

## **AGENDA ITEM No. 11**

**CABINET**

**SOLICITOR TO THE COUNCIL**

**20th SEPTEMBER 2016**

**REPORT NO. LEG1612**

**KEY DECISION? Yes**

### **UNION STREET EAST REGENERATION**

#### **1. INTRODUCTION**

- 1.1 This report seeks authority to take forward the regeneration of the Union Street East and former Marks and Spencer building identified in the Aldershot Town Centre Prospectus SPD being comprised of 36 - 62 Union and 51 – 57 High Street. The plan attached at Appendix 1 shows this Key Site.

#### **2. BACKGROUND**

- 2.1 The eastern end of Union Street contains a number of large buildings which have proved difficult to adapt and have gradually fallen into low value use or vacancy over the last few years. The sloping site and the need to have frontages onto both Union Street and the High Street means that the existing building are not best suited to modern retail requirements.
- 2.2 The Aldershot Town Centre Prospectus SPD, adopted January 2016, forms a material planning consideration for development management decisions within Aldershot. It provides the planning framework to allow the council to seek development partners and intervene where necessary to acquire these properties, either by agreement or using its compulsory purchase powers, in order to assemble a development site(s) and seek development partner(s) to build out a mixed use scheme to regenerate this area of the town. The SPD envisages a development of mixed retail / leisure and other town centre uses with residential above.
- 2.3 The SPD envisages either this Key Site coming forward in two parts; 48-62 Union Street/51-57 High Street as a refurbishment scheme, as a public sector led development partner procurement, and the former M&S for redevelopment with a private sector development partner; or that the site could come forward as a whole. In respect of 48-62 Union Street/51-57 High Street, the SPD seeks to retain, where possible, the historic frontage. The SPD also seeks to secure a pedestrian link through the former Marks and Spencer Store from the High Street to the Wellington Centre and the creation of a town square.

### **3. DEVELOPMENT OPTIONS**

- 3.1 In October 2014, prior to the closure of M&S, Montagu Evans were commissioned to undertake some high level site feasibility work on the Union Street East site comprising 51 High Street, 50-52 Union Street, 53-55 High Street/54-56 Union Street, 57 High Street/58 Union Street, and 60-62 Union Street. This work advised that if the Council chose not to act, then the private sector alone would be unlikely to deliver the necessary transformation. Further, the advice was that it would be very challenging to gain access to upper floors to provide residential without further compromising ground floor retail space, which is already poorly configured. The report explained that it was likely that the complexity of ownership patterns, weak retail demand and concerns over viability have been private sector inhibitors in bringing the site forward.

This feasibility work for the Union Street East site considered some indicative schemes, namely Low, Mid and High Level interventions (as outlined below). The land assembly costs in support of this work were estimated at this point in time.

- The Low Level intervention looked at refurbishment of the retail space with residential above;
- The Mid-Level intervention consisted of refurbishment of 50-52 and 60-62 Union Street and 51 High Street; redevelopment of 54-58 Union Street and 53-57 High Street and retention of the High Street façade providing 2,210sqm of new residential development (now 34 units).
- The High Level intervention consisted of complete demolition and redevelopment of the existing site, delivering approx. 44 units.

- 3.3 None of the options proved to be viable but the High Level Intervention, with a 4-storey redevelopment, with no provision of Affordable Housing, proved to be relatively close to meeting the value of the estimated land assembly costs. The report suggested that reducing build costs, increasing density or using prudential borrowing would all be likely to improve the viability of the scheme.

- 3.4 It should be noted that the Aldershot Prospectus SPD Option 2 promotes a Mid-Level intervention but based on an increased residential floor space from 2,210sqm in 2014 viability appraisal to 4,609sqm (50 units). In addition, the former M&S site has been considered as part of a larger redevelopment proposal. This increase in residential floor space on the Union Street East aspect of the site is due to the scheme now providing residential use in areas previously disregarded or through the creation of additional storeys.

### **4. ACQUISITION ISSUES**

- 4.1 The Montagu Evans advice is clear that the Council will need to assemble the land in order to secure a development partner. The mechanism to achieve this may need to be the exercise of compulsory purchase powers. Under section 226 of the Town and Country Planning Act 1990 the Council can, on being authorised to do so by the Secretary of State, compulsorily acquire any land in

its area if the Council thinks that the acquisition will facilitate the carrying out of development, re-development or improvement on or in relation to that land. The Council cannot however exercise this power unless it thinks that the development, re-development or improvement is likely to contribute to the achievement of any one or more of the following objects:

- a) the promotion or improvement of the economic well-being of our area;
- b) the promotion or improvement of the social well-being of our area;
- c) the promotion or improvement of the environmental well-being of our area.

- 4.2 Before making a future decision to make a compulsory purchase order, the Council would need to have tried to acquire the land by agreement and any such negotiations should continue as this project moves forward ,even after the making of such order..
- 4.3 In order to make a CPO, the Council would need to be in a position to provide a compelling justification for the acquisition. The Council will need to be able to demonstrate that the land is required immediately in order to deliver the regeneration. The Council would also need to be able to show that the resources are in place to enable the regeneration to be delivered within a reasonable time scale and, assuming the scheme is not financially viable, where the gap funding is to come from.
- 4.4 As noted in the Aldershot Prospectus SPD, the Council's ownership in the key intervention areas in Aldershot is limited. Consequently, it is recommended that an overarching strategy should be employed regarding the acquisition of strategic interests in the town. The Council therefore needs to begin to acquire some of these properties as they come onto the market.
- 4.5 With this in mind and using urgency procedures, the Council put forward bids for two properties at the start of August 2016, for 60-62 Union Street and 54-56 Union Street/53-55 High Street. Sale terms have been agreed for 60-62 Union Street.
- 4.6 Unfortunately and despite using a purchasing agent, the Council was unsuccessful in acquiring 54-56 Union Street/53-55 High Street which went under sealed bids. However, it remains to be seen whether the transaction will be completed as any survey on the property is likely to reveal that conversion for residential will be both problematic and costly. The Purchasing agent was aware of the council's intention to move towards compulsory acquisition of this site if necessary and has communicated this to the selling agent. The councils offer remains open for acceptance should the purchaser decide not to proceed.
- 4.7 It is also believed that the owners of 50 Union Street and 52 Union Street may be prepared to enter into negotiations to sell their properties This report seeks authority to make offers for their acquisitions up to the level set out in the confidential appendix in order to be able to bring forward future regeneration. If the council is able to acquire all of the 4 sites mentioned in 4.2

and 4.3 then the Council will have a substantial land holding in the Key Site which will help in securing a development partner and in moving towards any other acquisitions that are necessary either by the council or a future development partner.

## 5. FUNDING

- 5.1 Earlier viability work suggested that the land acquisition costs for the Union Street East site might in fact be significantly greater than that previously estimated by Montagu Evans based upon existing use values, increasing further the viability gap referred to in 3.3 above. It is suggested therefore that a Compulsory Purchase Order (CPO) schedule of land acquisition costs is needed and this would need to be prepared using an external advisors so that we can realistically know the likely acquisition costs for a compulsory acquisition of all the properties within the Key Site
- 5.2 It is clear from initial financial appraisals that public sector funding will be necessary to enable the regeneration of this key site.
- 5.3 To this end, the Union Street East site has been the subject of two funding bids to the Local Growth Fund, overseen by Enterprise M3 Local Enterprise Partnership (EM3 LEP). The latest bid was submitted in response to the EM3 LGF3 Draft Prospectus (Nov 2015) in the form of an Expression of Interest (Eoi). Whilst it is agreed between the parties that further work is required to demonstrate a deliverable scheme and establish a funding requirement, the Council continue to maintain a positive dialogue with the LEP. A residual amount of £1.2m of funding from the LEP, secured via an earlier expression of interest, can also be drawn down towards the scheme.
- 5.4 Initial discussions have also taken place with the Homes and Communities Agency (HCA) in relation to the site and the Council has put Union Street forward as a potential location for the delivery of Starter Homes as part of an Eoi to DCLG. The Council expect to receive feedback on the Starter Homes EOI in September.
- 5.5 The Council will need to utilise prudential code borrowing to finance the acquisitions. The total capital cost including stamp duty land tax and associated legal fees for the acquisition of these four properties is contained in the table in the confidential Appendix 2. The table also shows the revenue effect in a full year at current price base for the properties in their current trading conditions and circumstances.
- 5.6 The decision to incur this capital expenditure for the acquisition of the four properties, as referred to in the confidential Appendix 2, needs to be considered in the wider context of the acquisition and development costs for the whole site detailed on the plan in Appendix 1. At the current time only a broad estimate can be provided as individual details for each of the properties within the site are not to hand as explained further in the confidential Appendix 2.

## **6. PROCUREMENT**

- 6.1 Given the complexity of ownerships there is unlikely to be much interest from residential developers were the Council to try to procure a development partner without having developed a scheme as to how the key site could be regenerated. Whilst the SPD suggests that the Key Site could come forward in two separate parcels, it is suggested that a scheme be worked up for the entire site. The redevelopment of the Marks and Spencer land parcel may help support the less viable Union Street East site where retention of key parts of the street façade is supported by the SPD. It is suggested that the schematic work of Allies & Morrison be used to work up an architectural scheme for redeveloping the entire key site in accordance with the principles set out within the Aldershot Prospectus SPD. The scheme needs to maximise the residential units that can be provided, ensuring that a good standard of living can be provided. An architect would also need to consider whether it may be possible to accommodate additional residential storeys set back from the buildings that need to be retained. The street level needs to provide for a mix of town centre uses to increase the vitality of the area and draw customers to this part of the town.
- 6.2 Removing part of the footprint of the M&S store to provide a town square will further reduce the viability of the scheme and a decision as to whether the town square should be located on the key site or through the redevelopment of the Galleries will need to be made. Alternatively, two schemes with and without the town square could be worked up.
- 6.3 The issue of whether town centre living should also have to provide car parking, in accordance with the Council's current parking standards, will also need to be considered as car parking will have an impact upon the viability of the scheme.
- 6.4 The resulting scheme could then be used as a basis for seeking a development partner as well as underpinning the compulsory purchase of land parcels, should it be required. Existing landowners who are either investment companies or who have expressed an interest in a joint venture could be approached to determine whether they would wish to lead a redevelopment assisted by the Council using its CPO powers, grant funding and possibly prudential borrowing. Alternatively, if no interest is forthcoming, an alternative partner would need to be procured by the Council.
- 6.5 The architect's scheme and the Schedule of CPO costs would then be used to revisit the viability work and could form the basis of the detailed bid the LEP to bridge the funding gap.

## **7. LEGAL IMPLICATIONS**

- 7.1 The Council's CPO powers are detailed earlier in this report.

- 7.2 Section 227 of the Town and Country Planning Act 1990 allows the Council to acquire by agreement any land that we could acquire compulsorily under section 226.
- 7.3 Section 233 allows the Council to dispose of land acquired under section 226 and 227 with the intention of securing its best use or the construction of buildings.

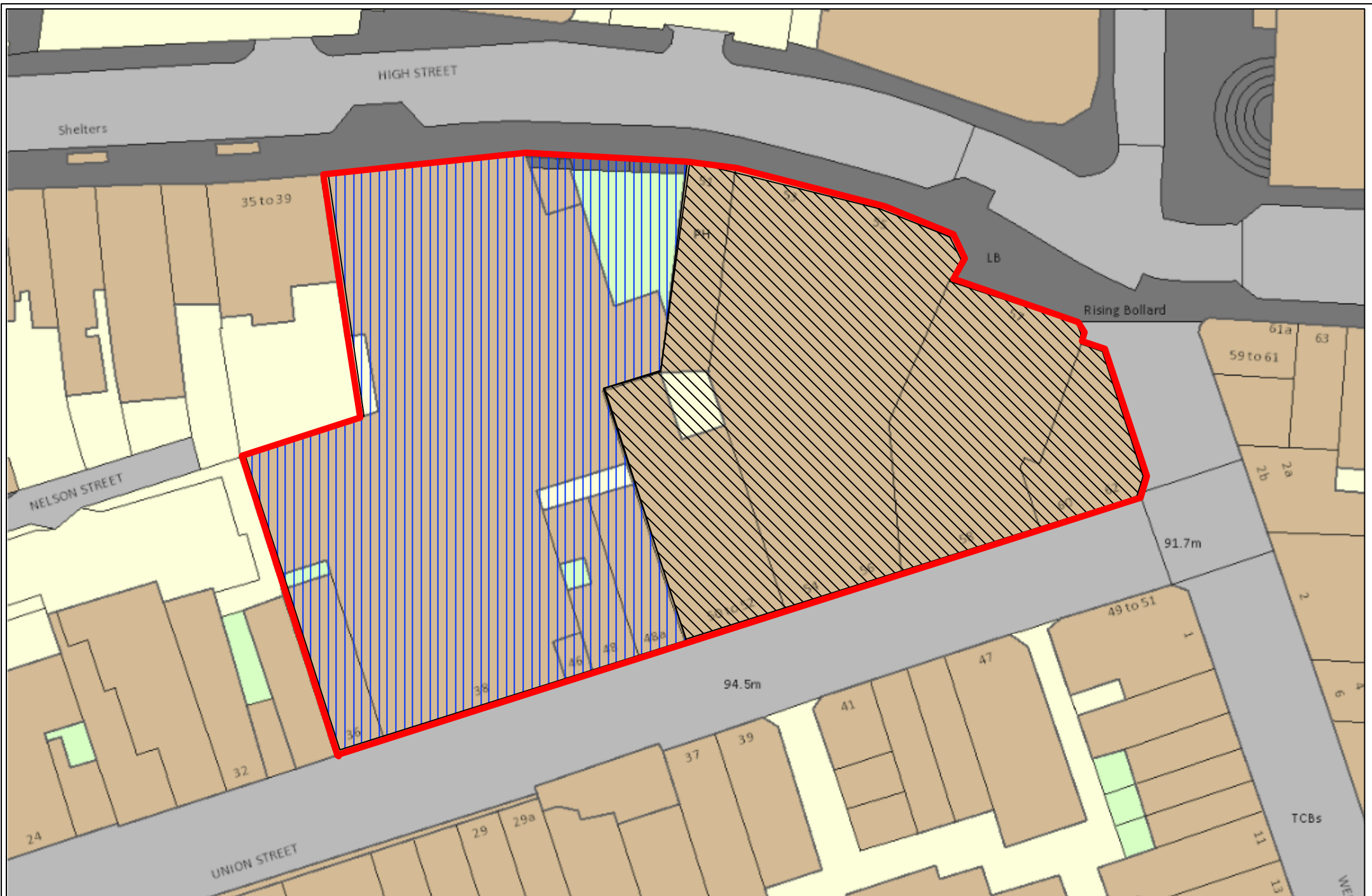
## 8. CONCLUSIONS

- 8.1 The Aldershot Prospectus SPD (adopted January 2016) provides the planning framework to enable the Council to intervene to the extent that it is necessary to secure a redevelopment of this key site. The recommendations below are designed to allow the Council to take a number of key steps to progress the redevelopment. It is likely that the Council will need to resolve to make a CPO at a later stage once a partner has been secured and viability of the scheme has been addressed.

## RECOMMENDATIONS

1. Cabinet approves:
  - (a) the redevelopment of the Union Street East and former Marks and Spencer Key Site as identified in Appendix 1
  - (b) the details of the project are taken to the Aldershot Town Centre Regeneration Group
  - (c) the capital cost as detailed in the confidential Appendix 2 for the acquisition of the four Union Street properties stated in this report
  - (d) the full year revenue costs associated with the property acquisitions as detailed in the confidential Appendix 2
2. Cabinet notes the urgency decision to acquire 60-62 Union Street
3. Cabinet delegates authority to:-
  - (a) the Head of Finance to accept any grant funding towards the costs of the redevelopment; and to enter into any prudential borrowing arrangement, subject to appropriate safeguards, to increase the viability of the scheme;
  - (b) the Head of Finance to submit expressions of interest and to enter into any loan or grant agreements with the LEP or HCA necessary in respect of the redevelopment of the Key Site;

- (c) the Solicitor to the Council authority to:
- (i) negotiate and acquire by agreement 60-62 Union Street; 54-56 Union Street/53-55 High Street; 50 Union Street; 36 Union Street and 52 Union Street (at price set out in the confidential appendix) within the Key Site area subject to confirmation from the Council's Valuer or the Council's external CPO advisor that the price represents the appropriate open market value;
  - (ii) to enter into any legal documentation necessary in respect of the purchase or acquisition of rights and to undertake any ancillary action in connection therewith;
  - (iii) to procure and appoint architects to develop a scheme for the redevelopment of the Key Site;
  - (iv) to appoint external advisers to advise upon CPO acquisition costs.



### Appendix 1 - Union Street Key Site