

DECISION-MAKER:	COUNCIL
SUBJECT:	ONE GUILDHALL SQUARE (OGS) – DISPOSAL OF FREEHOLD INTEREST
DATE OF DECISION:	15 NOVEMBER 2023
REPORT OF:	COUNCILLOR LETTS CABINET MEMBER FOR FINANCE AND CHANGE

<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY	
Appendix 1 contains information deemed to be exempt from general publication based on Category 3 (information relating to the financial or business affairs of any particular person (including the Authority holding that information)) of paragraph 10.4 of the Council's Access to Information Procedure Rules. This includes details of a proposed transaction which if disclosed prior to contract, could put the Council or other parties at a commercial disadvantage.	
BRIEF SUMMARY	
The purpose of this report is to outline the proposed approach for the disposal of One Guildhall Square (OGS). Following the relocation of city council staff from OGS back into the civic centre, two and half floors in this building, extending to approximately 41,700 sq ft out of a total of 71,500 sq ft are vacant.	
An interested party ('special interest party') with funding available to purchase the freehold interest in the property has come forward and registered their interest in purchasing the freehold interest of the subject property.	
RECOMMENDATIONS:	
	(i) That the commencement of a sale process for a disposal of the freehold interest in One Guildhall Square, subject to existing leases and condition is approved.
	(ii) a. That in the first instance, approval is given for the sale process to be offered "off market" exclusively to the special interest party. b. That any sale to the special interest party will be subject to a completion of a sale taking place by 31 March 2024

	(iii)	The commercial and financial terms and related recommendations as set out in the confidential appendix, be agreed by Council.
	(iv)	Following consultation with the Cabinet Member for Finance and Change and the Executive Director for Corporate Services, that the Executive Director for Place be given delegated authority to finalise the detailed terms of this transaction.
	(v)	If terms for a sale of the freehold interest <u>cannot</u> be agreed with the special interest party by a specified date, the council will procure the services of a commercial real estate agent through its normal procurement processes, to market the freehold interest on the open market.
	(vi)	If the council needs to proceed with an open market sale in accordance with recommendation (v), to delegate authority to the Executive Director Place, following consultation with the Executive Director Corporate Services and the Cabinet Member for Finance and Change to finalise the detailed terms for, and proceed to the completion of, sale of the property.

REASONS FOR REPORT RECOMMENDATIONS

1.	<p>The council no longer requires One Guildhall Square for its corporate use, and following a review of the options available it is recommended that it is in the to dispose of the building. The disposal will generate a capital receipt, alongside reducing revenue expenditure and future liabilities.</p> <p>This report seeks approval to disposal of the building using an off-market sale to a special interest party and if this is not achieved by the end of March 2024 (in line with best consideration as per section 123 of the Local Government Act 1972) then this will then revert to an open market sale.</p>
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ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2.	<p>Open market sale with council vacating – this option involves procuring and appointing agents, advertising on the open market and disposing to the highest bidder. Further details relating to this option are included in the confidential appendix. This will be the route if it is not possible to secure a disposal that represents best consideration by March 2024.</p> <p>Further details are included in the confidential appendix.</p>
3.	<p>Sale and leaseback – this option would involve the council disposing of the property but agreeing to lease back the building for a period of time.</p> <p>Further details are included in the confidential appendix.</p>
4.	<p>Long term hold – this option involves continuing to hold the asset and investing to comprehensively to refurbish the property prior to renting out space. Further detail is included in the confidential appendix.</p>
5.	<p>Income strip – this involves the creation of a financial bond type of investment. Further details are in the confidential appendix.</p>
6.	<p>Dispose of for alternative use – this option involves disposing of the site for an alternative use. Further details are included in the confidential appendix.</p>

DETAIL (Including consultation carried out)

7.	One Guildhall Square (OGS) occupies the site of the former C & A Department Store building on Above Bar Street, Southampton. The site extends to 0.154 ha/0.38 and provides 6,551 sq.m/ 70,516 sq.ft of office accommodation across 5 stories and a basement car park of 39 spaces.
8.	<p>OGS is located in the Cultural Quarter as described in the City Centre Action Plan (Adopted Version March 2015). OGS, the University of Southampton Sir James Matthews Building and the Guildhall surround the Guildhall Square which is a major civic space used for a variety of events throughout the year. Policy AP 31 lists that Guildhall Square and Northern Above Bar may include:</p> <ul style="list-style-type: none"> (i) Educational and cultural facilities. (ii) Leisure uses – restaurants, cafes and bars at ground and Mezzanine levels. (iii) Small scale retail uses. (iv) Residential at first floor level or above. (v) Hotels.
9.	The council has been the freeholder of the site since 2 April 2001. In 2008 the council granted a 999-year lease to Hodge Investments and in 2010 it purchased the residue of the 999 long leasehold interest back from Hodge Investments (Southampton). During the period between 2008 to 2010 planning and construction of One Guildhall Square office development was completed, with legal completion taking place on 27 July 2010.
10.	<p>A lease to Capita Business Services Ltd commenced on 27 July 2010 (for a 15-year term), with Capita occupying first, second and part of the third floor as their Regional Business Centre. The University of Southampton has occupied part of the third floor, the fourth and fifth floors.</p> <p>The outsourcing agreement between the Council and Capita was terminated in July 2018, but Capita remained a tenant for part of the second floor for an additional year, after which time the council became the occupant of first, second and third floors and sought to market the vacant space. The quality of office accommodation available on the market in recent years has significantly increased and as a result OGS has not attracted additional tenants.</p>
11.	After the Covid pandemic and the new flexible working arrangements implemented across the council, it became clear that the council would not need to retain OGS for Council office accommodation. By Spring 2023 all the council office accommodation in OGS had been vacated and staff moved into the civic centre. By early July 2023 the Gateway Service had relocated from the ground floor of OGS to the Civic Centre.
12.	A 3-year lease for vacant space on the first and second floors within OGS was recently negotiated. However, in the advanced stages of negotiations the proposed letting did not proceed and is no longer required by the prospective tenant.
13.	The following accommodation and tenants are currently occupying OGS.

	Floor	Use	Tenant	NIA Sq m	NIA Sq ft
	Ground – Unit 1 (Above Bar)	Restaurant	Turtle Bay Restaurants Ltd	300	3,229
	Ground – Unit 2	Restaurant	Preez	111	1,195
	Ground – Part	Office	Medigold	87	936
	Ground – Part	Office & former SCC Gateway Services	Vacant	592	6,372
	First	Offices	Vacant	1,220	13,132
	Second	Offices	Vacant	1,221	13,143
	Third – Front	Offices	Vacant	460	4,952
	Third – Rear	Offices	Vacant	381	4,101
	Third – Part	Offices	University of Southampton	441	4,747
	Fourth	Offices	University of Southampton	892	9,602
	Fifth	Offices	University of Southampton	846	9,107
	Total NIA			6,551	70,516
14.	There is an opportunity to dispose of OGS to a special interest party. The party has confirmed that they have the finance available to fund a purchase. The party has indicated that they would need approximately 10 to 12 weeks to undertake their own preliminary due diligence, to include surveys, a valuation and other requisite work associated with a purchase of this type.				
15.	There are preliminary discussions underway with proposed key timescales of drafting the Heads of Terms by the end of December 2023 with a view to finalising the sale by 31 st March 2024. The advantages and disadvantages of a sale to the special interest party are outlined in the confidential Appendix.				
RESOURCE IMPLICATIONS					
<u>Capital/Revenue</u>					
16.	The details of the financial assumptions that this disposal is based on, and the parameters of the sale are included in the confidential appendix. The valuation carried out in 2022 is also summarised in the confidential appendix.				
17.	Any income received from disposal will be a capital receipt.				
18.	The overall revenue implications are summarised in the confidential appendix. A small net saving of £0.05m is estimated as a result of savings on running costs. The disposal will also remove any future liability on the maintenance and lifecycle costs of the building.				
19.	Ensuring this building is occupied going forward will help with the regeneration and economic viability of the surrounding area.				
<u>Property/Other</u>					
20.	<p>The property implications are:</p> <ul style="list-style-type: none"> - the council will cease to own the freehold or any interest in One Guildhall Square. - the building includes the leases to the two commercial premises Turtle Bay and Preez. These will pass to the special interest party. - All links to the Council will be removed including any IT connections. - The Council will cease to provide reception, cleaning and security services. 				

	<ul style="list-style-type: none"> - Any agreements relating to the building will be passed to the special interest party including the agreement regarding the link to the district heating system. - The Council will cease to have any repairing or insuring obligations beyond completion of the sale.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
21.	The Council's ability to extend leaseholds or make freehold disposals lies in the Local Government Act 1972, the Local Government Act 2000, Housing Act 1985 and the Localism Act 2011.
22.	Under the Local Government Act 1972, the Council has a requirement to achieve "best consideration". Any purchase price agreed with the special interest party or any other party in the open market will be subject to a Section 123 LGA 1972 Valuation. The confidential Appendix includes information including estimates of capital and rental valuations as well estimated costs for the refurbishment of OGS, which was prepared in 2022. Council officers believe it will be possible to demonstrate best consideration as part of this process of disposal to the special interest party. This will need to be confirmed prior to the finalisation of the terms and disposal.
<u>Other Legal Implications:</u>	
23.	In considering whether to proceed with this proposal it needs to be noted that the Council remains subject to general fiduciary duties to the taxpayer.
24	The current land uses on site are in accordance with the adopted Development Plan and in line with the policy direction of the emerging Southampton City Vision Local Plan, plus general aspirations relating to masterplanning of the wider Cultural Quarter area.
25	Whilst disposal of the property would not have a direct planning-related impact, the new freeholder could later seek to change the use of the building and the units within it. This being the case, both the adopted Development Plan and emerging Southampton City Vision Local Plan seek to ensure a mix of uses are delivered in the area surrounding Guildhall Square to meet employment and/or community needs. However, due to this area not being designated as primary or secondary retail frontage in the current adopted Local Plan, changes may be proposed which do not demonstrate 'active frontages' at street level and current planning policy would not be able to protect against this (the Southampton City Vision Local Plan seeks to address this but does not yet hold significant weight in planning decisions as it is only at draft plan stage). Active frontages are those which create very regular entrances and/or fenestration which in turn improve the quality of public realm and natural surveillance, particularly in key centres and civic spaces.
26.	As such, if the building was disposed of and the new freeholder presented a scheme which removed all active frontages at street level shortly after, which the Council as Local Planning Authority could not refuse due to the current planning policy position, this would have a significantly negative impact on the

	quality of the public realm of Guildhall Square. It is therefore recommended that restrictions are considered in any agreement for sale in order to ensure that existing active frontages are maintained and the importance of increasing the amount of active frontage is encouraged.
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RISK MANAGEMENT IMPLICATIONS

27.	<p>a. The main risk associated with this disposal is that a mutually acceptable price for the sale of the OGS cannot be agreed.</p> <p>b. If agreement cannot be reached on price that achieves the Council’s legal obligation to dispose at best consideration, and a sale cannot be concluded by the 31 March 2024, then steps will have to be taken to dispose of the property on the open market with an attendant risk that the office market could have further deteriorated.</p> <p>c. The Council will no longer receive the revenue income from tenants following the disposal of this property.</p>
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POLICY FRAMEWORK IMPLICATIONS

28.	Southampton City Council Corporate Plan 2022/30 includes the goal to make the Council a successful and sustainable organisation. This disposal will contribute to this ambition together with the goal to make Southampton a prosperous city.
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	<p>OGS is located in the Cultural Quarter area according to the 2015 City Centre Action Plan. The site policy relevant to this site is AP31 Northern Above Bar. This states that Guildhall Square and Northern Above Bar may include:</p> <ul style="list-style-type: none"> (i) Educational and cultural facilities. (ii) Leisure uses – restaurants, cafes and bars at ground and mezzanine levels. (iii) Small scale retail uses. (iv) Residential at first floor level or above. (v) Offices. (vi) Hotels. <p>The proposed use by the special interest party will conform with this policy requirement.</p>
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KEY DECISION?	N/A
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WARDS/COMMUNITIES AFFECTED:	Bargate
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SUPPORTING DOCUMENTATION

Appendices

1.	Confidential Appendix
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Documents In Members’ Rooms

1.	Valuation and Estimated Costs (Strategy Report)
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2.		
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.		No
Data Protection Impact Assessment		
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.		No
Other Background Documents		
Other Background documents available for inspection at:		
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)	
1.		
2.		