

Report of : Director of City Development

Report to : Executive Board

Date: 13 December 2017

Subject: Redevelopment of 6 – 32 George Street and part Butchers Row - Kirkgate Market

Are specific electoral Wards affected?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, name(s) of Ward(s):	CITY & HUNSLET	
Are there implications for equality and diversity and cohesion and integration?	<input checked="" type="checkbox"/> Yes	<input 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?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, Access to Information Procedure Rule number:	10.4 (3)	
Appendix number:	1	

Summary of main issues

1. The George Street redevelopment scheme supports the Good Growth priority in the Council's Best Council Plan 2017/18 by promoting investment which will contribute to economic growth and job creation.
2. The recently completed improvement and refurbishment works to the Grade 1 Listed Kirkgate Market (the Market) also provided an opportunity to consider the redevelopment of the George Street frontage to provide the Market with a 'new front door' and improve links to and connectivity with the adjacent Victoria Gate development. The George Street frontage comprises the 1930's single storey shops, the north side of Butchers' Row (within the Market building) and the 1980's two storey shops and markets service office accommodation.
3. Executive Board previously agreed to pursue George Street as a separate project to the Market scheme. Executive Board endorsed the recommended approach to secure the redevelopment of George Street and was advised that an OJEU procurement process would have to be undertaken in order to secure a developer partner.
4. The procurement exercise has been completed to a point where an acceptable scheme prepared by Town Centre Securities has been arrived at in respect of its

design, linkage with the Market and the financial / legal terms presented for the Council to enter into a development partnership with the proposed developer.

5. The proposed scheme arrived at via the procurement exercise is for the development of 9 ground floor retail units above which would be a 117 unit apart-hotel over 5 storeys. This will require the complete demolition of the structures detailed in 2 above. The scheme has been presented to the City Centre Plans Panel by the proposed developer, as a pre-application presentation, and separately to the Kirkgate Market Management Board. The scheme was well received on both occasions.
6. The basis of the proposal is that LCC will grant a 250 year ground lease to a Limited Liability Partnership (LLP) to be formed between the Council and Town Centre Securities. The LLP will appoint Town Centre Securities to undertake the development on behalf of the LLP. The Council will make payments into the LLP in order to acquire a 50% share ownership in the LLP which will own the completed development. The overall cost of the scheme to the Council, including the 50% share ownership, is estimated to be £12.9m.

Recommendations

7. Executive Board is requested to:-
 - (i) Note the content of this report and the scheme that has been produced.
 - (ii) Authorise the Director of City Development to approve the awarding of the contract to Town Centre Securities as the Council's selected developer partner
 - (iii) Approve the recommended legal structure for the development partnership and the associated Heads of Terms as detailed in the confidential appendix.
 - (iv) Approve the injection into the Capital Programme and authority to spend of £12,903,600 as detailed within the confidential appendix for the purpose of:
 - a) A fifty percent share in the ownership of the completed development;
 - b) The refurbishment of Westminster Buildings for relocation of market staff;
 - c) The costs associated with the legal and technical advice required.
 - (v) Authorise the Director of City Development to make all subsequent decisions that may be necessary to deliver this scheme, with the concurrence of the Executive Member for Regeneration Transport and Planning.
 - (vi) Note that the Chief Officer Economy and Regeneration is responsible for the delivery of the proposed scheme.

1 Purpose of this report

- 1.1 The purpose of this report is to seek Executive Board approval to :
- (i) Award the contract to Town Centre Securities as the Council's preferred developer.
 - (ii) The Heads of Terms for the recommended development partnership.
 - (iii) An injection in the Capital Programme to facilitate the Council's contribution to the scheme and the necessary authority to spend.
 - (iv) Delegate authority to the Director of City Development to make all subsequent decisions to deliver this scheme, in concurrence with the Executive Member for Regeneration, Transport and Planning.

2 Background information

- 2.1 Kirkgate Market is in a prime retail location in the heart of the city centre. It is a Grade 1 Listed building and is a central feature in the retail landscape in the city. The Market is an important landmark in the city, not just in terms of the building but also in its importance to the people of Leeds.
- 2.2 Executive Board has previously agreed the outline strategy for the proposed refurbishment of the Market, the future market management arrangements and the approach to be pursued for the redevelopment of the George Street frontage.
- 2.3 As part of its consideration, Executive Board approved in principle the grant of a 250 year lease of the development site. A development partner to construct the multi-storey building and the Council to lease back the ground floor retail units and first floor.
- 2.4 The development partner will be selected through an OJEU competitive dialogue process.
- 2.5 Prior to the commencement of the competitive dialogue procurement exercise, planning officers prepared a Development Brief and which was approved by City Centre Plans Panel and formed part of the procurement documentation in order to guide interested parties as to the form, nature and design that would be required.

3 Main Issues

3.1 The proposed scheme

- 3.1.1 Through the competitive dialogue process a satisfactory scheme design has been arrived at which meets the procurement specification. A site plan, elevations and a CGI are attached at Appendix 2.
- 3.1.2 The proposed scheme is for a single building which fronts the back edge of the current footpath. The upper floors of the building are proposed to be used as an apart-hotel which would contain approximately 117 units and which would be accessed via the centre of the façade. The ground floor is to contain 9 retail units of varying sizes for a range of commercial uses - retailing (A1), café/restaurant (A3), bar (A4) and take-away (A5). It is intended that the units will be flexible in terms of size giving greater opportunities to a range of prospective tenants.
- 3.1.3 The proposed apart-hotel is a very positive addition to both this location and the supply of such accommodation in the City, which is considered to be

underrepresented in this sector. It will provide a new dynamism to the Market and the surrounding environment. The apart-hotel will have a substantive ground floor presence and an entrance directly from the Market as well as from the George Street frontage. Town Centre Securities have selected an established operator which has a number of such facilities, principally in London, but who is expanding nationally.

- 3.1.4 The elevations are primarily of brick construction, however, given the total length is approximately 120 metres the building is punctuated approximately halfway along by a recessed 'slot' which is proposed to be clad in glass. This is also the location of the replacement entrance to the northern side of the market hall and contains a double storey height void which is designed to mirror the existing Leeming House market entrances.
- 3.1.5 There is a gap of 5 metres between the western end of the building and Leeming House, where a 2 storey glass addition is to be inserted. This allows the stone gable of Leeming house to remain visible as well as retaining a view through to the dome on the market roof beyond. The provision of the gap was a key requirement of the approved Planning Brief.
- 3.1.6 The elevations to George Street divide the building into a definite base, middle, top with the base consisting of a double height arch to reference the height of the base of Leeming House, the middle being 3 storeys of brick with paired windows set into shallow reveals and decorative brickwork pattern, and the top being a metal clad mansard with feature dormer windows, again paired to relate to the elevations below. In addition the building steps down the hill, emphasised by the ground floor unit configuration and the eaves line, which is stepped once within each wing. The southern elevation, which faces out over the market roof, is of a much simpler design but is also in brick with regular window pattern.
- 3.1.7 A key requirement of the Council's procurement specification was the provision of through units to increase permeability between George Street and the Market. The proposed scheme provides a satisfactory number of through units which would have the ability to be accessed from both George Street and the former Butchers Row, which offers the opportunity to access the market from multiple points along George Street. The apart-hotel also has a public access directly into the Market, in addition to George Street, which will help to drive increased footfall and provide further life and activity.
- 3.1.8 At the eastern end of the site the market entrance is marked by a high-level 'Leeds Market' signage arch. This is designed to swing open to allow vehicles to access the area in order to service the adjacent electricity sub-station. Servicing and drop-offs would all occur from George Street which was reconfigured as part of the recent Victoria Gate scheme. This proposal would also bring forward the final treatment of the footway, as a temporary blacktop treatment was laid in advance of the necessary construction works.
- 3.1.9 At this stage there are no specific uses proposed for the respective ground floor commercial units. The aspiration is to achieve a combination of uses that would be both complementary to the Market, including where possible from the independent sector, and be of sufficient financial standing to maintain the schemes investment profile. Provision will be made in the legal agreements to ensure exclusion of uses that may have a reputational risk to the Council.

3.1.10 In addition to retail operators, the through design of the commercial units is likely to attract café/restaurant / licensed operators as it offers the potential to trade out onto Butchers Row with seated areas under licence.

3.2 Development partnership - Financial and legal proposals

3.2.1 Through the competitive dialogue process a variant bid proposal for the legal structure to that detailed in procurement specification was presented and which has been supported by the Kirkgate Market Project Board as the recommended structure.

3.2.2 The proposal is for the Council to grant a 250 year development ground lease over the site to a Limited Liability Partnership (LLP) which the Council would own in equal partnership with Town Centre Securities. The LLP would award the contract to demolish and redevelop and also be the Landlord to the respective sub-tenants of the ground floor units and apart-hotel. The Council would retain control via the development ground lease and its part ownership of the LLP.

3.2.3 The options considered for the legal structure for the development partnership and the associated financial contributions that the Council would be required to make to the LLP are detailed in the confidential appendix. The appendix also contains a recommendation as to the preferred option and the associated Council contribution.

3.3 Vacant possession to permit demolition and redevelopment

3.3.1 Vacant possession of the entire development site will have to be provided by the Council before any works can commence.

3.3.2 Negotiations have been undertaken with all the tenants on George Street and on the north side of Butchers Row, whose units currently lie within the boundary of the development site. The options of relocating to the main Market or entering into a surrender agreement and vacating have been presented.

3.3.3 Following a successful period of negotiation there are now three tenants remaining within the designated development area and with whom the Council is currently negotiating relocations into the Market.

3.5 Relocation of Market Service staff to Westminster Buildings.

3.5.1 The Markets staff are presently accommodated in offices on the first floor of that section of the George Street frontage known as the 1980s shops. The original procurement specification required that a solution for the Markets Service be provided by the selected developer with the end result being relocation into offices to be provided in the new development at the cost of the developer. This would involve a temporary move during the development phase which through the dialogue process was judged to not be financially or physically viable. The provisional agreement is for the Council to be responsible for the relocation of the staff and the associated cost.

3.5.2 Alternative accommodation has been identified at nearby Council owned premises known as Westminster Buildings, which is a four storey Grade II listed commercially let property located on New York Street on the opposite side of the Market to George Street. It is proposed that the Markets Service staff shall be accommodated in the vacant ground floor and basement premises which has proved difficult to let.

3.5.3 The Market Service have been engaged in the proposals and design development and are satisfied with the current proposals. It is intended that a separate public information centre will continue to be operated as at present. It is also intended that the City Centre Environmental action team will be accommodated in the refurbished area.

3.5.4 Project Officers are currently working with Norfolk Property Services on refurbishment scheme. A cost estimate is detailed in the confidential appendix to which approval is sought to introduce into the Capital Programme. The Planning Authority has been consulted and are supportive in principle and has confirmed that planning permission for a change of use and listed building consent will be required.

3.5.5 It is considered that relocation to Westminster Buildings will provide :

- (a) Use of alternative Council owned accommodation in the immediate vicinity of the Market therefore avoiding a potential new rental commitment.
- (b) The opportunity to enhance the immediate environment around the south east entrance point to the Market complex.
- (c) The opportunity to enhance the Council's property portfolio and associated value.

3.6 **Timescale for development**

3.6.1 The strategic high level programme is as follows:

- April 2018; Submission of Planning and Listed Building application to the Local Planning Authority
- August 2018; Secure Planning and Listed Building consent
- January 2019; Start works on site (demolition)
- Summer 2020; Completion of works on site and opening of apart-hotel/commercial units

4 **Corporate Considerations**

4.1 **Consultation and Engagement**

4.1.1 It is recognised that the George Street redevelopment proposal will result in a degree of disruption to the market trading environment and that all efforts must be made to minimise this.

4.1.2 On 2 October 2017 the Kirkgate Market Management Board received a presentation of the proposed scheme from Town Centre Securities and their professional advisors. The Board members, including all Council Members in attendance, were generally supportive of the scheme.

4.1.2 City Centre Plans Panel received a Pre-application presentation of the scheme from Town Centre Securities on 12 October 2017 in order to allow Members to consider and comment on the proposal prior to presentation to Executive Board. Members were supportive of the scheme presented.

4.1.3 Ward members have been advised of the proposed scheme.

- 4.1.4 The Executive Member for Regeneration Transport and Planning has been briefed on the proposed scheme and is supportive of recommendation in this report.
- 4.1.5 In relation to the Victoria Gate scheme opposite, John Lewis and Hammerson have been presented with the latest design proposals.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 A screening exercise has been undertaken and is attached as Appendix 3 to this report.

4.3 Council Policies and City Priorities the Best Council Plan

- 4.3.1 The George Street redevelopment supports the Good Growth priority in the Council's Best Council Plan 2017/18 by promoting investment which will contribute to economic growth and job creation.

4.4 Resources and Value for Money

- 4.4.1 The Council has incurred costs to date in order to undertake the procurement exercise and to facilitate a vacant possession programme. A budget for this has been previously approved as part of the Capital Programme and costs incurred to date have already been financed.
- 4.4.2 The cost of the scheme going forward of £12,903,600 will be financed as detailed in the confidential appendix. The budget requirement in terms of what the Council would have to directly inject into the scheme, the estimated cost of relocation of Markets staff and associated professional costs are also detailed in the attached confidential appendix.
- 4.4.3 The implicit budget assumption within this scheme proposal is that any impact on The Market's letting income will be managed within the broader budget proposals for the Market.

4.4.4 Benefits: Financial & Non-Financial

Financial

A financial appraisal of the proposed investment is detailed in the confidential appendix to this report. The appraisal shows a satisfactory return in terms of anticipated rental income and return on capital.

It is considered that the scheme will improve pedestrian connectivity between Victoria Gate and the Market and translate into greater footfall and spend in the Market. In particular, it is considered that the proposed apart-hotel should generate greater activity. It is also anticipated that the new college building currently being constructed next to the West Yorkshire Playhouse at Quarry House will generate greater footfall along George Street.

Non-financial

The scheme has a significant regenerative benefit in terms of the immediate physical environment. The current buildings are out of scale and of low quality.

It will greatly enhance the current street scape. The proposed building will be of sufficient scale and design quality to complement but remain subservient to the imposing Leeming House which adjoins the western boundary of the development area. It will also complement the Victoria Gate scheme opposite.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 The information contained in Appendix 1 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 provided to enable the Council to consider the commercial viability and funding option for the redevelopment of the George Street shops, 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 the OJEU procurement exercise. 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 development structure 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 Confidential/Exempt under Access to Information Procedure Rules 10.4 (3).
- 4.5.2 The Council obtained a legal opinion from leading Counsel on the powers to enter into a partnership with a development partner. Counsel advised that the Council is authorised by the general power of competence under the Localism Act 2011 (LA 2011) to participate in a limited liability partnership, subject to Section 4 of the LA 2011. Section 4 requires the general power of competence to be exercised through a company if the power is being exercised for a commercial purpose. The Council's purpose is the regeneration of a key area in the heart of the city, notwithstanding that the council will share any profits ultimately made. Therefore Section 4 is not engaged.
- 4.5.3 This report is subject to call in.
- 4.5.4 Section 123 of the Local Government Act 1972 gives local authorities the power to dispose of land in any manner they see fit for the best price reasonably obtainable. Approval is in part being sought to grant a 250 year ground lease of the development site to an LLP, of which the Council will own a 50% share. The Council has taken independent advice on the value of the ground lease in the context of the proposed development. The granting of the lease forms part of the Council's overall investment in the regeneration of this site. The capital value of the Council's share in the completed development under the LLP and the associated share of the rental income is expected to be in excess of any value that might be attributable to the grant of a 250 year lease of the existing premises without any conditions requiring redevelopment and the formation of an LLP.

4.6 Risk Management

- 4.6.1 An analysis has been carried out of the key risks associated with this proposal and which are detailed in the confidential appendix to this report. There is a level of uncertainty associated with the timescales detailed. The Council will work with Town Centre Securities to develop a risk register.

5 Conclusion

- 5.1 The city centre has seen a positive change in the regeneration of the Eastgate quarter over the last 12 months including the refurbishment of the Market in 2016. The proposals for the redevelopment of the George Street frontage and refurbishment of the ground floor accommodation at Westminster Building continues to regenerate and enhance the area, creating a positive and attractive retail destination for residents and visitors to the city. It is considered that the recommended scheme meets the requirements of the Council's specification presented in the procurement exercise and the Planning Brief approved by City Plans Panel Members.

6 Recommendations

Executive Board is requested to:-

- (i) Note the content of this report and, specifically the scheme that has been produced;
- (ii) Authorise the Director of City Development to approve the awarding of the contract to Town Centre Securities as the Council's selected developer partner;
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 - c) The costs associated with the legal and technical advice required.
- (v) Authorise the Director of City Development to make all subsequent decisions that may be necessary to deliver this scheme, with the concurrence of the Executive Member for Regeneration Transport and Planning;
- (vi) Note that the Chief Officer Economy and Regeneration is responsible for the delivery of the proposed scheme.

7 Background documents¹

- 7.1 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.