

# Design and Cost Report, Proposed Regeneration of 6-32 George Street

## Capital Scheme No. 32554/GEO

Date: 21 September 2022

Report of: Director of City Development

Report to: Executive Board

Will the decision be open for call in?  Yes  No

Does the report contain confidential or exempt information?  Yes  No

### What is this report about?

#### Including how it contributes to the city's and council's ambitions

- The City Council has a long-held ambition to regenerate George Street which forms the northern boundary of Kirkgate Market a Grade 1 Listed Building, opposite the Victoria Gate development and, providing a link from the city centre to Leeds Central Bus Station and beyond to the recently refurbished Leeds Playhouse and the new developments on Quarry Hill.
- Executive Board in December 2017 agreed a proposal submitted by Town Centre Securities Plc (TCS) to progress a joint venture with TCS to bring forward a redevelopment of the low grade, low-rise vacant shop units and former Market Service offices to deliver an apart hotel on the upper floors with ground floor commercial units below. The proposal was submitted in response to an Official Journal of the European Union (OJEU) Competitive Dialogue procurement exercise.
- The principle of the proposal agreed by Executive Board was that the Council would make a fixed payment towards the cost of construction as its 50% stake in the Joint Venture, with TCS delivering the scheme and taking the risk/reward on the delivery within the target cost. Executive Board also approved the recommendation that £12.9m be injected into the Capital Programme
- This report seeks approval to a revised, post pandemic delivery structure for the regeneration of George Street, with the City Council taking the role of developer of a 143-bed hotel over ground floor commercial units and a proposed Council operated leisure and wellbeing facility. It is proposed that TCS would act as the Council's development manager for the delivery of the project. The site is ready to be regenerated and, on the basis that the Council does not wish to sell the site, a proactive approach by the Council is proposed. If Executive Board is minded to support the revised project delivery structure for the site, the report seeks approval for an injection of £9.261m into the Capital Programme (Scheme No. 32554/GEO) and Authority to Spend of the same and, also seeks approval to the Heads of Terms that have been provisionally agreed with the hotel operator as presented in Appendix 1 of the report.
- The project supports the Council's pillars of Inclusive Growth and Health and Wellbeing of the Best City Ambition.

### Recommendations

Executive Board is requested to:

- i) Note the content of the report and endorse the proposed post pandemic delivery structure for the redevelopment of George Street
- ii) Authorise an injection of £9.261m into the Capital Programme (existing Scheme No, 32544/GEO) and Authority to Spend of the same for the proposed redevelopment of George Street.
- iii) Approve the provisionally agreed Heads of Terms for the grant of an Agreement for Lease and Lease to the proposed hotel operator as detailed in Appendix 1 of the report.
- iv) Authorise the Director of City Development to take all subsequent decisions that may be necessary for the delivery of the redevelopment of George Street with the concurrence of the Executive Member for Infrastructure and Climate.

## **Why is the report being put forward?**

1. This report is about the Council's long-held ambition to regenerate George Street and create both a new 'front door' to Kirkgate Market and improve connectivity and linkage with the Victoria Gate development, Leeds Central Bus Station and beyond to the new developments on Quarry Hill.
2. Executive Board at its meeting in December 2017 agreed a proposal submitted by TCS to progress a Joint Venture with TCS to bring forward a redevelopment which would deliver a 5 storey, 126 bed apart hotel with ground floor commercial units. The principle of the proposal agreed by Executive Board was that the Council would make a fixed payment towards the cost of construction as its 50% stake in the Joint Venture, with TCS delivering the scheme and taking the risk/reward on the delivery within the target cost. Executive Board also approved the recommendation that £12.9m be injected into the Capital Programme to acquire a 50% share in the joint venture and, to facilitate the relocation of the Market Service to new office accommodation in Westminster Building.
3. Subsequently, Executive Board in October 2019 authorised a further injection of £917,000 into the Capital Programme to meet the Council's share of the capital cost increase arising as a consequence of an increase in the number of rooms in the apart hotel to meet the operator's requirements.
4. Planning and Listed Building consent for the proposed apart hotel development was granted in September 2018, though such consent has now expired.
5. With the onset of the pandemic in March 2020, the proposal as formed was no longer considered deliverable by TCS. In particular, the covenant strength of the proposed apart hotel operator was not considered sufficient to underwrite the development risk of the proposal and, thereafter, like many mixed-use commercial schemes nationally the scheme stalled, pending a reassessment of the position once the post-pandemic position became clearer. Members have been kept advised as to the ongoing discussions with TCS via the Annual Capital Programme budget setting process which is approved in February of each year by Full Council.
6. Having secured vacant possession of the shop units and the relocation of the Market Service to Westminster Building, the need to redevelop George Street remains both to support Kirkgate Market and to consolidate the city centre as the region's key retail and leisure hub. With the recovery from the pandemic now underway, officers have worked with TCS to reassess and identify a viable development proposal for the site, that can work in a post pandemic property market, which remains more risk averse than the pre-pandemic period and, where the covenant strength of the occupier of the completed development is fundamental to the project's success.
7. As highlighted above, George Street is currently vacant and ready to be regenerated. As vacant retail units, their condition is impacting on the footfall into the market and the ability of the Market Service to attract new business and, as such, action is required to bring forward its regeneration. In addition, the site is integral to the Market, therefore its sale is not preferred. Against this background, it is considered appropriate for the Council to take the lead developer role as, it is the most

appropriate body to manage the critical physical and business interface between the proposed development and the market and, is in a position to bring forward the development without further delay. Having regard to the post pandemic property market which remains risk averse, there is no guarantee that any other delivery structure would bring forward a scheme that would complement and enhance the market in an acceptable timescale. The proposed development incorporating a hotel and gym, whilst attracting additional footfall to the market will also attract different types of businesses that have a synergy to such uses and, has the potential to bring a younger audience to the market throughout the day.

8. In accordance with the requirements of the Competitive Dialogue procedure, TCS has presented a revised proposal to the Council for the development of the site to include a 143-bed hotel, with commercial units and possibly a Council operated leisure and wellbeing facility at ground floor level. The hotel would have a very limited ground floor presence for a visitor reception and servicing only directly onto George Street. The remaining ground floor areas would be under the direct control of the City Council and would accommodate either all commercial units or a mix of commercial units and possibly a Council operated gym. The commercial units are intended to have permeability through to the market and this will also be considered in relation to the proposed gym.
9. Members of Executive Board should note that Active Leeds is investigating the feasibility of incorporating a leisure and wellbeing facility on part of the ground floor of the proposed development to facilitate physical activity for people living and working in this part of the city centre. Currently, the Service has no Council owned wellbeing facilities located in the city centre to serve this market with local authority affordable health and fitness services. Such a facility would broaden the geographic reach of the Council's fitness facilities into the city-centre and strengthen the whole of the Council's fitness offer by providing a facility close to city centre offices, which complements existing city-wide facilities. Having a physical activity space in the heart of the city will afford improved access to the Council priority communities of Burmantofts and Richmond Hill, where inactivity rates and poor health are high. The Service has undertaken some initial, high-level work to ensure a viable business case for a 65-70 fitness station facility, with toilets and changing facilities can be developed. Early indications are positive, but further work is required around the business case, the physical and operational inter-relationship with the hotel and how the two may function together, as well as the opportunity to work with the Market Service to further activate the events space in the market for fitness and other activities.
10. TCS has brought forward a national hotel operator which has confirmed its interest in taking a lease of the completed hotel element of the development. The Council has sought external professional advice to assess the development appraisal as presented by TCS and the strength of covenant offered by the proposed hotel operator and, whether this would be sufficient to underpin the investment value of a completed scheme. The advice received confirms that the covenant offered will be satisfactory. Negotiations for an agreement for lease and lease with the hotel operator have been undertaken and terms have been provisionally agreed. The details of the operator are provided in the confidential Appendix to the report, along with the principal terms provisionally agreed and to which Executive Board approval is sought.
11. Whilst TCS has confirmed their interest in working with the Council to bring forward and deliver a scheme for the redevelopment of George Street, they have advised that they no longer wish to be party to a Joint Venture with the Council as originally proposed in 2017, but rather has proposed that they are retained as the Council's development manager to bring forward both the operator of the hotel and the subsequent delivery of the project on site. TCS has also proposed that the existing design team who have considerable knowledge of the site and the hotel operator's requirements be retained directly by the Council to ensure the successful delivery of the project in a timely manner. Under such an approach the Council would assume the role of developer for the project, would appoint a contractor to undertake works on site in accordance with Public Contract's Regulations 2015, would fund 100% of the project costs (estimated at £21.87m inclusive of fees, contingencies and tender price inflation to commencement on site) but exclusive of the fit out costs for the gym, receive 100% of the income generated, but also assume responsibility for all project risks. At the end

of the project, the Council would own the entirety of the development and receive all the rent generated from the hotel and income from the ground floor facilities.

### What impact will this proposal have?

#### Wards Affected: Little London and Woodhouse

Have ward members been consulted?  Yes  No

12. Despite the impact of the pandemic on retail and leisure activities, the city centre has seen a positive change over the last 5 five years with the regeneration of the Eastgate quarter, the on-going refurbishment works in Kirkgate Market, completion of the Victoria Gate development, the City College building and the Playhouse entrance upgrade. The proposals for the redevelopment of the George Street frontage and the completed refurbishment of the ground floor accommodation at Westminster Building will continue to regenerate and enhance the area, consolidating the city centre as the region's key retail and leisure hub and creating a positive and attractive retail and leisure destination for residents and visitors to the city.

### What consultation and engagement has taken place?

13. The Executive Members for Resources; Climate and Infrastructure; Economy, Culture and Education and Public Health and Active Lifestyles have been consulted on the proposals contained in the report.
14. Members of Council on the Kirkgate Market Management Board have been consulted on the proposals contained in the report

### What are the resource implications?

15. TCS advise that the total project cost is estimated at £21.87m inclusive of fees, contingencies and tender price inflation to commencement of works on site, but exclusive of the fit out of the proposed gym
16. It is proposed that the project costs will be funded by the Council by way of Prudential Borrowing, the cost of which will be met from the rental income generated from the completed scheme, the details of which are contained in Appendix 1 of the report which has been identified as Exempt/Confidential under Access to Information Rules 10.4(3).
17. It is estimated that the investment value of the completed development would represent a substantial increase on the existing use value of the low-grade shop units on George Street.
18. The Council would be responsible for the maintenance and insurance of the structure of the completed building and tenants would pay a service charge for regular cyclical maintenance works. It is proposed that the surplus income after borrowing be used to fund a repairs sinking fund for lifecycle costs and if this is not fully utilised, it could contribute to further regeneration initiatives in the vicinity of Kirkgate Market and the wider city centre.
19. It is anticipated that the majority of the proposed expenditure to be incurred by the Council would be in the financial year 2024/25, reflecting the anticipated build period as shown in the high-level development programme detail in paragraph 31 below.

## **What are the legal implications?**

20. The proposals contained in the report constitute a Key Decision which is subject to Call In.
21. The information in Appendix 1 of this report has been identified as Exempt/Confidential under the Access to Information Rules 10.4 (3). The public interest in maintaining the exemption in relation to the confidential Appendix outweighs the public interest in disclosing the information and financial details which, if disclosed would adversely affect the business of the Council and the business affairs of TCS.
22. The Council has a general power to develop land for the benefit or improvement of its area under Section 2 of the Local Authorities (Land) Act 1963, as well as a power to manage its landholdings for the benefit, improvement or development of its area under Section 120 of the Local Government Act 1972.
23. The Head of Asset Management confirms that in their opinion the lease 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).
24. Due to the period of national mourning that followed the passing of Her Majesty Queen Elizabeth II and, the public holiday within that to mark the day of her Majesty's State Funeral on Monday 19 September and, due to the unforeseen and fast paced nature of such matters, the required notice period to consider information designated as being exempt from public has not been met. As required in such circumstances, the agreement of the relevant Scrutiny Board Chair that such matters are urgent and cannot be reasonably deferred has been confirmed. The reason for urgency and why such matters cannot be deferred to a future meeting of the Executive Board is that the report seeks approval for the Council to enter into Heads of Terms with the proposed hotel operator to lease the completed development and to progress the development of the design proposals for the project. This is a critical step in the development process and cannot be progressed until both the Council and the hotel operator have agreed such terms. Delaying consideration of the report would leave both parties working at risk.
25. There are no legal implications with the proposed appointment of TCS as the Council's development manager for the delivery of the project, as this would be undertaken in accordance with Public Contract's Regulations 2015.

## **What are the key risks and how are they being managed?**

26. There is a risk that additional costs arise post contract which cannot be contained within the project budget. In the current volatile construction market this risk cannot be completely mitigated. The cost estimate received from TCS' design team includes a 20% contingency provision and an 8% allowance for inflation to start on site
27. There is a risk that the proposed hotel operator could withdraw from the project. Members will note that the scheme is conditional upon a pre-let to the hotel operator by way of an Agreement for Lease with the back-up of a parent company guarantee, the details of which are detailed in Appendix 1 of the report. At the date of report preparation, there is no legal commitment to proceed though the hotel operator is keen to proceed with the legal documentation and Heads of Terms for the Agreement for Lease and Lease have been provisionally agreed which are subject to approval by Executive Board.
28. There is the potential for an increase in the cost of borrowing required to fund the scheme due to interest rises to combat rising inflation. The Council's Chief Officer Financial services has indicated that the market has already priced in inflationary pressures for the Prudential Borrowing rate used on the project.
29. There is a risk that Planning and Listed building consent may not be granted for the revised scheme proposals. The risk is mitigated by the Council employing the same design team who prepared the

design proposals for the apart-hotel scheme that secured such consent and, whilst further detailed design is required for the revised scheme, it is expected that the building footprint, general arrangement, height and scale, materiality and quality would be as per the previous consented scheme.

30. The proposed Council gym facility may not generate sufficient return to be able to contribute towards the projected annual borrowing costs required to fund the development. Whilst the development of the gym will be the subject of a separate business case, Active Leeds has undertaken some initial, high-level work to ensure a viable business case can be developed. Whilst further feasibility work is required, early indications are positive that the facility will generate a surplus after operating costs sufficient to contribute toward the annual borrowing costs for the project.
31. There is a risk at the interface of the proposed development with the existing market structure. The risk will be mitigated in part by the Council retaining the design team that has worked on the project over several years and, who have built up a considerable body of knowledge of the works required at the interface between the two buildings, particularly around services provision and structural dependencies.

### **Does this proposal support the council's 3 Key Pillars?**

Inclusive Growth

Health and Wellbeing

Zero Carbon

32. The recommendations contained in the report will contribute towards the Council's pillars of Inclusive Growth and Health and Wellbeing. It is considered that the scheme will provide both training and employment opportunities during the construction phase and thereafter in the completed development. The proposal for a Council operated gym would provide an opportunity for people living and working in the city centre, and visiting, to utilise and experience an affordable local authority health and fitness service which the Council does not currently provide in the city centre.

### **Options, timescales and measuring success**

#### **a) What other options were considered?**

33. The following options have been considered

- Refurbish and re-let the existing vacant single storey retail units; This option was rejected as it would not be economical, and the Council would not realise its long-held ambition to regenerate George Street
- Close the current procurement exercise and re-tender for a new joint venture partner; The was rejected as the timescale to secure a development partner would take up to 18 months to conclude and would mean that during this time the shop units will remain vacant, with no guarantee that the process would deliver a viable scheme proposal
- Close the current procurement exercise and offer the site for sale by way of a long leasehold interest; This was rejected as the timescale required to conclude a disposal would take up to 18 months to conclude, the shop units would remain empty and there is no guarantee that an acceptable development proposal would be forthcoming.

#### **b) How will success be measured?**

34. Success will be measured by the delivery of the proposed new building within the approved budget and timescale. Further, the completion of a lease with the hotel operator and letting of the commercial units and opening of the gym will be further measures of success. Thereafter, the achievement of a positive impact on the locality in terms of increased visitor numbers and enhanced economic activity will be a measure of success.

#### **c) What is the timetable for implementation?**

35. The indicative high level strategic development programme is as follows.

- Conclude Agreement for Lease and Lease with the hotel operator; November 2022
- Complete Stage 3 design proposals; 31 January 2023
- Secure Planning and Listed Building consent; 31 May 2023
- Appoint contractor to undertake works; 30 September 2023
- Start on site; October 2023
- Completion of works; April 2025

## **Appendices**

36. Appendix 1 – Exempt/Confidential under Access to Information Rules 10.4(3).

37. Equality Screening Document

## **Background papers**

38. None.