



Report of: Director of City Development

Report to: Executive Board

Date: 19 September 2018

Subject: Sovereign Square – Final Development Plot

Are specific electoral wards affected? If yes, name(s) of ward(s): Hunslet & Riverside	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, access to information procedure rule number: 10.4(3) Appendix number: 1	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Summary of main issues

1. In making the final site at Sovereign Square available for development many of the Council's priorities are being achieved. A multi-million pound development will contribute to the Inclusive Growth priority by growth and investment being made in the city helping people benefit from the economy, and creating employment opportunities. Contributions will be made to the 21st Century Infrastructure priority, in particular reducing consumption, increasing recycling, promoting low carbon energy as the new building can only be constructed if it meets these criteria.
2. The final development plot at Sovereign Square has been advertised for sale and offers and proposals received. This report is to advise Members of Executive Board of those development proposals and to recommend selection of a purchaser for the site.

Recommendations

3. Members of Executive Board are recommended to:
 - 3.1 Approve the selection of the party detailed on the accompanying confidential appendix as purchaser of the remaining development plot at Sovereign Square in its capacity as landlord.
 - 3.2 Approve the selection of another party as reserve purchaser in the event of the sale to the first party falling through in its capacity as landlord.

- 3.3 Authorise the Director of City Development under the scheme of officer sub-delegation to consider and approve any subsequent changes to the detailed terms for the sale.

1. Purpose of this report

- 1.1 The purpose of this report is to advise Members of Executive Board of the offers and development proposals received for the final development plot at Sovereign Square. To advise how the recommended development proposals will complement Sovereign Square, the surrounding area and how it will contribute to the links between the city centre and South Bank proposals. A recommendation will be made for Members' approval for the selection of a purchaser for the development plot.

2. Background information

- 2.1 The City Council owned the former Queen's Hall site on Sovereign Street and operated it for many years as a temporary surface car park. The whole site was marketed for sale, but the selected purchaser didn't progress its ambitious development proposals and withdrew from the sale when the global economy crashed.
- 2.2 To stimulate development in the stalled market the City Council decided to divide the site into three development plots which were more likely to be developed with buildings of a size to attract sole occupiers which could give developers the confidence to proceed with pre-lets. Two of the three plots at Sovereign Square have been successfully developed. Plot 1 was developed by Muse as a new headquarters building for KPMG. Plot 3 was developed by 3 Sovereign Square LLP (a joint venture between Bruntwood and Kier) to provide c.90,000sqft of new office space with ground floor leisure and retail units. This building is now owned by the City Council and is mainly let to solicitors Addleshaw Goddard.
- 2.3 The City Council constructed new green space around the plots which has enhanced the environment greatly and has contributed to the Council's priority of Health and Wellbeing.
- 2.4 The final development site at Sovereign Square, known as Plot B, offers the opportunity to further complement and enhance the area with a high quality building that will add further activity to this newly improved area of the city. It is an important site in the creation of links between the city centre and the South Bank, and can itself benefit greatly from the new south entrance to the station, and the bridge over the River Aire which the Council will shortly construct. Sovereign Square is considered by the market to be one of the best locations in Leeds and the party being recommended to purchase the site is very keen to progress the acquisition quickly and is in advanced negotiations with an occupier for the whole building.

3. Main issues

- 3.1 Being a significant development opportunity in the city centre marketing was launched at MIPIM UK in October 2016. A high level of interest was generated and offers received. Officers considered development proposals and offers and under the scheme of officer delegation a shortlist of potential developers / purchasers was compiled. Those parties were invited to develop their proposals further and new submissions were received.
- 3.2 In considering development proposals particular attention was paid to the effects any new building would have on the wind conditions. A wind consultant was appointed who advised generally on wind conditions in the city and in particular on

each shortlisted development proposal. The orientation of the site will result in the building having to be kept to height comparable to that of surrounding buildings due to the widest façade of the new building facing into the prevailing wind. All shortlisted parties were made aware of the wind consultant's advice. The party recommended for selection is taking wind mitigation into account and the Council will only proceed to complete the sale if it is entirely satisfied by consultants that wind conditions will not exceed acceptable levels. The sale will be subject to the receipt of satisfactory planning permission and the Local Planning Authority will appoint an independent wind engineer to review the proposals.

- 3.3 The recommended purchaser is proposing to develop the site for sole hotel use and is in detailed negotiations with an international operator intending to accommodate two of its brands in the building. This hotel operator will be new to Leeds and will add considerably to the number of bedrooms currently available in the city centre and breadth of offer. Details of the operator are provided in the accompanying confidential appendix.

4. Corporate considerations

4.1 Consultation and engagement

- 4.1.1 At the time of marketing the site was situated in the City and Hunslet Ward, and Ward Members (Cllr Elizabeth Nash, Cllr Mohammed Iqbal and Cllr Patrick Davey) were advised of the proposal to market the site. The site is now within the new Hunslet & Riverside Ward, and Ward Members have been advised this report is submitted for consideration by Executive Board.

4.2 Equality and diversity / cohesion and integration

- 4.2.1 An Equality, Diversity, Cohesion and Integration screening has been completed. This identified that there are no impacts which require further consideration in relation to the disposal of the development plot at Sovereign Square.

4.3 Council policies and best council plan

- 4.3.1 The Council will be achieving the outcomes of many of the Council's priorities in making the final site at Sovereign Square available for development. The proposed purchaser / developer will be undertaking a multi-million pound development which will contribute to the Inclusive Growth priority by adding growth and investment to the city helping people benefit from the economy, and employment opportunities will be created. To meet planning requirements the developer will have to demonstrate and commit to the building and its occupiers reducing consumption, increasing recycling, promoting low carbon energy which will contribute to the priority of 21st Century Infrastructure.
- 4.3.2 The developer and its contractor will also be invited to provide learning and skills opportunities during construction and the hotel operator will be similarly contacted to discuss new employment opportunities in the new hotels.

4.4 Resources and value for money

- 4.4.1 The sale will generate a substantial capital receipt for the Council from an otherwise relatively low income generating temporary car park and contractor's compound.

4.4.2 In the event that any of the offers circulated are recommended, this will be on the basis that in the opinion of the Head of Land and Property the terms offered to the Council represent the best consideration that can reasonably be obtained under Section 123 of the Local Government Act 1972, (or under the Housing Act 1985).

4.5 Legal implications, access to information, and call-in

4.5.1 The information contained in the Exempt Appendix 1 attached to this report relate 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 respect of certain companies and charities. It is considered that since this information is subject to one to one discussions further negotiation, it is not in the public interest to disclose this information at this point in time.

4.5.2 Also it is considered that the release of such information would or would be likely to prejudice the Council's commercial interests in relation to other similar transactions in that prospective purchasers of other similar properties would have access to information 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 publicly available from the Land Registry following completion of this transaction 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 The risks associated with the recommendation to select a purchaser to develop the site are considered below:

4.6.1.1 There is a risk the selected purchaser cannot secure a satisfactory planning permission. This is a risk associated with sales where a purchaser makes it conditional on securing a satisfactory planning permission, and it is quite normal for a sale of this nature to proceed on a conditional basis. The site must be developed appropriately and the sale should be progressed on a conditional basis. Discussions have already been held with planning officers and the development proposals at this early stage can be evolved further and are considered likely to secure planning permission. The developer will make a pre-application presentation to the City Plans Panel at the appropriate time. It is considered the risk of a planning permission not being secured is low.

4.6.1.2 The purchaser may withdraw from the transaction. This risk is considered low as the party being recommended is keen to proceed and has incurred considerable expenditure already to the project. Additionally, the scheme is being approached with the added security of a pre-let for the whole building likely to be agreed.

4.6.1.3 The purchase price may be reduced. The proposed purchaser's offer is conditional on undertaking ground investigation surveys to determine whether any abnormal development costs will be incurred. There would then be an expectation that these costs be deducted from the purchase price. It is quite normal in a transaction of this nature for this condition to be sought.

- 4.6.1.4 Unacceptable wind conditions may be generated. Very careful consideration will be given to changes in wind conditions that could be caused by a new building. The proposed purchaser has already appointed a wind consultant who has adopted the same general principles as the Council's appointed wind consultant. The proposed purchase knows wind mitigation measures must be designed into the building, rather than being retro-fitted or added elsewhere later. The Council will have to be satisfied by wind consultants that wind speeds and conditions will not be excessive before the sale is completed and construction work starts. Use of the greenspace surrounding the site by the public must not be compromised. It appears at this stage satisfactory wind conditions will be achieved.

5. Conclusions

- 5.1 It can be concluded an appropriate purchaser / developer and use for the final development plot at Sovereign Square has been identified that will complement the surrounding developments and uses. The sale will be subject to the receipt of planning permission. Initial discussions with Planning Officers suggest the proposed scheme is acceptable, and wind engineer's advice is that it is unlikely to adversely affect wind conditions in the greenspace. The development of this plot will be an important element in completing the link between the city centre and South Bank, which will be further enhanced by the Council constructing the new pedestrian bridge over the river to the south of the site.
- 5.2 One of the other shortlisted parties is proposing a similarly appropriate scheme, but at a lower offer. It is proposed this party should be selected as reserve purchaser of the site in the event of the first party withdrawing.

6. Recommendations

- 6.1 Members of Executive Board are recommended to:
- 6.1.1 Approve the selection of the party detailed on the accompanying confidential appendix as purchaser of the remaining development plot at Sovereign Square in its capacity as landlord.
- 6.1.2 Approve the selection of another party as reserve purchaser in the event of the sale to the first party falling through in its capacity as landlord.
- 6.1.3 Authorise the Director of City Development under the scheme of officer sub-delegation to consider and approve any subsequent changes to the detailed terms for the sale.

7. Background documents¹

- 7.1 There are none.

¹ 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.