

BRIEFING PAPER

SUBJECT: FORMER TOYS R US SITE - COMMERCIAL TERMS (FOR CONDITIONAL DEVELOPMENT AGREEMENT & NEW HEAD-LEASE)

DATE: 11 NOVEMBER 2021

RECIPIENT: OVERVIEW AND MANAGEMENT SCRUTINY COMMITTEE

THIS IS NOT A DECISION PAPER

SUMMARY:

1. This briefing paper is to inform members of the Overview and Management Scrutiny Committee (OSMC) that a Cabinet Paper has been prepared for the Cabinet Meeting on 15th November 2021.
2. The report is seeking approval to the principal commercial and financial terms and seeking delegated powers for appropriate Executive Directors to enter into a new head lease over the former Toys R Us site on Western Esplanade. (see site plan attached at Annex 3)
3. The proposed transaction will facilitate comprehensive redevelopment of the site, bring in substantial inward investment, support the emerging Mayflower Quarter Masterplan and promote regeneration and economic development in the city centre.

BACKGROUND and BRIEFING DETAILS:

4. The Council is the freeholder of the former Toys R Us site, which currently comprises a large superstore structure with open surface car parking. The site also accommodates a geothermal well, connected to the local energy network.
5. The Toys R Us business collapsed in early 2018 and shortly afterwards the property company (Toys R Us Properties Ltd) which by then held the lease interest in the site, was placed in receivership by its creditors. The existing lease has insufficient years remaining to secure development funding for a scheme of the use types and scale now proposed. The permitted user clause in the lease is also restricted. The leasehold interest was acquired by Packaged Living in May 2021 and is seeking a new longer lease and a development agreement to enable it to complete a comprehensive redevelopment of the site.
6. Pre-application discussions with the Council planners have now commenced and it is expected a planning application will be submitted at the end of 2021. A public consultation has been undertaken by Packaged Living to set out initial proposals to seek feedback from stakeholders and members of the public. This was run on-line as well as an in-person exhibition on 8th October at the MAST Studio in Southampton.
7. The redevelopment of the site will provide a mix of new homes including a range of build to rent (BtR) and 'for-sale' homes, retail, leisure and office accommodation. The development will also deliver the Maritime Promenade, a link from the north of the site,

adjacent to the railway station, through to Harbour Parade in the south, to greatly improve pedestrian and cycle connectivity towards West Quay Retail Park, West Quay Shopping Centre and the rest of the City centre. The proposals shared by the developer to date are compatible with the Council's current planning policy and longer-term vision for the City Centre.

8. In summary, the proposed redevelopment of the site will comprise:
 - c.600 dwellings (see para 16 regarding affordable housing)
 - c.65,000 sq ft of office space
 - c.23,000 sq ft of retail space
 - c.48,000 sq ft of hotel or office space
 - Maritime Promenade – a new pedestrian link between station and Harbour Parade
 - Additional areas of public realm
 - 170 podium covered car parking spaces
9. The proposed development is expected to extend between seven and 24 storeys in height (inclusive of podium), which is still subject to discussion with the Council planners. There is scope for the precise mix of uses to be adapted in response to market conditions. In addition to planning controls, it's freehold land ownership will enable the Council to influence the final scheme content with the developer via the planning process.
10. Council Officers have been discussing development proposals and commercial terms with Packaged Living over the past few months and have now reached preferred terms on the commercial agreement. The commercial terms have also been appraised via an independent valuation under S123 of the Local Government Act 1972, to ensure the terms reflect 'best consideration' for the Council.
11. The Council will work with the developer 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. 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.
12. Southampton City Centre would benefit from this private investment to support recovery from the Covid-19 pandemic and grow the local economy. The new scheme is estimated to create approximately 270 Full Time Equivalent (FTE) construction jobs during 3-4 years of building works. The number of new FTE jobs created by the complete development is estimated to be in the order of 590, split across the proposed offices, retail and leisure businesses.
13. In financial terms, the granting of a new lease will generate a capital sum for the Council and there is also potential to generate further receipts from a profit share, subject to a minimum priority return being achieved by the developer, as explained in Annex 1.
14. Much of the legal work required to progress this matter has already been completed (at the developer's cost) and, subject to Cabinet approval to this paper, a conditional

Agreement could be exchanged. This would, in turn, enable the developer to sign agreements with its funding partner and submit a hybrid planning application for the redevelopment of the site and progress towards a start on site in mid-2022, with completion anticipated to be in 2025/26. A hybrid planning application sets out a detailed proposal for the first phase for which full planning permission is sought, while the developer seeks only an outline planning permission for the remainder of the development scheme with detail to be approved via future reserved matters applications. This enables a planning permission to be approved more quickly and allowing some flexibility for future phases that may need to adapt to market conditions and changes to planning policy.

RESOURCE/POLICY/FINANCIAL/LEGAL IMPLICATIONS:

15. Details of the proposed financial offer including a capital sum payable on drawdown of a new lease and the potential for a deferred premium/profit share are provided in Annex 1.
16. The Council powers to promote this development are Section 123 Local Government Act 1972 and Section 1 Localism Act 2011.

OPTIONS and TIMESCALES:

17. This is a property transaction and legally the Council may proceed as outlined in the detailed confidential appendices to this briefing note. Packaged Living has a long leasehold interest and this means that they are the only party with which the Council can deal, unless compulsory purchase powers are invoked. As such, this is considered to be the best opportunity for regeneration of the subject site which can be delivered in a reasonable timeframe.

RISK MANAGEMENT IMPLICATIONS

18. The Council's participation, including any risk management implications, are negligible as the Council is not taking any active participation in the re-development and (apart from the timing of the projected capital receipts) no financial risks are involved. The scheme will be subject to uncontrollable economic events which is normal for schemes with a long delivery timetable.

POLICY FRAMEWORK and CORPORATE OBJECTIVES

19. The statutory Local Plan currently identifies the subject site as being located in a primarily commercial area. While a planning application is yet to be submitted to the Council, pre-planning application proposals indicate Packaged Living is adhering to current planning policy as well as emerging policy due to be adopted in the future. A planning application will be determined against current policies, which recognise the role of mixed-use development in supporting a vibrant City Centre economy.
20. 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 Packaged Living scheme is

proceeding slightly ahead of the plan-making process, the pre-planning application proposals are consistent with the Plan's key growth and regeneration themes.

21. These proposals also support the City's aspirations as a regional, national and global player and the scheme aligns with the Council's City of Culture ambitions.

Appendices/Supporting Information:

- Annex 1 - Report on Commercial & Financial Terms (confidential)
- Annex 2 - Section 123 Report Exec Summary – Cushman and Wakefield (confidential)
- Annex 3 - Site Location Plan (confidential)
- Annex 4 - Packaged Living – Indicative Development Proposals (confidential)
- Annex 5 – Leasehold Site Boundary Plan (confidential)
- Annex 6 - Summary Development Agreement & Lease Terms (confidential)

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