

<b>DECISION-MAKER:</b>	<b>CABINET</b>		
<b>SUBJECT</b>	<b>LEISURE WORLD COMMERCIAL TERMS (FOR CONDITIONAL DEVELOPMENT AGREEMENT &amp; NEW HEAD-LEASE)</b>		
<b>DATE OF DECISION</b>	<b>13<sup>th</sup> September 2021</b>		
<b>REPORT OF</b>	<b>Cabinet Member for Growth</b>		
<b><u>CONTACT DETAILS</u></b>			
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#### **STATEMENT OF CONFIDENTIALITY**

The confidential appendices contain information deemed to be exempt from general publication based on Category 3 of paragraph 10.4 of the Council's Access to Information Procedure Rules.

Those appendices include details of a proposed transaction which, if disclosed prior to contract, could put the Council or other interested parties at commercial disadvantage.

#### **BRIEF SUMMARY**

This report seeks approval to the principal commercial and financial terms for granting a new head-lease over the Leisure World development site (which includes land occupied by a former John Lewis warehouse) on West Quay Road.

The proposed transaction will facilitate comprehensive redevelopment of the site, bring in substantial inward investment, support the emerging Mayflower Quarter Masterplan and promote regeneration & economic development in the city centre.

#### **RECOMMENDATIONS**

	(i)	That the commercial & financial terms and related recommendations set out in confidential Appendix 2 be agreed.
	(ii)	Following consultation with the Cabinet Member for Growth and Executive Director of Finance and Commercialisation, that the Executive Director of Place be given delegated authority to finalise the detailed terms of this transaction.

#### **REASONS FOR REPORT & RECOMMENDATIONS**

1. As freehold landowner, the Council wishes to see the strategically important Leisure World site (identified on the Plan at Appendix 4) regenerated for a mix of uses consistent with its ambitions for the Mayflower Quarter.

2.	Delivering the desired outcomes will necessitate changes to existing tenure arrangements, including re-gearing of the current ground leases, to enable the proposed scheme to be funded by the developer.
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
3.	Do Nothing – the proposed redevelopment (as approved in-principle by the Council’s Planning and Rights of Way Panel in March 2020) would not happen without the Council’s co-operation as Freehold landowner, so opportunities to achieve significant economic and other benefits would be lost.
4.	Sell the Council’s interest – this would sub-optimize long-term returns, deny the Council substantive influence over redevelopment of this key site and risk a scheme coming forward which failed to deliver on key city vision objectives.
5.	Council buy out head-lease and develop the site itself – quite apart from the lessee’s reluctance to sell, this would involve significant (unbudgeted) capital expenditure and substantial project resources that the Council does not have. It is therefore considered preferable to work with a willing partner/investor using the Council’s influence as landowner and planning authority, to deliver a scheme consistent with its corporate and social priorities.
<b>DETAILS</b>	
6.	<p>Leisure World is a commercial leisure complex dating from the early 1990s. The scheme is anchored by an Odeon multi-screen cinema, nightclub and Grosvenor Casino, together with ancillary food &amp; beverage outlets and all served a large surface car park.</p> <p>The Leisure World complex is entirely sub-let to Rank Group and is typical of its era in terms of format &amp; content, but has been under-invested recently and also suffered against more modern competition nearby – even before the Covid pandemic caused its temporary closure in spring of 2020.</p> <p>The proposed redevelopment site also includes adjoining land occupied by a former John Lewis warehouse, on the corner of West Quay Road and City Industrial Park, which is currently occupied on a short-term lease.</p> <p>Importantly for the city, the current properties and their settings add little value to public realm or urban landscape character and, without substantial investment, are likely to suffer further decline in the near-term future.</p>
7.	<p>The Council’s freehold ownership is subject to 2 long ground-leases (both controlled by UBS investment funds) as shown on the plan in Appendix 4. Details of the existing leases are set out in Appendix 1 to this report.</p> <p>While these leases enable existing commercial uses to continue, they are not sufficiently long or flexible enough in terms of permitted use, to support the substantial investment required to deliver the proposed redevelopment.</p>
8.	A (confidential) report on the commercial terms is at Appendix 1 and final terms of the conditional agreement for re-gearing the head-leases have been subject to a formal S123 ‘best consideration’ review by property consultants Cushman and Wakefield (Appendix 2).
9.	The UBS proposals were developed following extensive negotiations with the Council’s planning team and included public consultations and presentations to key stakeholders (including Councillors)

	<p>An outline planning application was subsequently submitted which the Planning &amp; Rights of Way Panel approved at its March 2021 meeting subject to a Section 106 Agreement</p> <p>Final conditions and the related Section 106 Agreement are currently being finalised and it is anticipated that Outline permission will be granted shortly.</p> <p>Subject to this, the developer expects to submit Reserved Matters for Phase 1 during autumn 2021 and commence development in the third quarter of 2022.</p>
10.	<p>In summary the proposed scheme comprises:</p> <ul style="list-style-type: none"> <li>◦ Phase 1 - New cinema and casino plus hotel &amp; complementary uses</li> <li>◦ Phase 2 - 10,000 Sq.M. office building and circa 300 residential units</li> <li>◦ Phase 3 - Further 350 residential units and second (3*-4*) hotel</li> <li>◦ Phase 4 - Potential 'wellbeing' facility and/or further commercial uses</li> </ul> <p>There is scope for the precise mix of uses to flex in response to market conditions but, in addition to planning controls, it's freehold land ownership will enable the Council to discuss the final scheme content with the developer. For example, the planning department have indicated that a change from employment to residential conversion would be considered under the prior notification scheme.</p>
11.	<p>The Council will work with the developer to deliver so that environmental considerations for the City are reflected in the new development, including use of latest building technologies and significant 'greening' of the public realm.</p> <p>The residential elements will be built to the most recent design standards and the developer is currently intending that the commercial buildings will be designed to achieve BREEAM 'Excellent' ratings, employ low carbon technologies which is an approach supported by the Council.</p>
12.	<p>Southampton city centre needs this type of private investment to support recovery from the Covid-19 pandemic and grow the local economy.</p> <p>The new scheme will create a large amount of jobs (potentially peaking at 700 Full Time Equivalents (FTEs) during 6-8 years of building works. A similar number of new permanent jobs (over and above the existing scheme) will be created once the scheme is completed.</p>
13.	<p>In financial terms, the new lease will produce an enhanced ground rent income for the Council and there is also potential to generate capital receipts from the development, as explained in Appendix 1.</p>
14.	<p>Much of the legal work required to progress this matter has already been done (at the developer's cost) and, subject to Cabinet approval, a conditional Agreement could be exchanged shortly after outline planning is granted.</p> <p>This would, in turn, enable the developer to sign agreements with end-users, submit Reserved Matters for Phase 1 and progress towards a start on site in mid-2022, with the first phase being occupied during 2024-25.</p>
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
15.	<p>The main lease terms including forecast income is included in Appendix 1.</p>
16.	<p>There are no material capital or revenue expenditure implications, as the developer is fully funding the project as well as covering a majority of the Council's costs such as external legal fees.</p>

17.	However, such a complex long-term project, with a programme of 6-8 years, will require resources (mainly Property personnel) to manage working relationships with the developer's team, monitor the scheme in progress and validate the Council's financial participation. The intention is this will be resourced-within the budget provision for the development team, or if the need arises for external assist through the limited budget provision for external help, though the position on resources will need to be kept under review as the work level develops over time.
<b><u>Property/Other</u></b>	
18.	The Council will need to closely monitor the project and commercial arrangements related thereto, so a dedicated 'development management' resource will need to be employed and requires funding as mentioned above.
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
19.	The Council powers to promote this development are Section 123 Local Government Act 1972 and Section 1 Localism Act 2011.
<b><u>Other Legal Implications:</u></b>	
20.	This is property transaction and legally the Council may proceed as outlined in the detailed appendices to this report.
21.	UBS long leasehold interest means that, in practice, they are the only party with which the Council can deal, unless compulsory powers were invoked (uncertain, costly and time-consuming) so this is the best opportunity for re-generation of the subject site to be delivered in a reasonable time-frame.
<b>RISK MANAGEMENT IMPLICATIONS</b>	
22.	The Council's participation, including any risk management implications, are detailed in confidential Appendix 1 to this report. However, the Council is not taking any active participation in the re-development and (apart from timing of the projected revenue & capital receipts) no financial risks are involved.
23.	This scheme is subject to uncontrollable economic events which is normal for schemes with a long delivery timetable.
<b>POLICY FRAMEWORK &amp; CORPORATE IMPLICATIONS</b>	
24.	The statutory Local Plan currently identifies the subject site as being located in a primarily commercial area and the outline planning application has been determined against current policies, which recognise the role of mixed-use development in supporting a vibrant city centre economy.
25.	This scheme supports many of the Council's strategic objectives around housing, environment, sustainability, Green City and economic development. The emerging Mayflower Quarter Masterplan also recognises this site's potential to contribute to a vision for the city's future prosperity and, while the UBS scheme is proceeding slightly ahead of the plan-making process, the Outline planning approved scheme is consistent with the Plan's key growth and regeneration themes.

26.	This transaction will deliver much needed regeneration and economic growth. The proposals are also consistent with the Council's City of Culture ambitions and long-term objectives of the emerging Mayflower Quarter Masterplan.
27.	These proposals also support the city's aspirations as a regional, national & global player and align with the Council's City of Culture ambitions.
28	Globally, there is a move towards increased urbanisation, with 50% of the world's population soon to be living in cities and Southampton has recently has a renewed housing target to create 4600 homes by 2040. The new Leisure World scheme represents an opportunity to showcase a mixed-use City Centre where people can live, work flexibly and spend their leisure time.

<b>KEY DECISION?</b>	Yes- monetary of this transaction is over £500k
<b>WARDS/COMMUNITIES AFFECTED:</b>	<b>Bargate</b>
<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>APPENDICES:</b>	
<b>App 1</b>	<b>Report on Commercial &amp; Financial Terms (confidential)</b>
<b>App 2</b>	<b>Section 123 Report Executive Summary (confidential)</b>
<b>App 3</b>	<b>Indicative Phasing Plans &amp; Illustrations</b>
<b>App 4</b>	<b>Site Location Plan</b>
<b>App 5</b>	<b>Leisure World – Our Vision prepared by Sovereign Centros (confidential)</b>

#### Documents In Members' Rooms

	None
<b>FEquality Impact Assessment</b>	
<b>Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out?</b>	<b>No</b>
<b>Data Protection Impact Assessment</b>	
<b>Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out?</b>	<b>No</b>
<b>Other Background Documents: None</b>	
<b>Other Background documents available for inspection at: N/A</b>	
<b>Title of Background Paper(s)</b>	<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>
<b>Appendix 2</b>	<b>Para 3</b>