



Generating capital and revenue from trust estate: what next?

This article explores hot income-generating trends.

Surplus public sector land

The residential housing market has continued its relentless rise through the early part of 2014, led by significant further advances in the average house price in London and the South East. One of the fundamental drivers of the rising market is the chronic imbalance between supply and demand, which has led to numerous Government policies to stimulate the building of new homes.

One of those Government policies has been the acceleration of the release of surplus public sector land for housing, with a target of 100,000 new houses to be built on ex-public sector sites by 2015. Given that 134 NHS trusts, ambulance trusts and FTs have identified surplus estate, the NHS will need to play a significant role if the Government's target is to be met.

Over the last year, we have seen the release of a number of capital funds (for example the HCA Investment and Acquisition fund and the DH Growth and Efficiency Fund) and support initiatives to assist trusts in disposing of surplus property and Capsticks expects disposals to feature heavily in many of our clients' estates strategies for the next few years. Given the favourable market and planning environment, there are opportunities available for those trusts that are moving forward with disposals to maximise capital receipts and reduce property holding costs.

We have been working with our clients on numerous disposal projects, ranging from the sale of single, terraced houses for residential use to regeneration projects with overall development values in the hundreds of millions, involving mixed use schemes and exciting re-developments of retained estate. Regardless of the value, there will always be a number of disposal routes available, whether by tender, auction, private sale or innovative joint venture and deciding on the correct route is always extremely important. In addition, structuring the payment mechanism properly, for example, by using overage or clawback, will ensure that maximum value is obtained.

We are anticipating another busy year of disposals and look forward to working with existing and new clients to assist them in delivering their disposal projects on time and on budget and in a manner which maximises the benefit to the NHS.

Ideas for generating income

In 2014, NHS provider organisations continue to operate in a challenging economic environment, with no let-up in cost efficiency and savings targets. As a result, many organisations are exploring options and opportunities for generating income from their estate, by placing retail outlets and other facilities on their hospital sites.

Retail concourse developments

A key consideration on any retail concourse development will be achieving the right mix of occupiers. Trends come and go: while flower shops were often viewed as essential occupiers in the past, there has been a clear movement towards getting well-known high street brands on to NHS hospital sites, with the likes of Costa Coffee, M&S, Boots and WH Smith all making an appearance. An M&S store has proved to be a popular addition to one London hospital site, with a much higher turnover than anticipated as a result of hospital staff stocking up on groceries after finishing their shifts. This demonstrates the importance of ensuring that the trust obtains a good commercial deal with such a tenant and achieves a fair share of the profits via a turnover rent. An M&S/Sainbury's-type occupier can provide added value with its supply of a broad range of products, reducing the need for numerous small shops and ensuring the best use of available space. Any specific products required to be stocked (or prohibited from sale) can be agreed as part of the commercial terms.

Different transaction models can be considered when embarking on a concourse redevelopment:

- the trust may prefer to retain overall control, leading on the development itself and granting leases directly to end occupiers; or
- the trust could appoint a developer to undertake the development, enter into a lease and grant subleases to the end occupiers, thereby taking on the risk of void spaces.

Even where a trust is satisfied that its available retail space is fully occupied, it can be valuable to review whether the current occupiers still represent the best use of the space, on the best available terms. If not, the trust could consider whether any lease break rights could be exercised, or whether it would make financial

sense to pay out and terminate existing arrangements in order to place a more profitable occupier in the space. As always, it is crucial to ensure that all occupiers have appropriate documentation in place so the applicable terms of occupation are certain and, ideally, the terms are the best that the trust could expect.

Other options

Aside from retail concourses, other options for income generation can include:

- **Telecoms operators.** A well-known feature of the Telecommunications Code is that it is notoriously difficult to remove a telecoms operator once in occupation. Therefore, any proposed occupation by a telecoms operator requires careful thought, particularly where future site redevelopment is planned. In our experience, telecoms deals have generally proved to be far less lucrative than originally anticipated.
- **Car parking facilities.** Car parking facilities (and any resulting income) will vary from site to site: while an open car parking area may be appropriate for a large rural hospital site it is less likely to be appropriate for an urban hospital with limited space. Multi-level car parking facilities can be an attractive (albeit expensive) development option where space is at a premium and we have variously seen standalone multi-storey buildings, and additional levels being constructed either on top of or underneath existing buildings. It may be that car parking requirements can be taken into consideration in other developments on the site. For example, car parking has formed part of the commercial deal on some PFI developments, with a certain level of income being taken into account to reduce the service payments payable under the project agreement.

- **Staff accommodation developments.** It is vital that any such arrangements are thoroughly researched to establish that there actually is a market need and, if so, the appropriate commercial model.
- It is important in the context of all revenue generating ideas that your legal and specialist advisors review your existing arrangements and establish the most appropriate structure, commercial terms and legal protections for new developments in order to maximise returns.

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