
A separate report is submitted in the private part of the agenda in respect of this item, as it contains details of financial information required to be kept private in accordance with Schedule 12A of the Local Government Act 1972. The grounds for privacy are that it refers to the identity, financial and business affairs of an organisation and the amount of expenditure proposed to be incurred by the Council under a particular contract for the supply of goods or services.

Cabinet
Council

8th January 2019
15th January 2019

Name of Cabinet Member:

Cabinet Member for Jobs and Regeneration - Councillor J O'Boyle

Director Approving Submission of the report:

Deputy Chief Executive (Place)

Ward(s) affected:

St Michael's

Title:

Land and buildings between Corporation St, Upper Well St, Lamb Street, Chapel Street and Bishop Street, Coventry, CV1 4AD - Lease re-gear

Is this a key decision?

Yes – the expenditure to be approved pursuant to this report will be in excess of £1 million pounds

Executive Summary:

As part of the City's plans to host an outstanding UK City of Culture 2021 programme, promote Coventry's visitor economy and deliver its wider economic development agenda, Coventry City Council is committed to seeing new high quality hotel developments delivered within the city centre.

There is an opportunity to facilitate the delivery of a new 'boutique' hotel for the city, to be open and operational before 2021, through a proposal to be delivered by Far Gosford Developments Limited who are prepared to invest a significant amount of funding to refurbish and redevelop the vacant former Coventry Evening Telegraph buildings on Corporation Street. The proposed hotel site is situated within a wider 2.6 acre regeneration opportunity of which the Council is the freeholder of the land ("the Land").

However, due to the significant costs involved in refurbishing such an iconic set of buildings and the relatively unproven market for higher end hotels within Coventry, the development of a hotel on its own is not financially viable. In order to facilitate the delivery of the hotel, there is an

opportunity to cross-subsidise its development through the disposal of adjacent sites at Chapel Street, Lamb Street and Bishop Street to deliver student accommodation. The land receipt the Council would ordinarily receive for these sites will then be used to contribute towards the capital cost of funding the hotel element of the wider scheme.

Whilst the Council is the freeholder of the Land, there are eleven long leasehold interests on the Land. Far Gosford Developments Limited have acquired the majority of these leasehold interests and to facilitate this regeneration scheme the Council is being asked to grant new 250 year head leases across the sites comprising the wider development (subject to the existing leases) and to widen the existing user clauses to allow for residential or student accommodation and a hotel to be developed. These lease arrangements will allow for Far Gosford Developments Limited to access the private and public development funding necessary for the scheme to go ahead.

As well as the reinvestment of its land receipts into the overall regeneration scheme, the Council will also forgo its existing rental income for the term of the unexpired leases (the leases have terms of between 38-89 years unexpired). Details of the revenue implications to the Council are set out in the private report. The Council has appointed independent commercial consultants to provide a Royal Institute of Chartered Surveyors 'red book' valuation of the sites within the overall scheme to ensure that the Council meets all its S123 obligation under the 1972 Local Government Act and receives 'best consideration' for its land. Their independent valuation has shown that any premium the Council could reasonably expect to receive for the sites delivering student housing is more than offset by the wider viability constraints provided by the hotel element of the scheme and as such best consideration has been obtained.

To safeguard the Council's position and the delivery of the overall development, Heads of Terms for a contract for sale and agreement for lease have been agreed which requires Far Gosford Developments Limited to deliver a quality hotel and to pay Performance Security Deposits into an escrow account where monies are only then released and returned to the developer once certain hotel delivery milestones are met. The requirement for Performance Security Deposits has been secured to ensure that should the boutique hotel not be delivered the Council is put in a position as if it had sold the other sites in isolation.

Recommendations:

Cabinet is recommended to:

- 1) Authorise the grant of new 250 year leases (subject to existing leases) to Far Gosford Developments Limited or to a nominated student accommodation provider for each of the 3 sites shown edged in blue, green and pink on the Site Plan in Appendix 1 for the development of a boutique hotel and student accommodation as a single scheme.
- 2) Approve the draft Heads of Terms for the grant of the leases (as set out in the private report).
- 3) Delegate authority to the Deputy Chief Executive (Place) following consultation with the Director of Finance and Corporate Services to undertake the necessary due diligence and to complete the necessary legal documentation required to enter into the new lease arrangements.
- 4) Delegate authority to the Deputy Chief Executive (Place) following consultation with the Cabinet Member for Jobs and Regeneration and the Cabinet Member for Strategic Finance and Resources, for any subsequent variation to the Heads of Terms.

- 5) Recommend that Council accept from Far Gosford Developments Limited the amount which represents the Open Market Value of Site 2 and 3 as Performance Security Deposits for the delivery of the hotel, such Performance Security Deposits to be released on satisfaction of the triggers as set out in the Heads of Terms.

Council is requested to:

- 1) Accept from Far Gosford Developments Limited the amount which represents the Open Market Value of Site 2 and 3 as Performance Security Deposits for the delivery of the hotel, such Performance Security Deposits to be released on satisfaction of the triggers as set out in the Heads of Terms.

List of Appendices included:

Appendix 1 – Site Plan

Other useful background papers:

N/A

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

Yes – 15th January 2019

Title: Land and buildings between Corporation St, Upper Well St, Lamb Street, Chapel Street and Bishop Street, Coventry, CV1 4AD - Lease re-gear

1. Context (or background)

- 1.1 In 2012 the Coventry Evening Telegraph ceased trading from its landmark premises at 157 Corporation Street (defined as Site 1 in the Heads of Terms (contained within the private part of the report) and edged in blue in the site plan attached at appendix 1) and between 2017 and the Summer of 2018 the building has been used for temporary event and exhibition space. The building is held on a lease by Far Gosford Developments Limited (FGDL) with 40 years unexpired term.
- 1.2 Details of the ground rent currently paid to the Council for this lease are contained within the private part of the report.
- 1.3 The Council is also the freeholder of the ‘west site’ (defined as Site 2 in the Heads of Terms (contained within the private part of the report) and edged in pink in the site plan attached at appendix 1) and ‘east site’ (defined as Site 3 in the Heads of Terms (contained within the private part of the report) and edged in green in the site plan attached at appendix 1) sites which are currently used for a range of commercial uses. With the exception of the Hertz rental car site, all the head leases within these sites are owned by FGDL and have between 38 to 89 years to run.
- 1.4 Details of the ground rent currently paid to the Council for these leases are contained within the private part of the report.
- 1.5 FGDL is a private development company whose directors have previously delivered key regeneration schemes in Coventry, including the creative quarter at Far Gosford Street, the mixed use Phoenix Initiative which delivered 85 new homes, new restaurants and BBC studio space and the award-winning Electric Wharf which created 114 live / work units.
- 1.6 The proposed scheme, which has planning permission, will regenerate an architecturally important building and create 80,000 sqft of commercial and event space, deliver 1270 new high quality student units and create 90 FTE jobs in the completed development as well as many more during construction. As well as delivering a new, top quality boutique hotel, the first in the city, the scheme will also include a restaurant and bar and space for events, conferences, exhibitions and performances.
- 1.7 The delivery of high quality hotel developments in the city centre is a priority for the Council due to the huge influx of visitors during City of Culture 2021, the role they play in boosting the city’s image and inward investment potential, the need to provide suitable accommodation to service the city’s growing economy and the lack of ‘upmarket’ hotels currently operating within the city centre.
- 1.8 Whilst analysis has shown that there is a shortfall of high quality bed space in the city centre, the market for this type of hotel development is currently relatively unproven so there is uncertainty around the strength of demand that would secure the necessary investment to bring the scheme forward. This coupled with the costs and risk of redeveloping existing buildings (including high abnormal costs relating to asbestos and the capping of the basement) means that the overall scheme requires a partnership approach between FGDL and public bodies to bring a viable scheme forward. The West Midlands Combined Authority (WMCA) have approved grant and loan funding to support the scheme and the Heads of Terms for the new leases (please refer to the private part of the report) establish how the City Council and FGDL will facilitate (through receipts that would

otherwise have been received from the 'east' and 'west' student sites if they were sold in isolation) the delivery of the comprehensive scheme which will also include the construction and operation of a new hotel in readiness for the City of Culture 2021.

2. Options and recommended proposal

- 2.1 Option 1. To not agree to the granting of the new leases on the terms set out in the Heads of Terms.
- 2.2 The Council is the freehold owner of the land which is the subject of this report. The leases currently only allow for the properties to be used for commercial type uses. The Council could decide not to grant the new 250 year leases that FGDL are seeking. Under this option, the Council would carry on receiving the ground rent for the current leases, but the wider regeneration scheme delivering a new hotel and 80,000 sqft of commercial and event space, 90 permanent jobs and over 1200 new student units would not be capable of being delivered.
- 2.3 Given the Council's economic development ambitions for the city and its people and the importance of boosting the visitor economy during, and after, the UK City of Culture 2021 programme, not delivering a hotel of this quality would run contrary to the Council's objectives for the city centre. For these reasons, this option is not recommended.
- 2.4 Option 2. Agree to the granting of the new leases on the terms set out in the Heads of Terms (preferred option)
- 2.5 To facilitate the refurbishment and redevelopment of the existing Coventry Evening Telegraph buildings and provide a high quality hotel (of at least 88 rooms) alongside a restaurant, bar and space for events, conferences, exhibitions and performances there is a request to grant new 250 year head leases where the user clauses are widened to allow for a hotel development on Site 1 and student accommodation or residential accommodation on Sites 2 and 3. The leases will include restrictive covenants to ensure that the Council has absolute discretion in agreeing to any change of use for the first 20 years for the hotel and first 25 years for the student / residential sites.
- 2.6 The 250 year leasehold interests are required for the developer to be able to secure the necessary investment funding into the development scheme (the current leases have between 38-89 years left to run). An independent red book valuation undertaken by Cushman and Wakefield has demonstrated that the overall development faces significant viability pressures due to the costs of delivering the hotel element of the scheme. Given this financial position and the fact that the scheme is to come forward as a single development, the Council is satisfied that all capital receipts realised by the student housing development on Sites 2 and 3 will be used to fund the hotel works.
- 2.7 In return for widening the user clause and extending the lease term the developer is contractually committing to deliver a new hotel through a high quality refurbishment of the Coventry Evening Telegraph buildings. To protect the Council's position and ensure the delivery of the hotel, FGDL will provide Performance Security Deposits when the leases are completed for the sites which will come forward for student housing (Sites 2 and 3). The Council will only be required to release these funds back to FGDL to fund and to be used solely towards the completion of the development if FGDL can provide satisfactory evidence that they have met certain criteria in relation to the delivery of the hotel.
- 2.8 FGDL are also committed to ensuring that a high quality operator is responsible for running the hotel. Bespoke Hotels, the UK's largest independent hotel group who operate over 200

hotels worldwide, have entered into a management agreement with FGDL to run the hotel. It is a condition that prior to the grant of any lease between the City Council and FGDL that the Council is able to review this management agreement before the lease for the hotel site is entered into.

3. Results of consultation undertaken

- 3.1 Formal public consultation on the development proposals was undertaken as part of the formal planning application process during the Summer and Autumn of 2018.

4. Timetable for implementing this decision

- 4.1 Subject to Cabinet and Council approval, officers will work with FGDL to complete the necessary agreements as soon as possible to enable the delivery of the hotel before 2021.

5. Comments from the Director of Finance and Corporate Services

5.1 Financial implications

- 5.1.1 The commercially sensitive financial implications of this transaction are contained within the private report.

5.2 Legal implications

Property Implications

- 5.2.1 The Council has a fiduciary duty to secure value for money and when disposing of land must ensure that it obtains best consideration, being the market value of the land as defined by the Royal Institute of Chartered Surveyors. As stated within the report, an independent valuation of the three sites has been obtained which demonstrates that the overall development which is being delivered as a single scheme faces significant viability pressures due to the cost of delivering the hotel.

- 5.2.2 Based on the above, it is the Council's view that the unrestricted value of the student accommodation sites (Sites 2 and 3) would be eroded by the cost of delivering the hotel development. Thus, when the delivery of the development is considered as a single scheme the Council is satisfied that the obligation contained in S123 Local Government Act 1972 is met in this instance.

- 5.2.3 The S123 legal responsibility is also safeguarded by the imposition of the Performance Security Deposits to be paid to the Council which will ensure that in the event that the milestones set out in the Heads of Terms for the hotel development are not met, the Council will retain these deposits and be put in a position as if it had sold Sites 2 and 3 in isolation.

State Aid Implications

- 5.2.4 A disposal of land and/or the return of the Performance Security Deposits are capable of amounting to state aid. State aid applies where public funds can be said to subsidise an undertaking in some way. Any benefits deemed to be state aid would normally crystallise at the point the aid is granted. Legal Services will undertake a full state aid analysis prior to the agreements being entered into to ensure that any risks are properly mitigated.

6. Other implications

6.1 How will this contribute to achievement of the Council's Plan?

6.2 The delivery of the scheme outlined in this report will deliver a range of economic development (including 90 new jobs) and inward investment objectives that will help to realise the Council's ambitions for a more vibrant and economically prosperous and sustainable city centre. It will also support the delivery of the Council's Tourism Strategy 2019-2023 through helping to improve the quality of accommodation in the city and improving the perception of Coventry as a destination for visitors and tourists.

6.3 How is risk being managed?

6.4 The key risks relate to ensuring the hotel element of the proposed development scheme is delivered in a timely manner. These risks will be managed through the legal obligations within the agreement for lease and will be maintained through the restrictions imposed in terms of the lease.

6.5 What is the impact on the organisation?

6.6 The impact to the organisation will be minimal as it doesn't affect any service which the Council provides. It will generate work for officers within the Place Directorate in concluding the negotiations and processing the lease documentation.

6.7 Equalities / EIA

6.8 An Equality Impact Assessment has not been undertaken as the proposal concerns the disposal of land for redevelopment and no Council service or group will be impacted.

6.9 Implications for (or impact on) the environment

6.10 The refurbishment and reuse of the existing Coventry Evening Telegraph building minimises the impact on the built environment. The overall development will be in accordance with the Council's planning policies for sustainable development.

6.11 Implications for partner organisations?

6.12 There are no implications for any partner organisations.

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