considered.

- 2.6 The conclusion is that for a residential scheme to be viable it is a development cycle away from being capable to brought forward and being financially viable.

3. Other options considered

- 3.1 Do nothing – This would result in the property remaining vacant with the Council incurring all holding costs. The property would become a drain on financial resources
- 3.2 Continue to market the property – It is highly unlikely that the Council would secure a better-quality covenant and/or a higher rent in the current market. Rental values for the property are very unlikely to rise in the short to medium term. The property would remain vacant with the Council incurring holding costs and a revenue budget shortfall. Whilst short-term lettings to charitable and temporary occupiers would not incur significant capital costs, works to remove previous tenant's fixtures and fitting would be needed. Lettings to temporary occupiers would only generate very low levels of income (if not just covering the Council's holding costs) and lead to further deterioration of the asset, both physically and in relation to its standing in the local market. The figures are considered in the confidential appendices of this agenda.
- 3.3 Require the Tenant to undertake the works – In principle this would result in either granting a longer rent-free period or making a capital payment. An extended rent-free period to cover the works would defer rental income on the site for over 6 years. An obligation for the tenant to undertake the works is not appropriate as the property is not a 'stand-alone' unit and the works extend beyond the immediate area to be tenanted (i.e. the creation of the new, smaller, Unit 3).
- 3.4 Redevelop the property – With the large number of voids the option of fully vacating the retail park and redeveloping is a possibility. However, some tenants have security of tenure (giving rights to a new lease) and have triggered their lease renewal. The Council would be required to demonstrate clear plans to redevelop and pay compensation to them to them to deliver vacant possession. Residential development has been assessed and the viability is considered in the confidential appendices. This opportunity will be reviewed in future when the land value to outstanding loan position is more favourable. The estimated value of the property as a development site is below that of improved value following the letting.

4. Legal & Financial Implications

- 4.1 The proposed lease will commit the Council to a lease of up to 20 years, plus any statutory continuation thereof, from practical completion of the works. The proposed Landlord's enabling works will be subject to satisfactory planning and procurement rules.
- 4.2 The Council has previously approved a prudential borrowing fund from which it can draw on. The detailed financial breakdown is set out in the confidential appendices.

5. Corporate implications

- a) Property – The proposal secures a high-quality covenant at a market rent to an existing Investment Asset.
- b) HR - n/a
- c) Climate change – The enabling works will be in compliance with EPC and energy efficiency regulations.
- d) Sustainability – The tenant has an overarching sustainability strategy linked to their business model on matters such as minimising supply chain impacts, promoting local produce, healthy eating and reduction of plastic packaging.
- e) Equality - n/a
- f) Data – It should be noted that the Heads of Terms are confidential.
- g) Value for money – The proposal provides an improved return on the investment as set out in the body of the report.

6. Consultation with local councillors & community boards

- 6.1 Local member engagement has been carried out ahead of Cabinet. Responses have been received from Cllr Russel who is in support of the recommendation.

7. Communication, engagement & further consultation

- 7.1 The proposed letting and works have been approved by Property Board.

8. Next steps and review

- 9.1 The tenant is progressing internal approvals. Solicitors will be appointed in the meantime to start to progress legal documentation and Project Manager to review and cost the enabling works and negotiate any savings to the scheme design.

9. Background papers

10.1 Held by Property & Assets

10. Your questions and views (for key decisions)

11.1 If you have any questions about the matters contained in this report please get in touch with the author of this report. If you have any views that you would like the cabinet member to consider please inform the democratic services team. This can be done by telephone 01296 382343 or email democracy@buckinghamshire.gov.uk.

