

Confidential

A SUMMARY OF THE AGREED SURRENDER OF THE LEASE TO GUINNESS HOUSING ASSOCIATION OF 23 GROSVENOR PLACE, BATH.

BACKGROUND

The current discussions in relation to the future of 23 Grosvenor Place first arose in September 2014, when Guinness Housing Association approached colleagues in the Council's Housing Services team about the possibility of surrendering their lease as part of an options appraisal they were producing. The premises no longer met their operational needs and it was their intention to re-house tenants to superior accommodation in Bath and in one case Bristol.

Effectively, the tenant is locked into the lease for another 38 years with no ability to bring it to an end. Equally the Council has no ability to release any latent value in the asset for another 38 years.

THE LEASE

Date: 2 February 1993.

Term: 65 years, expiring in 2058.

Rent: £13,000 with 5 yearly reviews to RPI. Current rent £23,160 per annum.

Estimated rental value £106,000 per annum

User: Residential use by a Registered Housing Provider or any other use subject to Landlord's consent

Assignment: Subject to landlord's consent

THE CONCEPT OF MARRIAGE VALUE

Marriage value is the latent value which is released by the merger of two or more interests in a property. In this instance, the Council's financial interest is limited to the value of the rental income capitalised over the next 38 years plus the present value of the open market value of the asset deferred for 38 years. The tenant's value is derived from the profit rent they will enjoy over the next 38 years due to the fact that at review the reserved rent is not increased to open market rental value but instead increased by indexation based against the Retail Prices Index.

The open market value of the freehold with vacant possession, however, may be well in excess of the two or more existing interests. Where that arises it is commonly referred to as the marriage value. However, in order to realise that marriage value it requires the agreement and co-operation of both parties and therefore any marriage value is generally shared on a 50/50 basis.

THE CONCEPT OF DIMINUTION IN VALUE

S18 (1) of the Landlord & Tenant Act 1927 based the measurement of the loss to the landlord arising from dilapidations on the diminution in the value of the landlord's reversionary interest. This is the difference in value between the property on the open market in its actual condition versus the value

of the premises assuming the tenant had complied with all the lease covenants. The landlord's loss is limited to this difference in values even if the cost of works is greater.

THE CONCEPT OF SUPERCESSION

Supercession is based upon the landlord's intentions at the end of the lease. A landlord may not claim a loss if it can be shown that the landlords future actions will render the performance of the lease obligations meaningless.

THE VALUATION REPORTS COMMISSIONED

Bilfinger GVA – Valuation Report – June 2016

Value of the Council's present freehold interest - [REDACTED]

Value of Guinness' present leasehold interest - [REDACTED]

Open Market Value in refurbished condition - [REDACTED]

GVA – Diminution in value appraisal - Dec 2017

Estimated cost of works to address disrepair + fees £452,650

Diminution in value is based on the difference between the "value in compliance" v "the value in actual condition" and has been assessed at £277,967 after allowance for supercession of £145,985.

Marriage value as assessed in the GVA Dec 2017 report.

The residual marriage value reflecting the cost of refurbishment but excluding the effects of the diminution in value of [REDACTED]

A 50/50 share of the marriage value would be [REDACTED] from which £277,967 is to be deducted from tenants share producing the sum of [REDACTED] - £277,967 = [REDACTED].

This produces a potential reverse premium payment of [REDACTED]

THE NEGOTIATIONS

Using the externally appointed consultants GVA, negotiations were conducted to agree terms for the surrender, which resulted in the agreement to pay a reverse premium, to Guinness Housing Association (GHA) of **£450,000**.