

Birmingham City Council

Report to Cabinet

28 June 2022



Subject: Acquisition of 9 Colmore Row, Birmingham, B3 2JB; two long leasehold interests with approximately 960 years unexpired.

Relevant Cabinet Member: Councillor Ian Ward – Leader of the Council

Report of: Paul Kitson – Strategic Director for Place, Prosperity and Sustainability

Relevant O & S Chairs: Councillor Saima Suleman, Economy and Skills
Councillor Akhlaq Ahmed, Resources

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Are specific wards affected?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Ladywood		
Is this a key decision?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, add Forward Plan Reference: 010107/2022		
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Exempt information Schedule 12A of the Local Government Act 1972 (as amended) Para 3. Information relating to the financial or business affairs of any particular person (including the council) Exempt Appendices contain sensitive commercial information.		

1 Executive Summary

- 1.1 This report seeks the authority for the purchase of 9 Colmore Row, Birmingham, B3 2JB.
- 1.2 9 Colmore Row is a multi-let office building in Birmingham's business district, adjacent to Snow Hill Station. (Particulars and site plan in Appendix 1).
- 1.3 The building was constructed in the late 1980s and is of concrete construction built above the railway as part of the Snow Hill scheme.
- 1.4 It comprises approximately 72,000 sq ft of accommodation laid out over basement, ground and nine upper floors. There are 64 car parking spaces.
- 1.5 The building is currently let to 15 tenants.
- 1.6 The interest to be purchased comprises two long leases at a peppercorn rent, expiring January 2982 (960 years remaining).
- 1.7 The purchase provides the ability for the Council to invest in a prime strategic asset in Birmingham in accordance with the Property Strategy and offers a longer term redevelopment opportunity as part of the Snow Hill Masterplan.

2 Recommendations:

- 2.1 To purchase the long leasehold interest of the office building known as 9 Colmore Row.
- 2.2 Authorise the Assistant Director of Property to agree the purchase of the two 9 Colmore Row long leasehold interests dated January 2983 (WM371843 and WM371841).
- 2.3 Authorises the City Solicitor to negotiate, execute and complete all necessary legal documents to give effect to the purchase.

3 Background

- 3.1 9 Colmore Row was constructed in the mid-1980s.
- 3.2 The property is held under two leases (January 1983) which were granted out of existing leases from the Council and Network Rail.
- 3.3 It is currently owned by UK Commercial Property Finance Holdings Limited. The property is held within UK Commercial Property REIT Limited, which is a listed Real Estate Investment Trust managed and advised by Aberdeen Investment Managers (Abrdn).
- 3.4 Abrdn decided to dispose of the building as part of its fund management strategy. Agents were instructed to market and dispose. (Plans and Particulars in Appendix 1)

- 3.5 9 Colmore Row is a prime office building in the heart of Birmingham's business district. The building is situated between Colmore Row and Snowhill Station, overlooking Snow Hill Square with Livery Street immediately to the south west. It is held under two leases, one for the office itself and the other for the rear car park. Pedestrian access to the offices is via Snow Hill Square into a communal reception area. There are lifts and w/c facilities to all floors. Ground floor uses are retail and the access to Snow Hill Station (the latter leased to Network Rail). There is a cycling and tenant amenity area in the basement. The office is formed in a 'L' shape with the lower part (nearest to Colmore Row) providing five, and the taller part nine storeys of offices (above ground). The car park area to the rear provides 64 car parking spaces, some of which are undercroft and some under the Snow Hill MSCP ramp with access via secure gates to Livery Street. (Particulars in Appendix 1)
- 3.6 The total accommodation provided is approximately 71,800 sq ft, of which 62,400 is office and 9,400 retail. The offices are between 4,200 sq ft and 9,200 sq ft.
- 3.7 The building is in a generally good state of repair, having been refurbished on a rolling basis. There is a medium to long term requirement to improve the cladding and environmental credentials. Such improvements will increase value.
- 3.8 The longer term strategy is to regenerate the building, refurbishing, extending and recladding to create sustainable office space or to include it as a future phase of the Snow Hill Station redevelopment within the Snow Hill Masterplan. In the short term the building will be managed as a multi-let office building.
- 3.9 A valuation and purchase report is in Appendix 3.
- 3.10 Financial details are available in Appendix 4.

4 Options Considered and Recommended Proposal

- 4.1. Option 1 - Do Nothing: Don't proceed with the acquisition. The Council would not purchase the building and it will likely be sold to another party. The opportunity to acquire at the current price point and deliver a repositioned sustainable asset would be lost. Importantly, The Council would lose the opportunity to regenerate the area in accordance with the Snowhill Masterplan.
- 4.2 Option 2 – Acquire: Proceed with the acquisition. The Council purchases a prime office building with the medium to long term opportunity to refurbish and redevelop as part of the Snowhill Masterplan. An income stream will be receivable while the regeneration plans are developed.
- 4.3 It is recommended that the Council proceed with the acquisition.

5. Consultation

- 5.1 The Property Investment Board comprising officers from Property Services, Finance and Legal and the Councils external advisers Avison Young have been

consulted and recommend proceeding with the purchase. No external consultation is required.

6. Risk Management

- 6.1 There is a risk to the transaction from the competitive process under which the Council has bid which has been mitigated by a period of exclusivity with the seller.
- 6.2 There are risks associated with the assumptions on the condition of the building, tenants and the tenant obligations which will be minimised by a suite of independent surveys and legal due diligence.
- 6.3 The usual risks of holding commercial property apply and, should the acquisition proceed, these will be controlled using the same governance and management processes currently applied to the existing commercial property portfolio.

7 Governance

7.1 Compliance Issues

- 7.1.1 The acquisition complies with Statutory Guidance on Local Government Investments (3rd edition effective for financial years commencing on or after 01 April 2018), all current legislation including the Local Government Act 1972, the Local Government Act 2003 and CIPFA guidance.
- 7.1.2 It is consistent with the Birmingham City Council Plan 2018-2022 (updated 2019) priorities including the acquisition of new investment properties and disposal of underperforming properties in order to assist the Council in meeting its aspirations to be a great city to grow up in, live in, work and invest in.
- 7.1.3 It falls within the aims set out in both the Birmingham Property Strategy 2018-2023 and the Property Investment Strategy 2019 which set out the strategy for the property portfolio and provides guidance on investment decisions.
- 7.1.4 The acquisition follows the guidelines as set out in the Investment Decision Matrix (Appendix 2).
- 7.1.5 In July 2021 the Ministry of Housing, Communities & Local Government published a brief policy paper announcing plans to improve the capital finance framework for local authorities in England. This built upon the new Public Works Loan Board ('PWLB') lending guidance issued in November 2020 (which prohibited use of PWLB for those who have primarily used it for yield activities). Notwithstanding this the purchase of assets is permitted when the objective falls within several categories including regeneration. As the acquisition is a refurbishment and regeneration project it is permitted under the guidance.

7.2 Legal Implications

- 7.2.1 Sections 120 - 123 of the Local Government Act 1972 authorises the City Council to hold, appropriate and dispose of land for the purpose of any of its functions or for the benefit, improvement or development of its area.
- 7.2.2 Section 1 of the Localism Act 2011 contains the Council's general power of competence, which is circumscribed only to the extent of any pre-existing restrictions at commencement and any post-commencement restrictions of that power and Section 111 of the Local Government Act 1972 contains the Council's ancillary powers including powers to acquire and dispose of property and financial powers to expend and borrow money required for the discharge of its functions.
- 7.2.3 The Local Government Act 2003 and guidance issued under it authorises the Councils investment management functions.
- 7.2.4 Exempt information Schedule 12A of the Local Government Act 1972 (as amended) para 3. Information relating to the financial or business affairs of any particular person (including the Council). Exempt Appendices 1, 2, 3, 4 and 5 contain commercially sensitive information of a financial or business nature, which if disclosed to the public could be prejudicial to a named person, individual or company.

7.3 Financial Implications

- 7.3.1 Financial information is available at Appendix 4.
- 7.3.2 As part of the Cabinet approved Property Strategy it was envisaged that underperforming properties would be sold and replaced by new acquisitions that provided a better strategic fit.
- 7.3.3 In incurring capital expenditure, due regard must be given to the latest government guidance on public bodies' continued access to PWLB-issued loans. The acquisition provides a partial consolidation of the existing leasehold position, where BCC will finish with a senior lease and the occupational lease, and there are medium to longer term redevelopment and regeneration options which would not be delivered without the Council's intervention.
- 7.3.4 Given the uncertain timing involved in transactions a 'bridging loan' facility of £50m is included in the capital budget, funded by drawings which are repayable with the proceeds of subsequent property disposals. Should it be required, the revenue cost of using this facility (loan interest) will be netted against commercial property rental income.
- 7.3.5 The property is opted to tax and therefore VAT will be payable on the purchase price. However, provided the Council opts to tax on or before the transfer date, the sale can be treated as a transfer of a going concern ('TOGC') such that no VAT will be payable by the Council on the acquisition. The Council's option to tax is in progress. Furthermore, TOGC treatment will generate a saving for the Council in respect of Stamp Duty Land Tax (SDLT) as SDLT is payable on the total purchase

price, including any VAT. Therefore, if VAT is not payable, SDLT is due on a lower value than if VAT were payable.

7.4 Procurement Implications

7.4.1 There are no Procurement implications

7.5 Human Resources Implications

7.5.1 Internal resources will be used will be used to evaluate and execute the acquisition with external resource utilised for valuation, legal advice, and other specialist matters.

7.6 Public Sector Equality Duty

7.6.1 An initial Equality Impact Assessment has been undertaken for this report Ref No: EQUA888 attached at Appendix 5 which discloses that the recommendations are unlikely to have an adverse impact on the characteristics and groups protected under the Equality Act 2010 and a full Equality Assessment is not required for the purpose of this report.

8. Appendices

8.1 List of Appendices accompanying this report:

Appendix 1 – Plan and Sales Particulars (exempt)

Appendix 2 – Investment Decision Matrix (exempt)

Appendix 3 – Valuation and Purchase Report (exempt)

Appendix 4 – Financial Information (exempt)

Appendix 5 – Equality Assessment

9. Background Documents

- Property Strategy (Approved by Full Cabinet, November 2018)
- Property Investment Strategy (Approved by Full Cabinet, July 2019)