Recommendation for Future use of 1 Providence Place – Appendix1

Option	Comment	Risks	Financial Factors	Social Value Factors	Other Factors
Retain: Investment	In this scenario the building would be placed on the market with a view to realising the best possible rental return.	The current market and demand for office space is uncertain. Any space marketed may remain unoccupied for some time and rents projected pre COVID19 may reduce in any economic recession. Longer term rental and capital values may increase but could also further decrease subject to market conditions. The C&W report suggests that a positive income stream may be achievable within 4 years however this is based on a number of market assumptions and is subject to market lettings being secured, this income is therefore not guaranteed. Retention for investment purposes represents an element of risk and potentially better and less risky investment returns may be available. Assuming a capital receipt is available now then from a pure asset management perspective it may be more prudent to progress a disposal and reinvest this capital. If within the 4 year timeframe envisaged the building did become circa. 80% let (as per the C&W projections) the capital value of the building may increase slightly but this is still subject to risk (even if fully let dependent upon market rental levels and market demand, capital values can fluctuate down as well as up,) and the Council will have incurred significant holding costs in the meantime.	Cushman & Wakefield recommend that parking be increased fourfold. They say that demand for offices of this value outside B'ham / Solihull was weak before COVID. Providence will need to get half of likely demand for the next five years to be fully let but actually at least 20% is likely to be vacant at any time. The cashflow projection is that in 2021 there will be a revenue deficit of £280,000 with an annual net income of up to £620,000 by 2025. This income would be sufficient to cover the running costs associated with the building and make an annual contribution towards the borrowing commitment. If more than 50% of the building remains vacant the void costs increase significantly due to rates liability and service charges, in this scenario holding the asset would be a less attractive option.	Maintaining a Grade A office offer within the Town Centre ensures a variety of the offer available to businesses and if occupied officer workers based in the building would make a positive contribution to the local economy.	The income from the space currently let to BT generates an income of £384k per annum however BT have the flexibility to give 6 months' notice of their intention to vacate. No notice has been served to date however BT have been clear in their intention to relocate to Birmingham. BT have already committed to a new lease in Snow Hill, but the fit-out period is unknown. There are no other commercial tenants in the building, therefore should no other lettings be progressed prior to the BT vacation some 60% of the building will be void with the other 40% currently occupied by the Council.

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Retain: Re-purpose	Should the building be retained, and office use be no longer considered a sustainable use the repurposing of the building, such as conversion to residential use, could be explored.	Initial feasibility assessments suggest that a conversion of the building would not be viable in the current market based on the estimated development costs.	In this scenario no income stream would be generated without significant additional investment to fund a conversion, disposal for redevelopment could be considered however due the viability issue this is not currently considered the highest use value. An appraisal has been produced for the development of 102 social housing apartments as an addition to the Councils Housing Stock. This appraisal estimates that when including a reasonable value for the asset to compensate the General Fund, if the property was appropriated to the HRA, together with a conservative conversion cost this would result in a unit cost of circa. £265k per apartment. This is based on a £10m appropriation value to compensate the General Fund and a £2000m2 conversion cost. In this scenario the payback period would be 60 years.	A residential conversion in this location within the Town Centre may detract from the viability of other schemes which already have a residential allocation such as the Bull Street car park site.	If the office market does further retract and office rental values fall as a result of COVID19, it is likely that a significant number of additional premises will be put forward for alternative use, this is likely to create an over-supply in the market.
Retain - Mothball	If no offers for office lettings on acceptable terms were forthcoming another option would be to mothball the asset to reduce running costs until such time as the market recovers or a	Mothballing is not recommended as this would result in a large commercial property within the Town Centre falling into dis-use for an undefined period of time. In order to ensure a compliant and well-maintained building (essential to safeguard any future use) the Council would still incur holding costs, which may increase year on year. It is currently unknown if capital values for office disposals will recover over time and future	In this scenario no rental income would be generated whilst outgoings would still be incurred, business rates and costs associated with essential compliance works still being payable. The revenue deficit and therefore budget pressure associated with the asset would likely be in excess of £280,000 p.a.	A vacant building would have no positive value.	Apart from frequency of cleaning and some efficiencies in respect of utility consumption there are very few savings that could be generated from a mothballing exercise.

	viable alternative use comes forward.	marketing may prove challenging if a stigma is attached to a building as a result of it being unoccupied for a prolonged period (as the market would assume some issue with the space if it remained vacant and not actively marketed).			
Dispose – open market	Should it be determined that it is the appropriate juncture to consider disposal of the asset the building could be advertised on the open market.	The open market value in March 2020 was assessed at £8m, as a result in the fall in demand for office space if advertised on the open market now there may be no offers forthcoming or these may be well below the asking price. Investors would be unlikely to pay full market value unless a secure income stream could be demonstrated. Following a market disposal of the asset no income stream would be forthcoming.	A sale on the open market would have the same financial implications as a sale to the DfE in that there would be no income stream to offset the borrowing commitment. If the DfE interest is disregarded it is unlikely that a capital receipt in excess of £8m would be achievable should the property be actively advertised for sale in the current market.	Should new demand be demonstrated as a result of the marketing exercise this may be positive for the Town Centre generally but also if a new occupier could be found who was looking to relocate to Sandwell this would create jobs etc.	During the marketing of the vacant 4th floor expressions of interest were also invited from interested parties who may have a requirement for more space. Several interested parties came forward interested in taking 1 or 2 floors no larger scale office requirements were identified. The Council's agent commented that the number of dedicated parking spaces could be a negative factor.
Dispose - DfE	Proceed with the DfE negotiations within the parameter set out within this report.	Without an open marketing process there is no test to ensure the optimum value is being achieved. Following a disposal of the asset no income stream would be forthcoming.	The financial considerations of this option are set out in detail within the report and will be confirmed by the recommender SIU appraisal however in summary any price negotiated would be well below the purchase price paid by the Council in 2014 and without a future income stream the capital receipt is insufficient to offset the Council's borrowing commitments associated with this asset. Following a period of negotiation it is likely that the best terms available would be a capital receipt, at not less than market value, for the asset inclusive of the development plot, together with a capital contribution	Development of the new school is expected to raise the profile of West Bromwich and attract additional visitors and investment as a result. The influx of school pupils into the Town Centre would also have a positive impact in the locality. The Council would also work with the DfE and the Trust in terms of the development and future operation of	This is the only option which safeguards the location of the new 750 space Free School within Sandwell and enables the DfE to deliver the associated school places in readiness for September 2023.

			towards essential maintenance at the Town Hall.	the School to ensure maximum community wealth related outputs (jobs, investment, community engagement etc.).	
Council Funded School	The Council is unable to open a maintained school, any new school has to be an academy. The Council could convert Providence Place ourselves, and have offered the DfE the option to self-delivery to achieve an earlier opening. However, this would have a number of significant risks both for the council's finances and the schools capital programme as a whole	The CBSO sponsored school would not be delivered as the DfE have made it clear that if a site cannot be identified in Sandwell they will delivery it in Birmingham, who after receiving a £0 basic need allocation this year will be more than willing to forgo the inappropriateness of the school relocating across border. The Council will subsequently have to go through a full presumption to select a new MAT to open a new school, which would mean the earliest the school could open would be September 2022, assuming vacant possession September 2021.	In terms of funding , once the 3 school related schemes have been approved we will have no spare capital. We do anticipate a larger allocation next year , however the first £8.2m will need to be "repaid" back into the condition pot for the programme to replace/refurbishment of Primary Schools in the worst condition. The remainder will be used to bring forward planned future expansions to manage the expected shortfall because of the delays in the delivery of both Chance Academy and the CBSO school.	This would then have a significant impact on the council's capital schools programme and create a larger cash flow challenge. In addition, Sandwell would miss the opportunity of a prestigious arts and cultural offer	If the Council chooses not to recommend the CBSO option in favour of presumption there will be a significant cash flow challenge, with us needing to identify circa £18m for the refurb in 21-23, in addition to the loss of Providence Place for sale or income generation."