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**Report of :** Director of City Development

**Report to:** Executive Board

**Date: :** 19 November 2014

**Subject::** Design & Cost Report for NCP Car Park, Harper Street, Leeds

**Capital Scheme Number:** 32216

Are specific electoral Wards affected?

☒ Yes

☐ No

If relevant, name(s) of Ward(s):

City & Hunslet

Are there implications for equality and diversity and cohesion and integration?

☐ Yes

☒ No

Is the decision eligible for Call-In?

☒ Yes

☐ No

Does the report contain confidential or exempt information?

☒ Yes

☐ No

If relevant, Access to Information Procedure Rule number:

10.4(3)

Appendix number:

1

## Summary of main issues

1. The NCP car park on Harper Street is located adjacent to the Kirkgate Market, which is about to commence a major refurbishment and is close to the Victoria Gate retail scheme and John Lewis department store, currently under construction. It is a modern multi-storey car park offering circa 646 spaces.
2. In the context of the significant redevelopment proposed and underway in the immediate vicinity, along with the Council's ambition for Leeds to become the best city in the UK, with an economy that is both prosperous and sustainable, there is now a unique opportunity to acquire the head tenant's leasehold interest. This would allow the Council to receive direct a substantial rental income from their sub tenant, NCP. This would align with the recently approved Asset Management Plan which includes enhancing the value of the Council's investment portfolio in order to produce much needed revenue to support the Council's budget position. This particular acquisition would produce an immediate and growing revenue surplus for the Council.
3. This is a unique opportunity to acquire a strategic investment in an improving area of the city which will enhance the quality of the council's investment portfolio.

## Recommendations

4. Executive Board is recommended to:
    - i) approve the acquisition of the head lease as an investment on the terms outlined within the confidential appendix;
    - ii) approve the injection of, and give authority so spend, the sums detailed in the confidential appendix into the capital programme.
    - iii) note that the Director of City Development under his delegated powers will negotiate the detailed Heads of Terms for the acquisition.
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## 1 Purpose of this report

- 1.1 The purpose of this report is to obtain Executive Board approval to the proposed acquisition of the Council's head tenant's leasehold interest, which would allow the council to receive direct a substantial rental income from their sub tenant NCP.

## 2 Background information

- 2.1 The Harper Street multi-storey car park was constructed in 1999 by NCP by way of a ground lease and offers circa 646 car parking spaces immediately adjacent to the Kirkgate Market as identified on the attached plan. The council holds the freehold interest and granted a ground lease for a term of 125 years to NCP from 26 November 1999. There is provision within this ground lease for annual rental increases, the current rent received by the council is £8,039 (eight thousand and thirty nine pounds) per annum.
- 2.2 In 2007 NCP carried out a number of sale and leasebacks of their UK car parks, in order to raise capital, to a third party (now the council's head-tenant) who in turn granted NCP a full repairing and insuring sub-lease for a term of 30 years which expires 28/05/2037, this is subject to minimum upward only annual rental increases. The rent payable to the head tenant for the current financial year is £595,000.
- 2.3 The net income received by NCP from car parking at Harper St for the financial year 2013/14 was £1,139,201.
- 2.4 This potential acquisition should be read in the context of its proximity to the Victoria Gate scheme which has been developed in partnership with the Council, and clearly sits within the Council's ambition for Leeds to become the best city in the UK; with an economy that is both prosperous and sustainable. Combined with the highly successful Trinity Leeds development and the planned redevelopment of the Kirkgate market; all major contributors in the provision of significant new jobs for the people of Leeds, will bring a step change in the retail economy of the city and regenerate an area of the city which has been identified as a redevelopment opportunity for over 20 years, and also drive continued demand for car parking in this area of the city.

### **3 Main issues**

#### **3.1 Design Proposals and Full Scheme Description.**

- 3.2 This proposal is seen as a further opportunity to increase and improve the quality and diversity of the council's property investment portfolio. This principle is one of the 10 key proposed actions in the draft Asset Management Plan, to support the council's revenues. If acquired, it would sit well alongside other major key investments such as the Arena, the re-developed Merrion House and the potential warehouse investments in the Aire Valley. The timing is particularly opportune, as the car park is located close to the Kirkgate Market and John Lewis store under construction which is due to open in September 2016.
- 3.3 Victoria Gate and John Lewis will under-pin the strength of this location for car parking, and an acquisition would assist the council in mitigating its loss of car parking revenue on the Union Street site which closed in March 2014 to allow the Victoria Gate retail scheme to be constructed.
- 3.4 The head tenant breached its banking covenants, and a consortium of banks now controls this interest. An opportunity has arisen to acquire the head-tenants interest from the bank and receive the rental income from NCP direct. The full financial details are outlined in the confidential appendix.
- 3.5 Car parking in Leeds city centre is limited and has reduced recently with the closure of the Union Street car park and the anticipated closure of the Council's Sovereign Street car park later this year will add further pressure, as and when Caddick redevelop Quarry Hill, the car parking in this area will diminish further.
- 3.6 Hammerson will be providing a further 800 spaces in a new multi-storey car park attached to the John Lewis store, but the attraction of the new retail development is such that it will provide a far greater demand for car parking than the 800 spaces provided.
- 3.7 This is a unique opportunity to acquire a strategic investment in an improving area of the city which will enhance the quality of the council's investment portfolio. Please note the sub lease to NCP will remain and they will continue to operate the car park.

### **4 Corporate Considerations**

#### **4.1 Consultation and Engagement**

- 4.1.1 The Executive Member for Transport and the Economy has been briefed on 16th September 2014 and is supportive of the acquisition proposal.

#### **4.2 Equality and Diversity / Cohesion and Integration**

- 4.2.1 Equality, Diversity, Cohesion and Integration Screening has taken place, indicating that there are no implications and therefore further assessment is not required. The EDCI screening document is attached at Appendix 2.

#### **4.3 Council policies and City Priorities**

- 4.3.1 The proposed acquisition supports the Best Council Plan objective of 'Becoming a more efficient and enterprising Council', and underpins a number of priorities including: 'improve how we're organised and making the best use of our assets' by

seeking to optimise the Council's investment portfolio; and 'generating income for the Council' providing an annually increasing income to support the Council's revenue budget. Not only would the acquisition provide a net surplus income at a time when there is unprecedented pressure on the Council's revenue budget, but it would also put a strategically located site, within the heart of a significant city centre regeneration area, back into Council ownership and control.

- 4.3.2 The recently approved Asset Management Plan 2013-17 has, as one of its ten areas of focus 'making the Council's portfolio work better', undertaking to improve the scale and quality of the investment portfolio to assist and support the Council's revenue budget, including strategic acquisition where there is a strong financial case to do so.

#### **4.4 Resources and value for money**

- 4.4.1 The proposed acquisition would provide the Council with a net surplus annual income as outlined in the confidential appendix after allowing for borrowing costs.

#### **4.4.2 Capital Funding and Cash Flow.**

See attached confidential appendix.

#### **4.5 Legal Implications, Access to Information and Call In**

- 4.5.1 Under Part 3 Section 3E Paragraph 2(a) of the Council's Constitution (Officer Delegation Scheme (Executive Functions)) the Director of City Development has authority to discharge any function of Executive Board in relation to the management of land (including valuation, acquisition, appropriation, disposal and any other dealings with land or any interest in land) and Asset Management.
- 4.5.2 The Chief Asset Management and Regeneration Officer has authority to take the decisions requested in this report under Executive functions 1 and 10 (specific to the Director of City Development) of the Director of City Development's sub delegation scheme.
- 4.5.3 The matters detailed within this report are subject to call in.
- 4.5.4 The information contained in the Appendix to this report relates to the financial or business affairs of a particular person, and of the Council. This information is not publicly available from the statutory registers of information kept in relation to certain companies and charities. It is considered that since this information was obtained through one to one negotiations for the purchase of the land/property referred to then it is not in the public interest to disclose this information at this point in time. Also the release of such information would or would be likely to prejudice the Council's commercial interests in relation to and undermine its attempts to acquire by agreement similar properties in the locality in that owners of other similar properties would be aware about the nature and level of consideration which may prove acceptable to the Council. It is considered that whilst there may be a public interest in disclosure, much of this information will be available from the Land Registry following completion of the purchase and consequently the public interest in maintaining the exemption outweighs the public interest in disclosing this information at this point in time. It is therefore considered that this element of the report should be treated as exempt under rule 10.4(3) of the Access to Information Procedure Rules.

## **4.6 Risk Management**

- 4.6.1 Under the terms of the ground lease, in order to calculate the ground rent, NCP have to provide annually details of the preceding years net income generated from car parking, as highlighted earlier, the net income generated for the financial year 2013/2014 was in the region of £1.14 million and independently, the council's car parking services have confirmed they could generate a net annual income from car parking of circa £1.2 million.
- 4.6.2 In addition, the sub tenant has to pay annual minimum fixed increases in the rent.
- 4.6.3 The risk to the council is very low, as should the tenant become financially insolvent, or at lease expiry, the council can double the current income derived from the investment by operating the car park directly itself, via car parking services.

## **5 Conclusion**

- 5.1 In conclusion, this is an attractive investment proposition for the council to acquire, as not only of minimal financial risk, but also places the council in more control of an important asset in an improving area of the city centre.

## **6 Recommendations**

- 6.1 Executive Board is recommended to:
  - i) approve the acquisition of the head lease as an investment on the terms outlined within the confidential appendix;
  - ii) approve the injection of, and give authority so spend, the sums detailed in the confidential appendix into the capital programme
  - iii) note that the Director of City Development, under his delegated powers, will negotiate the detailed Heads of Terms for the acquisition.

## **7 Background documents<sup>1</sup>**

- 7.1 None.

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<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.