

**Report of the Chief Executive (Acting)**

**Proposed Sale of Freehold Reversionary Interest in Ford and Hylton Club,  
Poole Road, Pennywell**

**1.0 Purpose of Report**

- 1.1 Recognising the Committee's role in relation to the Council's corporate governance arrangements, the purpose of this report is to inform the Committee of the proposed disposal of the Council's freehold reversionary interest in the land on which the Ford and Hylton Club, Poole Road, Pennywell (the site) is situated, and of the due diligence undertaken with regard to the proposed disposal.
- 1.2 The Committee will be aware that the tenants of the land, Mr P Watson and Mrs S Watson are also Members of the Council.
- 1.3 Given the relationship between the Council and the tenants, relevant officers gave advice on the Members' Code of Conduct, and commissioned independent valuation advice.
- 1.4 The Committee is invited to review the handling of the proposed transaction. A copy of the report to Cabinet of the 6<sup>th</sup> June 2007 is attached to this report as appendix 1. The Cabinet report of the 12<sup>th</sup> September 2007 is attached as appendix 2 and an extract of a valuation report from Knight Frank is attached as appendix 3. A copy of a valuation report from the District Valuer is attached as appendix 4 and a copy of the Audit Commission letter reviewing the transaction is attached as appendix 5.

**2.0 Background**

- 2.1 Initially an approach was made by the tenants to acquire the Council's interest in the site. However, they withdrew from the proposed transaction and the Council was subsequently approached for its interest by a development company, Maxam Property Ltd. At its meeting on the 6<sup>th</sup> of June 2007 Cabinet agreed to the sale of the Council's freehold reversionary interest in the Ford and Hylton Club, Poole Road, Pennywell to Maxam Property Ltd. The company was seeking to develop the site for residential purposes and Cabinet agreed a disposal price of £100,000, and otherwise on terms agreed by the Head of Land and Property, for the Council's interest.
- 2.2 In the case of an outright disposal, as opposed to a partnership arrangement or development agreement it is not custom and practice to make enquiries into the background of prospective purchasers. It is a matter for the purchaser as to how it finances a transaction and from where it generates its resources and a transaction would not have proceeded if the Council was not paid the appropriate consideration. It is for Members of the Council to declare

if they have a relevant interest in a party with whom the Council may be transacting if appropriate. Maxam Property Ltd did not proceed beyond their initial offer for reasons which are not known by the Council.

- 2.3 The Council was then approached by Gladedale, a housebuilding company, confirming that it wished to purchase the Council's freehold interest. At its meeting on the 12<sup>th</sup> of September 2007 Cabinet agreed to the disposal of the Council's interest to Gladedale for £100,000, or otherwise on terms which achieve best consideration as agreed by the Head of Land and Property.
- 2.4 Concerns regarding the proposed transaction have been expressed by Councillor Lee Martin. In the light of these concerns the then Chief Executive referred the matter to the District Auditor with a request that she review independently the handling of the transaction.

### **3.0 The Council's Interest**

- 3.1 The site measures 0.74 acres, and is the subject of a lease from the Council (originally to the Ford and Hylton Lane Social Club and Institute for a term of 99 years from the 19<sup>th</sup> August 1966) but subsequently assigned in September 1997 to Mr P. Watson and Mrs S. Watson, from Joshua Tetley and Son Ltd as mortgagee. There are rent reviews every 33 years of the term. The site produces an annual rental income to the Council of £750 which was fixed at the last rent review in 1999. The next rent review will be in 2032. Whilst there is a restriction against use for any other purpose than a social club, there is no covenant that requires the premises to operate as a social club and no provision for early termination of the lease other than by seeking forfeiture because of non payment of rent or breach of covenant. The Club is owned by the tenants of the Council's land although the Council's permission would be required if it were proposed to demolish the building.

### **4.0 Council Code of Conduct**

- 4.1 At its meeting on the 11<sup>th</sup> of September 2007 the Council's Standards Committee considered a report from the City Solicitor. The report explained the relevant provisions of the Code of Conduct. During the meeting matters were raised by Members regarding the appropriate valuation of the land, the outcome of which was a revised recommendation to Cabinet on the 12<sup>th</sup> of September 2007 in relation to terms that achieve best consideration as agreed by the Head of Land and Property. This is referred to in paragraph 2.3 of this report. The Standards Committee was requested to consider whether to grant dispensations to Members of the Cabinet in respect of the consideration of the report on the 12<sup>th</sup> of September 2007 regarding the disposal of the Council's land interest in the light of the provisions of the Code of Conduct adopted by the Council on the 27<sup>th</sup> of June 2007.
- 4.2 The Standards Committee agreed to grant the dispensation to Cabinet Members. A planning application had also been made by Gladedale for residential development on a site at Flodden Road, which is in close proximity to the site of the Ford and Hylton Club. In respect of the determination of this

application by Members of the Development Control (South) Sub-Committee, consideration of further application for dispensation in respect of that planning application was deferred at the meeting of the Standards Committee on 28<sup>th</sup> of March 2008. Following Annual Council the composition of the Sub-Committee has been amended and as fewer than half of its membership requested or renewed their request for a dispensation, the basis for considering their application has been removed. Accordingly, that Sub-Committee will determine the planning application and those Members with prejudicial interests will not participate.

## **5.0 Valuation of the Council's Interest**

- 5.1 As referred to earlier in this report, it was considered appropriate to obtain independent valuation advice. Consequently Knight Frank, a large, national firm of valuers were appointed to provide an independent view as to the value of the Council's interest. Their valuation report, extracts of which are attached as the appendix to this report, confirmed that £100,000 would represent market value for the Council's interest and this formed the basis of the recommendation to Cabinet to dispose of the Council's interest for that sum. The valuation was initially to be requested in respect of the proposed disposal to the tenants, however Knight Frank has confirmed that the valuation is applicable to any purchaser of the Council's interest for a proposed residential end use.
- 5.2 In addition a further independent valuation report of the Council's interest, dated 20<sup>th</sup> of December 2007, has been obtained from the District Valuer at the request of the District Auditor. That report advises that an amount in the range between £90,000 and £115,000 would be appropriate for the sale of the Council's freehold interest.
- 5.3 In September 2007, Knight Frank was asked to advise on the effect on the value of the Council's interest should redevelopment in the proximity of the site occur. Knight Frank commented that the site was adjacent to existing former local authority housing. They were of the opinion *"that should the adjacent housing area be demolished and redeveloped to provide new housing that this would improve the area and as the area improves, property values would generally increase. At this moment however we are of the opinion that there will be no increase in the market value of the property as existing as we understand that there are no immediate proposals to redevelop."*
- 5.4 As referred to in paragraph 4.2, there is a planning application from Gladedale to redevelop land at Flodden Road for residential purposes. This is close to, but does not adjoin the site of the Club. Knight Frank were specifically asked to consider, in the light of the planning application that has been submitted subsequent to their advice in September 2007, whether there would be any effect on the value of the Council's interest in the site. They have confirmed that *"whilst we are of the opinion that this and other redevelopment/improvement schemes are likely to improve the area and give*

*developers greater confidence to proceed with redevelopment, we are of the opinion that these initiatives are adequately reflected in the purchase price.”*

- 5.5 Council officers have been informally advised that the basis of the residential development value of the Flodden Road site which is proposed to be developed by Gladedale is at the same level of value (for a cleared site for residential development) on a pro rata basis as that adopted for the valuation of the Council’s adjacent interest.
- 5.6 The planning application by Gladedale for the land at Flodden Road remains current. Some further details have been submitted by the applicant following concerns regarding the design and appearance of the scheme that have been expressed by the Council as local planning authority. Not all information required by the local planning authority, to enable the application to be considered formally, has been submitted. Any further information regarding the progress of the application will be reported orally at the meeting.
- 5.7 The total value of the Council’s freehold interest can be assessed from an apportionment of the residential value of the cleared site, once the value of the Council’s and the tenants’ present interests have been accounted for. The market value of the Council’s present interest has been calculated by Knight Frank using the accepted practice of capitalising the rent payable of £750 per annum for the next 26 years until the next rent review, and also by capitalising the benefit of what in their opinion should be the benefit of receiving in perpetuity the current market rent of £6,000 per annum following the next rent review.
- 5.8 The tenants’ present interest has been calculated on a similar basis as set out in the extract of the valuation report from Knight Frank in the attached appendix. A marriage value accrues when these two legal interests in land are joined and an increased value is realised for the possible development of a cleared site for residential purposes.
- 5.9 The extracts from their report in respect of the value of the interests is as follows:
- “In assessing the Market Value of the Council’s freehold interest we would apply a yield of 4% to the current income for 26 years and then a yield of 10% to the rental value at review which we have assessed at £6,000 p.a. which is £2.00 per sq m, deferred for 26 years. This produces a Market Value of the Council’s freehold interest of £17,000 (Seventeen Thousand Pounds).*
- In assessing the Market Value of the tenant’s leasehold interest we have taken into account that at the current time the tenant has the benefit of a profit rent of £5,250 p.a. which we would capitalise at 8% up to the next review date when the rent should be agreed at the market level. This produces a Market Value of £57,000 (Fifty Seven Thousand Pounds).”*
- 5.10 In summary, the apportionment of value for the Council is set out below:

a) Value of the freehold present interest	£17,000
b) Value of the leasehold present interest	£57,000
c) Residential value of the cleared site (0.74 acres at £500,000 per acre minus estimated demolition costs)	£320,000

Marriage value, ie c – (b+a) £246,000

Apportionment of marriage value:

Council at one third	£82,000
Purchaser at two thirds	£164,000

Total value of Council's interest:

£82,000 + £17,000 = £99,000, rounded to £100,000

- 5.11 The principles in respect of the apportionment of marriage value are derived from the element of risk that is borne by the parties. In this case the apportionment of the marriage value of one third to two thirds reflects the fact that the risks involved in realising value from the transaction are with the purchaser. Knight Frank has confirmed, as stated in paragraph 5.1, that the valuation remains the same for any purchaser. These risks are inherent in the development process and could affect the value of the cleared site. Risks include those associated with planning permission, (particularly in relation to the quantum and quality of development) ground conditions, which are unknown, service diversions and utility company connection costs and changes in market conditions which may affect the value of the cleared site. The developer will also bear the costs of the development process, itself, which includes seeking planning approval, site surveys, and other related fees.
- 5.12 Knight Frank has commented that the transaction between Gladedale and the tenant is private and confidential and therefore they are not aware of the precise details. Knight Frank say that *“irrespective of the details of the transaction and the split of risk between Gladedale and the tenant it is clear that the Council are not bearing any of the associated risk of the proposed development and the third to two thirds split is considered appropriate in the circumstances.”*
- 5.13 The Council has the option of seeking a greater share of the marriage value. However, in coming to their conclusions on value both Knight Frank and the District Valuer have considered the element of risk being borne by the purchaser. These two independent valuations have informed the Council's assessment as to whether it has satisfied its statutory requirement to receive the best consideration that can reasonably be obtained. It is therefore considered by the Director of Development and Regeneration that the proposed transaction represents best consideration that could reasonably be obtained for the Council.

- 5.14 Notwithstanding the foregoing, the Council has however formally approached Gladedale with a request that they consider a revised offer on the basis that the District Valuer has identified a range between £90,000 and £115,000 for the value of the Council's interest. Gladedale has formally responded that their offer of £100,000 "*will not increase as a result of further discussions with the leaseholder.*"
- 5.15 The Council has also considered the possibility of securing greater value for its interest by way of an overage agreement with Gladedale who responded by confirming that such an arrangement would not accord with their company policy. They similarly confirmed that an overage would in any event reduce their initial offer relating to the reversionary freehold interest.
- 5.16 The Council formally approached Gladedale again on 8 May 2008 and Gladedale has informally advised that the current market is such that they will be re-organising their business in the north east, and have yet to comment further on the proposed transaction.

## **6.0 Audit Commission Review**

- 6.1 As stated earlier in this report so as to obtain independent assessment of the transaction before it proceeded, the then Chief Executive referred the matter to the District Auditor for review. The District Auditor has completed her review a copy of which is attached to this report.
- 6.2 The District Auditor's conclusion is as follows:

*"My overall conclusion based on the information available is that the Council has taken appropriate advice and is obtaining a consideration for the sale of its freehold interest in Ford and Hylton Club land which is consistent with independent valuations. However:*

- The Council's position may have been adversely affected by past events and;*
- The options for the Council surrounding this decision have not been properly explained to Members".*

- 6.3 In summary her findings on those matters within the scope of the review are as follows:

### **6.3.1 Proposed sale of freehold from the Council to the developer**

The District Auditor comments on the action of the Council in relation to advice obtained from Knight Frank and the District Valuer and raises no concerns.

### **6.3.2 Proposed sale of leasehold by the leaseholders to the developer**

The District Auditor accepts in principle the explanation as to why the Council did not acquire the leasehold interest and then negotiate with Gladedale as a

single party. However she considered that the report to Cabinet in September 2007 did not fully explain the various options available. This is accepted and accordingly a comprehensive explanation of all reasonable options on land transactions will form part of future Cabinet reports.

### **6.3.3 Lease rental review in 1999**

**6.3.3.1** The District Auditor refers to Knight Frank's valuation report which indicates that the current market value for the rent for the Club is significantly higher than that which the Council is currently receiving and which was set in 1999. Had an annual rent at the time been based upon market value then the valuation of the Council's freehold interest would increase.

**6.3.3.2** In this regard the District Auditor has found that records on the 1999 rent renegotiation are poor. The initial proposal from the Council was for a rent of £3,500 per annum which was subsequently agreed at £750 per annum on the basis of the financial performance of the Club and its geographical location.

**6.3.3.3** None of the officers who dealt with the rent review are any longer employed within the service. However, discussions with the then case officer have confirmed that the initial figure offer of £3,500 was an opening negotiating position only. It was based upon the only available comparator, a rental for licensed premises some distance from the subject site in Washington, and in a very different environment.

**6.3.3.4** The prevailing conditions in Pennywell at that time were such that the area suffered from 58% unemployment, 90% of which was long term, and 46% of men aged between 16 and 64 were permanently sick. Pockets of domestic burglary were 40 times the national average, and one third of all housing tenants wanted to transfer out of the area. The area was characterised by a poor quality environment, including boarded up shops and absentee landlords leading to a deteriorating housing stock. The setting of the 1999 rent level has therefore to be seen in this wider social context. Whilst it is not possible to derive current data that is directly comparable, 36.94% of males in the area are currently economically inactive. The number of crimes committed per 1000 population is now below the City average, as are the number of burglaries.

**6.3.3.5** Knight Frank has been asked to give an opinion of a market rental value at the date of the last rent review which was 1999. Given the passage of time they have not been able to easily obtain relevant comparable figures. However, from discussing the matter with agents who have also undertaken similar research, they have said that *"the broad view is that at the time that the review was agreed, the general approach was that primarily Local Authority landlords tended to agree rents which reflected the fact that social clubs are non profit making. In many cases the rents which were agreed therefore tended to be nominal increases on passing rents. The settlement in this case appears to have followed that trend."* Although the Club was not operating in a not for profit environment at the time of the rent

review, the comments of the case officer are that after having received the tenants' accounts and studied the case further it was viewed that a figure of £750 was the best that could be achieved for the land demised at that time.

**6.3.3.6** The District Auditor accepts that the Council may not in reality have been able to achieve the rental figures quoted in the Knight Frank report, given local conditions. She also states that the Council cannot evidence that appropriate steps were taken in 1999 to meet its responsibilities of obtaining best consideration. The District Auditor concludes that the Council may have failed to secure value for money in terms of both additional rent income during the period of the lease since 1999 and also increased consideration for the sale of the freehold interest in the land, if rent had been negotiated at a higher level. It is accepted that there are short comings in the evidence to support best consideration being obtained by the rent review in 1999. Although all property transactions are now supported by appropriate evidence a systematic review will be undertaken to confirm that this is in place and robust.

**6.3.3.7** The District Auditor is of the view that in 1999 no delegated authority existed for the revised rental to be set by an officer. Rent reviews were not at that time covered by the old scheme of delegation. However, it had been custom and practise for many years for such reviews to be agreed at officer level which was formalised into the Council's scheme of delegation later in 1999 which delegates rent reviews to authorised officers, and the District Auditor does not propose any further action on this issue.

**6.3.3.8** The District Auditor found from comments made by Knight Frank that the leaseholders had not complied with the terms of the lease in relation to repair and maintenance obligations. It has been confirmed by Knight Frank that these matters have had no impact on the value of the Council's interest. The maintenance issues relate to relatively minor matters of external repair and the leaseholders have been formally requested to attend to them. The District Auditor has stated that there is no indication that this would have any impact on the sale itself. It is accepted that appropriate records have not been kept which would ensure repair and maintenance obligation were monitored. It is proposed that all site visits will record such information and that systems are introduced to action any discrepancies.

**6.3.3.9** The District Auditor concludes that past actions on the re-negotiation of the lease and management of the lease may have had a detrimental impact on the proposed sale for the Council.

**6.3.3.10** Whilst it is accepted that any possible undervalue in 1999 would have reduced income to the Council up to the next rent review, the Council's independent advice is that the non-compliance with the condition of the lease in respect of maintenance obligations has had no impact on the value of the Council's interest. This is accepted by the District Auditor. It is not therefore agreed that lease management matters may have had a detrimental impact on the proposed sale for the Council.



**6.3.3.11** On the basis that her letter is to be reported to this Committee the District Auditor does not propose to take any further action at this stage. However, she strongly recommends that the Council review its arrangements for the agreement, management and rental reviews of leases. Practices have improved significantly since 1999 in any case and the District Auditor has already undertaken further audit work to which she refers in her letter, the outcome of which is awaited. Any areas recommended for improvement will be acted upon.

## **7.0 Action Plan**

**7.1 Learning point:** Options in respect of the transaction were not fully set out for Cabinet

**Action:** The action recommended by the District Auditor will be addressed in future reports, ie to explicitly set out all options on all property transactions is considered to be best practise and will be extended to all future reports.

**7.2 Learning point:** Evidence to support the rent review in 1999 was not properly documented. All property transactions are now supported by details of comparable evidence which is properly documented and countersigned by the relevant Council officers.

**Action:** A systematic review will be undertaken to ensure that the above measures are in place and robust.

**7.3 Learning point:** Compliance with the terms of the lease was not being monitored

**Action:** Lease management arrangements are being reviewed. However in the meantime, whenever a site visit is undertaken in respect of a valuation the file will record the date of the visit and will also include clearer reference to all current site circumstances and leasehold provisions to ensure that they have been properly considered at that time.

**7.4 Learning point:** Improvements to the Agreement, Management and Rental Review of leases.

**Action:** Action to be agreed with the District Auditor following receipt of her report.

## **8.0 Summary**

**8.1** In light of i) the independent valuation report confirming that £100,000 would represent market value for the Council's interest, ii) the confirmation by the District Valuer that the appropriate range of values for the Council's interest would be from £90,000 to £115,000, and iii) the overall conclusion of

the District Auditor, it is considered that the proposed disposal price of £100,000 represents best consideration that could be reasonably obtained for the Council's interest. Furthermore it is not considered that there are any material reasons why the transaction should not proceed.

## **9.0 Conclusion**

- 9.1 The Committee is invited to i) review the handling of the transaction and is asked to consider whether there is any reason why the proposed transaction should not proceed, ii) to agree the learning points and proposed actions as set out in the report, iii) identify any other learning points it considers relevant.

### Background Papers

Cabinet Reports dated 6<sup>th</sup> June and 12<sup>th</sup> September 2007 in respect of the Disposal of the Council's interest in Ford and Hylton Club.

Minutes of Standards Committee 11<sup>th</sup> September 2007

Knight Frank valuation report dated 30<sup>th</sup> May 2007

Report of the District Valuer dated 20<sup>th</sup> December 2007

Ford and Hylton Club file held in Development and Regeneration Services

## **Appendix 1**

**Report to Cabinet of 6 June 2007,  
Part I and Part II**

## CABINET MEETING – 6<sup>TH</sup> JUNE 2007

### EXECUTIVE SUMMARY SHEET – PART I

**Title of Report:**

Disposal of the Ford and Hylton Club, Pennywell.

**Author(s):**

Director of Development and Regeneration.

**Purpose of Report:**

To obtain approval for the sale of the freehold reversionary interest in Ford and Hylton Club, Poole Road, Pennywell.

**Description of Decision:**

Cabinet is recommended to approve the sale of the Council's freehold reversionary interest in Ford and Hylton Club, Poole Road, Pennywell, Sunderland to Maxam Property Limited at the price set out in the report on Part II of this agenda and otherwise on terms agreed by the Head of Land and Property.

**Is the decision consistent with the Budget/Policy Framework?                      Yes**

**If not, Council approval is required to change the Budget/Policy Framework**

**Suggested reason(s) for Decision:**

To facilitate the proposed residential redevelopment of the site and generate a capital receipt.

**Alternative options to be considered and recommended to be rejected:**

The property could be retained within the Council's non-operational portfolio, producing an annual income.

This alternative has been considered and rejected.

**Is this a "Key Decision" as defined in the Constitution?**

**No**

**Is it included in the Forward Plan?**

**No**

**Relevant Review Committee:**

**Policy and Co-ordination**

**DISPOSAL OF THE FORD AND HYLTON CLUB, PENNYWELL**

**REPORT OF THE DIRECTOR OF DEVELOPMENT AND REGENERATION**

**1.0 Purpose of the Report**

- 1.1 To obtain approval for the sale of the freehold reversionary interest in Ford and Hylton Club, Poole Road, Pennywell to Maxam Property Limited.

**2.0 Description of Decision**

- 2.1 Cabinet is recommended to approve the sale of the Council's freehold reversionary interest in Ford and Hylton Club, Poole Road, Pennywell, Sunderland to Maxam Property Limited at the price set out in this report on Part II of this agenda and otherwise on terms agreed by the Head of Land and Property.

**3.0 Background**

- 3.1 Ford and Hylton Club is the subject of a lease from the Council to Mr. P. Watson for a term of 99 years from 19<sup>th</sup> August 1966. There are rent reviews every 33 years of the term.
- 3.2 It is proposed that the site of the Club which is shown highlighted on the attached plan, be redeveloped for residential purposes by Maxam Property Limited who wish to purchase the Council's freehold interest to provide clear title of the land in order to facilitate the redevelopment proposals.

**4.0 Reasons for the Decision**

- 4.1 To facilitate the proposed residential redevelopment of the site and generate a capital receipt.

**5.0 Alternative Options**

- 5.1 The property could be retained within the Council's non-operational portfolio, producing an annual income.

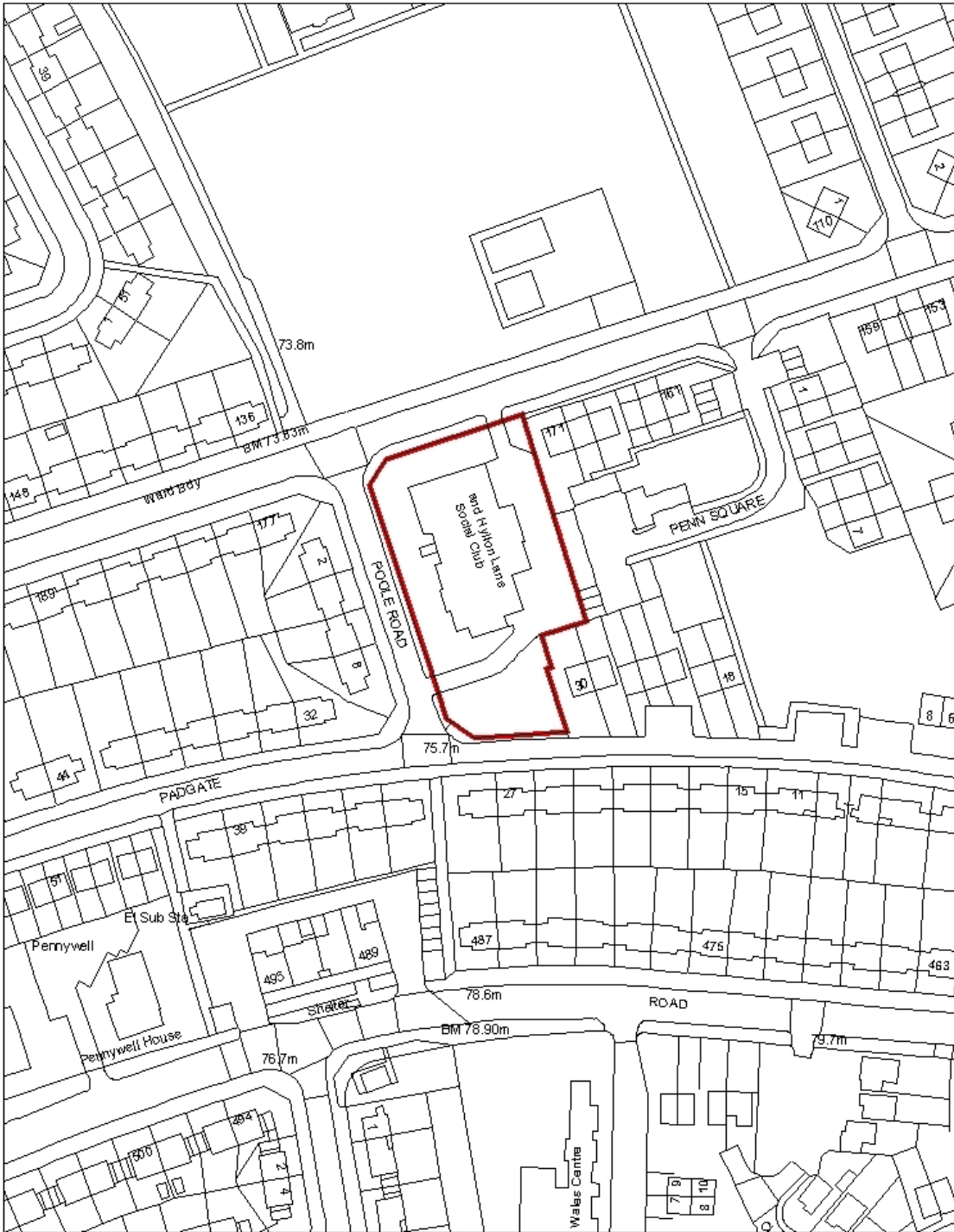
This alternative has been considered and rejected.

## **6.0 Consultations**

- 6.1 Legal Implications: The City Solicitor has confirmed that the Council has a duty to secure the best price for the land. Best consideration has been achieved by following accepted methods of valuation and using comparable evidence available. The price has been confirmed as representing market value by an independent valuer.
- 6.2 Financial Implications: these are detailed in Part II of this agenda.

## **7.0 Background Papers**

**Property file held by the Head of Land and Property at 1 The Esplanade.**



  
 Development and Regeneration  
 Services  
 1 The Esplanade  
 Sunderland SR2 7BQ

Site of  
 Ford and Hylton Lane Social Club  
 Poole Road  
 Pennywell  
 Sunderland

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 Date 2006.



Date: 16.05.07  
 Map Ref: NZ 3656N.W.  
 Scale: 1:1250

## CABINET MEETING – 6<sup>TH</sup> JUNE 2007

### EXECUTIVE SUMMARY SHEET – PART II

**NOT FOR PUBLICATION**

This report is one which relates to an item during the consideration of which by Cabinet the public are likely to be excluded under Paragraph 3 of Schedule 12A of the Local Government Act 1972, as amended, as the report contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

**Title of Report:**

Disposal of the Ford and Hylton Club, Pennywell.

**Author(s):**

Director of Development and Regeneration.

**Purpose of Report:**

To obtain approval for the sale of the freehold reversionary interest in Ford and Hylton Club, Poole Road, Pennywell to Maxam Property Limited.

**Description of Decision:**

Cabinet is recommended to approve the sale of the Council's freehold reversionary interest in Ford and Hylton Club, Poole Road, Pennywell, Sunderland to Maxam Property Limited in the sum of £100,000 and otherwise on terms agreed by the Head of Land and Property.

**Is the decision consistent with the Budget/Policy Framework?** Yes

**If not, Council approval is required to change the Budget/Policy Framework**

**Suggested reason(s) for Decision:**

To facilitate the proposed residential redevelopment of the site and generate a capital receipt.

**Alternative options to be considered and recommended to be rejected:**

The property could be retained within the Council's non-operational portfolio, producing an annual income.

This alternative has been considered and rejected.



<b>Is this a “Key Decision” as defined in the Constitution?</b> <b>No</b>	<b>Relevant Review Committee:</b> <b>Policy and Co-ordination</b>
<b>Is it included in the Forward Plan?</b> <b>No</b>	

## **NOT FOR PUBLICATION**

This report is one which relates to an item during the consideration of which by Cabinet the public are likely to be excluded under Paragraph 3 of Schedule 12A of the Local Government Act 1972, as amended, as the report contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

**CABINET**

**6<sup>TH</sup> JUNE 2007**

## **DISPOSAL OF THE FORD AND HYLTON CLUB, PENNYWELL.**

### **REPORT OF THE DIRECTOR OF DEVELOPMENT AND REGENERATION**

#### **1.0 Purpose of the Report**

- 1.1 To obtain approval for the sale of the freehold reversionary interest in Ford and Hylton Club, Poole Road, Pennywell.

#### **2.0 Description of Decision**

- 2.1 Cabinet is recommended to approve the sale of the Council's freehold reversionary interest in Ford and Hylton Club, Poole Road, Pennywell, Sunderland to Maxam Property Limited in the sum of £100,000 and otherwise on terms agreed by the Head of Land and Property.

#### **3.0 Background**

- 3.1 To facilitate the proposed residential development of the site and generate a capital receipt.

#### **4.0 Alternative Options**

- 4.1 The property could be retained within the Council's non-operational portfolio, producing an annual income of £750.00 p.a.

This alternative has been considered and rejected as it would not facilitate the redevelopment of the site or generate a capital receipt. In addition, the rental being received does not represent best value when considered alongside the investment income that could be achieved through the investment of the resultant capital receipt.

## **5.0 Background Papers**

**Property file held by the head of Land and Property at 1 The Esplanade.**

## **Appendix 2**

### **Cabinet Report of 12 September 2007 Part I and Part II**

## CABINET MEETING – 12<sup>TH</sup> SEPTEMBER 2007

### EXECUTIVE SUMMARY SHEET – PART I

**Title of Report:**

Disposal of the Ford and Hylton Club, Pennywell.

**Author(s):**

Director of Development and Regeneration.

**Purpose of Report:**

To obtain approval for the sale of the freehold reversionary interest in Ford and Hylton Club, Poole Road, Pennywell.

**Description of Decision:**

Cabinet is recommended to approve the sale of the Council's freehold reversionary interest in Ford and Hylton Club, Poole Road, Pennywell, Sunderland to Gladedale (Sunderland) Limited at the price set out in the report on Part II of this agenda and otherwise on terms agreed by the Head of Land and Property. Should the name of the proposed purchaser change the Director of Development and Regeneration be authorised to progress the sale to a replacement purchaser subject to the same terms and conditions.

**Is the decision consistent with the Budget/Policy Framework?** Yes

**If not, Council approval is required to change the Budget/Policy Framework**

**Suggested reason(s) for Decision:**

To generate a capital receipt and facilitate the proposed residential redevelopment of the site.

**Alternative options to be considered and recommended to be rejected:**

The property could be retained within the Council's non-operational portfolio, producing an annual income.

This alternative has been considered and rejected.

**Is this a "Key Decision" as defined in the Constitution?**

No

**Relevant Review Committee:**

Policy and Co-ordination

**Is it included in the Forward Plan?**

No

**DISPOSAL OF THE FORD AND HYLTON CLUB, PENNYWELL**

**REPORT OF THE DIRECTOR OF DEVELOPMENT AND REGENERATION**

**1.0 Purpose of the Report**

- 1.1 To obtain approval for the sale of the freehold reversionary interest in Ford and Hylton Club, Poole Road, Pennywell to Gladedale (Sunderland) Limited.

**2.0 Description of Decision**

- 2.1 Cabinet is recommended to i) approve the sale of the Council's freehold reversionary interest in Ford and Hylton Club, Poole Road, Pennywell, Sunderland to Gladedale (Sunderland) Limited at the price set out in the report on Part II of this agenda and otherwise on terms agreed by the Head of Land and Property. ii) authorise the Director of Development and Regeneration to progress the sale to a replacement purchaser, should this sale not proceed, subject to the same terms and conditions.

**3.0 Background**

- 3.1 Ford and Hylton Club is the subject to a lease from the Council to Mr. P. Watson for a term of 99 years from 19<sup>th</sup> August 1966. There are rent reviews every 33 years of the term.
- 3.2 It is proposed that the site of the Club which is shown highlighted on the attached plan, be redeveloped for residential purposes by Gladedale (Sunderland) Limited who wish to purchase the Council's freehold interest to provide clear title of the land in order to facilitate the redevelopment proposals.

**4.0 Reasons for the Decision**

- 4.1 To generate a capital receipt and facilitate the proposed residential redevelopment of the site. Best consideration has been achieved by following appropriate methods of valuation and using the comparable evidence available.

**5.0 Alternative Options**

- 5.1 The property could be retained within the Council's non-operational portfolio, producing an annual income.

This alternative has been considered and rejected as it would not generate a capital receipt and would not facilitate the redevelopment of the site.

## **6.0 Consultations**

- 6.1 Legal Implications: The City Solicitor has been consulted and his comments are included in the report.
- 6.2 Financial Implications: these are detailed in Part II of this agenda.

## **7.0 Background Papers**

**Property file held by the Head of Land and Property at 1 The Esplanade.**

## CABINET MEETING – 12<sup>TH</sup> SEPTEMBER 2007

### EXECUTIVE SUMMARY SHEET – PART II

**NOT FOR PUBLICATION**

This report is one which relates to an item during the consideration of which by Cabinet the public are likely to be excluded under Paragraph 3 of Schedule 12A of the Local Government Act 1972, as amended, as the report contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

**Title of Report:**

Disposal of the Ford and Hylton Club, Pennywell.

**Author(s):**

Director of Development and Regeneration.

**Purpose of Report:**

To obtain approval for the sale of the freehold reversionary interest in Ford and Hylton Club, Poole Road, Pennywell to Gladedale (Sunderland) Limited.

**Description of Decision:**

Cabinet is recommended to approve the sale of the Council's freehold reversionary interest in Ford and Hylton Club, Poole Road, Pennywell, Sunderland to Gladedale (Sunderland) Limited in the sum of £100,000 and otherwise on terms agreed by the Head of Land and Property. Should the name of the proposed purchaser change the Director of Development and Regeneration be authorised to progress the sale to a replacement purchaser subject to the same terms and conditions.

**Is the decision consistent with the Budget/Policy Framework?** **Yes**

**If not, Council approval is required to change the Budget/Policy Framework**

**Suggested reason(s) for Decision:**

To generate a capital receipt and facilitate the proposed residential redevelopment of the site.

**Alternative options to be considered and recommended to be rejected:**

The property could be retained within the Council's non-operational portfolio, producing an annual income.

This alternative has been considered and rejected.



<b>Is this a “Key Decision” as defined in the Constitution?</b> <b>No</b>	<b>Relevant Review Committee:</b> <b>Policy and Co-ordination</b>
<b>Is it included in the Forward Plan?</b> <b>No</b>	

## **NOT FOR PUBLICATION**

This report is one which relates to an item during the consideration of which by Cabinet the public are likely to be excluded under Paragraph 3 of Schedule 12A of the Local Government Act 1972, as amended, as the report contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

**CABINET**

**12<sup>TH</sup> SEPTEMBER 2007**

## **DISPOSAL OF THE FORD AND HYLTON CLUB, PENNYWELL.**

### **REPORT OF THE DIRECTOR OF DEVELOPMENT AND REGENERATION**

#### **1.0 Purpose of the Report**

- 1.1 To obtain approval for the sale of the freehold reversionary interest in Ford and Hylton Club, Poole Road, Pennywell.

#### **2.0 Description of Decision**

- 2.1 Cabinet is recommended to i) approve the sale of the Council's freehold reversionary interest in Ford and Hylton Club, Poole Road, Pennywell, Sunderland to Gladedale (Sunderland) Limited in the sum of £100,000 and otherwise on terms agreed by the Head of Land and Property. ii) to authorise the Director of Development and Regeneration to progress the sale to a replacement purchaser, should this sale not proceed, subject to the same terms and conditions.

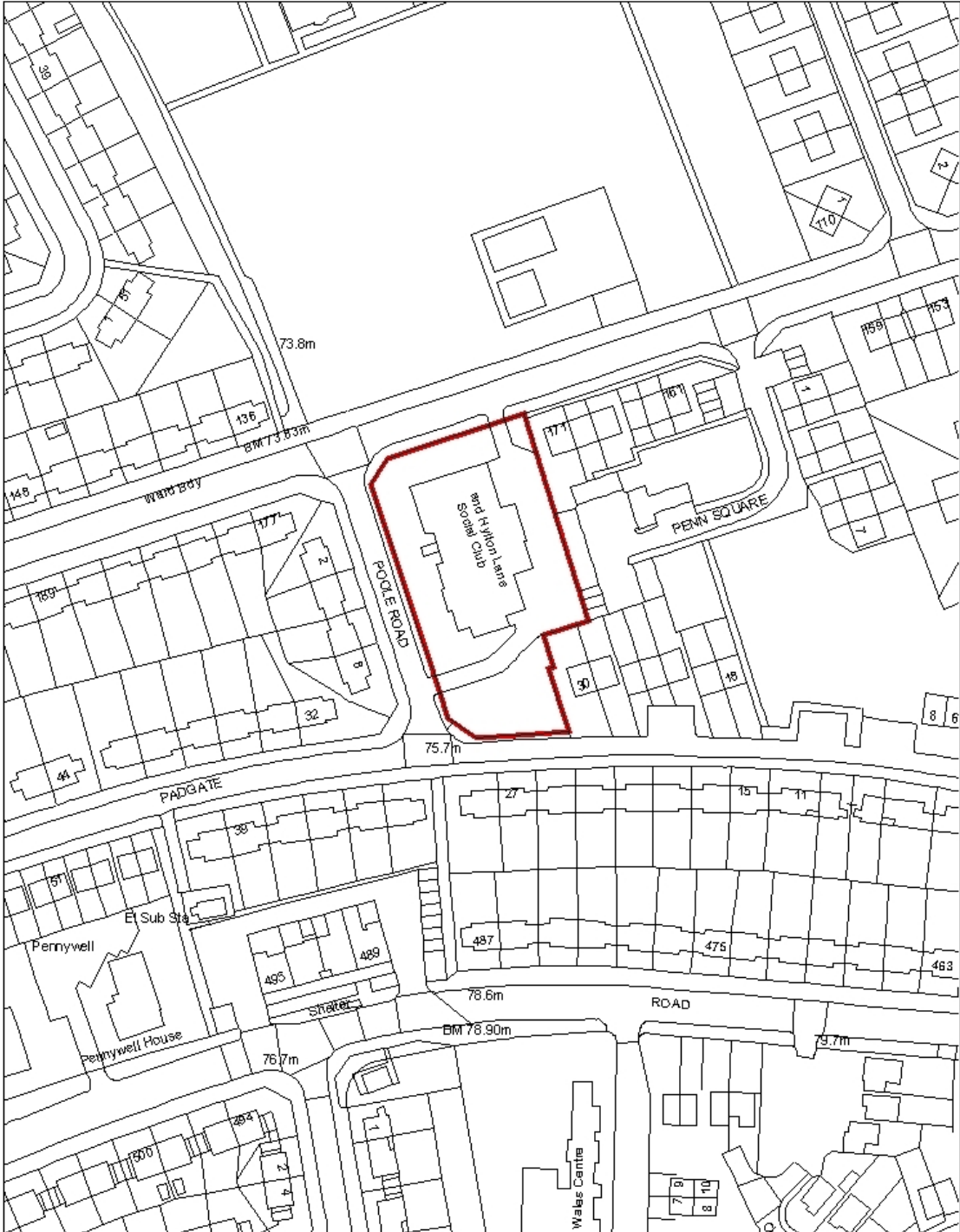
#### **3.0 Alternative Options**

- 3.1 The property could be retained within the Council's non-operational portfolio, producing an annual income of £750.00 p.a.

This alternative has been considered and rejected as it would not generate a capital receipt and would not facilitate the redevelopment of the site.

#### **4.0 Background Papers**

**Property file held by the head of Land and Property at 1 The Esplanade.**




  
**Sunderland City Council**
  
 Development and Regeneration Services
   
 1 The Esplanade
   
 Sunderland SR2 7BQ

Site of
   
**Ford and Hylton Lane Social Club**
  
 Poole Road
   
 Pennywell
   
 Sunderland

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 Licence No. 100018385
   
 Date 2006.



Date: 16.05.07

Map Ref: NZ 3656N.W.

Scale: 1:1250

## **Appendix 3**

**Extract of a valuation report from Knight Frank**

## APPENDIX – EXTRACT FROM KNIGHT FRANK VALUATION REPORT

As an unencumbered freehold interest, therefore we are of the opinion that as a cleared site ready and capable of development, the site has a Market Value of £370,000. Taking into account demolition and site preparation costs at say £50,000, this produces a net Market Value assuming a reasonable residential consent at £320,000 (Three Hundred and Twenty Thousand Pounds).

At the present time Sunderland City Council receive a rent of £750 p.a. (25p per sq m) which is substantially under rented in our opinion. We would expect industrial rents to be in excess of £2.00 per sq m and we are aware of Social Club rents in the north east region that vary from around £2 per sq m to in excess of £4 and £5 per sq m.

In assessing the Market Value of the Council's freehold interest we would apply a yield of 4% to the current income for 26 years and then a yield of 10% to the rental value at review which we have assessed at £6,000 p.a. which is £2.00 per sq m, deferred for 26 years. This produces a Market Value of the Council's freehold interest of £17,000 (Seventeen Thousand Pounds).

In assessing the Market Value of the tenant's leasehold interest we have taken into account that at the current time the tenant has the benefit of a profit rent of £5,250 p.a. which we would capitalise at 8% up to the next review date when the rent should be agreed at the market level. This produces a Market Value of £57,000 (Fifty Seven Thousand Pounds).

Accordingly, the total Market Value of the two current interests in the property amounts to £74,000 which compares with a Market Value assuming a residential consent in the region of £320,000, a difference of £246,000.

We understand that an offer has been received from the tenant to purchase the freehold interest and therefore merge the two interests in the sum of £100,000 and advice is required as to whether this is a reasonable offer and one which the Council should accept.

Assessed on the basis of a 50:50 split between Council and tenant each party would be entitled to £123,000 of the marriage value however we need to consider whether a 50:50 split is reasonable. We are of the opinion that the tenant is taking the majority of the risk in this matter given that the property does not have planning consent for residential purposes and whilst there is a reasonable likelihood that consent will be given the risk as well as the costs of obtaining the consent need to be taken into account.

Accordingly it is often the case that the split of marriage value is agreed at one third to two thirds split, especially where one party has a 'ransom' situation. As there is

not a ransom situation in this case we consider that this is also not an appropriate approach. For completeness this approach would give the Council a receipt of £81,000 which is less than the offer received.

Looking at this in a different way, if we adopted a 4% yield on the rent passing to the next review date and assume that at that time the tenant surrendered the lease because the building was not economically viable and the rent was too high to justify continuing, the Council could then redevelop the site themselves. Deferring the current site value back on this basis would produce a Market Value of £100,000. If we extend this approach to a scenario whereby the Council takes back the site and redevelops at the end of the lease, the Market Value drops to the same level as the current Market Value.

In this regard we are comfortable that £100,000 is an appropriate sum for the Council to accept for purchase of their freehold interest.

## **Appendix 4**

**Copy of a valuation report from the District Valuer**

**(Attached as PDF document)**



## **Appendix 5**

**Audit Commission letter reviewing the transaction.**

**(Attached as PDF document)**