

Cabinet
Council

28 November 2017
05 December 2017

Name of Cabinet Member:

Cabinet Member for Jobs and Regeneration – Councillor O’Boyle
Cabinet Member for Strategic Finance and Resources – Councillor J Mutton

Director Approving Submission of the report:

Deputy Chief Executive (Place)

Ward(s) affected:

All wards

Title:

City Centre South – Early Acquisition of Long Leasehold Property Interests

Is this a key decision?

Yes, the proposal in this report will incur expenditure above the £1m threshold and it will have implications for all wards in the city.

Executive Summary:

The purpose of this report is to seek approval for the Council’s early acquisition of a third party’s long leasehold property interests in the City Centre South (CCS) red line boundary area and subject to this acquisition being successful, the demolition of Coventry Point.

The long leasehold property interests in the CCS red line boundary area comprises of 21-25 Hertford Street, 26-48 Hertford Street, 13-21 Shelton Square and Coventry Point, extending to approximately 88,500 sq ft of office and retail space. The property interests constitute the largest proportion of the third party property interests in the CCS red line boundary area.

An opportunity has arisen to purchase these long leasehold property interests with completion before the end of the calendar year i.e. 31 December 2017.

The early acquisition of these long leasehold property interests provides a number of benefits, which are as follows:-

- a) Purchasing these long leasehold property interests would bring the largest third party interest in the CCS red line boundary area under the Council’s control.
- b) Increasing the Council’s control of the property interests in the CCS red line boundary area reduces the risk associated with scheme delivery.

- c) Reducing the risk associated with scheme delivery will also improve the project programme as the timescale for completing land assembly is likely to be reduced.
- d) This decision will help to provide confidence in scheme deliverability for SPG, the developer, the West Midlands Combined Authority ("WMCA") and a development funder to invest in the scheme.
- e) The early purchase of these long leasehold property assets would enable the early demolition of Coventry Point, thereby removing a significant eyesore and impediment to connectivity in the city centre.
- f) The interests are currently available, which might not be the case if they were purchased by another third party.

Recommendations:

Cabinet is requested to recommend that Council:

1. Approve the terms of the acquisition of the long leasehold property interests at 21-25 Hertford Street, 26-48 Hertford Street, 13-21 Shelton Square and Coventry Point subject to the current tenancy.
2. Delegate authority to the Deputy Chief Executive (Place) in conjunction with the Legal Services Manager to undertake the necessary due diligence and to complete the necessary legal documentation.
3. Delegate authority to the Deputy Chief Executive (Place) in consultation with the Cabinet Member for Jobs and Regeneration, for any subsequent variation in terms.
4. Delegate authority to Deputy Chief Executive Place) and S151 Officer in consultation with the Leader and the Legal Services Manager to make any additional early land acquisitions as is deemed necessary where such acquisition represents value for money.
5. Delegate authority to Deputy Chief Executive (Place) and S151 Officer in consultation with the Cabinet Member for Jobs and Regeneration and the Cabinet Member for Strategic Finance and Resources to draw down funding from the WMCA to undertake the demolition of Coventry Point.

Council is recommended to:

1. Approve the terms of the acquisition of these long leasehold property interests at 21-25 Hertford Street, 26-48 Hertford Street, 13-21 Shelton Square and Coventry Point subject to the current tenancy.
2. Delegate authority to the Deputy Chief Executive (Place) in conjunction with the Legal Services Manager to undertake the necessary due diligence and to complete the necessary legal documentation.
3. Delegate authority to the Deputy Chief Executive (Place) in consultation with the Cabinet Member for Jobs and Regeneration, for any subsequent variation in terms.
4. Delegate authority to Deputy Chief Executive (Place) and S151 Officer in consultation with the Leader and the Legal Services Manager to make any additional early land acquisitions as is deemed necessary where such acquisition represents value for money

5. Delegate authority to Deputy Chief Executive (Place) and S151 Officer in consultation with the Cabinet Member for Jobs and Regeneration and the Cabinet Member for Strategic Finance and Resources to draw down funding from the WMCA to undertake the demolition of Coventry Point.

List of Appendices included:

Appendix 1 – Plan detailing the City Centre South red line boundary area.

Appendix 2 – Plan detailing these long leasehold property interests in the City Centre South red line boundary area.

Background papers:

None.

Other useful documents

Report to Cabinet and Council 24 January 2017 – City Centre South Development.
<http://democraticservices.coventry.gov.uk/ieListDocuments.aspx?CId=130&MId=11141&Ver=4>

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 – 05 December 2017.

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Report title: City Centre South – Early Acquisition of Long Leasehold Property Interests

1. Context (or background)

- 1.1 The City Centre South (CCS) scheme is a mixed use regeneration scheme in Coventry city centre. The site is located in a pedestrianised shopping area, which was built after World War II. The area and buildings are not fit for purpose for modern retailing requirements and provide an extremely poor environment. The general trend is one of decline and for this reason, the area has been identified for regeneration for a considerable number of years. A plan showing the CCS red line boundary area is attached at Appendix 1.
- 1.2 Following a compliant OJEU competitive dialogue procurement exercise, Cabinet took a decision on 24 January 2017 to appoint Shearer Property Group (SPG) as the developer for the CCS scheme.
- 1.3 SPG's scheme proposal would provide a mixed use regeneration scheme, anchored by a new department store with a leisure offer including a boutique cinema, bowling and restaurants as well as a hotel. There is also a large element of residential, PRS and private market sales units.
- 1.4 The Council has secured a £98.8m grant from the West Midlands Combined Authority ("WMCA") towards the cost of the CCS scheme.
- 1.5 The Council already owns the majority of the land and property interests in the CCS red line boundary area, however there are a number of property interests that are held by third parties. Some of these long leasehold property interests comprise of the assets of 21-25 Hertford Street, 26-48 Hertford Street, 13-21 Shelton Square and Coventry Point. The accommodation extends to 88,500 sq ft of office and retail space. A plan showing these long leasehold property interests in the CCS red line boundary area is attached at Appendix 2.
- 1.6 The opportunity to acquire these long leasehold property interests within the CCS red line boundary area has arisen. The purchase needs to be completed by the end of the calendar year i.e. 31 December 2017.

2. Options considered and recommended proposal

2.1 Option 1 - Wait and Purchase Later

- 2.1.1 This approach involves temporarily deferring a decision to purchase these long leasehold property interests in the hope that there will be an opportunity to purchase the interests at some point in the future.
- 2.1.2 This option is based on a number of assumptions as follows:-
 - a) The opportunity to purchase the long leasehold property interests will remain on the table. This is an unknown and will probably depend on the perceived level of purchaser interest in the market, which is something that is outside of the Council's control.

- b) The third party owner does not sell their long leasehold property interests to another third party. This assumption is dependent upon the level of purchaser interest in the market, so it is currently an unknown and something that is outside of the Council's control.
- c) If another third party purchased the long leasehold property interests, they would be cooperative and supportive of the CCS scheme. This assumption is dependent on the goodwill of a third party that is unknown at this time and is something that is outside of the Council's control.

2.1.3 This option is based on several unknown assumptions and will not guarantee that if the Council adopts a "wait and see policy", that the long leasehold property interests will be available to purchase at some point in the future.

2.1.4 Following due consideration, the option of "Wait and Purchase Later" has been discounted for the reasons stated in 2.1.3.

2.2 Option 2 - Wait and CPO

2.2.1 This approach involves a decision not to purchase these long leasehold property interests now and waiting to pursue a CPO at the appropriate time in the project programme as currently scheduled.

2.2.2 This option is representative of the status quo and means the budget, programme and risk profile of the CCS project will continue on its current course with the project progressing as intended. However, it also means that the opportunity to shorten the timescale for land assembly would be lost to the project.

2.2.3 Following due consideration, the option of "Wait and CPO" has been discounted for the reasons stated in 2.2.4.

2.3 Option 3 Buy Now (Recommended)

2.3.1 This option involves taking a decision to purchase these long leasehold property interests in the CCS red line boundary area.

2.3.2 There are a number of benefits of making an early purchase of these long leasehold property interests, which are as follows:-

- a) Purchasing these long leasehold property interests would bring the largest third party property interest in the CCS red line boundary area under the Council's control.
- b) Increasing the Council's control of the property interests in the CCS red line boundary area reduces the risk associated with scheme delivery.
- c) Reducing the risk associated with scheme delivery is also likely to improve the project programme as the timescale for completing land assembly is likely to be reduced.
- d) This decision will help to provide confidence in scheme deliverability for SPG, the developer, the WMCA and a development funder to invest in the scheme.
- e) The early purchase of these long leasehold property interests would enable the early demolition of Coventry Point, thereby removing a significant eyesore and impediment to connectivity in the city centre.

- f) The interests are currently available, which might not be the case if they were purchased by another third party.

2.3.3 Following due consideration, the option of “Buy Now” is recommended for the reasons stated above.

3. Results of consultation undertaken

3.1 No consultation has been undertaken on this decision to date because it is not appropriate to consult on commercial deals.

4. Timetable for implementing this decision

4.1 The vendor has indicated that they wish to complete the sale of their long leasehold property interests by the end of this calendar year i.e. 31 December 2017.

5. Comments from Director of Finance and Corporate Services

5.1 Financial implications

This purchase will be funded from the £98.8m funding awarded by the WMCA in January 2017.

5.2 Legal implications

5.2.1 The Council has a general power to acquire land or premises used for the purposes of any of their functions by virtue of section 120 Local Government Act 1972.

5.2.2 The Council is required to comply with its statutory duty under section 123 of the Local Government Act 1972 to achieve best consideration reasonably obtainable to maximise its returns.

5.2.3 The proposal is to acquire the freehold of the largest third party interest within the CCS development scheme.

5.2.4 The proposed transaction as detailed in the report is considered to be an exempt land transaction for the purposes of EU Procurement Rules.

6. Other implications

6.1 How will this contribute to the Council Plan (www.coventry.gov.uk/councilplan/)?

The recommendations in this report will result in a step forward towards making the CCS scheme deliverable. The scheme itself is critical to Coventry's aspirations of creating a vibrant city centre environment for the benefit of its residents, with development of the city centre being an integral part of meeting these aspirations. The improved city centre environment is expected to increase footfall to the city centre and significantly broaden the catchment shopper population. This would elevate Coventry's position to become the second largest retail destination in the West Midlands.

The scheme presents a significant opportunity to act as an interface between the existing city centre projects and also to act as a catalyst for other private sector investment. This is therefore an exciting time for Coventry and is an opportunity for the city to develop an

offering of significant scale to differentiate itself through a unique shopping and leisure offering.

The scheme will also contribute to achievement of the Coventry Plan by delivering c1500 new permanent jobs and over 2,000 jobs during the construction period, and providing a positive impact on the local economy. It is estimated that the economic impact of increased daytime footfall will be £16.6m per annum and £3.8m from additional evening footfall.

The development of 130 PRS apartments, 150 private for sale residential apartments and 585 student beds, will increase city centre living in Coventry.

6.2 How is risk being managed?

The key risk associated with this proposal are as follows:-

- a) The due diligence undertaken fails to identify a key issue before completion of the purchase. This risk has been partially mitigated by conducting an analysis of the existing leases by the Council's legal team

6.3 What is the impact on the organisation?

The recommendations in this report have an impact on the Council's assets. In the short term additional assets will be acquired and in the medium term, they will need to be managed and maintained. In the long term, the assets will form part of the CCS development.

6.4 Equalities / EIA

There is no Public Sector Equality Duty implications of this decision, so there is no need to undertake an Equality Impact Assessment at this stage in the project process.

6.5 Implications for (or impact on) the environment

There are no implications for the environment as this decision will result only in a change in ownership of the specified long leasehold property interests and there will be no impact on the existing day to day operations undertaken in, of or by the interests purchased.

6.6 Implications for partner organisations?

The purchase of these interests has an impact on two of the Council's partners as follows:-

- a) WMCA – this purchase will help to expend financial resources and demonstrate that the CCS project is progressing, which will increase confidence that the scheme will be delivered.
- b) SPG – this purchase will help to reduce the risk and increase confidence in the Council to deliver its land assembly obligation, which will help to increase the overall scheme deliverability. Specifically, it will help the developer to demonstrate commitment to the scheme and market it to potential anchor stores and development funders.

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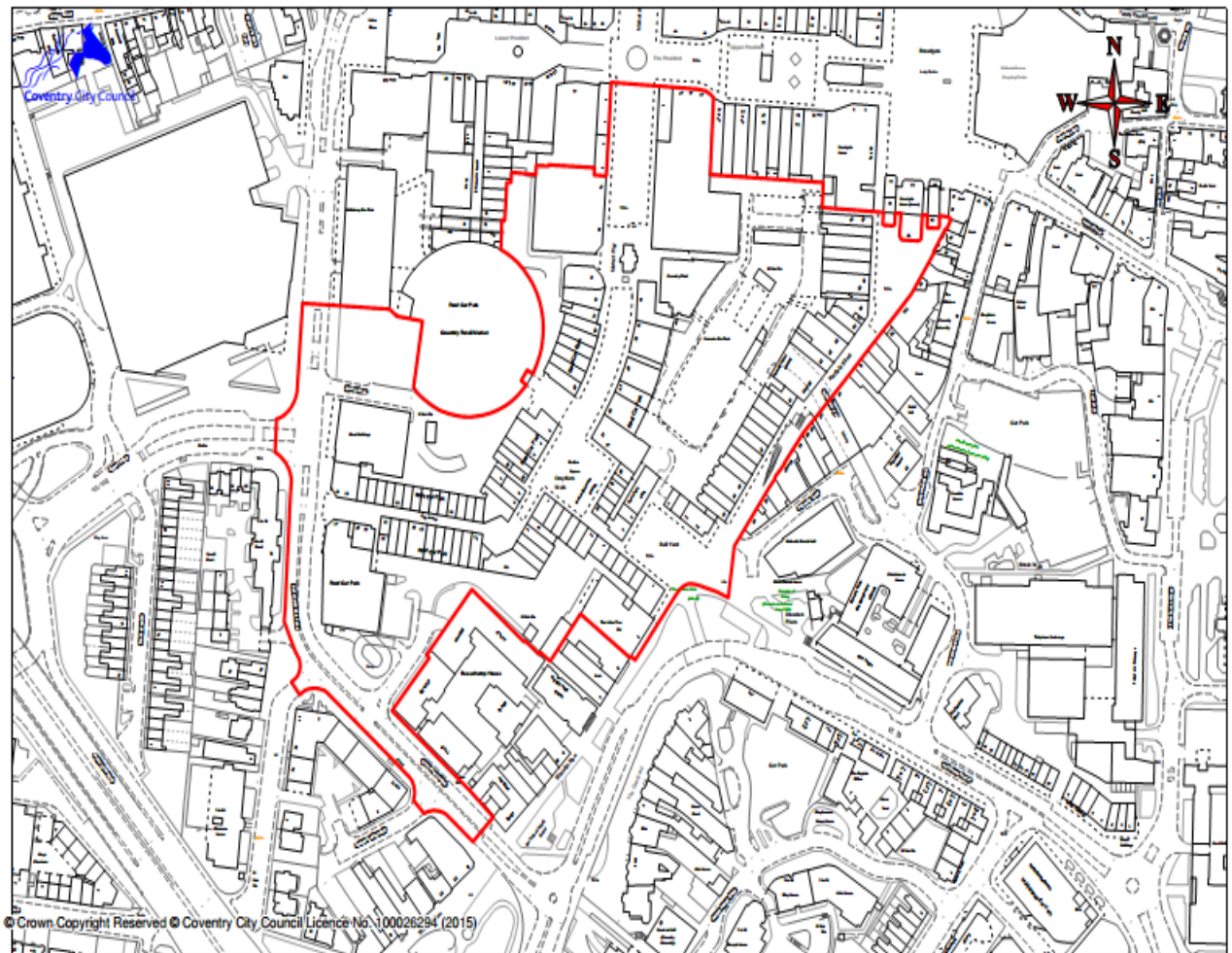
www.coventry.gov.uk/councilmeetings

Appendices

Appendix 1 – Plan detailing the City Centre South red line boundary area.

City Centre South, Coventry.

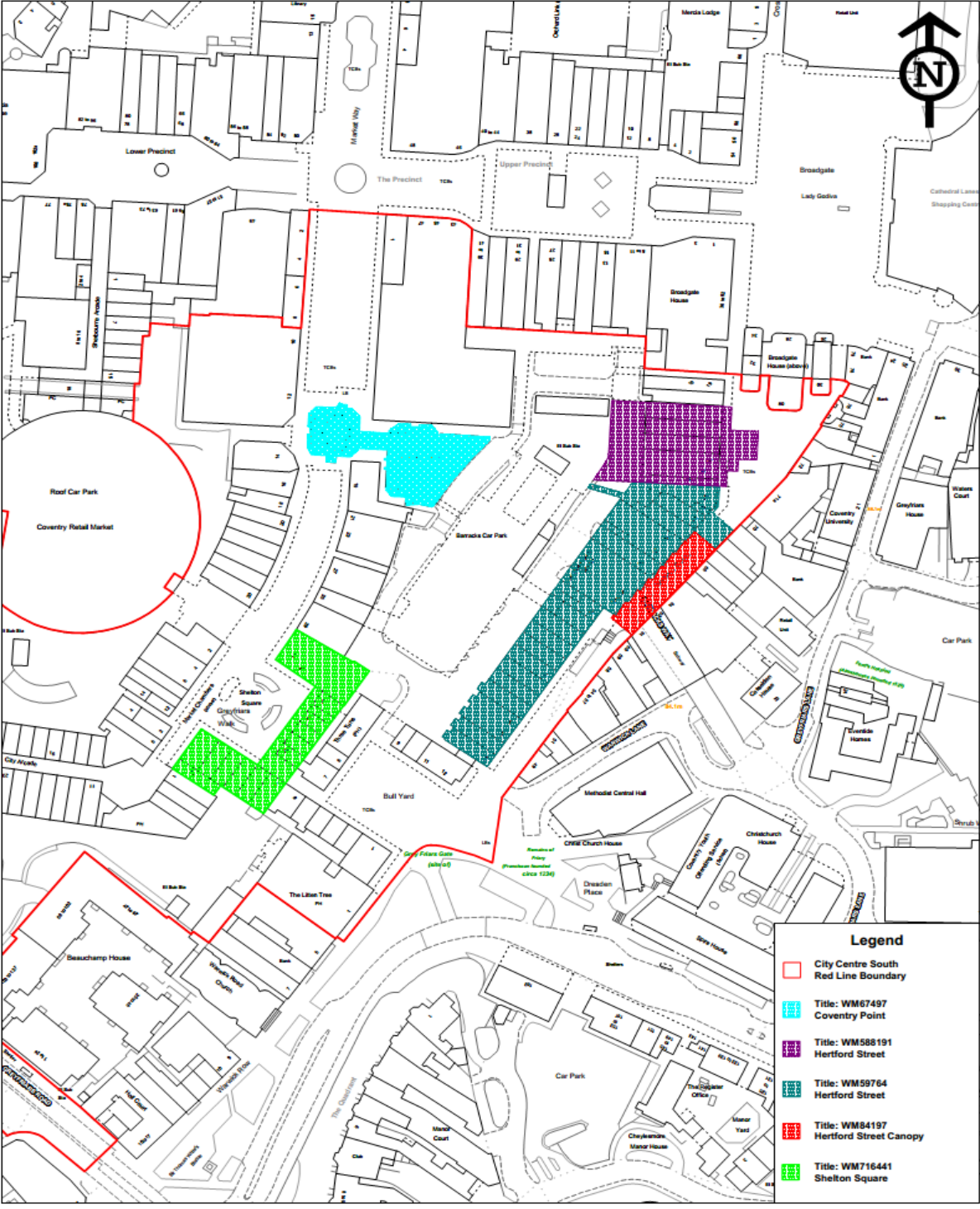
Scale at A4 1 : 1250



Plan Production Date: 20/08/2015

This plan is for identification purposes only.

Appendix 2 – Plan detailing third party long leasehold property interests in the City Centre South red line boundary area.



Legend	
	City Centre South Red Line Boundary
	Title: WM67497 Coventry Point
	Title: WM588191 Hertford Street
	Title: WM59764 Hertford Street
	Title: WM84197 Hertford Street Canopy
	Title: WM716441 Shelton Square

PLACE DIRECTORATE
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Coventry City Council

Title: Third Party Long Leasehold Property Interests - Ground Leases

Drawn By: NH
 Scale: 1:1250 at A3
 Date: 31/10/2017

Martin Yardley - Executive Director, Place
 Richard Moon - Assistant Director, Project Management & Property Services

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