
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 Member for Jobs and Regeneration

23 November 2016

Name of Cabinet Member:

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

Director Approving Submission of the report:

Executive Director of Place

Ward(s) affected:

St Michaels

Title:

2-12 & 14-18 Corporation Street - Lease Surrender and Regrant

Is this a key decision?

No – Individual site disposal proceeds will be below the threshold for reporting to Cabinet

Executive Summary:

EDG Property (EDG) propose to invest significant financial resources into refurbishment and development of the currently vacant, former Co-op department store and the adjacent 2 – 12 Corporation Street known as the Hawkins Building. The Co-op store has remained vacant for the last 12 months, since the retailer closed, with no real prospect of securing a replacement department store operator.

The proposed scheme, subject to planning, would provide a sympathetic regeneration of the architecturally important building, retaining its iconic features and producing new ground floor retail, restaurant and leisure units and approximately sixty seven residential apartments on the upper floors of the former department store with residential and or offices proposed for the upper floors of the Hawkins building.

The Council is keen to encourage the growth of a desired, private housing market within the city centre. EDG's proposal is to provide high quality, private residential accommodation within a landmark building in the city centre, of a form which hasn't been available for many years.

There is currently no proven market for this type of development in the City Centre, so there is considerable uncertainty around the strength of demand for private, high quality residential accommodation in the city centre. This coupled with the costs/risk of redeveloping existing buildings means that the development is not considered to producing a return commensurate with the commercial risk being taken.

As such the Council is being asked to forgo its existing rental income of for the next 41 years and any income for the next 250 years. In return it secures the development outlined.

To facilitate this proposal the Council is being asked to widen the existing user clause to enable residential accommodation to be incorporated in the building and extend the term of the current head leases from 41 to 250 years which allows the developer to access the private development funding necessary.

To protect the Councils position and delivery of the development a statement of principles setting out the quality levels of the development have been agreed and the new lease would not be granted to the developer until they had secured planning permission for the scheme and let a building contract to undertake the work, in a form acceptable to the Council.

Recommendations:

The Cabinet Member for Jobs and Regeneration is recommended to:

1. Approve the surrender of the current lease and granting of a new 250 year lease at a £1..
2. Delegate authority to the Executive Director of Resources to complete the necessary legal documentation.
3. Delegate authority to the Executive Director of Place following consultation with the Cabinet Member for Jobs and Regeneration, for any subsequent variation in terms.

List of Appendices included:

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?

No

Report title: 2-12 & 14-18 Corporation Street

1. Context (or background)

- 1.1 In October 2015 the Heart of England Co-operative ceased trading from of the landmark 140,000sqft former department store on Corporation Street, and it has remained vacant to date.
- 1.2 Currently the former department store and adjacent Hawkins building leased by the Co-op are held on separate leases with 41 years unexpired term and under which both currently restrict the use of the buildings to retail and office.
- 1.3 The ground rent currently paid to the Council for the two leases is £4800 per annum.
- 1.4 EDG is a private development company based in Birmingham who have delivered award winning regeneration schemes in the Midlands The School Yard, Harbourne and The Mailbox and Cube in Birmingham City Centre and who have agreed a conditional purchase of the leasehold interest from the Co-op.
- 1.5 The Co-op and EDG were in agreement that there was no realistic prospect of finding another department store to take on the building. EDG therefore employed an architect to consider a range of alternative redevelopment plans which has led to the presentation of their current proposal which includes retaining the fabric of a locally recognised, iconic building.
- 1.6 The Council, through its emerging area action plan and local plan, is looking to encourage a range of housing options for people and would welcome high quality residential apartments in the City. This would complement and support other development schemes proposed in the city as well as help to attract more people to live back in the city centre which in turn will achieve significant economic and social benefits for the residents of the City.

2. Options and recommended proposal

- 2.1 The Council is the freehold owner of the land upon which the buildings have been constructed. The lease currently only allows for the properties to be used for retail or offices.
- 2.2 To facilitate the refurbishment of the existing buildings and provide ground floor retail, restaurants and leisure facilities along with approximately sixty seven high quality private residential apartments in the upper floors of the former department store there is a request to widen the user clause.
- 2.3 With only 41 years left on the existing lease, securing funding for the development would not be possible and the developer has requested that the Council accepts a surrender of both leases and simultaneously grant a new 250 year leasehold interest for each property.
- 2.4 In return for widening the user clause and extending the lease term the developer is committing to delivering a high quality refurbishment of the buildings, subject to planning, as set out in a statement of design principles. These include:-
 - 2.4.1 The appointment of an architectural practice recognised for its design-led ethos in order to design a scheme of quality which will add value to the city.
 - 2.4.2 The external façade will be enhanced by way of replacement glazing and window detail, along with the refurbishment and/or redevelopment of the existing 3rd floor. The external statement brickwork to the 1st and 2nd floors will be retained and enhanced to ensure the original iconic post-war architecture is not lost.

- 2.4.3 The upper floors of the former Co-operative Department Store will be designed and built for high quality, high value private residential apartments. For the avoidance of any doubt, the scheme shall not be designed and built for student accommodation and there shall be no 'clustering'. The units will be self-contained private apartments.
- 2.4.4 The ground floor will be designed with high quality highly glazed frontages to be active, visually permeable spaces which enliven and add to the experience on Corporation Street.
- 2.4.5 Materials used to create the external appearance of the development are to be quality materials with longevity and suitable for a high end regional mixed use scheme.

2.5 Issues

- 2.5.1 The income currently being paid to the Council under the terms of the lease for the next 41 years, along with the reversion of the lease has a value to the Council. This has been assessed by independent property valuation experts and is outlined in your private report.
- 2.5.2 EDG is advising that the development cannot afford to pay the Council for this interest or pay any rent for the period of the new proposed lease. This is because the costs of delivering the high quality development set against the anticipated value for which leasehold apartments would sell for in the city centre means that the developer would be accepting a profit margin for the capital employed substantially lower than would normally be expected for the risk being taken. Specific details are commercially sensitive and are contained within your private report.
- 2.5.3 To widen the user clause to include residential use will create a small risk in the future where the Council may be required to sell its freehold interest to the residential tenants under what is known as leasehold enfranchisement using the Leasehold Reform Act 1967. This would however rely on the individual tenants forming a collective and would be subject to them also acquiring the commercial interests which would be created on the ground floor.
- 2.5.4 In addition to securing business rates on the refurbished ground floor retail units which based on the developers appraisal will equate to a Rateable Value of approximately £130,000 which is a similar level to that when the whole building was configured as a department store over multiple levels.
- 2.5.5 Based on the current tax year and the anticipated sales rates of the new sixty seven residential apartments it is anticipated that this scheme will produce new Council Tax revenue of approximately £96,000 per annum.
- 2.5.6 **Recommendation** – To agree that in return for forgoing the value of the leasehold interest, the Council will be securing the investment and reuse of an architecturally important building in the City Centre, retaining its iconic features and providing the opportunity for people to live in high quality residential accommodation back in the heart of the City which will contribute to the economic and social well-being of the residents of Coventry.

3. Results of consultation undertaken

Formal public consultation of the development proposals will be undertaken as part of the formal planning application process.

4. Timetable for implementing this decision

- 4.1 Subject to Cabinet Member approval EDG will submit a planning application within an agreed timescale from the date of the conditional agreement. Assuming planning permission is obtained then work on site that is anticipated to commence within three months after the judicial review period after and the refurbishment scheme would take approximately 18 months to complete.

5. Comments from the Executive Director of Resources

5.1 Financial implications

The financial implications of this report are outlined in your private report.

5.2 Legal implications

The Council is under a legal obligation to ensure that any consideration will represent "Best Value" in accordance with the Council's requirements to obtain the best consideration reasonably obtainable pursuant to the provisions of Section 123 of the Local Government Act 1972.

It is recognised and expressed in the report that the value of the Council's interest is proposed to be forgone in return for the benefits of securing the development. Under the General Disposal Consent 2003, specific consent is not required for the disposal of any interest in land which the authority considers will help it to secure the promotion or improvement of the economic, social or environmental well-being of its area provided the undervalue does not exceed £2 million pounds.

Through case law a couple of key points become clear regarding a Council's obligation to section 123 compliance. Firstly, the most important thing is the outcome of the process taken in reaching the decision, rather than the process itself. Secondly the monetary value is the best consideration in whatever form, whether overage, upfront or deferred.

The parties will enter into an Agreement for Lease which would provide that the parties would only surrender the existing leases and grant the new 250 year lease conditional upon EDG securing all necessary consents including planning permission and having let a construction contract.

The Executive Director of Resources (Legal Services) will agree and complete the surrender of the existing leases and the grant of the new 250 year lease.

To widen the user clause to include residential use will create a small risk in the future where the Council may be required to sell its freehold interest to the residential tenants under what is known as leasehold enfranchisement under the Leasehold Reform Act 1967. This would however rely on the individual tenants forming a collective and would be subject to them also acquiring the commercial interests which would be created on the ground floor. Although a small risk this needs to be understood and considered as part of the decision making process. No safeguards can be written into the lease preventing this from happening

6. Other implications

6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)

The delivery of private residential accommodation within the city centre helps to deliver a more vibrant and economically prosperous and sustainable city centre.

This aspiration is supported by emerging city centre area action plan Policy CC1 points 1 and 5; and Policy CC18 – part d which specifically supports the provision of residential accommodation above retail uses within the primary shopping area, which includes the subject buildings.

6.2 How is risk being managed?

The risks have been identified as ensuring that the proposed benefits of the development scheme are realised. These are being managed through the legal obligations within the agreement for lease and will be maintained through the restrictions imposed in terms of the lease.

6.3 What is the impact on the organisation?

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 Resources Directorate (Legal Services) and Place Directorate in concluding the negotiations and processing the lease documentation as part of the surrender and regrant of the leasehold interest.

6.4 Equalities / EIA

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

6.5 Implications for (or impact on) the environment

The refurbishment and re use of the existing buildings minimises the impact on the built environment. The provision of the new residential and commercial space internally will require the accommodation to be brought up to a higher thermal standard reducing the buildings environmental footprint.

6.6 Implications for partner organisations?

There are no implications for any partner organisations.

Report author(s):

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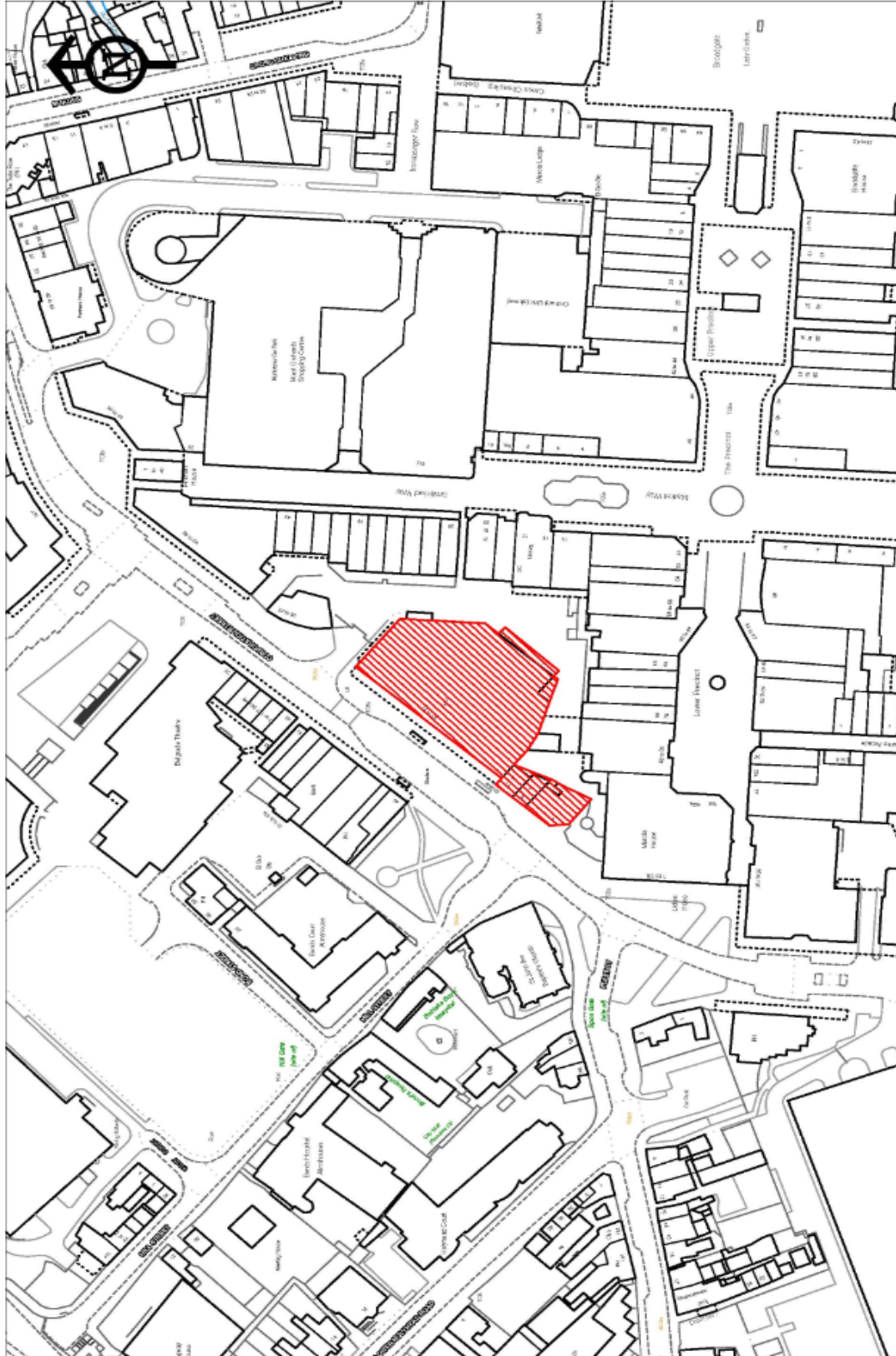
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This report is published on the council's website:

www.coventry.gov.uk/meetings

Appendix 1

Location Plan



Title: 2-18 Corporation Street, St Michaels, Coventry

Drawn By: NH
Scale: 1:1250 at A3
Date: 11/11/2016

PLACE DIRECTORATE
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Coventry City Council

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