

DECISION-MAKER:	CABINET		
SUBJECT:	NELSON GATE		
DATE OF DECISION:	18 JUNE 2019		
REPORT OF:	LEADER OF THE COUNCIL		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	David Childs	Tel: 023 8083 4389
	E-mail:	david.childs@southampton.gov.uk	
Director	Name:	Denise Edghill	Tel: 023 8083 4095
	E-mail:	denise.edghill@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
<p>The Confidential appendices contain information deemed to be exempt from general publication based on Category 3 of paragraph 10.4 of the Council's Access to Information Procedure Rules.</p> <p>Those appendices include details of a proposed transaction which, if disclosed prior to contract, could put the Council or other parties at commercial disadvantage.</p>	
BRIEF SUMMARY	
<p>The purpose of this report is to approve a framework for entering into an Agreement with the head-lessee, which will include the grant of new leases and thereby facilitate re-generation of the existing buildings and adjoining land at Nelson Gate.</p>	
RECOMMENDATIONS:	
	(i) That the principles of the Commercial Terms set out in Confidential Appendix 3 be endorsed.
	(ii) That following consultation with the Leader of Council, the Director of Finance and Commercialisation subject to receipt of a satisfactory S123 report, the Director of Growth be given delegated authority to finalise terms as referred to in (i) above for the proposed transaction and legal agreements relating thereto.
	(iii) That the Director of Legal and Governance be given delegated authority to enter into all legal documentation necessary to facilitate regeneration of Nelson Gate (e.g. new leases) pursuant to terms of the Agreement referred to at (ii) above being met.
REASONS FOR REPORT RECOMMENDATIONS	
1.	As freehold landowner the Council wishes to see the Nelson Gate site (as identified on the Plan at Appendix 1) which comprises three largely vacant 1980's office buildings and a surface car park, brought into more beneficial use and the scheme's potential optimised.
2.	In order to bring about the desired outcomes, it is necessary to re-gear the existing tenure arrangements and grant new leases over the subject site, as set out in this report and appendices.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. Officers considered marketing the Council's interest in the site. This was rejected on the basis that there would be no certainty that such disposal would bring about the desired outcomes, there would effectively be only one potential purchaser (the existing head-lessee) and that any such disposal would sub-optimize the Council's financial returns. This is a strategically important site and the Council's ongoing involvement as freehold landowner will facilitate delivery of the scheme and its wider economic benefits and help to ensure that the scheme is completed in a timely manner.

DETAIL (Including consultation carried out)

4. In 2012 the head-lessee at Nelson Gate (Mapeley Gamma Acquisition Co 2) entered administration and this possibly exacerbated Nelson Gate's existing property management issues, including the challenge of middle-age buildings and lack of investment in the scheme, which had led to high vacancy rates.

However, irrespective of the insolvency, it was clear that the situation required a longer-term solution. Detailed discussions with representatives of the receiver have therefore been ongoing for the past 18 months or more, in an effort to agree a sustainable approach to the site's future.

The resultant proposals for regeneration of the site have been the subject of extensive consultation and a formal pre-planning (PPA) process undertaken during 2018 led to submission of a planning application for the whole site in December 2018.

5. The redevelopment involves the demolition of Grenville House and converting much of the remaining space in Norwich and Frobisher, which is unsuited to modern office requirements, under Permitted Development Rights (PDR) for residential units. Phase 1 also involves construction of a new 'link' building between Norwich and Frobisher. This new building can be seen in the foreground of CGI images of the scheme (at Appendix 2) and will contain a mix of commercial space at ground floor, providing activate the street frontage, plus 2 floors of new offices built to current user requirements. The car park will subsequently be redeveloped with a 20 storey residential tower and a 3-4 star hotel.

6. In summary the proposed scheme comprises:

- Frobisher - 63 apartments and 1,920 sq.m. refurbished offices
- Norwich – 74 apartments in existing building conversion
- Norwich 'Link' – 1,726 sq.m. new offices and 664 sq.m. commercial
- Residential Tower – 110 apartments in new 19-20 storey building
- Hotel – 244 bedrooms
- Car Parking – total 131 spaces
- Public Realm – new route through scheme
 - Station Plaza public realm improvements

7. The scheme will be undertaken in two or three phases, starting with enabling works and demolition of Grenville House before conversion of the

	existing buildings commences. Phase 1 includes construction of the new link building and creation of much improved public realm, with a new pedestrian pathway (which follows the historic alignment of Sidford Street) leading from Hill Lane and Commercial Road junction down to the station forecourt. Phases 2 and 3 will comprise of the new residential tower and a new hotel that will complete the development.
8.	The proposed scheme has been the subject of extensive consultation over the past 12 months or more, including briefings to members and other stakeholders. The planning pre-application process also included a public exhibition and public engagement – the outcomes of which were all positive.
9.	It is worth noting that, while the conversion of existing offices in Norwich House and Frobisher House, under permitted development rights, do not require any affordable housing element, the new residential tower falls to be assessed against current planning policy and discussions are ongoing with the developer in this connection.
10.	Much of the legal work and background advice required for the purposes of implementing these proposals has already been undertaken (at the developer's cost) and it is proposed that, following Cabinet approval, the contract documents will be finalised for exchange as soon as possible, so that the developer can commence enabling works once planning is granted.
11.	A financial report is attached at Appendix 4 and will be subject to a formal S123 'best consideration' review before exchange of the legal Agreement.

RESOURCE IMPLICATIONS

Capital/Revenue

12.	The proposed transaction will not only enable the site's regeneration but also provide for the Council a substantially increased revenue income from the scheme and additional capital receipts that are outlined in Appendices 3 & 4. Apart from the management time and support resources involved in managing the Council's interest in the scheme and related financial matters, there are no other resource or financial implications for the Council.
-----	--

Property/Other

13.	When the current scheme was fully occupied, the head-rent from Nelson Gate represented substantial property income for the Council. However, that revenue stream (based on a percentage of occupational rental income) has shrunk in recent years as the buildings have remained largely vacant and SCC currently receives only the base rent and car park lease rent. The lease re-gearing involved in the proposed transaction will enhance the Council's revenue stream from the asset going forward and the commercial Agreement proposed will also produce capital receipts for the Council as outlined in the appended financial report.
-----	---

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

14.	The Council powers to promote this development are Section 123 Local Government Act 1972 and Section 1 Localism Act 2011.
-----	---

<u>Other Legal Implications:</u>	
15.	None.
RISK MANAGEMENT IMPLICATIONS	
16.	The Council will participate in future financial benefits from the scheme, as outlined in appendices to this report but is not providing any funds or resources to the developer. Therefore, the Council has only limited exposure to the timing and amounts of capital receipts as explained in Appendix 4.
POLICY FRAMEWORK IMPLICATIONS	
17.	The statutory Local Plan currently identifies Nelson Gate as a primarily office and commercial area. While the re-development will result in the loss of some poor quality office space, suitable parts of Frobisher House will be refurbished and 2 floors of new office space incorporated in the new link building.
18.	The planning application has yet to be determined but has been widely welcomed by local stakeholders and the wider community. Subject to agreement on a few remaining details, financial contributions and related legal agreements, it is expected that SCC planning officers will recommend approval and planning permission could be granted during July.
19.	This scheme supports many other of the Council's strategic objectives around housing, environment and economic development and, by bringing back a largely redundant site into viable long-term use, will contribute significantly to it's vision for the city in the future.

KEY DECISION?	Yes
WARDS/COMMUNITIES AFFECTED:	Bargate
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Site Plan
2.	Visual image of scheme from planning application scheme
3.	Confidential – Heads of Terms
4.	Confidential – Report on Financial Terms

Documents In Members' Rooms

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 None		
Other Background documents available for inspection at: N/A		
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.	Appendix 3	Para 3
2.	Appendix 4	Para 3