

Slough Borough Council

Report To:	Cabinet
Date:	5 March 2024
Subject:	Capital Point, 33 Bath Road, Slough – Lego Reversionary Leases
Lead Member:	Cllr Wal Chahal – Deputy Leader and Cabinet Member for Financial Oversight, Council Assets, Procurement, Revenue & Benefits
Chief Officer:	Pat Hayes - Executive Director Regeneration, Housing and Environment
Contact Officer:	Mark Halligan – Property Director
Ward:	Chalvey
Key Decision:	YES
Exempt:	Public with exempt appendices under paragraph 3 of Schedule 12A Local Government Act 1972 – Information relating to the financial or business affairs of the Council.
Decision Subject To Call In:	YES
Appendices:	Confidential Appendices: 1 – Lego Reversionary Lease Report 2 – Avison Young Recommendation Report.

1. Summary and Recommendations

1.1 To approve the grant of reversionary leases between Lego Company Ltd (Tenant) and the Council (Landlord) at Capital Point, 33 Bath Road, Slough.

Recommendations:

1.2 Cabinet is recommended to:

- (a) Approve the grant of reversionary leases and effectively, the grant of further lease terms prior to expiry of the current leases, with the Tenant at Capital Point, 33 Bath Road, Slough.
- (b) Delegate authority to the Executive Director of Regeneration, Housing and Environment, in consultation with the Lead Member for Financial Oversight, Council Assets, Procurement, Revenue & Benefits and the Executive Director of Finance and Commercial, to negotiate and finalise the new lease terms and to enter into the reversionary leases with the Tenant consistent with the terms detailed in Appendix 1 – Lease Report.

Reason:

1.3 The proposed reversionary leases will secure additional rental income for the Council should the asset be retained or will have a positive impact in the event that the Council disposes of the asset.

Commissioner Review

This report has been reviewed by Commissioners who have no specific comments to add.

1. Report**Background**

2.1 The property was acquired on 18th October 2018 as an investment property and was one of the many acquisitions made by the Council as part of its strategic acquisitions approach. Lego Company Ltd were an existing tenant of part of the property occupying under two existing leases.

2.2 The current leases are due to expire on 23rd June 2024.

2.3 Lease terms have now been agreed between the parties after months of negotiation and are detailed in Confidential Appendix 1.

2.4 Avison Young have provided advice to the Council and facilitated in negotiations with the Tenant. The advice from Avison Young is that the terms agreed represent the best consideration reasonably obtainable in the current market conditions. The leases provide the Council with an additional income stream if the asset is retained or an enhanced capital value in the event that the asset is disposed of.

2.5 The Slough office market, akin to others, has not seen a growth in demand post pandemic. Demand, where it exists, being for smaller higher quality, lower occupational densities, onsite amenities and more break out areas – more akin to the feel of a hotel with cafes in reception.

2.6 Slough is especially struggling with a number of good quality schemes having been available for many years. The Urban building is just one example.

2.7 Only a handful of deals have been recorded in Slough over 2023, and take-up continues to be subdued. The largest deal was Arvato CRM (out of town deal) who took 25,000 sq ft at the Botanica scheme located in Ditton Park, this represents a downsize from 35,000 sq ft in Slough trading estate.

2.8 Rental tone for secondary assets in the town centre range from £15 to £25 per sq ft, which, at the upper end, aligns with the rent agreed with the tenant.

2.9 Lego are a strong brand and employer within Slough, having a good rent payment history.

Options considered

2.10 Option A – Enter into the reversionary leases with the Tenant. As stated previously the proposed leases will secure additional rental income for the Council should the asset be retained or will be of additional benefit in the event that the Council dispose of the asset

through an increased capital value. **This is recommended** as the parties have now agreed terms and the benefits to the Council as outlined in this report.

2.11 Option B – To not enter into the reversionary leases and risk securing a reduced rent at lease renewal, owing to worsening market conditions for offices and lose the opportunity to enhance capital value.

3. Implications of the Recommendation

3.1 *Financial implications*

3.1.1 The renewal of the leases prior to expiry will ensure continuous income receipts pending update of the Asset Disposal Strategy and to avoid any under recovery against budget for this site.

3.1.2 If the lease renewal is not actioned there is a risk of the property becoming vacant which will incur void costs and will be detrimental to Slough Borough Council's financial position.

3.1.3 If the site is sold under the Asset Disposal Programme, existing and long-standing leases will improve the desirability and have a positive impact on potential sales price.

3.2 Legal implications

3.2.1 The Council is authorised to make disposals at the best consideration reasonably obtainable pursuant to section 123 of the Local Government Act 1972 ("LGA 1972"). This power is given to local authorities to dispose of land in any manner they wish, including the sale of their freehold interests and the granting of leases. The only constraint is that a disposal must be for the best consideration reasonably obtainable (except in the case of short tenancies). A disposal at an undervalue requires consent from the Secretary of State to the disposal (section 123 of the LGA 1972).

3.2.2 Paragraph 6.1 in the Avison Young Recommendation Report annexed as Confidential Appendix II confirms Avison Young's advice to the Council that the proposed terms represent best consideration, with the existing occupier, in the current market conditions.

3.3 Risk management implications

3.3.1 The recommendation required from Cabinet, as outlined in this report, is intended to improve the Council's financial position, by reducing the potential risk at lease renewal, should the asset be retained, and enhancing the capital value should the property be bought to market as part of the Council's asset disposal strategy.

Risk	Summary	Mitigations
Financial	Not agreeing to enter into the reversionary leases runs the risk that the current; continued; drop in demand for offices in the market could result in the Council to accept lower rent at lease renewal.	Cabinet to approve officers to proceed with the reversionary leases.
Governance	Failure to obtain best consideration from transactions; leasing or disposals; could leave the Council to risk of legal challenge.	The Council has employed external property advisors to provide professional advice and by having access to wider markets than officers locally ensures that best consideration can be demonstrated.
Legal	Delays in drafting legal documents.	Regular meetings between legal, Council officers and external property advisors.
Reputational	Potential adverse publicity from not concluding transaction giving the market less confidence when considering transacting with the Council.	Ensuring that transactions complete in a timely manner.

3.4 Environmental implications

3.4.1 No environmental implications have been identified as a direct result of this report.

3.5 Equality implications

3.5.1 The asset is not used for operational or service delivery. There are no identified equality implications with the disposal of this site.

3.6 Procurement implications

3.6.1 None.

3.7 Workforce implications

3.7.1 No workforce implications have been identified as a direct result of this report.

3.8 Property implications

3.8.1 This report impacts on the Council's property holdings however it meets the Council's objective to reduce borrowing, should the asset be sold, and the Council's MRP, through the continued receipt of rental income.

4. **Background Papers**

None