

Property Group Update

Quarter 3: October –
December 2013

Report from: Senior Property Officer

1.0 Introduction and Background

It was reported in Quarter 2 that as the first two quarterly updates have now set the scene future updates would be condensed to highlight any key changes and emerging property issues in a bid to prevent repetition.

This Quarter 3 report is the first update in this new format although the intention remains not to provide in depth updates on all ongoing individual property cases but rather to provide a general overview of Property Group's progress in certain high profile areas and flag up any other important issues relevant at the time of writing.

2.0 Corporate Non-Housing Property Portfolio 1st Year Delivery Programme

Projects included within the 1st year delivery programme fall into three procurement groups i.e. Minor Works (MW), Intermediate Works (IW) and Projects (P). Property Group has been allocated a budget of £2.402M for the current financial year (2013/14) to fund the implementation of the 1st year delivery programme. The intention is to manage the programme of work within this sum by reallocating funding between the projects as the scope and cost of each individual project is determined.

A summary of progress to date follows:

2.1 Minor Works (MW) Project Progress

Property/Project	Total Indicative Works for Year 1	Indicative Works Brought Forward from Year 2	Total Approved Tender (AMP)
14 Buildings	£49k	£49k	£103k

At the time of writing it is anticipated that 100% of the Minor Works projects will be funded from the current 2013/14 Revenue Budget

All 14 of the minor works (MW) projects have now been finalised. As detailed above, the agreed maximum price (AMP) includes works brought forward from the 2nd year delivery programme as it was deemed economically prudent to undertake this work at the same time.

These individual minor works projects have commenced on site and the whole project is currently around 85% complete.

2.2 Intermediate Works (IW) Project Progress

Property/Project	Submit Design /tender	Approve Tender (AMP)	Original Indicative Works 1 st Year	Total Approved AMP & Fees	Proposed /Actual Start Date
White Lund Depot (1)	12/11/13	28/11/13	£231k	£113k	27/1/14
Lancaster Cemetery Chapels (2)	12/11/13	24/12/13	£80k	£175k	27/1/14
Lancaster Town Hall Railings (3)	23/09/13	30/09/13	£50k	£47k	02/10/13
Lancaster Town Hall Paving (4)	23/09/13	30/09/13	£30k	£28k	07/10/13

Morecambe Town Hall (5)	03/02/14	TBA	£53k	TBA	TBA
The Dukes Playhouse (6)	03/02/14	TBA	£39k	TBA	TBA
Williamson Park (Intermediate) (7)	12/11/13	27/11/13	£90k	£80k	27/11/13
Assembly Rooms (8)	14/11/13	28/11/13	£158k	£100k	9/12/13
Storey Building (9)	26/11/13	24/12/13	£233k	£323k	3/2/14
Maritime Museum (10)	31/01/14	10/02/14	£253k	TBA	3/3/14
Intermediate General Projects (60 Euston Road, Regent Road PC) (11)	31/01/14	10/02/14	£36K	TBA	3/3/14
Intermediate Demolition Projects (Ryelands Park Pavilion, Palatine Recreation Ground. (12)	31/01/14	10/02/14	£60K	TBA	3/3/14
Totals			£1,313k	£866k	

Notes:

- (1) The work has reduced in year 1 as the site is under review.
- (2) The work has increased due to the advanced deterioration of the east chapel roof necessitating full replacement.
- (3) Complete apart from refurbishment of entrance lamps.
- (4) Complete.
- (5) AMP currently being finalised.
- (6) AMP being finalised.
- (7) Progressing on site.
- (8) Progressing on site.
- (9) AMP has increased due to the additional safety works to the garden walls.
- (10) AMP currently being finalised.
- (11) AMPs currently being finalised.
- (12) AMPs currently being finalised.

2.3 Projects (P) Project Progress

Property/Project	Submit Design /Tender	Approve Tender (AMP)	Total Indicative Works 1 st Year	Total Approved Tender (AMP)	Proposed Start Date
Williamson Park (Project) (1)	03/02/14	17/02/14	£383k	TBA	TBA
The Platform (2)	06/12/13	24/12/13	£318k	£413K	10/02/14
City Museum (3)	03/02/14	17/02/14	£258k	TBA	TBA
Salt Ayre Sports Centre (4)	03/02/14	17/02/14	£21k	TBA	TBA
Mitre House Car Park (5)	05/06/13	08/08/13	£60k	£115k	30/09/13
Banqueting Suite Ceilings (6)	TBA	TBA	TBA	TBA	TBA
			£1,040m	£528k	

Notes:

- (1) AMP currently being finalised.
- (2) The work has increased due to requirement for additional roofing work and the addition of an air cooling system.
- (3) AMP currently being finalised.
- (4) AMP currently being finalised.
- (5) This work was undertaken outside the shared service by an external consultant. Additional cost largely due to the discovery that a base coat was required following removal of the existing road surface.
- (6) A conservation & structural survey was completed in September 2013 and the full extent of the deterioration is currently being quantified and estimated. Progress on this project will be reported once full details are known.

2.4 Overall Position

As at Quarter 3 the indicative programmes and spend profiles suggest expected spend in this financial year will be circa £1.218M. At this stage the potential slippage into year 2 is estimated to be in the region of £1.359M. *(Slightly more up to date figures have since been built into the Capital Programme for consideration at Budget Council).*

3.0 Capital Receipts

Capital receipts totalling £9.443M were budgeted in the current year.

Against this, the capital receipts received to date are as follows:

- £20K for the Oxford Street garage, received in May 2013.
- £7.25M for Land at South Lancaster (Booths), received in November 2013
- £711K for Land at Heysham Mossgate, received in December 2013.

Budgeted receipts in the updated Capital Programme now stand at £8.045M, taking account of the above sale proceeds for land at Heysham Mossgate, and the expected timing of other land and property sales.

4.0 Performance of Commercial Buildings

As can be seen from the table below there have only been minor changes to the occupation of the commercial property portfolio since the Quarter 2 update.

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Number of Properties	62	61	61	
Occupation by Floor Area				
• Total Let (m2)	18,022	17,749	17,917	
• Total Vacant (m2)	3,961	3,962	3,794	
• Total Area (m2)	21,983	21,711	21,711	
Income				
• Rent (£)	-955,350	-931,750	-931,750	
• Service Charge (£)	-302,750	-302,750	-302,750	
• Total Income (£)	-1,258,100	-1,234,500	-1,234,500	
Running Costs (£)	793,500	782,700	782,700	
Annual Balance (£)	-464,600	-451,800	-451,800	
Condition Survey (£)	5,004,498	5,004,498	5,004,498	

The current occupation across the City Council's total commercial property portfolio is now 83% which represents a slight improvement on the 82% reported in Quarter 2. The remaining 17% of vacant space now amounts to the equivalent of 3794m², the majority of which is attributable to:

- The Storey, which returned to City Council control in October 2012, has a vacant floor area of 708m². This is an increase of 163m² from Quarter 2, mainly due to the vacation of a suite of offices previously used by a large single tenant that went into administration.
- St. Leonard's House currently has 1862m² of vacant space which is slightly less than Quarter 2 due to a new short term letting but as reported previously, the building requires considerable investment. Officers have now received Cabinet approval to proceed with plans to develop the building into student and young worker accommodation with strategic partners. As vacant possession is gained, vacant space will clearly increase, but in due course the building should cease to be classified as a commercial property.
- The vacancy rate at Citylab is currently running at 33% (or 326m²). This represents a 14% improvement over the 47% vacancy rate reported in the Quarter 2 update. This is mainly due to the letting of House No.4 together with a letting of some accommodation on the ground floor.

Despite some progress the 3 buildings above still account for 78% of the total vacant commercial portfolio. As mentioned above, the recent developments at St. Leonard's House are encouraging and further options are being explored as part of the joint property review. The remaining 22% is made up of a small number of buildings that are currently between lets or to be sold. In general terms, while Property Group will continue in its efforts to minimise vacancy rates, it should be remembered that supply is currently outstripping demand in the commercial office rental market.

5.0 Heysham Gateway Regeneration Initiative

As a direct result of the construction of the new M6 link road commuting times into the Morecambe and Heysham areas will dramatically improve. Combined with the investment in energy generation in the area and improved access to the port, there is a good opportunity to regenerate the area attracting new businesses and industry which in turn will bring jobs and economic growth.

Both the City Council and County Council hold a considerable amount of land around the Middleton Waste Transfer Station and both authorities have been working with the Lancashire Regeneration Property Partnership to develop a strategy for these currently underused assets to ascertain how they can deliver the greatest beneficial impact to the Lancaster district.

A 'Stage 1' report has been prepared and full details will be reported to Cabinet for consideration in due course.