

DECISION-MAKER:	CABINET		
SUBJECT:	TOYS R US SITE COMMERCIAL TERMS		
DATE OF DECISION:	15 NOVEMBER 2021		
REPORT OF:	CABINET MEMBER FOR GROWTH		
<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY		
<p>The appendices to this report contains 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. This includes details of a proposed transaction which, if disclosed prior to contract, could put the Council or other parties at a commercial disadvantage.</p>		
BRIEF SUMMARY		
<p>The report advises Cabinet of the proposals to grant the existing leaseholder of the former Toys R Us site a development agreement and new long leasehold interest in the site to facilitate a mixed-use redevelopment. This will contribute to the delivery of new homes, leisure, public realm and employment accommodation within a City Centre location and in close proximity to a public transport node.</p>		
RECOMMENDATIONS:		
	(i)	That the commercial & financial terms and related recommendations set out in confidential Appendix 1 be agreed by Cabinet.
	(ii)	Following consultation with the Deputy Leader who is the Cabinet Member for Growth and Executive Director of Finance and Commercialisation, that the Executive Director of Place be given delegated authority to finalise the detailed terms of this transaction.
	(iii)	Following consultation with the Executive Directors of Finance, Commercialisation and Place, that the Director of Legal & Business Operations be given delegated authority to enter into any commercial agreements required to facilitate this transaction and any other legal documentation related to the proposed scheme (the Council acting in its capacity as a landowner).
	iv)	Approve the removal of the Former Toys R Us Site Redevelopment project from the Growth portfolio in the capital programme. This is a reduction of £0.25M in 2021/22 and £26.70M in 2022/23 as this is now being funded by the developer.

REASONS FOR REPORT RECOMMENDATIONS	
1.	As freehold landowner, the Council wishes to see the strategically important former Toys R Us site (identified on the Plan at Appendix 3) redeveloped for a mix of uses consistent with its ambitions for the City Centre.
2.	Delivering the desired outcomes will necessitate changes to existing tenure arrangements, including extension of the current ground lease, to enable the proposed scheme to be funded by the developer.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	Do nothing – the existing lease has insufficient years remaining to secure development funding for a scheme of the scale now proposed. If no lease or development agreement is approved, the current leaseholder will need to re-use the existing building on site to re-let it for a retail use. This would not achieve the Council’s own regeneration objectives for the site nor support delivery of new homes and improvements to public realm. The redevelopment of this site is likely to be the first major development project within the proposed Mayflower Quarter Masterplan area and will help to act as a catalyst for further regeneration in the City.
4.	Sell the Council’s freehold interest – this would sub-optimize long-term returns, deny the Council substantive influence over redevelopment of this key site and risk a scheme coming forward which failed to deliver on key city vision objectives.
5.	Council buy out head-lease and develop the site itself – It is unlikely the head-lessee would be willing to sell its interest at the current time. If it was to sell the interest, this would involve significant (unbudgeted) capital expenditure and substantial project resources that the Council does not have. It is therefore considered preferable to work with a willing partner/investor using the Council’s influence as landowner and planning authority, to deliver a scheme consistent with its corporate and social priorities.
DETAIL (Including consultation carried out)	
6.	The Council is the freeholder of the former Toys R Us site, which currently comprises a large superstore structure with open surface car parking. The site also accommodates a geothermal well, connected to the local energy network.
7.	The Toys R Us business collapsed in early 2018 and shortly afterwards the property company (Toys R Us Properties Ltd) which by then held the lease interest in the site, was placed in receivership by its creditors. The existing lease has insufficient years remaining to secure development funding for a scheme of the use types and scale now proposed. The permitted user clause in the lease is also restricted. The leasehold interest was acquired by Packaged Living in May 2021 and is seeking a new longer lease and a development agreement to enable it to complete a comprehensive redevelopment of the site.

8.	<p>Pre-application discussions with the Council planners have now commenced and it is expected a planning application will be submitted at the end of 2021. A public consultation has been undertaken by Packaged Living to set out initial proposals to seek feedback from stakeholders and members of the public. This was run on-line as well as an in-person exhibition on the 8th October at the MAST Studio in Southampton.</p>
9.	<p>The redevelopment of the site will provide a mix of new homes including a range of build to rent (BtR) and 'for-sale' homes, retail, leisure and office accommodation. The development will also deliver the Maritime Promenade, a link from the north of the site, adjacent to the railway station, through to Harbour Parade in the south, to greatly improve pedestrian and cycle connectivity towards west Quay Retail Park, West Quay Shopping Centre and the rest of the City centre. The proposals shared by the developer to date are compatible with the Council's current planning policy and longer-term vision for the City Centre.</p>
10.	<p>In summary, the proposed redevelopment of the site will comprise:</p> <ul style="list-style-type: none"> • c.600 dwellings (see para 16 regarding affordable housing) • c.65,000 sq ft of office space • c.23,000 sq ft of retail space • c.48,000 sq ft of hotel or office space • Maritime Promenade – a new pedestrian link between station and Harbour Parade • Additional areas of public realm • 170 podium covered car parking spaces <p>The proposed development is expected to extend between seven and 24 storeys in height (inclusive of podium), subject to discussion with the Council planners.</p> <p>There is scope for the precise mix of uses to adapt in response to market conditions but, in addition to planning controls, it's freehold land ownership will enable the Council to influence the final scheme content with the developer.</p>
11.	<p>Council Officers have been discussing development proposals and commercial terms with Packaged Living over the past few months and have now reached preferred terms on the commercial agreement.</p> <p>The commercial terms have also been appraised via an independent valuation under S123 of the Local Government Act 1972, to ensure the terms reflect 'best consideration' for the Council.</p>
12.	<p>The Council will work with the developer so that environmental considerations for the City are reflected in the new development, including use of latest building technologies and significant 'greening' of the public realm. The residential elements will be built to the most recent design standards and the developer is currently intending that the commercial buildings will be designed to achieve BREEAM 'Excellent' ratings, employ low carbon technologies which is an approach supported by the Council.</p>

13.	Southampton City Centre would benefit from this private investment to support recovery from the Covid-19 pandemic and grow the local economy. The new scheme is estimated to create approximately 270 Full Time Equivalent (FTE) construction jobs during 3-4 years of building works. The number of new FTE jobs created by the complete development is estimated to be in the order of 590, split across the proposed offices, retail and leisure businesses.
14.	In financial terms, the granting of a new lease will generate a capital sum for the Council and there is also potential to generate further receipts from a profit share, subject to a minimum priority return being achieved by the developer, as explained in Appendix 1.
15	Much of the legal work required to progress this matter has already been completed (at the developer's cost) and, subject to Cabinet approval to this paper, a conditional Agreement could be exchanged. This would, in turn, enable the developer to sign agreements with its funding partner and submit a hybrid planning application for the redevelopment of the site and progress towards a start on site in mid-2022, with completion anticipate to be in 2025/26. A hybrid planning application sets out a detailed proposal for the first phase for which full planning permission is sought, while the developer seeks only an outline planning permission for the remainder of the development scheme with detail to be approved via future reserved matters applications. This enables a planning permission to be approved more quickly and allowing some flexibility for future phases that may need to adapt to market conditions and changes to planning policy.

RESOURCE IMPLICATIONS

Capital/Revenue

11. Details of the proposed financial offer including a capital sum payable on drawdown of a new lease and the potential for a deferred premium/profit share are provided in Appendix 1.
- Within the existing capital programme is a budget of £26.95M to fund the development of an office on the site, as approved by Council in September 2019. Under the proposed commercial terms, the Council will no longer be funding this and the corresponding budget is to be removed from the capital programme.

	2021/22	2022/23	Total
	£M	£M	£M
Former Toys R Us Site Development	0.25	26.70	26.95

12. There are no material capital or revenue expenditure implications for the Council, as the developer is fully funding the construction project as well as covering a majority of the Council's costs such as external legal fees and officer time, up to an agreed cap. Details of this cap is set out in Appendix 1. To verify the commercial proposal the Council has undertaken a valuation, under s123(2) of the Local Government Act 1972, to verify the deal reflects 'best consideration', which is being funded from existing resources.

13. The construction programme is expected to last 3-4 years and there will be a requirement to assess the potential for the 'deferred premium / overage' at the end of each phase, where any officer time incurred exceeds the funding provided by Packaged Living there may be the requirement for additional officer time to undertake these assessments. The intention is this will be resourced within the budget provision for the development team, or if the need arises for external assistance through the limited budget provision for external help, though the position on resources will need to be kept under review as the work level develops over time.

Property/Other

14. The Council will need to closely monitor the project and commercial arrangements related thereto, so a continued 'development management' resource will be needed on this project as mentioned above.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

15. 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>	
16.	This is property transaction and legally the Council may proceed as outlined in the detailed appendices to this report.
17.	Packaged Living's long leasehold interest means that, in practice, they are the only party with which the Council can deal, unless compulsory powers were invoked (uncertain, costly and time-consuming) so this is the best opportunity for re-generation of the subject site to be delivered in a reasonable time-frame.
RISK MANAGEMENT IMPLICATIONS	
18.	The Council's participation, including any risk management implications, are detailed in confidential Appendix 1 to this report. However, the Council is not taking any active participation in the re-development and (apart from timing of the projected revenue & capital receipts) no financial risks are involved. Whilst there is no guarantee that the site will be fully developed out as outlined there are some mitigations included in the agreements which are outlined in Appendix 1.
19.	This scheme is subject to uncontrollable economic events which is normal for schemes with a long delivery timetable.
POLICY FRAMEWORK IMPLICATIONS	
20.	The statutory Local Plan currently identifies the subject site as being located in a primarily commercial area. While a planning application is yet to be submitted to the Council, pre-planning application proposals indicate Packaged Living is adhering to current planning policy as well as emerging policy due to be adopted in the future. A planning application will be determined against current policies, which recognise the role of mixed-use development in supporting a vibrant City Centre economy.
21.	This scheme supports many of the Council's strategic objectives around housing, environment, sustainability, Green City and economic development. The emerging Mayflower Quarter Masterplan also recognises this site's potential to contribute to a vision for the City's future prosperity and, while the Packaged Living scheme is proceeding slightly ahead of the plan-making process, the pre-planning application proposals are consistent with the Plan's key growth and regeneration themes.
22.	This transaction will deliver much needed regeneration of a site that has been vacant for over three years and will also support the economic growth of the City. The proposals are also consistent with the Council's City of Culture ambitions and long-term objectives of the emerging Mayflower Quarter Masterplan.
23.	These proposals also support the City's aspirations as a regional, national & global player and align with the Council's City of Culture ambitions.
24.	Globally, there is a move towards increased urbanisation, with 50% of the world's population soon to be living in cities and Southampton has recently had a renewed housing target to create 27,000 homes by 2040. The proposed redevelopment of the former Toys R Us site represents an

	opportunity to deliver a mixed-use City Centre where people can live, work flexibly and spend their leisure time.
25.	The Council is currently preparing its Economic Growth Strategy 2020-2030. This strategy builds on Southampton's ongoing economic growth and Green City agendas and sets out a plan to restore and renew the economy as a greener, fairer and healthier city. The redevelopment of the former Toys R Us site will improve connectivity from the Central Railway Station to the City Centre as well as deliver new areas of managed public realm.

KEY DECISION?	Yes
WARDS/COMMUNITIES AFFECTED:	Bargate
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
App 1	Report on Commercial & Financial Terms (confidential)
App 2	Section 123 Report Executive Summary (confidential)
App 3	Site Location Plan
App 4	Packaged Living – Indicative Development Proposals (confidential)

Documents In Members' Rooms

	None
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)
	Para 3