



**BROMSGROVE DISTRICT COUNCIL**

**MEETING OF THE OVERVIEW AND SCRUTINY BOARD**

WEDNESDAY 3RD DECEMBER 2014, AT 4.30 P.M.

THE COUNCIL HOUSE, BURCOT LANE, BROMSGROVE

**SUPPLEMENTARY DOCUMENTATION**

The attached revised report and appendix were tabled at the meeting the Agenda previously distributed relating to the above mentioned meeting.

3. Hanover Street Site Remarketing Report (Pages 1 - 8)

K. DICKS  
Chief Executive

The Council House  
Burcot Lane  
BROMSGROVE  
Worcestershire  
B60 1AA

4th December 2014

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### Overview & Scrutiny Board

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#### UPDATE REPORT RE DISPOSAL OF COUNCIL HELD ASSETS AT HANOVER STREET CAR PARK AND GEORGE HOUSE – PUBLIC REPORT

Relevant Portfolio Holder	Councillor Dent
Portfolio Holder Consulted	YES
Relevant Head of Service	Jayne Pickering
Ward(s) Affected	St Johns
Ward Councillor(s) Consulted	Yes
Key Decision	

### 1. SUMMARY OF PROPOSALS

- 1.1 Following the decision of Opus not to proceed with the purchase of the site, this report sets out the options appraisal that has been carried out by officers since September 2014. The report explains why officers are of the view that the site should now be re-marketed. The report sets out a timetable for this exercise and seeks authority from members to proceed with the marketing.

### 2. RECOMMENDATIONS

- 2.1 That Members note the contents of this report and make any comments/recommendations to Cabinet.

### 3. KEY ISSUES

#### Financial Implications

- 3.1 The remarketing exercise will add around £10k to the costs of disposal of the site. This will consist of additional marketing costs and further District Valuer and other professional fees. This can be met from the funding allocated to the current capital project relating to the regeneration of this site.
- 3.2 In order to ensure that best value for the site is achieved, officers will be commissioning a new up to date valuation assessment from the District Valuer. This will be used to inform the process for scoring of expressions of interest.

#### Legal Implications

- 3.3 The proposed remarketing satisfies the Council's legal obligations in respect of identifying a purchaser. Any consideration, decision or agreement to sell the assets as a result of the marketing exercise will be subject to a further Cabinet report.
- 3.4 Extensive preparatory work has already been completed in legal terms for the sale of the site, which would therefore allow for exchange of contracts to be expedited quickly, subject to negotiations. Members are reminded that any

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agreement to sell the land will be conditional on various factors including the obtaining of planning permission.

- 3.5 This report sets out the information regarding the decision which can be made available publically. The financial background behind the report and information that is commercially sensitive to the Council and to other parties cannot be reported on publically and that information will be available to members separately in an exempt report.
- 3.6 The recommendations that are to be presented to Cabinet on 3<sup>rd</sup> December for consideration are:
- That Members note the contents of this report and approve the option of re-marketing the site as set out in Option 4 of the Options Appraisal at Appendix 2.
  - That delegated authority be granted to the Executive Director of Finance and Resources to instruct the Council's appointed agent GJS Dillon to remarket the site with immediate effect.

### **Service / Operational Implications**

- 3.7 In April 2014 Members approved the long-term lease of the freehold land at Hanover Street Car Park and George House to OPUS Developments (the developer). This was on the basis that the Council would retain ownership of the car park and that the development would consist of a food retailer, cinema and restaurants.
- 3.8 Authority was delegated to the Executive Director for Finance and Resources following consultation with the Portfolio Holder to agree the final terms for the disposal of the land with the developer. Subsequently officers were involved in protracted commercial and legal negotiations with the developer. However, prior to the conclusion of the negotiations the developer chose to withdraw from the scheme.
- 3.9 Since September officers have been working to review the position regarding the site and to assess what the different options are for the Council in identifying a new purchaser or developing the land itself. Officers have investigated the potential build costs of the previous scheme and taken advice from a retail specialist in order to determine the interest in the site from potential occupiers. The retail survey shows a healthy level of interest from potential occupiers. Running alongside these enquiries a number of expressions of interest have been received from parties interested in the site. The anchor tenant and cinema operator have indicated their on-going interest in the site notwithstanding that Opus has withdrawn.

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- 3.10 Taking into account all the information available, and looking at the current market conditions, GJS Dillon has compiled an appraisal of the development options which is attached at Appendix 2.
- 3.11 To summarise, the options considered in the Appraisal are:-
1. the Council acting as developer
  2. the anchor tenants acting as developers
  3. retention and refurbishment of George House and disposal of the adjacent site to the anchor retail store
  4. remarketing of the site
- 3.12 As Members will see the conclusion of the Appraisal is that the only viable option is for the Council to re-market the site. In relation to the thinking behind this conclusion officers would highlight the following points:-
- That for the Council to build out the proposed scheme (Option 1) would require significant external professional resources that when set against the likely rental yields mean that there are risks that the project would not be financially viable.
  - That in respect of Option 2 neither anchor tenant has offered to buy the land.
  - That the refurbishment of George House (Option 3) is not viable due to the high costs that would be involved.
  - That there has been an upturn in the retail market since the site was previously marketed as evidenced by the unsolicited expressions of interest.
  - That potential occupiers identified by the retail survey work would require new retail space being created and this supports the intention to see a comprehensive single-phase redevelopment of the whole site rather than a piece-meal or phased development. This is in line with the Town Centre Draft Area Action Plan, which, as before, officers intend to reference in the marketing material.
  - That remarketing the site will ensure that the Council have given all those interested in the site the opportunity to bid and will ensure that the Council achieves best value for the site.
- 3.13 The conclusion of the Appraisal is that the only viable option is for the Council to re-market the site.
- 3.14 In terms of the practicalities of re-marketing, the approach will be a combination of regional press and national property publications that are available to developers across Europe.
- 3.15 Recognising the importance of the site to the town centre it is proposed that the marketing be started as soon as possible and to avoid there being any delays officers have identified the following timetable:-

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Issue marketing material including advert in the Estates Gazette and Birmingham Post	By no later than 10 <sup>th</sup> December 2014
Closing date for expressions of interest	30 <sup>th</sup> January 2015
Presentations to panel	4 <sup>th</sup> and 5 <sup>th</sup> February
Special Cabinet meeting to consider outcome of panel scoring	18 <sup>th</sup> February 2015

#### **Customer / Equalities and Diversity Implications**

3.16 None arising directly from the marketing exercise.

#### **4. RISK MANAGEMENT**

4.1 Risks of not achieving best value for the site will be mitigated by remarketing the site. Professional advice will be taken from the District Valuer to ensure that an appropriate value for the site has been achieved.

4.2 Risks of delay to the project are being mitigated by the advertising being in place as early as possible together with the fixed timetable for the assessment of expressions of interest.

4.3 Risks of the final redevelopment option chosen by the Council being challenged by interested parties will be mitigated by remarketing the site on the same basis as the original marketing exercise.

4.4 Risks of the preferred developer failing to agree terms leading to the need for a further re-marketing exercise will be mitigated by ensuring a robust selection process for selecting the preferred bidder which confirms access to finance and occupier agreements.

4.5 Additionally the selection process will identify two reserve bidders to whom the development opportunity can be offered should the primary preferred developer withdraw for any reason.

#### **5. APPENDICES**

Appendix 1 - Retail Report – Exempt and not available

Appendix 2 - Options Analysis – GJS Dillon

Appendix 3 - Plan of Site

#### **6. BACKGROUND PAPERS**

07 April 2014 Cabinet Report – Disposal of Council owned assets at George House and Hanover Street Car Park

04 April 2012 Cabinet Report – Marketing Exercise: Inclusion of Council owned assets – Exempt and not available

7. **KEY**

N/A

**AUTHOR OF REPORT**

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## Historic Market Site – Development Options Appraisal

### Section 1 - Background

Developers Opus Land put forward a comprehensive development proposal for the Historic Market Hall Site in Bromsgrove which included an anchor food store (16,000 sq. ft.), three ground floor restaurant units (ranging from 2,825 sq. ft. to 3,450 sq. ft.) with a five screen cinema above (11,000 sq. ft.) and a stand alone pod style restaurant in the car park (3,225 sq. ft.), together with 140 allocated car parking spaces on the site.

Opus Land were proposing to acquire the site on a 250 year ground lease for an agreed sum of £700,000 (with an equivalent LEP Grant of £700,000) on the basis that the District Council would keep all of the car parking revenue from the allocated car parking spaces.

On 12<sup>th</sup> September 2014, Opus Land withdrew their development proposal.

### Section 2 – Purpose of this report.

The District Council; the retail operator and the cinema operator are all keen for a development on this site. The purpose of this report is to consider what options are available to enable a development to go ahead that provides the best outcome for the people of Bromsgrove; the appropriate value to the Council (as reported by the District Valuer) and a scheme that works as an investment for a developer. Four options have been considered and these are detailed in section 3 below.

### Section 3 - Options

#### 1. The District Council now builds out the proposed scheme themselves:

If Bromsgrove District Council built out this development then they would not require the same level of profit as a developer as the Council could retain the scheme and benefit from the rental income generated or sell the scheme on to an investor.

However the Council would need significant specialist external professional resource to undertake this approach, which would normally be funded from the developer's gross profit and would require a prolonged procurement exercise. Furthermore, in

light of an independent analysis of the fees and construction costs compared with research into the tenants mix and likely rents, it is our opinion that it is not financially viable for the Council to construct the scheme as it stands.

**2. Does the District Council encourage one of the key occupiers (i.e. anchor retail store and/or cinema operator) to build out the proposed scheme?**

Both the retail store and the cinema operator confirmed their commitment to coming to Bromsgrove and this site in particular. As a result both tenants spoke to their respective development consultants who subsequently confirmed that they would not build out the scheme as per the Opus proposal.

Alternative schemes from the anchor tenants could not be considered in isolation as any variation to the scheme would not be possible under the current approval and would leave the District Council open to a legal challenge from developers aware that Opus had withdrawn from the scheme and had, as a result registered their interest in offering an alternative proposal.

**3. Could the District Council retain George House and dispose of the adjacent site to the anchor retail store?**

An independent cost analysis to refurbish George House was commissioned and came out at approx. £3.5 million. The rent levels that could be achieved from an upgraded George House would not support this level of capital investment and therefore this option is not viable. It would also compromise the opportunity that ownership of the property provides for a comprehensive regeneration proposal for the site.

**4. The District Council re-markets the site.**

The site was originally placed on the market in November 2011 Since then there has been a substantial upturn in the retail market and this is borne out by the significant interest from other developers, following the announcement that Opus Land were withdrawing from developing the site.

If the District Council seek to redevelop the site but not re-market the site it would leave itself open to challenge from one (or more) of these developers, especially if they had bid on the original marketing exercise.

**5. Conclusion**

We are of the opinion that the only sensible option remaining for the Council is to remarket the site indicating that all expressions of interest are based upon the current Town Centre Area Action Plan.