

Report to: Cabinet

Date of Meeting: 7 October 2019

Report Title: Cornwallis Street Car Park - Potential Development

Report By: Peter Grace (Chief Finance Officer)
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Purpose of Report

To consider the potential development of a hotel on Cornwallis Street Car park (Council owned land).

Recommendations

- 1. Agree to market the site, in accordance with EU procurement rules, on the basis that the Council develops the site for a hotel operator and lets the site on a long lease (20 years or more). The works only to commence once lease terms are agreed.**
 - 2. Agree to include the potential development of the site, at an estimated cost of £7m within the Capital programme when determining the Capital Programme, Capital Strategy, and Treasury Management Strategy as part of the 2020/21 budget setting process.**
 - 3. Agree to undertake the surveys required now for the subsequent development of the site at an estimated cost of up to £30,000 - funded from the General Reserve.**
 - 4. Agree to appoint an external legal firm now to draw up the procurement documents and necessary legal documentation at an estimated cost of up to £40,000 - funded from the General Reserve.**
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Reasons for Recommendations

The site is within the local development plan, earmarked for residential and retail.

The site presents a significant opportunity to further economic development and tourism within Hastings and St Leonards and to attract a major hotel within the town centre has been an aspiration for the Council for some time.

A viable option has been presented to the Council for a development and if the Council wishes to take the opportunity, it will need to move quickly. The EU procurement rules are complex, as will be the lease arrangements, and therefore external expertise in this instance is required.

Introduction

1. The Council has been approached by a developer / hotel chain for the redevelopment of the Cornwallis Street car park with a new hotel (with restaurant).
2. A conditional offer has been made (subject to board approval, planning, and contract) for an 80 room hotel on the site on the following basis:
 - 80 bed hotel and restaurant
 - 25 year lease
 - Substantial rent

The Site

3. Site extends to 0.54 acres (0.22ha) and currently has some 71 car parking spaces. Income for the Council is fairly substantial amounting to some £131,000 in 2018/19 but is offset by rates, repairs and operating costs. Income is some £102,000 net – before central recharges.

Planning

4. The site is allocated for residential development within the Development Plan (Site Ref HTC2). Possible net capacity 10.

“Flood Zone 2 extends towards the north corner of the site so a flood risk Assessment would be required, and mitigation built into any scheme.

The loss of parking provision through redevelopment of the car park will also need to be addressed in future proposals. The capacity potential of this site indicates that a transport report will be required.”

Within the Hastings Area Action Plan (HAAP) the car park sits within the Queens Road Opportunity Area 3 (OA3) – Policy QR2. The guidance states that:

5. “The Council will support the redevelopment of the car park for a mix of uses including residential development (possible net capacity 20 dwellings) with retail use at ground floor level to create an active frontage on the street.

Proposals will be required to include a children’s play area, pocket park or similar open recreational space.

Consideration will be given to measures to secure public access parking either on the site or elsewhere”.

6. Within the HAAP under the tourism section the significance of the importance of tourism to the local economy is noted. Para 3.66 states “There is a need to enhance the quality of visitor accommodation, facilities and attractions”.
7. Given work since the HAAP, including development of a future high street fund bid, and selection for submission for a Town Deal, within the Stronger Towns Fund, it is evident that the job of regenerating the town centre is far from finished.
8. By developing the site in line with the proposals above, there will not be significant loss of sites for potential town centre residential development, with several undeveloped sites for mixed use also available in the town centre including sites SG1 and SG2.
9. The NPPF recommends that in planning for town centres, a suitable mix of uses should be considered to allow growth and diversity and create new markets. Although some significant progress has been made in both capital projects and other action it is clear that the town centre is “unfinished business.
10. There have been notable successes including the new station, college, health centre and employment spaces at Havelock Place and Lacuna place. With the decision of the Department of Works and Pensions to relocate staff from Ashdown House in premises in the town centre the continuing benefit of this approach can be seen. However, the University Centre is now closed and Brighton University are seeking its dispose of both the sites at Priory square and on Havelock Road.
11. It’s clear that such are the changes in the economy that it may be practical and desirable to adopt a more flexible and pragmatic approach to developing and regenerating our town centre:
 - The demand for town centre office space at the prices required for delivery of new build is likely to be unpredictable in the face of Brexit but also changes in working practices of many companies. There is currently no substantial funding available to deliver such schemes at subsidised rates. It is not clear what national funding scheme(s) might be in place to bring such office development forward.

- Retail will not follow the pattern of ever growing expansion predicted in the past in the face of shopping on line. Additionally there is clear evidence of success of smaller café/restaurants, craft and clothing shops along Queens Road to show new spending patterns emerging by consumers locally.
 - The town has consciously and successfully developed new visitor streams using culture (in its broadest sense) to change our image. However, we are significantly hampered by the small numbers of hotel bedrooms in the borough – of both the “boutique” type but also the chains which provide dependable and affordable accommodation for both visitors and business travellers. In 1951 the town had 8,000 serviced bed spaces and in 2019 this figure has reduced to c1,000. The onward growth of higher value visitor beds must now be regarded as a critical challenge for the town’s future growth.
12. As well as the impactful changes listed above there are significant other opportunities to embrace a town centre with enhanced housing, visitor accommodation, leisure facilities and new markets for smaller scale employment. These include:
- a. The as yet undeveloped station yard site.
 - b. The potential development of the ESK site, potentially alongside Priory car park.
 - c. The future use of the University buildings about which little is yet known and will be developed in schemes being brought forward by new users
 - d. The potential development of the Observer building as a mixture of employment, housing and cultural provision
13. We know that our ideas have attracted positive attention – for instance our Channel 4 bid. However, in an economy where values are still very low bringing forward development is very challenging. It is therefore highly encouraging to have the interest of a national chain in investing here. Not only will the hotel be of significant economic value but it would help establish the message that Hastings is “investable” and open for growth with other potential investors. The council is likely to be increasingly dependent on encouraging private investment alongside reducing public funds in the future.
14. Officer’s views are that it is critically important to bring housing into the town centre and the current situation is encouraging for future mixed development. In that context it makes sense to potentially utilise a site currently designated for very small housing development in this way the loss could reasonably be addressed elsewhere. Although not classified as “employment” in planning terms the hospitality industry is a very significant employer nationally and locally and if the sector increased significantly in size could produce employment at all skill levels in a place easily accessible to local people.

Proposed Development

15. The development proposed would cover 4 floors :
 - Ground floor: reception area, restaurant and kitchen, plant, linen and laundry rooms
 - First – Third Floors: 80 bedrooms with ensuite bathrooms
 - 35 car spaces for the sole use of the hotel
16. Plans have been drafted by Architects (commissioned by the development partner) and forwarded to the surveyor acting for the hotel chain. An offer has been put forward which is considered to be viable..

Employment and Tourism Generation

17. In terms of employment, the hotel chain has advised that for a hotel of this size they usually anticipate about 17 staff being employed, 14 of which are full time.
18. Based on standard occupancy rates it has been estimated that there would be some 35,040 people staying overnight per annum. The hotel would make a significant contribution to achieving the policy objectives of furthering tourism in the town and bring substantial benefits to securing the sustainability of the town and night time economy.

Procurement Rules and Best Value

19. In the private sector it would be possible to simply accept such a development proposal, if desired. In the public sector, Best Value has to be shown, and public procurement rules require the Council to provide an equal opportunity for other providers to submit tenders.
20. It may be the case that there are other operators who would wish to develop the site and provide a higher return to the Council both in terms of the quality of the offer and the financial return.
21. The external specialist legal advice sought indicates that public procurement notices need to be published and the works and developer fees tendered for. This will invariably add to the timescales. The hotel chain concerned is ready to move very quickly and was looking to be on-site in February 2021 (following completion of studies and granting of planning permission). They are aware of the necessity to advertise the opportunity. This is very similar to a scheme in Sevenoaks, whereby a hotel was also built on a Council owned car park and similar procurement processes were required.
22. In order to minimise the timescales it is recommended, subject to Cabinet approval, for the Council to undertake the initial survey reports that would be required for any development on the site; these are estimated to be at a cost of up to £30,000.
23. If Cabinet is supportive of the proposal the Council would outsource the specialist procurement and contract work (estimated at some £40,000) in order to comply with EU procurement legislation both for the developer's services, the works contract, and thereafter the lease to the hotel operator.

Financial Implications

24. The developer has put forward a preliminary development and finance proposal which in summary shows the retained value of a hotel at some £7.8m. The build cost is currently estimated at some £6.6m. It is recommended that £7m be included within the Capital programme to take account of the procurement delays and contingency.
25. The intention would be for the Council to provide the finance to develop the site and retain ownership. Borrowing costs are estimated at some £264,000 p.a. on a fixed rate 40 year loan, producing a net surplus of some £136,000 p.a. in a full year. Against this would be the loss of income from the car park in its existing use (some £102,000 p.a.) – albeit some of this would be recovered at other car parks.
26. The Council would also expect to receive a greater level of business rate income than from the existing car park (yet to be fully estimated) but is in the region of a doubling of the rateable value from circa £44k to £90k.
27. If the scheme is able to be designed to retain some existing public parking provision the loss of income from the change of use may be slightly reduced. Likewise the displacement to the multi storey car park of Priory Meadow will see an offset of the income lost.
28. Given that the Council would finance the development from day one there would be a period whereby the Council is funding the development without income. The projection being some 12 month build period and a four month rent free period. Assuming an equal spend throughout the construction period of 12 months the estimated borrowing costs would amount to some £107,000 (assuming a 2% interest rate).
29. As an overall estimate of ongoing revenue benefits, assuming say 30% of parking income is recovered at other HBC car parks (30% of £102,000 =£30,600), the net income would amount to some £64,600 increasing to some £85,000 p.a. once business rate retention is considered.

Capital Programme & Treasury Management

30. Should the Cabinet agree to the inclusion of this project within the Capital programme, the borrowing limits may well have to be raised again for future years. Given that the procurement processes will not be completed before the determination of the budget in February 2020, any changes to borrowing limits could be considered at that stage – they would need to be agreed by full Council and considered in the light of all other capital schemes and proposals and against the background of available resources. If not approved the scheme would stop.

Risk Management

31. The Council would need to employ the services of an expert surveyor in this instance with expert hotel knowledge rather than solely rely on in-house expertise.

32. Undertaking the surveys may highlight unforeseen costs, or there may be limited interest in the site. The current proposal put forward provides the Council with some solid comfort that any expenditure incurred is not likely to be wasted.
33. The loss of car parking spaces in the locality could itself impact on the sustainability of some business. The available capacity within the Priory Meadow car park and the council's own priory Street car park would no doubt form part of any planning decision.
34. There is a particular risk that the value of the property could decrease as the lease periods reduce. An element of the value is having a good quality tenant who is signed up for a substantial period of time.
35. In looking at an exit strategy, should existing use not be viewed as viable in the years ahead, besides selling, alternative uses would include conversion to residential or even offices if there was sufficient demand.
36. If the due diligence work identifies risks that are thought to be too high or remain unclear, then the development should not proceed.
37. The opportunity for residential development on the site would be lost. However many more sites are being identified. Indeed the Council is looking to develop the empty spaces above its own property in the town centre.
38. The site provides a long term investment return. The property development would fit well with the regeneration and economic development for the town and does not preclude greater investment in the energy generation or housing fields at a later date.
39. The Council in looking to develop the site is not borrowing solely to generate income, and nor would the borrowing levels be disproportionate to the size of the authority and its existing budget. Further guidance is still expected on what borrowing levels constitute "disproportionate", but would be expected to also take into account the different risks that authorities are exposed to already e.g. guarantees, loans to other parties, legal claims, known commitments, etc.
40. The Council is being warned that it should not become overly dependent on commercial property income in the future, given the potential volatility involved. The Council's existing portfolio is not highly geared (funded by borrowing) when taken as a whole and is quite diversified.

Other Options

41. Do Nothing

The Council has very limited resources at present and will need to determine whether this is a priority. Some of the upfront costs are at risk and would be a call on the revenue reserves should the scheme not proceed. The Council would continue to receive the car parking income.

However, the do nothing option does not meet the aspirations that the Council has of

supporting the economic vitality of the town centre and its long term sustainability. Nor does it enhance the tourism offering for the town and those businesses and jobs that rely on it (some 35,040 predicted overnight stays). The do nothing approach does not increase the employment opportunities in the town

42. **A Mixed development – as per local plan**

The local development plan identifies the potential for housing provision (20 units) and some further retail provision. This need for more retail space is being questioned at present. The Council needs a revenue stream more than Capital receipts, and there are already a significant number of sites being identified for housing within the borough e.g. Harrow Lane, Bexhill road, Mayfield E, West Marina.

The Hastings Area Action Plan makes specific reference to the need to increase the quality of the accommodation for tourists. This particular development would clearly increase the mixed development nature of the locality itself.

43. **Sell the Site**

The Council could sell the site on the open market, with or without planning permission. It would also be possible to sell the site on a long lease, based upon a developer building a hotel and sharing some of the subsequent income stream – effectively a ground rent. The Council would need to cover as a minimum the annual net revenue that it receives from the car park. However the financing costs of construction for a private developer would reduce the annual income stream available. It would not be as advantageous financially to the Council and would leave the initial development profit solely with a developer.

Local Peoples Views

44. Local people will certainly have views on this as will the business community. The opportunity to consider the proposals will be available through the planning process.

Legal Powers

45. The Council has powers under the Localism Act and general power of competence to undertake such a development.

Climate Change

46. The construction of hotels in town centres and close to railway stations is, it is understood, now the aspiration of many hotel operators for reasons of sustainable travel and a changing tourism market. It has been made clear to us that they also still require car parking spaces to be on site or in very close proximity.
47. Electric charging points will become a planning permission requirement on new builds shortly, and would be included within any scheme.

48. There is anxiety in some quarters about any new developments and the impact on climate change and sustainability. The building would need to be constructed and operated with sustainability a key priority.

Conclusion

49. The development of the car park as a hotel would be a substantial step forward in the continued economic development and economic sustainability of Hastings and St Leonards. It would help to retain and enhance the attractiveness to businesses, diversify the property portfolio and could provide the Council with an additional long term income stream. The yields on offer reflect the level of risk.

There remains a significant risk, particular with Brexit, for many investments to fall in value if there is an economic downturn. There could be upside risks in terms of values if transport links to London or along the south coast were to be improved.

50. Timetable (outline)

	Date	Responsible Person(s)
Cabinet/Council Reports	7 October 2019	Chief Finance Officer
Tender Documents/Publication/ Evaluation/Acceptance/Award – by Cabinet	8 October 2019 to 30 April 2020	Chief Finance Officer/ Estates Manager/ Legal/ Procurement Hub/ External legal Firm/ Cabinet (award decision)
Full Council – Budget /Capital Strategy/ Treasury Management – Borrowing Approval	26 February 2020	Chief Finance Officer
Exchange Contracts with Premier Inn	31 May 2020	Chief Finance Officer/Estates Manager/ Chief Legal Officer
Planning Application	31 July 2020	Estates Manager
Planning Decision	31 January 2021	Planning
On Site	1 May 2021	Successful Tenderer
Build Complete	31 April 2022	
Handover to Hotel Group	01 May 2022	

Wards Affected

Castle.

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	Yes
Anti-Poverty	No

Additional Information

None.

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