

Dear Joss and Pat

We have now completed our due diligence regarding the proposed acquisition of this industrial investment, the details of which are summarised below.

Address: Units 1, 2, 3A, 3B, 4 and 5 Redhill Distribution Centre, Salbrook Road, Salfords, RH1 5DY

Description: comprising 6 industrial warehouse units together with parking for 134 vehicles on site and private estate road.

Tenure: Freehold.

Purchase price: £15,000,000.

Lettings: The 6 units are let on full repairing and insuring terms to Restore plc under 6 separate leases, all expiring December 2022. The costs of works to the external areas of the site and the estate road, which is privately owned, are recoverable under a service charge. It has been confirmed that Restore plc, which had a turnover of £176 m in 2017, offers a first class covenant.

Total income: The current rental income is £833,225 equating to £9.38 per sq. ft based on the vendor's floor areas. However, the rent reviews were, by mutual agreement, deferred 6 months and the actual rents agreed on review equated to £9.00 per sq.ft. If Restore decide not to renew all their leases in December 2022, Vail Williams is confident of reletting one or more units at a rent of £9.50 per sq. ft, reporting that demand is strong from both tenants and purchasers. This would result in a minimum reversionary rent of £844,000p.a. on the vendor's floor areas and £845,262 on Vail William's floor area.

Title: Hampshire Legal Services has undertaken the conveyancing and report on title. Comprehensive searches have been conducted and no major issues have been identified. The Council will be liable to pay SDLT of £739,500 to HMRC. As the property is the subject of a Transfer of a Going Concern, VAT is not payable on the transaction. All the occupational leases and documents have been reviewed. The conclusion to the report is that upon completion of the purchase of the property and registration at the Land Registry, RBBC will obtain a good and legally marketable title to the property.

Surveys: A survey report was prepared by Paragon Building Consultancy Ltd on behalf of the vendor. The report is being assigned to Reigate & Banstead BC. Paragon concluded that their inspection did not reveal any evidence of significant defects to the structure of the property. It incorporates a report by W.J. Shirley Ltd which highlights the need for an estimated £34,800 of repairs to the drainage system, the cost of which is fully recoverable from the tenant under the service charge. The benefit of their report is also being assigned to the Council. In total Paragon identified the need for £100,000 of short term service charge recoverable works. As a precaution and to obtain additional information regarding service charge costings, Vail Williams have conducted a peer review of the survey prepared by Paragon. In summary they reported that the Paragon report is a fair reflection of the condition of the building with reasonable monetary allowance made for tenant responsibility repairs. The vendor has also commissioned an Environmental Due Diligence report prepared by CBRE dated October 2018. The benefit of the report is being assigned to the Council. The report does not highlight any significant issues. It has also been peer reviewed by Justin Haves, Environmental Health Officer, who is satisfied with the findings of the report.

Valuation: Vail Williams have prepared a Red Book valuation confirming a market value of £15,000,000 for the freehold interest. The valuation reflects a net initial yield of 5.27%. As part of their brief, VW carried out a measured survey which confirmed the floor areas as totalling 8,266 sq.m (88,975 sq.ft), slightly larger than the vendor's agents areas which total 8255 sq.m (88,852 sq.ft.). They have also provided Reinstatement Cost assessments for insurance purposes.

Funds required: Funding of £15,920,200 will be required to complete the acquisition comprising the purchase price of £15,000,000, £739,500 Stamp Duty Land Tax, agents' introduction fees of £150,000, legal fees £20,000, valuation fees of £9,500, survey fee of £1,200 and an allowance of £3,000 for capitalised salaries. These figures are lower than those included in the Executive report which made an allowance of £75,000 for legal fees and £25,000 for other professional fees and capitalised salaries.

Timing: The vendor is seeking to exchange and complete simultaneously on 14 December 2018.

Conclusion: Due diligence indicates that this property offers a good acquisition opportunity with no significant risk factors over and above inherent market risks. The property offers an immediate, secure, income stream with prospects for rental growth. It is our recommendation that we proceed with the acquisition at the agreed price of £15,000,000.

Authority

Subject to a satisfactory due diligence report, Executive delegated authority for the (Interim) Head of Finance and Assets in consultation with the Director of Finance & Organisation, the Executive Member for Property and Acquisitions and Executive Member for Finance, to acquire the Freehold for investment purposes.

If you are content with this report and recommendation, please confirm if you would like me to consult Executive Members or if one of you would prefer to do this.

Kind regards

Jo