

Report to: Cabinet

Date of Meeting: 18 December 2019

Report Title: Harold Place Development Proposals

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Purpose of Report

To consider two proposals received for the future redevelopment of this important site in the town centre. One involves the Council developing the site itself the other involves the disposal of the site on a very long lease to a developer who would design, build and manage the development for possible occupation by the same company.

Recommendation

- 1. Cabinet agree to redevelop the site for a restaurant operation (excluding fit out) for a cost of up to £1.2m, subject to planning permission and an agreement to take the finished property on a long lease, from the preferred bidder (Option 1 in the report) on the terms outlined. The £1.2m figure to be included within the Capital programme.**

Reasons for Recommendations

The Council has marketed the site, has received acceptable heads of terms for a long lease from a relatively well known and quality restaurant if the Council builds out the site to provide a building with a minimum of 2,200 square feet of accommodation.

The Council has previously looked at options for straight disposal of the site for numerous uses ranging from a restaurant, offices to a small hotel.

The creation of a restaurant type offering would appear to be most financially viable proposal received and one which can provide further employment opportunities within the town as well as regenerating the area concerned.

The retention of the ownership of the site and development by the Council would help ensure that the building would be built to a high quality and design and that there is a greater input on the future use of the site

The Redevelopment Site

1. The Harold place site is very prominent, is a standalone building, and will set the tone for anyone entering the town from the seafront direction and visually from the main road. The ability to create a quality offering at a key location could transform the space from one which is under used for such a prominent location.
2. In March 2018 the Council agreed to demolish the building in the absence of a viable and attractive development proposal. A subsequent Coastal Communities funding bid was unsuccessful which if successful could have provided some funding for the redevelopment of the site. The site has continued to be marketed through Dyer and Hobbis who continue to work as the Council's agents.
3. A formal expressions of interest in taking on a long lease should the Council develop the site out itself has now been received directly from an agent working for the same well known restaurant operator who had previously expressed an interest in the site in 2018 but were unable to commit at that time.
4. A second expression of interest has been received from a developer seeking to provide a similar level of restaurant accommodation as well as two apartments on the site. Preliminary proposals for a building of modern design have been received.
5. If the Council decides that neither of the two proposals received are acceptable it will need to again consider the future of the site. The costs of simply providing a safe surface and minimal street furniture are considerable (potentially £150,000 to £200,000) and once more appropriate landscaping costs or temporary use structures are incorporated the costs escalate further.
6. Given that the Council is seeking to continue, within its limited resources, the regeneration of the town and make it a more attractive place to live and work, as well as generate additional income, either of the two options seem attractive.
7. The option for the Council to redevelop the site itself incurs potentially more costs if there are additional unforeseen costs, but would retain more control in terms of what is built than if disposed of by long lease. However the Council does not have an off the shelf design, it would need to tender for the design and build and a project architect. The costs of doing so provide additional uncertainty into the cost projections
8. A disposal to a third party has some advantages in that it removes a some of risks, e.g. reduced Council staff requirements, the gaining of planning permission, and possibly fewer procurement issues and costs.

Option 1

9. Cabinet agree to redevelop the site for a restaurant operation for a cost that is estimated at some £1.052m, and is the subject of planning permission and an agreement to take the finished property on a long lease, from the preferred bidder. This would be for a shell building (not fitted out). The bidder would be responsible for the fit out costs – estimated at some £800k.
10. The Council would fund the building itself through prudential borrowing on what would be a 15 year lease at a rental of not less than £60,000 p.a. this represents a yield of around 5.7% gross on £1.052m.
11. If developing the site itself (following an agreement to lease) the Council would incur the borrowing costs over the design and construction phases which would not be recoverable. These are estimated to amount to some £80,000 and would fall in 20/21 & 21/22 when the Council has a significant budget deficit to tackle. In addition given the uncertainty on tender prices then a contingency should be allowed for should design and construction costs be higher for a more iconic quality building – hence a programme budget is recommended of £1.2m. This would also include a small contingency (£10,000) should there be a need to acquire additional planning capacity within the Council for what is expected to be a priority project, given the key location in the town.
12. At an overall programme cost of £1.2m, borrowing the money at an interest rate of some 3.2% (annuity loan) over 40 years would result in a reduced surplus of some £6,600 p.a.
13. The key points on the heads of terms are:
 - 15 year lease with break clause at 10 years, and 5 year rent review
 - Full repairing and insuring lease
 - Rent free period – 6 months rent & 12 months cash
 - Subject to planning and licensing

Option 2

14. An expression of interest has been received from a developer seeking to provide a similar level of restaurant accommodation as well as two apartments on the site.
15. The preliminary proposals received are for a building of modern design. The Cabinet would need to agree to lease the site for a period of 200 years for a 10% return on rentals received.

The Council has no initial outlay. The offer from the developer would be subject to planning and licensing consents. Based on the assumption that the ultimate tenant would be the same company, then a 10% return would be a more risk free £6,000 p.a. plus business rate income assessed at some £11,000 p.a.

The above is being offered subject to contract, planning, licensing and Board approval.

16. Timescales

The timescales remain dependent upon the receipt of planning permission and the receipt of tenders. The use of a procurement framework agreement may reduce the timescales involved. No project plan has yet been produced; however a 12 to 18 month project timescale should be expected once planning permission is granted.

17. Other Options

In the event that the existing interested parties cease to be interested or the heads of terms (already agreed) are not actually signed prior to the commencement of build, the council has a number of other options:

Option 3

Continue to develop the site itself – the capital expenditure is then at some risk if a tenant can-not be secured. Borrowing costs could be between £46,000 and £80,000 per annum depending upon whether a full fit out was to undertaken. This option provides an opportunity for revenue generation, as well as regeneration of a site that has been problematic in recent years with antisocial behaviour.

Option 4

Landscape the site – and landscape either permanently or with a view to develop in the longer term. More robust costings need to be investigated should the proposals received not be considered attractive or affordable.

Option 5

Mothball the site whilst seeking external funding for redevelopment. There would continue to be costs for hoardings, inspection, and maintenance.

Risk Management

18. The interested party has a business that appears to be successful in what has been a difficult trading period for some restaurant/Café operators. The financial

results of the business would indicate that it has sound financial management practices in place.

19. There is nothing to currently suggest that the interested party will not wish to complete an agreement for lease – consequent on the Council developing the site. Likewise the developer submission would be subject to an agreement with a tenant in place.
20. The costs included in this report are estimates and would be subject to full tender – save where competitive quotes have been obtained.
21. The potential determination of an extension to current conservation areas could potentially increase costs and timescales.

Financial Implications

22. This property development would fit well with the regeneration and economic development aspirations for the town and generate additional employment opportunities as well as income for the Council in the long term
23. The initial returns achieved would be below those currently being achieved for commercial property purchases, but these proposals would save the Council from significant additional expenditure and additional landscaping work.
24. The proposal from the developer has significantly less risk to the Council, is likely to be achieved rapidly and with fewer implications for Council resourcing and less budgetary impact at a time of acute funding shortage. However the involvement of the Council in the design and construction of any building on such an important site is considered to be a high priority – not only for when initially built also for determining future use.

Legal Powers

25. The Council has powers under the Localism Act and general power of competence to undertake such projects and Section 123 of the Local Government Act 1972 for the disposal of land.

Environmental /Climate Change Issues

26. Planning Policy SC3 states that all new development must be designed to incorporate appropriate climate change mitigation and adaptation measures such as green roofs and walls, sustainable drainage systems, multi-functional green space, protecting and enhancing biodiversity, waste reduction and recycling facilities, water efficiency, flood risk management, and the use of recycled materials in new development.

Should the development include apartments the Council has planning requirements for all new residential developments in respect of renewable energy and green design.

Local Peoples Views

Any planning application for this key site within the town centre will require public consultation.

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	Yes
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	yes
Anti-Poverty	No

Additional Information

Cabinet Report – March 2018

Officer to Contact

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