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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY
SUB-COMMITTEE ON DISPOSAL OF PUBLIC SECTOR ASSETS

DISPOSAL OF NEW TOWN ASSETS

Memorandum by the Secretary of State for the Environment

In August I commissioned a leading firm of estate agents, Healey & Baker, to advise me on the disposal of new town assets. I have now received their report; I attach extracts from it.

2. The main conclusions are that

a. there is some £256 million worth of assets suitable for immediate disposal, although not all of this could be sold at once;

b. a further £117 million worth will become available for disposal in 1980/81 as rent reviews, etc, are complete;

c. there is a further estate of probably at least £195 million where disposals will have to be negotiated with those already holding interest, but where sale on advantageous terms is probably possible;

d. apart from housing, little of the other new town assets are suitable for sale on the market.

3. As the result of previous plans and of changes made at the time of the budget, the English new towns were committed to realising commercial and industrial property to the value of £40 million. In July I asked the new towns to undertake a further programme of disposals in the current financial year, and assured my colleagues that a further £70 million would be forthcoming.

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4. The Healey & Baker report suggests that the property market could absorb sales of as much as £200 million in the rest of the financial year. From other advice I would regard this as very much the upper limit of the range of possibilities. The amount realisable is also limited by the practical difficulties of completing sales on this scale between now and next April.

5. The further programme which I asked the English new towns to undertake had a target of £100 million, giving a total of £140 million for sales of completed property in the current financial year. The English new towns are now organised to achieve sales of this figure, and have accepted that they should do so. Since I presently lack powers to compel sales, this co-operation is important.

6. Four questions arise for decision:

- (a) the scale of sales in the current financial year;
- (b) the amount to be raised in 1980/81;
- (c) what should be the disposals programme after April 1981;
- (d) what pattern of sales is acceptable.

7. On the first question, I propose that we should not look for sales greater than the £140 million currently being organised. This sum will be realisable, and is £30 million more than I have so far assured colleagues can be raised. With the other capital receipts of the new towns, this will ensure that, leaving aside investment in housing, roads and sewers, there will be a surplus of £62 million (in cash limit terms) on the English new towns public expenditure programme.

8. Secondly, I propose that for the next financial year (1980/81) we should aim for disposals of £200 million: with a longer period in which to arrange the sales, disposals on this scale should be feasible. After allowing for reduction in gross investment in new towns, and other capital receipts, this should provide a surplus of about £125 million - one quarter of the programme of disposals proposed by the Treasury. This should enable us to reduce significantly any sales of BP shares.

9. Thirdly, I am not yet in a position to make proposals for the further programme of disposals of new town assets. There will not, of course, be sufficient assets remaining to maintain such a high level of asset disposals after 1980/81. Further work is needed to identify the extent to which assets, if sold now, would be insufficient to cover the non-housing debt, and to prepare proposals for dealing with this question.

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10. Finally, I regard it as important that we should ensure that the sales are not solely to the financial institutions. Some new town industrial and commercial tenants are likely to buy their freeholds, but it is also important that we involve the man in the street. I therefore propose that we should set a time-table for the work by officials on methods of involving the small investor in sales of Government assets. This work must be complete in time to allow it to be applied to next financial year's sales of new town assets.

M H

Department of the Environment
2 Marsham Street
LONDON SW1

30 October 1979

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YOUR REF

The Right Hon. Michael Heseltine MP.,
 The Secretary of State for the Environment,
 2, Marsham Street,
 London, S.W.1.

13th September, 1979.

Sir,

DISPOSAL OF NEW TOWNS ASSETS

- 1.1. On 16th August 1979 we were instructed by your Department to provide a report on certain matters relating to the proposed disposal of New Town Assets. Our terms of reference are reproduced at appendix A to this report.
- 1.2. In the time available we have concentrated on the first four items in our brief which for convenience sake can be summarised as:
 - i) An assessment of the industrial and commercial assets of the twenty-one English New Towns.
 - ii) Our views on which of those assets are most suitable for immediate disposal.
 - iii) Recommendations on the conduct of an immediate disposal campaign.
 - iv) A review of the equivalent programme put forward by the New Towns Association.



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- 1.3. In order to complete our report within the time scale required, we have, as agreed with your permanent officials, relied upon the information provided by the individual New Towns Corporations as to tenure, tenancy, construction and dimensions. Further we have as agreed adopted a sampling method of valuation by which a cross section of each type of property in each town has been examined in some detail and the comparison between our conclusions and those drawn by the individual Corporations own surveyors has been used to adjust the values attributed by the Corporations to the remaining properties.
- 1.4. Notwithstanding the foregoing each property included in the immediate disposal campaign has been considered individually and our assessment in this respect is totally independent of any views or recommendations put forward by the individual New Towns Corporation or any other party.

2. SUMMARY OF PRINCIPLE CONCLUSIONS

	Page	Paragraph
2.1. The 21 New Towns in England presently own the freehold of property assets suitable for immediate disposal which we believe could be valued on an open market basis at a total of approximately £256m.	87	5.5.
2.2. In addition they own other assets which will become ripe for disposal in 1980/81 and which we consider could on the basis of todays market command a total of approximately £116.8m.	104	7
2.3. The maximum amount of property the market can digest without disruption, and the maximum amount selling procedures can handle if completion is to take place by 31st March 1980 is £200m.	4	3.2.
2.4. We recommend that you defer discussing the sale of assets where special interests exist (e.g. from occupational lessees) until the first phase negotiations have been completed (approximately February 1980) while noting that they are valued by the New Towns at a total sum of £195m	105-108	8 and 9
2.5. Those properties that are to be sold immediately should be offered by tender legally binding on the bidder if accepted, to achieve which the selling agents must be instructed to proceed by 1st October, 1979.	11 and 13	4.1 and 4.3.

DISPOSAL STRATEGY3.1. Size of the Market

Appendix 'C' to this Report shows that the total of funds absorbed by all forms of investment made by the Institutions during 1978 was £8,355m of which 13.6% was placed in property. The proceeding five years showed varying percentages between 14.1% and 21.2%. We attribute the relatively low percentage in 1978 to the shortage of prime stock, particularly in the last three quarters of the year.

Policies will vary between Funds but across the board we expect Funds to seek to allocate 20/25% of the disposable income annually to property investment and thus, ignoring any increase in the total money available for investment between 1978/79, there would on 1978 figures appear to be approximately £1,880m available for real estate investment in the current period. We have not so far had access to any reliable figures for 1979 but our monitoring of the market suggests that funds are not achieving the 20/25% norm referred to above and we would be suprised if as much as 13.6% is satisfactorily being placed.

3.2. Amount to be offered

It seems therefore statistically that the market ought to be able to absorb a New Towns disposal programme of £700m in a twelve month period but we believe that the availability of anything approaching this amount would totally distort the investment picture and lead to a dramatic increase in property yields. It is our firm belief that the maximum amount should be put on the market in the current disposal campaign is £250m and we believe this should be accompanied with a statement that the intention is only to lift £200m. For marketing reasons, no committment should be made to a second campaign.

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3.3. Size of lots

Because of the urgency of the immediate campaign, attention has also got to be paid to the resources available to handle the properties. We are more concerned about the problems facing prospective purchasers than the New Towns or their Agents, who would appear to be better placed to acquire additional help if required. The likely purchasers are however relatively restricted in number and generally have limited professional staff and advisers. To achieve a satisfactory result, including a spread of purchasers, we believe that a range of size of lots should be presented to the market perhaps as follows:-

Up to 10 lots price range £10 - 15m

Up to 20 lots price range £5 - 10m

Up to 20 lots price range £1 - 5m

Up to 20 lots price range less than £1m.

It might be practical and advantageous to subdivide the largest sized lots and simultaneously invite bids for the component parts to ensure the best price possible has been obtained. Further, as indicated above, our strategy presupposes offering for sale more properties than are needed to meet the budget which would have the benefit of giving a safeguard against disappointments and simultaneously allowing flexibility in ultimate decision taking, while making it clear to the prospective purchasers that offers would only be accepted if they were on an attractive basis.

We have no reason to suppose the marketing of a very high percentage of the property assets of any given town would detract from bids received for the individual lots.

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3.4. Calibre of properties to be offered

The Institutional Investment Market is ideally seeking risk free quality properties without complicated management requirements. Certainly if the immediate sales programme is to be successful, having regard to the time factor, the properties offered must be legally clean and presented to the market with all information assembled and tabulated.

3.5. Reversionary properties.

Whilst the market will react most favourably to holdings let at full market rentals with frequent reviews, properties falling short of this criteria should sell well. In particular those situations where rent reviews or reversions are due within five years will be keenly sought after but of course there will be a discount on price to offset uncertainty and risk. Clearly a higher sum would be achieved by selling those assets once all reviews had taken place. Because there is a disproportionate discount for uncertainty, we have eliminated from immediate sales any property where a material part of the holding is subjected to a rent review or reversion within twelve months of the date of this report.

3.6. Conduct of rent reviews and lease renewals.

In connection with properties where rent reviews or lease ends are near, existing landlords must inevitably open negotiations with sitting tenants in a short space of time. In the course of our investigation it has become apparent to us that particularly in the Town Centre shopping positions, many of the New Town Development Corporations appear to be working to rental values that we think are materially below open market value. If they quote new terms to the tenants based on those they appear to seek to adopt, then we wish to draw to your attention as forcibly as we can that capital value will be materially destroyed not only in the one asset in question but in those in surrounding locations.

3.7. Residential Property

Generally the Institutional Investment Market is not anxious to acquire residential holdings. In a number of cases however Town Centre Shopping is underneath substantial residential accommodation and thought needs to be given to whether these properties should be included or excluded from the disposal list. From the Institutional Investors point of view, the quality of the shopping is high enough, then the complication of residential ownership will be accepted but there is an ancillary point to bear in mind that this type of commodity could also be attractive to certain speculators involved in the residential break-up field, and with which the Government may not care to be associated. It will be very difficult and in our view impractical to divorce the sale of the residential accommodation from the commercial accommodation where they are physically intertwined and it may therefore be preferable to give consideration to introducing into the conveyance a restrictive covenant against subsales of the residential element.

3.8. Freehold or Leasehold disposals?

The purchasing funds preference will be to acquire freehold interests in all property. Indeed certain assets will in our opinion only be sold if the freehold is offered but others, because of the strength of their appeal to the market place, could be disposed of on a leasehold basis. Were a decision taken to sell such properties as leaseholds there would undoubtedly be a cost penalty of varying size depending on the asset in question, but in the general range might be $\frac{1}{2}$ %-1% on the yield which could in turn be expressed as a generalisation as 7-25% on the capital value. Clearly the

longer the lease offered (on the assumption it is at a peppercorn without review) the nearer the values of the freehold and leasehold interests come together.

It can be argued the New Towns have achieved a unique and privileged position by owning the freehold assets of entire townships or or particular parts of them. Undoubtedly unification of ownership assists comprehensive redevelopment when it becomes necessary and further with divided ownership it is far more difficult to achieve comprehensive estate management and introduce general amenity projects. If it were decided that the freehold should be retained then undoubtedly the most popular form of leasehold disposal would be that referred to above but other arrangements are quite readily contemplated not least of all the lease and leaseback system that has been common place for financing the New Towns of late. In contemplating the disposal campaign it would be following earlier precedent if bids were invited from interested parties on alternative footings. Such an arrangement would undoubtedly focus the mind on the financial penalty of retaining the freehold but it could be argued on the other hand that with the intensive campaign that is immediately required it is preferable to channel the prospective purchasers mind and enthusiasm to the freehold of the best assets he may desire. The futher argument that supports freehold disposal is that the community at large ought to be able to rely satisfactorily on the Town and Country Planning system in both the short term and the long term to ensure that the best interests of parties directly concerned are protected. Perhaps if additional safeguards are required in particular circumstances, it would be feasible to impose some form of restrictive covenant in the freehold conveyance.

3.9. Immediate timetable

The requirement for the proceeds of the first phase disposals to be realised by 31st March, 1980 imposes a stringent timetable on those who are concerned with it. If the programme is to succeed it is, as we see it, imperative that decisions are taken by 30th September, 1979 as to the properties that are to be included and that full particulars for sales purposes are in the hands of the appointed selling agents seven days thereafter. A more detailed programme is set out in paragraph 4.3. below.

3.10. Subsequent Disposals

Those properties which we list later in this Report as being suitable for immediate disposal are those which, irrespective of financial size are likely to appeal to the Institutional Investor. The properties so categorised are together, in our opinion, capable of producing a sum materially in excess of that we consider should be sold on the market immediately. The residue can therefore form the core of future campaigns particularly in 1980/81. As indicated above we have excluded from the immediate disposals list those properties where rents have to be renegotiated within the next twelve months, but logically, providing the work is progressed diligently, settlements ought to be affected in sufficient time for all those properties to be included in a 1980/81 disposal programme. The numerical majority of properties in New Towns are let on long leases often at a ground rent in favour of occupational tenants. These properties are generally not suitable for open market disposal particularly where rent reviews are at longer intervals than ten years. There is nevertheless a

potential market for them given the co-operation of the sitting tenant and we have classified all such properties for special consideration.

Similar situations can arise where the New Towns have already introduced funding institutions on a lease and lease back scheme. Because negotiation of tenant sales is a complex, highly professional and time consuming business, we recommend strongly that they are excluded from the immediate selling campaign. There may be instances where occupational lessees make uninvited bids and if these appear superficially to be particularly attractive then we recommend that we are commissioned to consider those properties out of turn and as special commissions.

4. MARKETING PROPOSALS

4.1 Method of sale

We expect there to be fierce competition between purchasers for most if not all the properties that we have indicated are suitable for immediate disposal. It is clearly vital that the best price is obtained and that all parties have been given a fair opportunity to make a bid. For this reason if no other we rule out the possibility of any of the immediate sales being undertaken by private treaty and the choice therefore is between auction and tender.

On the whole we lean towards the latter for these reasons

- a. There is little chance of buyer's rings being formed.
- b. It will be easier to assess the results of the tender and more time will be given for decisions to be taken on the results.
- c. Tender procedure will give the New Towns the final decision on which properties are sold and at what price, to achieve the total sum required.
- d. We believe that more Funds will be willing to bid by tender than by auction.
- e. The tender procedure is already well established amongst the Institutions in relation to New Towns Disposals.
- f. Tender procedure forces the prospective purchaser to make his best bid and frequently exceptional offers are obtained this way to the advantage of the Vendor, whereas by auction, the price achieved is inevitably one bid higher than the second most optimistic purchaser.

There are however different forms of tendering procedure adopted from time to time and of the usual choices - informal tender, restricted tender and legally binding tender - we opt very strongly for the last, the emphasis being that the tender is binding upon the purchaser if accepted by the Vendor within a given period.

In terms of handling the disposals we are aware that the New Towns Association has appointed two firms and we believe that better results will be achieved if each firm is given a specific number of properties to handle solely rather than all sales being conducted jointly by the two Partnerships. Nevertheless their activities must be closely co-ordinated - and we would be prepared to assist in this respect - but in principle we believe that

- a. Tender documents should arrive at the offices of prospective purchasers over a period of time (some from each agent at any given moment).
- b. Tenders should be returnable over a period of time as indicated in paragraph 4.3. below.

4.2 Legal Procedures

We are concerned that there should be no delay in the disposal campaign as a result of the requirements of conveyancing procedures. It may therefore be an advantage if the New Towns were to contemplate appointing outside firms of conveyancing solicitors providing the firms chosen are accustomed to dealing with the type of transaction involved, and preferably the type of purchaser likely to be interested. We are in a position to recommend such firms to you if it would be helpful and we anticipate that any firm chosen would deal with a restricted number of towns with particular help being given to those Corporations whose legal staff is for one reason or another below strength. It is an inevitable consequence of adopting a tender procedure that the entire legal work is prepared before the tender date and there will therefore be extreme pressure on the New Towns Legal Advisors in the latter months of 1979.

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4.3. Programme of Work

The programme of work we consider reasonable as a result of the foregoing recommendations is:-

1st October	Properties for immediate disposal agreed.
7th October	Property particulars in the hands of the Agents.
14th October	Press and advertising announcements made, listing the addresses of the properties to be offered.
1st-14th November	Preliminary particulars to prospective purchasers.
1st-14th November	Advertising campaign
1st-14th December	Tender documents despatched to interested parties
1st-21st February	Tenders received
25th February	Selling decisions made
28th February	Tenders accepted as appropriate
31st March	Completion and payment of consideration

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