

PROPOSED SALE OF ST JAMES HOUSE, FORFAR

Abstract

This is a supplementary report to Report 805/05 approved by the Resources and Central Services Committee on 16 June 2005.

1 RECOMMENDATIONS

The Council is recommended to:

1. Consider the issues contained in this report in the context of a property transaction only
2. Note that the planning issues associated with development proposals referred to in this report will be considered separately by the Development Control committee in due course
3. Note the contents of this report.
4. Note the attached ease of reference Summary Statement surrounding the aspects contained within this Report.

2 BACKGROUND TO THE ACQUISITION OF ST JAMES HOUSE IN 1995

After its formation in April 1995, Angus Council embarked on the task of seeking office accommodation for the numbers of staff for the new unitary authority expected by the vesting date of 1st April 1996. In particular the new authority had to find office space for over 200 staff from the outgoing Tayside Regional Council who would be coming to Forfar.

There were two principal options considered:

- Build a complex of demountable offices at the back of County Buildings on the Common Good land at Market Muir. This option could have delivered the required offices by the due date but would have cost just over a million pounds at that time. In addition, they would have had no value at the end of say, a 25 year life span and furthermore they would have occupied the Common Good football park resulting in a loss of a public amenity.
- Purchase the Don & Low offices in St James Road. The district and regional authorities jointly commissioned a study to examine the suitability of the Don & Low offices in St James Road, which would potentially be available by April 1996, and it was quickly concluded that the acquisition of these premises presented a viable solution.

A third option was to redevelop the former Fyfe Jamieson Hospital site with new offices. This option would have delivered modern offices but due to the relatively small footprint of the hospital building would have necessitated the construction of a 3-5 storey office block in an essentially residential area and could not have been achieved by the due date. Accordingly this option was not pursued further.

From the two principal options considered, the Don & Low offices option was viewed as the only feasible option open to the Council which could deliver the required offices by the due date.

An independent market valuation of £1m for the offices extending to some 3,600 sq m. plus associated car parking, was obtained from Messrs Graham & Sibbald, Chartered Surveyors, Dundee, who were at that time external consultants to all three of Tayside Regional Council, Angus District Council and the formative Angus Council. It should be noted that this valuation included important and relevant qualifications, firstly under the heading of Valuation Considerations where it was stated that:

“The Council is in effect a “special purchaser” and this has been reflected in the valuation figures provided and we would respectfully suggest that this is a significant factor in the valuation exercise. Both Angus Council and Don & Low (Holdings) Ltd appear prepared to Treat with each other to secure an amicable settlement.

“In view of the implications for Angus Council, in addition to the normal valuation considerations there are social, economic development and general concerns which would come into play in the event of the Council not securing the Subject Premises. Therefore while normally ignored for valuation purposes, we have taken cognisance of them in providing this valuation for the Council. The extent to which they can be quantified may in some respects be considered speculative unless viewed as part of the overall Project.”

Secondly, in the Valuation section the following paragraph was included:

“It should be noted that in the event of the whole property being placed on the market by Angus Council for sale it is unlikely that another purchaser would be found quickly for the Subject Premises at the same price for continuation of the existing use. Any other Purchaser is likely to view the Subject Buildings on the basis of redevelopment.”

A special case was made to the then Secretary of Scotland at the Scottish Office for an additional £1m Section 94 Borrowing Consent to allow the Council to purchase the St James House offices. The Secretary of State awarded the Council the full £1m requested Borrowing Consent together with an annual additional grant award to cover the annual loan charges arising from the additional £1m borrowing. Accordingly the property was purchased at no cost to the local Council Tax payer.

An additional benefit to this option was that it provided a £1m capital receipt to Don & Low which they used to invest in their development of a new office and factory at Newfordpark Forfar, thereby retaining the weaving and textile industry in Forfar and securing the jobs of the workforce there. (Reference report AC/44/95)

In summary, the acquisition of the Don & Low offices made a significant contribution to the virtually seamless transfer of local authority administration from the outgoing district and regional authorities to the new Angus unitary authority in 1996 and thereby indirectly supported a local industry and retention of jobs.

Most of the 175 office staff had moved in to the offices at St James by 1 April 1996 and it was fully occupied by July that year.

It should also be noted that Don & Low leased back from the Council the engineering workshop on our site until the summer of 2000, and paid a total rent of £150,000 for the period. The workshop was subsequently demolished by the Council at a cost of approximately £80,000. Approximately £100,000 was spent on certain improvements and adaptations to the building in 1997/98.

It should be further noted that had the Council entered into a rental agreement for the Don & Low St James Road offices or for premises of a similar size and specification it is anticipated that an annual rental charge of the order of £110,000 would have applied with periodic increases applying thereafter. It should be noted that no additional Scottish Office grant would

have been available to the Council had it entered into a rental agreement. Accordingly this full cost would have fallen on the local taxpayer. In addition at the end of the rent period the Council would not have had a saleable asset in its possession.

3 PROPOSED SALE OF ST JAMES HOUSE TO DEANWAY DEVELOPMENT LTD AND DWG PROPERTY LTD - 2007

Deanway Development Ltd and DWG Property Ltd have been in discussions with Don & Low for some time over the acquisition of the now redundant St James Factory site which lies immediately to the north of St James House. Members will be aware that Deanway Development Ltd and DWG Property Ltd failed to gain planning permission for their proposed retail development on this site earlier this year and their planning appeal was subsequently dismissed by the Reporter chiefly on concerns over the massing of the retail units on the site close to the Forfar conservation area. The Reporter did not, however, oppose the principle of a retail development of this scale on the basis of retail impact as it was considered to be a development which could assist in stopping the leakage of retail business out of Forfar.

Deanway Development Ltd and DWG Property Ltd approached the Property Services department during the planning stage of their development to negotiate the acquisition of a strip of land on our car park at the junction of New Road with St James Road. This was required to improve the geometry of the road junction and was a necessary part of the development as proposed at that time. The possibility of such a request arising had been recognised at the time of the purchase of St James House and the Council had confirmed to Don & Low then that if necessary it would make land available for this purpose.

The Director of Property Services took the opportunity to develop this approach from Deanway Development Ltd and DWG Property Ltd to explore their potential interest in acquiring the whole of the Council's St James House site. This was initially on the basis that this site together with the St James Factory site would not only create a better retail development than as previously proposed by them and would offer the advantage of a potentially better access off St James Road, but also the developers could build a replacement office block for St James House on the site and lease it to the Council.

However, although provisional terms acceptable to both parties could not be agreed, by the end of negotiations the Council's proposals for office accommodation in Forfar had developed to include the Orchardbank option and Members will be aware that the funding package for the proposed new headquarters offices at Orchardbank included the provision of an estimated capital receipt of £600,000 from the sale of St James House. This was a mid range figure taken from a provisional valuation by our retained external consultants, Messrs Lickley Proctor, on the basis that there is no known current market for an office development of this size in Forfar and that any purchaser would be responsible for the demolition of the existing offices, site clearance and all other related costs for residential and/or retail development. It should be noted that these are the same concerns as expressed by the previous consultants at the time of the original purchase.

From discussions with Deanway Development Ltd and DWG Property Ltd, it is understood that the full site would not be required for retail development only but it does give the opportunity for including a mix of retail and residential development. The full site also offers the opportunity to redesign the layout to improve the road access arrangements and the massing of buildings in relation to the conservation area thereby overcoming the Reporter's main objections. (Reference Scottish Executive Planning Reporter's report 3 May 2005 - paragraph 49)

4 OPEN MARKET SALE OR NEGOTIATE WITH ADJOINING DEVELOPER

The Director of Property Services considered that this positive interest from a developer based on the development potential of the adjacent St James Factory site presented a unique opportunity to maximise the potential market value of our own St James House. If this opportunity was not taken, it would likely prove difficult to achieve our own target price for the sale of St James House within the timescale of the Orchardbank HQ office project.

The Director of Property Services therefore instructed our retained external consultants Lickley Proctor to negotiate a purchase price with Deanway Development Ltd and DWG Property Ltd on the basis of obtaining the full market value of the St James Offices. The negotiation has reached a provisionally agreed sale price of £700,000.

In considering this price, the following matters should be taken into account:

1. The transaction is subject to planning and other approvals.
2. The existing buildings will require to be demolished and the site cleared and prepared by the purchaser, for which a provisional estimate of £200,000 has been received. This effectively makes the value of the cleared site £900,000. In addition, the existing electricity substation will require to be relocated and the underground tunnels secured at an as yet unspecified cost. These additional costs would be borne by the developers and the net receipt to the Council would remain at £700,000.
3. The area of St James House and associated car parking extends to some 2.23 acres or thereby. If the site is valued for residential use on a cleared site basis then applying the criteria used by Communities Scotland for housing association developments the cleared site value would be in the region of £300,000. With the private sector paying up to perhaps 50% higher dependent on particular demand at the time of marketing, a maximum receipt in the order of £450,000 could reasonably be anticipated from a sale for residential use. However, after allowing for demolition costs etc the net receipt to the Council would be in the order of £100,000-£250,000.
4. It is therefore clear that the provisionally agreed price reflects retail development plus marriage value, but this is dependent on the retail development proceeding on or as part of the redevelopment of the St James Factory site. Without the St James Factory site being redeveloped in this way, it is considered unlikely that retail development values will impact on the sale of St James House.

The alternative to a direct sale at this market valuation is to advertise on the open market and invite offers. However, for the reasons stated above, the Director of Property Services would not expect to realise the same sale price and this view is supported by the council's retained valuation consultants, Lickley Proctor. Additionally, in an open market bidding situation there is always the risk that Deanway Development Ltd and DWG Property Ltd could submit a lower bid than their current offer, or indeed no offer at all.

It cannot be emphasised too strongly that it must be clearly understood and accepted by Members that on this particular occasion open market advertising is considered to be a high risk financial strategy where the Council runs the real risk of obtaining a lower offer than that already provisionally agreed, or indeed no offer at all, and the full development potential of the site could be lost perhaps even including the development of the St James Factory site, if a buyer other than Deanway Development Ltd and DWG Property Ltd is successful. In this respect, it is noteworthy that despite the recent considerable and widespread publicity surrounding this proposed transaction, no alternative purchaser has made itself known to the Director of Property Services.

Conversely, it must also be acknowledged that Deanway Development Ltd and DWG Property Ltd could submit a higher offer although based on discussions and negotiations to date this is considered highly unlikely.

5 FINANCIAL IMPLICATIONS

The Council's retained consultants have confirmed that the negotiated sale price of £700,000 is a fair reflection of the market value of the property. Indeed the Council could face the prospect of a substantially reduced net capital receipt of only £100,000 to £250,000 if it should elect to progress the sale on the open market.

The capital receipt will be ring fenced as part of the funding package for the development of new headquarters offices at Orchardbank.

6 HUMAN RIGHTS ACT IMPLICATIONS

There are no Human Rights Act implications specific to this report.

Any implication, as a consequence of discharging recommendations detailed in this report, will be managed in accordance with the standing procedures and processes established by the Property Services department.

7 CONSULTATION

The Chief Executive Designate, the Director of Finance, the Director of Law and Administration and the Director of Planning and Transport have been consulted in the preparation of this report.

8 CONCLUSION

In summary, the acquisition of St James House in 1995 at a cost of £1m was as an office ready for occupation. It was purchased at a time when there was no identifiable alternative office development available and was recognised as containing an unquantified element of "special purchaser" value. The sale of St James House now to Deanway Development Ltd and DWG Property Ltd is as a site to be cleared by the purchasers for alternative development. The sale as proposed also has an element of "special purchaser" value, it is considered the best price obtainable for the site and will also allow a fresh planning application for the development of the combined St James Factory and Office site to be made for a retail and residential development which would address the concerns expressed by the Reporter.

REFERENCES

Committee	Date	Report No	Subject
Angus Council	16/08/95	AC/44/95	Property In Forfar – Headquarters Accommodation
Angus Council	01/07/04	833/04	Office Accommodation Strategy – Recommendation to build new HQ accommodation at Orchardbank, Forfar
Special Budget Meeting	10/02/05	186/05	Provisional Financial Plan 2004/ 2008.
Resources and Central Services Committee	03/05/05	548/05	Council Offices (HQ), Orchardbank, Forfar – Tender report
Resources and Central Services Committee	16/06/05	805/05	Proposed Sale of St James House, Forfar
Scottish Executive Planning Reporter's report	03/05/05		Planning Appeal By Don & Low Ltd, Deanway Development Ltd and AWG Developments Ltd: Proposed Retail Development at St James Works, New Road, Forfar, Angus.

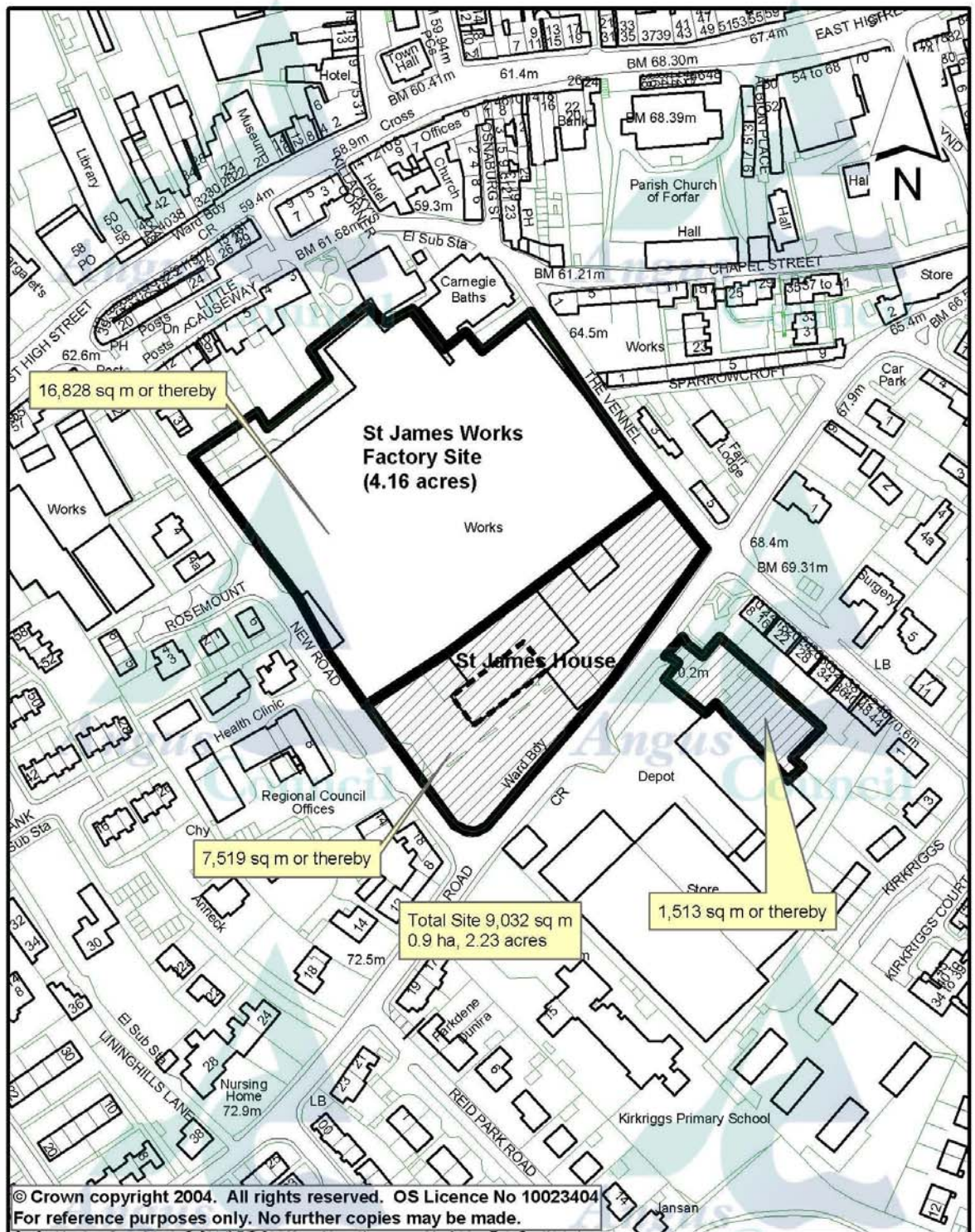
BACKGROUND PAPERS

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information), were relied on to any material extent in preparing the above report.

M G Lunny
Director of Property Services

PROPOSED SALE OF ST JAMES HOUSE, FORFAR**SUMMARY STATEMENT**

1. St James House was acquired at a cost of £1m in 1995 as an office ready for occupation.
2. No alternative workable options were identified at that time.
3. The then Secretary of State awarded the Council an additional £1m grant supported Section 94 borrowing consent to purchase St James House.
4. Accordingly the property was purchased at no cost to the local Council Tax payer.
5. An equivalent property rental charge of some £110,000 per annum would have had to be outlaid for similar premises. No Scottish Office additional grant funding would have been available if this option had been pursued and the cost would therefore have fallen on the local Council Tax payer.
6. Also at the end of the rental period no saleable asset would have been in the Council's possession.
7. As part of the wider Council Office Accommodation Strategy it has been decided to transfer staff currently based at St James House to the new office campus at Orchardbank, Forfar.
8. Part of the funding of this new office campus has been identified as being realised via the sale of the St James House site.
9. A target price of £600,000 for the sale of the St James House site was initially provided for to take account of the likelihood that the site would not be utilised for office accommodation purposes. It was envisaged from the outset that the sale price for alternative use of the site would not command the same sale value as ongoing use for office accommodation would achieve.
10. It is emphasised that no alternative user for office accommodation purposes has been identified or is likely to be forthcoming in the current market.
11. The proposed negotiated arrangement with Deanway Development Ltd and DWP Property Ltd brings about a £700,000 capital receipt to the Council with the cost of building demolition and other site development costs falling to the developer.
12. This £700,000 sale price is £100,000 above the £600,000 target price set by the Council.
13. It is also highlighted that alternative uses of the site are projected to only produce a net capital receipt of the order of £100,000 to £250,000 as opposed to the £700,000 negotiated agreement.
14. Such a reduction would require alternative £ for £ funding to be identified in order to restore the full Orchardbank HQ funding position.
15. Any such additional funding would need to be put in place by commensurate reductions in other priority project spend proposals.
16. The building was originally purchased by the Council for office accommodation for which there is currently no identified market demand. The site is now being sold as a cleared site and the negotiated sale value reflects the best case market conditions prevailing at this time.



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Subject: Site
 Address: St James House
 Forfar

Alex Matthew ext. 3838
 Date: 24 June 2005
 Drawing No: GEN Rev a
 Scale 1:2,000

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