

CHESHIRE EAST COUNCIL

Cabinet

Date of Meeting: 21st April 2015

Report of: Executive Director of Economic Growth & Prosperity

Subject/Title: Strategic Acquisition – Crewe:
For information - notification of a decision taken using Urgency Powers (Cabinet Procedure Rule No. 53)

Portfolio Holders: Cllr Peter Raynes (Finance)
Cllr Don Stockton (Housing and Jobs)

1.0 Report Summary

- 1.1 Crewe town centre is at a pivotal point in terms of its potential to attract new investment, increase footfall from residents and visitors, and instil greater civic pride. A revival is already underway, instigated in part by the Council's commitment to the new £15m Lifestyle Centre and the approval of a University Technical College (UTC) for Crewe. Alongside this is the prospect of major investment in a new HS2 North-West Hub at Crewe. It is vital that the Council continues to apply its resources and influence to help accelerate the town centre's regeneration and growth.
- 1.2 Options for delivering this regeneration through enhancing the town centre's retail, leisure and business 'offer' to the wider area have been identified in the development of a *Regeneration Delivery Framework for Growth*, which is being considered as a separate item by Cabinet. During the process of developing the Framework, it has emerged that one key town centre property, known as 'Royal Arcade' is now available for acquisition. This property provides the most viable prospect of delivering a transformative regeneration scheme within the town centre.
- 1.3 The Council has recently been negotiating with the owner of Royal Arcade, Crewe through our respective agents, in consultation with the Leader and relevant Portfolio Holders. Based on these negotiations, the Council has agreed Heads of Terms and a contract with the vendor for acquisition, subject to formal approval. Due diligence with respect to site surveys and detailed commercial appraisal has been undertaken. This report provides background on the opportunity that this property presents for Crewe and the pivotal role that the Council could play with the property in its ownership.

2.0 Recommendations

2.1 Cabinet is recommended to note that the following decision was taken under Cabinet Procedure Rule No 53 of the Council's Constitution:

- a) To acquire the freehold of the 'Royal Arcade' property in Crewe town centre for £6.0m, and enter into all necessary legal documents.
- b) To approve expenditure on all costs associated with the acquisition, including VAT (which will be recoverable) stamp duty, surveys, professional fees, etc.
- c) To authorise officers to develop a business case to support redevelopment plans for this property as part of the wider regeneration of Crewe town centre.
- d) To authorise officers and/or the Council's agents to communicate with current lessees following acquisition and to engage with them as well other Crewe businesses and residents in any consultations in relation to the future use of the site.

3.0 Reasons for Recommendations

3.1 The Council was required to complete the acquisition of the Royal Arcade site as a matter of urgency to safeguard the Council's best and final offer, due to other potential interest in the market.

3.2 The Council has recently been negotiating with the owner of Royal Arcade, Crewe through our respective agents, in consultation with the Leader and relevant Portfolio Holders. Based on these negotiations, the Council agreed Heads of Terms and subsequently exchanged contracts with the vendor, following formal approval using urgency powers. Due diligence with respect to site surveys and detailed commercial appraisal has been undertaken.

3.3 The remainder of this report provides background on the opportunity that this property presents for Crewe and the pivotal role that the Council could play with the property in its ownership.

3.4 The draft *Crewe Town Centre Regeneration Delivery Framework for Growth* identifies both current constraints and the significant opportunities to regenerate key parts of Crewe town centre leading to its strengthening overall. Whilst the retail sector is experiencing significant change nationally and globally, the Crewe town centre core is assessed as having great potential as a destination, which is not being harnessed currently. This opportunity is further heightened when considering the even greater potential of the longer-term prospects offered through securing Crewe as HS2's North-West Gateway, and the prospect of a rapid transit link between a new station and the town centre.

- 3.5 During the process of developing the Framework, a key town centre property known as 'Royal Arcade' became available for acquisition. This property provides the most viable prospect of delivering a transformative leisure-led regeneration scheme within the town centre. Due to the state of the development markets, it is understood that there is limited interest in large-scale redevelopment schemes that aren't already well advanced and particularly where there is uncertainty over land assembly or where up-front costs associated with this are significant. We are advised by DTZ that there is now potential leisure and retail operator demand, if a proposition can be developed with a measure of certainty with regards to delivery. The Council is best placed as a key stakeholder to lead in facilitating the regeneration of this site and the revival of the town centre.
- 3.6 The current operator and lessee of Crewe bus station, which is within the Royal Arcade site, has given notice of their intention to cease operations from 1st May 2016 when the current lease arrangement expires. In the short term there is a need to identify an interim replacement bus interchange facility in the town centre. A feasibility study has been undertaken to identify and examine both on street and off street options, and further detailed options will be considered by Cabinet. One option which could be included is a replacement bus interchange within the Royal Arcade site.

4.0 Wards Affected

- 4.1 All Crewe Wards

5.0 Local Ward Members

- 5.1 All Crewe Ward Members

6.0 Policy Implications

- 6.1 The proposal in this report relates directly to four key outcomes identified in the Council's Three Year Plan:

Outcome 2: Cheshire East has a strong and resilient economy. Cheshire East is known as a good place to do business – we attract inward investment, there is access to a high quality workforce and our businesses and visitor economy grow, to create prosperity for all.

Outcome 4: Cheshire East is a green and sustainable place. Cheshire East's rural and urban character is protected and enhanced through sensitive development, environmental management, transport and waste disposal policies.

Outcome 5: People live well and for longer. Local people have healthy lifestyles and access to good cultural, leisure and recreational facilities. Care services focus on prevention, early intervention and physical and mental wellbeing.

- 6.2 This report aligns strongly to the Council's *Economic Development Strategy* and its more recently created *Vision and Strategy for Economic Growth: East Cheshire*

Engine of the North, which articulates the need to increase investment in our town centres, by ensuring they offer themselves as attractive locations for retail and leisure operators.

- 6.3 As part of the Council's All Change for Crewe regeneration programme, there is previous work that has laid the way for this report. This includes:

Prospectus for Crewe: Sets out the Council's development priorities for the town centre, based on five key zones, and three development areas under the Council's influence. This served to garner interest from the development community and instigate dialogue which has helped to inform this report.

All Change for Crewe - High Growth City: Reflects recent progress in the wider Crewe area, including Bentley's expansion, plans for geothermal energy and investment secured to enhance connectivity through road and rail.

- 6.4 Acquisition of this site and any subsequent redevelopment could present opportunities relating to other Council policies and service priorities.
- 6.5 In particular, consideration should be given to the use of part of the property as an interim or longer-term solution to the requirement to provide a replacement bus interchange facility. Any proposal to provide this would be in line with the strategic priorities of the Council's Local Transport Plan (LTP) to "create conditions for business growth" and "ensure a sustainable future". The LTP includes a number of policies relating to public transport integration and facilities (Policy S3) and public transport service levels and reliability (Policy S4).
- 6.6 Account has also been taken of the World Health Organisation 'Age Friendly Cities', which seeks to ensure that the towns are positioned to tap into the potential and needs of older people as residents and users of town centres.

7.0 Implications for Rural Communities

- 7.1 The acquisition of this strategic asset promotes the economic prosperity of Crewe town centre. This has a direct relationship with residents and businesses across the wider South Cheshire area, including rural communities.

8.0 Financial Implications

- 8.1 DTZ, an independent consultancy firm, has provided agency and development appraisal advice to the Council in relation to possible acquisition of the Royal Arcade site. The site will be acquired on the basis of an investment, whilst recognising the future redevelopment potential of the site and considering advice and due diligence from a commercial and legal perspective, and in accordance with the Council's financial regulations.
- 8.2 Crewe Town Centre Regeneration is a named scheme within the 2015/18 Capital Programme approved by Council in February 2015. It is proposed that the acquisition of this site at the value of £6.0m and estimated associated costs of up to

£400k will be charged to this scheme. The Council will continue to seek to secure external grant funding to contribute towards the costs of future development.

- 8.3 Acquisition is based on due diligence that evidences an anticipated yield will generate sufficient returns for the Council to more than cover its costs of continued operation 'as is' and interest charges. Based on a £6.0m acquisition and a contracted income of £447,540 p.a. adjusted for current shortfalls (i.e. service charge, insurance and empty rates mostly relating to the vacant units) and without income from a major tenancy ending in May 2016, the net yield would be 7.05% ("net" assumes conventional acquisition costs of 5.80% which includes stamp duty, survey and legal fees, which are payable in addition to the agreed £6.0m price).
- 8.4 Through any Council or developer-led regeneration scheme, the Council will seek to consult Crewe residents and businesses, including current lessees, on what it seeks to specify within a new development – this could include leisure, retail and other uses, but will be subject to understanding the commercial viability of such uses.
- 8.5 The identified expenditure would increase the Council's capital financing requirement and, in the short term, repayment charges would have to be made. Rental income will be available to support the debt repayment charges, however the time period for these receipts cannot be guaranteed and therefore the financing costs remain as a risk to the Council.

9.0 Legal Implications (Authorised by the Head of Legal Services)

- 9.1 The Localism Act 2011 introduced the General Power of Competence, which allows the Council to do anything an individual can do, provided it is not prohibited by other legislation. These powers have replaced the previous wellbeing powers, however, the use of these powers must be in support of a reasonable and accountable decision made in line with public law principles.
- 9.2 Notwithstanding the above powers the Council has a fiduciary duty to the taxpayers and must fulfil this duty in a way that is accountable to local people.
- 9.3 The Council has sought to acquire the property at the most competitive price.
- 9.4 DTZ has provided agency and high level development appraisal advice to the Council in relation to possible acquisition of the Royal Arcade site. Based on information provided by the current owners (which has been verified as part of the pre-acquisition due diligence process), the market value of the site is considered to be up to £5.0m. Through an extended negotiation process, it is evident that the vendor will not sell the property at this price, and has sought to achieve in excess of £7.0m.
- 9.5 Given that the Council is seeking to acquire the property for above what is considered to be market value, it is required to obtain an independent justification as to why a higher price is being proposed. DTZ have advised that:

- a) the Council could be considered a “special purchaser” since the rationale for the acquisition is to lead and support the regeneration of Crewe town centre. Ownership and control of this key asset significantly underpins the ability to achieve this.
- b) the successful regeneration of the town centre and redevelopment of the Royal Arcade site would improve the prospect for growth in the value of other Council assets nearby and may give rise to the opportunity for ‘marriage value’ to be realised.
- c) the Council could be in a position to benefit from the uplift in business rates over a considerable period of time under the extended rates retention proposals announced in the recent Budget. This would have improve the returns from the Royal Arcade with additional uplifts potentially arising across the wider town centre as a result of an improvement to Crewe’s leisure and retail offer.
- d) a future redevelopment scheme on this site would realise benefits for the local economy and the residents and businesses of Crewe, bringing employment, stimulating the evening economy and extending ‘dwell time’ to the benefit of businesses in the town centre.
- e) the purchase of the asset by private treaty avoids the need for a Compulsory Purchase Order (with its attendant risks and costs) to achieve this same goal. In doing so, this lends certainty and will improve the attractiveness of a future redevelopment to potential delivery partners.
- f) DTZ’s Fair Value research identifies that retail property in capital value terms is the most undervalued sector relative to the other asset classes and therefore there is relatively more scope for growth in future.

- 9.6 Agreeing to exchange and complete contracts for the acquisition of Royal Arcade would be based on evidence that its anticipated yield will generate sufficient returns for the Council to more than cover its costs of continued operation ‘as is’ and interest charges. The net income after service charge shortfalls and empty rates in respect of the vacant units, as presented by the vendors is currently £684,535 pa. DTZ’s estimate based on their investigations to date is slightly lower at £682,386 pa
- 9.7 DTZ has advised on the yield which would satisfy the Council’s requirements on an investment basis. This takes into account that it would reduce further to reflect any empty rates, insurance and other costs associated with the expiry of the bus station lease, although steps would be taken to mitigate these.
- 9.8 DTZ has also identified a number of employees who may transfer to the Council under the operation of the Transfer of Undertakings (Protection of Employment Rights) Regulations 2014 (TUPE). The Council will have to be mindful of its responsibilities as the transferee under the Regulations.

- 9.9 Any future procurement of a commercial development partner will be required to follow the Council's contract and procurement rules and will be subject to a further Cabinet decision at a later date.

10.0 Risk Management

- 10.1 This decision to acquire the site was based on due diligence which has been undertaken on all key aspects of the acquisition of the property, including tenancy matters, surveys and other matters than may affect the final valuation/offer.
- 10.2 In acquiring the property, the Council is mindful of the risks identified below. All risks have been fully evaluated and appropriate mitigation is in place, or underway, to reduce the impact should an issue materialise.

<u>Investment risks</u>		
Risk	Evaluation	Mitigation
Although most information on occupational rights is known, some has not been made available.	Information on the key (highest value) leases is available. Moderate risk in terms of lower value leases in relation to income to Council as investment property.	Lease can be regularised after the acquisition. Valuation / offer price has been revised to reflect scale of risk.
Limited information provided on vendor's current contracts with managing agents.	<p>The Council will need to consider implications of taking on the vendor's current managing agents, which could represent a risk to the Council in terms of its procurement regulations and/or ability to manage transition effectively.</p> <p>There is a TUPE risk if any employees of the managing agents / contractors are employed in relation to the premises for the qualifying period.</p>	<p>Consider procurement issues/options and authorise contract waiver (WARN notice) if required.</p> <p>Continuing to seek clarity in relation to the employee liability information in order to access any risks/costs.</p> <p>The Council may be obliged to accept TUPE transfer and/or pay damages to any employees affected, due to non-compliance with TUPE transfer obligations.</p>
Immediate management arrangements upon acquisition.	The Council as a landlord will have obligations in relation to facilities management such as asbestos, legionella, utilities and maintenance compliance.	This will be managed either in-house or through an external agent.

<u>Future redevelopment risks</u>		
Risk	Evaluation	Mitigation
Title information indicates some ownerships are as yet unidentified.	Potential impact on future ability to redevelop part of the site. No impact on basis of ongoing uses as an investment property.	Address through use of appropriation powers post-acquisition and possible negotiation/ diversion of rights of way.
The extent of environmental conditions related to future development are currently undefined.	There are likely to be some issues relating to future redevelopment such as contamination related to bus station use, and removal of structures containing asbestos.	The Council accepts these risks and is undertaking staged investigations as to the likely level of contamination / other environmental issues.

11.0 Background and Options

- 11.1 Crewe town centre is identified as having a number of constraints including: perception; key gateways to the town are dominated by car parks; movement through the town by foot is in some cases along poor quality corridors/vacant or underutilised buildings; and, of most significance, challenging retail and leisure markets both nationally and locally.
- 11.2 However, post-recession, as developer interest starts to grow and opportunities such as Crewe's offer become more attractive on the back of new investment including HS2 are realised (e.g. connectivity between town centre and a NW Gateway hub, and other infrastructure improvements around the town centre), Crewe needs a strong framework which will showcase the town's development sites and identify a programme of actions to overcome its constraints and build upon its opportunities.
- 11.3 As referred to earlier in this report, last year the Council appointed DTZ to lead in developing a Regeneration Delivery Framework for Crewe town centre. This is the subject of a separate report to Cabinet but, within it, DTZ has identified that "Crewe Town Centre must....establish a new role for itself that is less focused on retail and broadened out to include an enhanced leisure and cultural offer and a better choice of residential accommodation within walking distance of the Town". The Framework goes on to propose a vision for the town centre:

Capitalising on investment proposals such as the planned Lifestyle Centre and the University Technical College and proposed HS2 North West Gateway Hub Station and the Town's growing population, to re-establish Crewe Town Centre as *the* vibrant and attractive "Hub" offering a strong range of retail, leisure, employment and residential opportunities serving local businesses, shoppers, residents, students, visitors and rail passengers.

- 11.4 DTZ identified within the framework that, of the 14 'Opportunity Sites' in the town centre, this is a "priority site where the Council should consider taking a direct role

to deliver the regeneration priorities of the Town Centre” which would be suited to leisure and retail development.

- 11.5 During the process of developing the draft *Regeneration Delivery Framework*, it emerged that the Royal Arcade property - located in the heart of the town centre - is now available for acquisition.
- 11.6 This property provides the most viable prospect of delivering a transformative leisure-led regeneration scheme within the town centre, and we are advised by DTZ that there is now potential leisure and retail operator demand, if a proposition can be developed with a measure of certainty with regards to delivery. The Council is best placed as a key stakeholder to lead in facilitating the regeneration of this site and the revival of the town centre. Given that there is a need to identify both an interim and longer-term replacement bus interchange facility in the town centre, this property represents an opportunity to provide this, subject to further consultation and evaluation of alternative options.
- 11.7 Although there are clear future redevelopment opportunities, acquisition is being undertaken on the basis of the property as an investment. The Council has evaluated the acquisition of this site to form part of its income portfolio, which will support the Council’s overall Strategic Asset Management Plan. The yield on the site of 7.05% is considered to provide the basis of a sound investment proposition, based on advice and due diligence from a commercial and legal perspective, and in accordance with the Council’s financial regulations.
- 11.8 The property occupies site of up to 4.57 acres which includes the current Crewe bus station (leased to Arriva) and 27 other units along the western side of Queensway and the southern side of Victoria Street (mostly retail space, which includes national chain stores). This land forms the majority of a previously proposed scheme known as ‘Delamere Place’, which was advanced by the former Crewe & Nantwich Borough Council and developer Modus, which was withdrawn at the start of the previous recession.
- 11.9 Whilst there are other sites within the town centre that could physically accommodate leisure and retail uses the Royal Arcade site is a preferred choice given its profile as a landmark site within the heart of the town centre, including its connectivity with other complementary uses and public realm.
- 11.10 The timing of the recommendation to acquire the site is also key, given that it has only recently been available for purchase and could be removed from sale, or disposed to a third party at some point in the near future. Coupled with the Council’s increased investment in the town centre, the prospect of HS2’s NorthWest Gateway, and further regeneration plans, this represents a pivotal opportunity to further revitalise Crewe town centre.

12.0 Access to Information

12.1 The background papers relating to this report can be inspected by contacting the report writers:

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Appendix 1: Site plan

Appendix 2: Property particulars

Appendix 3: Artist's impression of potential development scheme.