

# GREATER LONDON AUTHORITY

## REQUEST FOR MAYORAL DECISION – MD2476

### Title: Siemens Crystal Early Lease Surrender Deal

#### Executive Summary:

An opportunity has arisen for GLA Land & Property (GLAP) to agree an early lease surrender for the Siemens Crystal building with Siemens PLC (SPLC) in exchange for a lump sum payment which will protect the GLA financially. The SPLC lease was formerly part of the property acquisition deal made between GLAP and SPLC which had a 7-year leaseback period and is due to expire in 2023.

The Crystal is located on an important strategic site, forming the gateway to the Royal Docks. The Royal Docks is currently seeing major investment and regeneration and is London's only Enterprise Zone. Extinguishing the current lease arrangement will allow the GLA to boost regeneration activities on this key site by making better use of the building for the local community. This will include engaging them in developing a plan for the longer-term use of the building whilst also offering much more flexible and useful space to promote investment into the Docks.

#### Decision:

That the Mayor approves:

1. An early surrender of Siemens PLC leasehold interest in the Crystal in exchange for a lump sum payment as set out in Part 2;
2. Expenditure on the longer-term planning and transition work required to repurpose and re-let the Crystal as set out in Part 2;
3. The loss of rent over the next four years and the additional operational and maintenance costs during this period, which will be reflected in an adjusted GLAP Estates budget;
4. The budget for renovating the Crystal building, as set out in Part 2, noting detailed spending proposals will be subject to further approval via MDs and DDs;
5. Any additional investment required to be recuperated from savings in later Estates budgets as set out in Part 2; and
6. In the event of the deal falling away, legal and dilapidations survey costs as set out in Part 2 for which the GLA will be liable from the GLAP Estates budget.

#### Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:



Date:

24/6/19

## **PART I – NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR**

### **Decision required – supporting report**

#### **1. Introduction and background**

##### Context

- 1.1 The building known as the Crystal sits within the Royal Dock Enterprise Zone in the London Borough of Newham. It was designed and built by SPLC with an ambition to showcase cutting edge sustainable technology. This was by using sustainable mechanical and engineering services within the building and by means of a permanent ‘Sustainable Cities’ public exhibition.
- 1.2 The Crystal was bought by GLAP in 2016 (MD2035). The acquisition was made to protect and take advantage of one of the most important sites in the Royal Docks and provide rental income of £1.75m per annum from SPLC through a leaseback until 2023.
- 1.3 In August 2018 a £212.5 million Royal Docks Delivery Plan was approved by the LEAP Board and the Mayor (MD2338) to regenerate the Royal Docks. The Delivery Plan aims to ensure the successful and inclusive regeneration of the Royal Docks by investing in a number of projects and initiatives based on five key themes: place, connectivity, activation, economy and promotion. These will assist in the inward investment and economic development that in turn will generate the growth in business rates within the Enterprise Zone which is the basis for the Delivery Plan budget.
- 1.4 Following the approval of the Royal Docks Delivery Plan, SPLC approached the GLA expressing interest in an early lease surrender. This provides the GLA with an important opportunity to showcase and help deliver early regeneration projects at the Crystal which will be one of the few GLAP freehold sites with no third party leasehold interests. It is also extremely accessible in its location and will allow the Royal Docks Team to host regeneration activities, including offering a space for community events and feedback.
- 1.5 In 2017 the Royal Docks Team commissioned New London Architecture (NLA) to carry out a scoping exercise to explore the idea of establishing an East London regeneration centre at the Royal Docks. The NLA found that the concentration of development activity in the area, coupled with a lack of space to showcase or exhibit information about the Royal Docks meant that a regeneration centre was in high demand. In response, the Royal Docks Team established a Royal Docks exhibition and regeneration themed events programme and the Crystal was identified as a potential site for this project due to its location and architecture.
- 1.6 The early surrender of the lease also creates an opportunity for commercial income and value-generating events. Sodexo, a third-party service provider, already runs a successful conferencing facility delivering corporate events at the Crystal and this could be expanded if the GLA secures the building and replaces the outdated fixed exhibition space. Alongside SPLC and Sodexo, the Royal Docks Team are also currently based in the building.
- 1.7 SPLC have expressed keen interest in negotiating an early surrender of the lease in exchange for a lump sum payment to the GLA. There are several benefits to be had through this deal:
  - It is inevitable that the GLA must plan for the future of this asset. The early surrender brings forward this planning to coincide with wider regeneration plans for the Royal Docks and with the benefit of a financial premium.
  - The financial terms proposed by SPLC reduce commercial risk for the GLA. The GLA has carried out necessary due diligence to value the deal which will have a net benefit. Further details are set out in Part 2.

- The lumpsum payment allows for an extended period of time to explore and find a sustainable use for the building. This is referred to as the 'Transition Period' in this report. The budget for this work to be carried out is set out in Part 2. Additional revenue may also be generated through testing new uses in the short to medium term once the building is under the control of the GLA.
- Finally, if the GLA is to regain control of the Crystal, this will boost regeneration activities already planned by the Royal Docks Team. This includes capacity for activities such as ongoing community consultation, events, education programmes and exhibitions.

1.8 The opportunity of this deal is time sensitive and will only be available for a limited period before it becomes more beneficial for SPLC to stay in place until 2023.

### Transition Period

1.9 A transition period will keep the building open and fully operational. This will allow substantial regeneration activities to utilise the space whilst the GLA plans for the long-term future of the Crystal. During this period the GLA will secure the current primary use of the building as a successful conferencing and events venue, test new uses, engage with the local community and support the Royal Docks regeneration programme, including accommodating the growing Royal Docks Team and providing space for a regeneration exhibition and architecture model for both the local community, development partners and other key stakeholders. The Royal Docks Team anticipate this period will last two years.

1.10 The GLA will novate an existing contract SPLC has in place with Sodexo, who currently provide the most active and income-generating use of the building and have expressed an interest to remain. To smooth the transition and retain a high level of activity at the Crystal, Sodexo will continue to provide conferencing services in line with their existing contract.

1.11 During the transition period, the GLA will provide Facilities Management for the building via the GLAP Estates Team with consultant support. The GLA has carried out a scoping exercise to understand costs. Alongside these costs, an approach to the stewardship and management of the building has also been assessed and factored into costs set out in Part 2.

1.12 Officers have considered how the long-term plan for the Crystal will complement and take advantage of the regeneration work already underway at the Royal Docks. The Crystal will benefit from many of the projects and initiatives being delivered by the Royal Docks team. Plans for its long-term future will also be developed by the Royal Docks Team in consultation with GLAP Estates to ensure that both commercial and regeneration potential is maximised.

## **2. Objectives and expected outcomes**

### Delivering Regeneration Benefit

2.1 Following the departure of SPLC, the early surrender will provide space for the Royal Docks Team to support the Mayor's Good Growth Agenda by providing space to profile, and engage the community in, the significant amount of regeneration activity underway in the area.

2.2 The Royal Docks Team already have a number of activities planned, including a Royal Docks regeneration exhibition with architecture model and associated events programme. New London Architecture have been commissioned by mini competition to deliver this exhibition and events programme. This will include educational outreach to local schools and events for built environment professionals which will promote the regeneration underway at the Royal Docks. This activity will be piloted in 2019-20 and potentially scaled up depending on its success. There is additional scope to

extend the Royal Docks Team's activation programme to include space inside the Crystal for community-orientated events. This has positive economic impacts surrounding promotion and communication and also prioritises social inclusion in a rapidly changing context.

- 2.3 Space will be set aside for community engagement and 'touch down' space for co-working and collaboration. The ambition is for the Crystal to become more open and inclusive to the local community and offer more uses and a choice of activities during the two year transition period.

#### Mitigating Organisational Risk: Long Term Asset Planning

- 2.4 This decision will approve a budget to carry out the required work to establish a long-term plan for the Crystal. This will include expertise on property finance, design and sustainability (NB: the Crystal is a bespoke building made with specialist sustainable equipment).
- 2.5 The early surrender will allow the long-term plan to take early advantage of emerging regeneration activity in progress and managed by the Royal Docks Team.
- 2.6 The outcome of this work will provide an approach to the use and design of the asset that will ensure future commercial sustainability.

#### Commercial Benefit

- 2.7 JLL (Jones, Lang, LaSalle) have provided commercial advice valuing the surrender deal. The deal with SPLC will provide the most commercially favourable conditions for the GLA to repurpose and re-let the building.
- 2.8 Further commercial outcomes are set out in Part 2.

### **3. Equality comments**

- 3.1 Under Section 149 of the Equality Act 2010, as a public authority, the GLA must have 'due regard' of the need to:
- Eliminate unlawful discrimination, harassment and victimisation; and
  - Advance equality of opportunity and foster good relations between people who have a protected characteristic and those who do not.
- 3.2 The London Borough of Newham is one of the most disadvantaged boroughs in London and one of the most diverse in terms of faith and ethnicity. It is paramount to communicate what is happening across the Royal Docks effectively, considering the substantial investment to regenerate the area for the benefit of all communities. The Crystal could provide an important hub offering drop-in space for public consultation and a free exhibition for all. The exhibition will communicate both the history of the Royal Docks, acknowledging the value of the existing area alongside the regeneration work ongoing. This will include an interactive physical architecture model designed to cater to a wide audience. As a result, the GLA's assessment is that this initiative will not have an adverse effect on any groups with a protected characteristic and will assist in fostering good relationships between groups.
- 3.3 There is also a high proportion of young people in the borough compared to other London Boroughs. The exhibition commission for the Crystal will provide educational outreach with Newham schools and host local community events. The Royal Docks Team have additionally made an application to host a GLA 'Growth Hub' at the Crystal. This is a skills and training programme which would host workshops and provide desk space for local people.

#### **4. Other considerations**

- 4.1 This decision considers a commercial opportunity to make the best use of a GLAP asset.
- 4.2 The Royal Docks Team are located within the Crystal. This means the team will be able to maximize use of the building whilst closely monitoring it, either through Royal Docks Delivery Plan projects or as part of the community engagement programme.
- 4.3 The Royal Docks EZ Delivery Plan projects are aimed at implementing a number of the Mayor's policies such as the London Plan, A City for All Londoners, Healthy Streets Approach, draft Culture Strategy, London Housing Strategy, Transport Strategy and is aligned with the Mayor's Equalities Framework to consider the requirements of relevant equalities groups.

#### **Key Risks**

- 4.4 The commercial risks are outlined in Part 2.
- 4.5 The transition period approach puts responsibility on the GLA to adequately manage and activate the building which will require committed resource. Officers have explored early options for how this will be managed, including budget for internal or consultant capacity.
- 4.6 The communications surrounding the early surrender must be carefully managed from both SPLC and GLAP. This should communicate the support of SPLC for GLA regeneration objectives.
- 4.7 If the deal falls through the GLA are liable to pay the professional fees for legal and dilapidations survey costs incurred up to that point. The budget for professional costs is set out in Part 2.

#### **5. Financial comments**

- 5.1 This decision requests approval for the early lease surrender (to expire in 2023) for the Siemens Crystal with Siemens PLC (SPLC) in exchange for a lump sum payment. Financial comments are included in Part 2 of this paper.

#### **6. Legal comments**

- 6.1 Section 30 of the Greater London Authority Act 1999 (as amended) (GLA Act) gives the Mayor a general power to do anything which he considers will further one or more of the principal purposes of the GLA as set out in section 30(2) which are:

- i. Promoting economic development and wealth creation in Greater London;
- ii. Promoting social development in Greater London; and
- iii. Promoting the improvement of the environment in Greater London

and, in formulating the proposals in respect of which a decision is sought, officers confirm they have complied with the GLA's related statutory duties to:

- Pay due regard to the principle that there should be equality of opportunity for all people;
- Consider how the proposals will promote the improvement of health of persons in Greater London, promote the reduction of health inequalities between persons living in Greater London, contribute towards the achievement of sustainable development in the United Kingdom and contribute towards the mitigation of or adaptation to climate change in the United Kingdom; and
- Consult with appropriate bodies.

6.2 Sections 1 - 3 of this report indicate that the decision requested of the Mayor falls within the GLA's statutory powers.

**7. Planned delivery approach and next steps**

<b>Activity</b>	<b>Timeline</b>
Mayoral Decision	June 2019
Building Handover (vacant possession)	July 2019
Start of transition phase	July 2019
Long-term plan - feasibility study	October – December 2019
Further approvals	2020/2021
Target date for full GLAP rental income to be back in place	Early 2024
Deadline date for full GLAP rental income to be back in place	Mid 2025

**Appendices and supporting papers:**

Appendix 1: Transition Schedule

**Public access to information**

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after approval or on the defer date.

**Part 1 Deferral:**

**Is the publication of Part 1 of this approval to be deferred? YES**

If YES, for what reason: Publication to be deferred until the deal is complete

Until what date: 01/07/2019

**Part 2 Confidentiality:** Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

**Is there a part 2 form – Yes**

**ORIGINATING OFFICER DECLARATION:**

Drafting officer to confirm the following (✓)

**Drafting officer:**

Jennifer Gutteridge has drafted this report in accordance with GLA procedures and confirms the following have been consulted on the final decision.

✓

**Assistant Director/Head of Service:**

Simon Powell has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

**Sponsoring Director:**

David Lunts has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

**Mayoral Adviser:**

David Bellamy has been consulted about the proposal and agrees the recommendations.

✓

**Advice:**

The Finance and Legal teams have commented on this proposal.

✓

**Corporate Investment Board**

This decision was agreed by the Corporate Investment Board on 24 June 2019.

**EXECUTIVE DIRECTOR, RESOURCES:**

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature

*[Handwritten Signature]*

Date

24.06.19

TOM MIDDLETON ON BEHALF OF MARTIN CLARKE

**CHIEF OF STAFF:**

I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature

*[Handwritten Signature]*

Date

24/6/2019.

