

Report of Director of City Development

Report to Executive Board

Date: 18 July 2012

Subject: Quarry Hill, Leeds, LS2

Are specific electoral Wards affected? If relevant, name(s) of Ward(s): City and Hunslet	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
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? If relevant, Access to Information Procedure Rule number: Appendix number: 1	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Summary of main issues

1. The Quarry Hill site was originally the location of the Quarry Hill flats. When constructed in the 1930s they were considered to be state of the art. Following demolition, part of the cleared site was used for construction of the West Yorkshire Playhouse. More recently, the BBC, College of Music and the Northern Ballet headquarters have been constructed. In 2003 the Council agreed at Executive Board, after a marketing exercise, to sell the main site to Caddick Developments Limited. The sale took time to progress due to the complexity of the proposal and various modifications were made over a period of time by Caddick Developments Limited in response to detailed consultations. In the meantime the property market downturn affected the potential of this major scheme to move forward, which was clearly reliant on high density flats and significant commercial office space with high quality public realm.
2. Caddick Developments Limited still wishes to purchase and develop the site, but on revised terms to reflect current market conditions. This report details revised terms upon which the sale could now be completed, which include provisions for the Council's protection in the event of improvements in the economy in the future. Members are requested to approve the revised terms for the sale of this site.

Recommendations

3. It is recommended that the sale of Quarry Hill be completed with Caddick Developments Limited on the revised terms detailed in the confidential appendix to this report.

1 Purpose of this report

- 1.1 The purpose of this report is to advise Members of the revised terms upon which the Council's site at Quarry Hill in the city centre could be sold to Caddick Developments Limited (Caddick). This report is accompanied by a confidential appendix which provides details of provisionally agreed heads of terms of the transaction with a recommendation that Members approve the revised terms and instruct the Director of City Development to complete the sale. The appendix is confidential and is designated exempt under Access to Information Procedure Rule 10.4.3 on the basis this is information relating to the financial or business affairs of Caddick and the Council, and that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosure.

2 Background information

- 2.1 The Quarry Hill site (marked Phase 1 and Phase 2) is shown on the attached plan, no. 14625/F. The site comprises approximately 1.97 ha (4.86 acres). It is currently operated by Environment and Neighbourhoods as a public pay and display surface car park, but has always been identified as a major development site. Numerous plots on Quarry Hill have already been sold and developed, initially for the construction of Quarry House, the Playhouse, and more recently the BBC, College of Music, and Northern Ballet Headquarters. The two sites (marked Hotel Site and Office Site) have been sold for private development.
- 2.2 The Council marketed the subject site and Caddick was selected as preferred purchaser by Executive Board on 11 June 2003. Caddick proposed a mixed use development with a high content of residential properties. Caddick's offer was subject to contract, site surveys and planning approval.
- 2.3 Caddick undertook detailed site investigation surveys and determined the ground conditions were acceptable, and submitted two planning applications in 19 November 2004. One application was for the whole site and the second in more detail for one building.
- 2.4 Caddick's scheme proposals comprised approximately 7,620m² (82,000ft²) offices, 705 residential apartments and 3,950m² (42,500ft²) leisure uses in seven buildings. Public objections were received to the applications and whilst officers recommended approval, City Centre Plans Panel rejected the scheme on 24 February 2005.
- 2.5 To address the objections Caddick removed one building which sat immediately adjacent to the Playhouse fronting Eastgate, and replaced another building with a multi-storey car park to satisfy requests for the retention of public parking on Quarry Hill.
- 2.6 Caddick's planning applications were re-submitted to Plans Panel on 18 August 2005 and were approved, being deferred and delegated for the Chief Planning Officer to issue the planning permissions when a s.106 Agreement had been settled.

- 2.7 The down turn in the property market, particularly in the city centre residential apartment sector, combined with the provision of affordable housing on site, and increasing construction costs reduced the financial viability of the scheme. At that time Caddick proposed 705 apartments, 15% of which had to be affordable. Caddick advised this number of affordable apartments caused the scheme to be unviable. This was assessed by Planning Services who appointed independent agents to value the scheme. Before negotiations could commence between the Council and Caddick around viability an unsolicited offer was received which had to be considered. This delayed the sale further.
- 2.8 The unsolicited offer was assessed and reported to Executive Board for consideration with the previously approved Caddick proposals on 11 June 2008⁽²⁾. At that meeting Members agreed the sale to Caddick should be progressed and the unsolicited offer rejected. Negotiations continued with Caddick in good faith on both sides and the company continued to incur costs in progressing the acquisition. The Leeds property market and national economy continued to decline and purchasers of other Council owned city centre development sites (International Pool and Sovereign Street) chose to withdraw due to there no longer being a market from occupiers for their schemes and the proposals being unviable, despite having incurred considerable costs. Caddick still wished to progress the acquisition of Quarry Hill. Many other privately owned developments in the city centre were also stalled by the economic conditions at that time.

3 Main issues

- 3.1 The previous disposals that have taken place on Quarry Hill are one of the main reasons the sale to Caddick has not been concluded. Certain rights and restrictions in those sales have had influences on the Caddick proposals which delayed progress. In addition, the major objections to Caddick's redevelopment proposals in the early stages and concerns from neighbouring occupiers that their businesses and enjoyment of Quarry Hill should not be adversely affected by Caddick's proposals have caused lengthy delays and additional cost for Caddick.
- 3.2 The major uncertainty for the Council and Caddick is the lack of activity from the developer of the sites marked on the attached plan "Hotel Site" and "Office Site." The Council exchanged a Development Agreement for the sale of these sites on 21 March 2003. Long ground leases were then granted by the Council on 8 May 2003 accompanied by premium payments for the sites. The Development Agreement contained development obligations and timescales for construction of the buildings. The developer, Metropolitan and District Securities, did not commence the development, fell into financial difficulties and was put into administration. The company, whose sole assets were the two Quarry Hill sites, was then purchased and the new owner had alternative development proposals. New detailed planning permissions were granted for revised schemes and the lessee has requested variations to the Development Agreement and Leases which would allow the new schemes to be constructed. Officers of the Council would be prepared to recommend those variations be made, but the lessee has not pursued the project, being similarly affected by the down turn in the property market. The hotel site has a potential impact on the operation of the Playhouse and until precise details relating to the development and a programme have been

issued it has been difficult to finalise the Caddick transaction. Provision is required in the Caddick sale to protect the operation of the Playhouse.

- 3.3 Caddick now wish to complete the acquisition without further delay. Revised terms have been provisionally agreed to reflect the current economic climate. The accompanying confidential appendix details the terms that are being recommended for approval upon which the sale can be completed. Caddick do not initially propose commencing development due to the current economic conditions and being unlikely to secure any pre-lets. When the economic climate improves and Caddick has secured pre-lets then development should commence on site. An indication of when this may occur cannot be given and Caddick will not be obliged to commence development within a defined timescale.
- 3.4 Following acquisition of the site Caddick would take over management of the existing current car parks and may appoint a commercial car park management company to operate the car parks on their behalf. Improvements to the car parks would be undertaken and continue to be open to the public, the twenty-six designated disabled spaces being available free of charge. When Caddick considers it is the right time to start development their first phase will be construction of a multi-storey car park. This will replace the existing surface car parks and following opening of the multi-storey for public use the surface car parks will be closed enabling other construction works to commence.
- 3.5 In recommending the matter for approval this is on the basis that the Head of Property Services confirms that in his opinion 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 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 The Director of City Development has consulted the Executive Member for Development and the Economy on the proposed new terms. The Executive Member supports the recommendation to Executive Board that the sale to Caddick should now be completed on those terms.
- 4.1.2 The Executive Member for Neighbourhoods, Planning and Support Services has been briefed by the Director of City Development and is supportive of the proposal.
- 4.1.3 The Executive Member for Leisure and Skills has been briefed and is aware of the proposed disposal in relation to the operation of the Playhouse.
- 4.1.4 The Ward Members for City and Hunslet have not been consulted on the proposed new terms as this would not normally take place when seeking authority to revised terms. The Ward Members were consulted when it was first proposed to sell the site, and that proposal has not changed. Ward Members have, however, been advised a report on Quarry Hill is being submitted to Executive Board as the matter affects their Ward

4.1.5 The West Yorkshire Playhouse is regularly updated on the development of Quarry Hill and the adjoining hotel and office sites. The Playhouse Board's main concern is that their operations should not be adversely affected by any development proposal or associated development works. This is particularly important where works take place around Playhouse Square and its access road. The West Yorkshire Playhouse has recently raised concerns about coach turning on Playhouse Square. Tracking has been re-checked by Highways and Transportation. They confirm that a longer 15m coach can be accommodated. However, officers will liaise with West Yorkshire Playhouse and Caddick to establish that the scheme works to address any remaining concerns, with any minor variations regarding boundaries or value to be delegated to the Director of City Development. Another concern to the Playhouse is the provision of disabled parking close to the Playhouse. This matter has been considered in detail and arrangements had been put in place to the satisfaction of the Playhouse.

4.1.6 A transaction of this nature is not one for inclusion on the Talking Point Database.

4.2 Equality and Diversity / Cohesion and Integration

4.3 An Equality, Diversity, Cohesion and Integration Impact Screening has been undertaken to determine whether a EDCI Assessment is necessary. The proposed change of ownership of the car park and future provision of parking for disabled drivers was the subject of the screening process. It was, however, concluded that as Caddick, or their car park operator, will make the existing twenty-six designated disabled spaces available free of charge as the Council currently does, then an Equality Assessment is not necessary for this disposal. The issue of city centre parking and in particular the provision of disabled spaces may be considered as a separate matter and is outside the realms of this report.

4.4 Council policies and City Priorities

4.4.1 The disposal will contribute to the targets and priorities set out in the Council's Policy Framework, as detailed in Article 4 of the Constitution. The following Council Policies and City Priorities relate:

4.3.2.1 Vision for Leeds – To be the best city in the UK is the key aim of the Vision for Leeds 2011 to 2030. This means:

- § Leeds will be fair, open and welcoming
- § Leeds' economy will be prosperous and sustainable
- § All Leeds' communities will be successful

One of the key challenges facing Leeds is the recovery of its economy from the effects of global recession. In addressing this challenge, Leeds must continue to be a forward-looking city and have a clear plan for the future and this is why the Vision for Leeds is important. The sale of Quarry Hill in the current economic climate will be a major success and support the aims of the Vision for Leeds. This will demonstrate Leeds is a prosperous location in which to do business and supports the Council's confidence in delivering the Arena and redevelopment of the Sovereign Street site. Sale and development of the site will meet an ambition to create a more cohesive city with stronger communities.

- 4.3.2.2 Council Business Plan 2011 to 2015 – “Our ambition to be the best City Council in the UK.” The Plan details how the ambition will be achieved and in particular sets Priorities and Performance Measures for individual directorates. For City Development a particular target is to “Deliver major projects and make sure these help to deliver the city’s priorities.” The sale of Quarry Hill relates to this target.
- 4.3.2.3 Safer and Stronger Communities Plan – Quarry Hill has a reputation for being an unsafe environment, especially at night. The sale and redevelopment with its associated security should remove the current stigma and make it a more inviting environment, especially for evening visitors to the Playhouse. Before any development takes place, Caddick will be responsible for continued operation of the public car parks and has proposed improvements to the surfaces, general environment and security.
- 4.3.2.4 Local Transport Plan – As part of the planning permission for the site Caddick will complete a s.106 Agreement with the Council. A payment for public transport infrastructure improvement is likely to be secured through that Agreement.
- 4.3.2.5 Development Plan documents – the Leeds Unitary Development Plan identifies Quarry Hill in the city centre Prestige Development Area. This area should typically accommodate high quality headquarter type buildings. Disposal of the site will achieve this when Caddick undertakes the development.
- 4.3.2.6 Sustainable Economy and Culture City Priority Plan – the aim of this plan is to “create more jobs” which is described as “Creating more jobs across Leeds is crucial for providing a wide variety of employment opportunities and helping to reduce the unemployment and poverty levels within the city. In particular, supporting local residents in deprived communities to access new job opportunities is a fundamental part of achieving this outcome.” The successful outcome will be “All the people of Leeds lead prosperous lives.” Sale and development of Quarry Hill will generate substantial employment opportunities which will assist in bringing Leeds’ residents into employment.

4.5 Resources and value for money

- 4.5.1 The confidential appendix details the terms and price at which it is recommended the sale should now complete. The premium payable by Caddick will contribute to the Council’s spending programme and should be received in the current financial year.
- 4.5.2 The public car parks currently on site are operated by Environment and Neighbourhoods. It has always been acknowledged that the car parks are temporary pending the redevelopment of Quarry Hill. The income is received by Environment and Neighbourhoods and its loss is identified as a budgetary pressure for 2012/13. The income has, however, been received for longer than expected following selection of Caddick as preferred purchaser in 2003. The directorate is regularly advised of progress with the disposal.

4.5.3 The Director of Resources is aware of the anticipated capital receipt that will be realised from the sale, and the impending loss of revenue realised from the car parks.

4.6 Legal Implications, Access to Information and Call In

4.6.1 Being a Key Decision the decision taken by Members in response to this report is subject to Call In.

4.6.2 Legal negotiations for the sale have advanced well with Caddick with a Development Agreement and Lease nearing agreement. Caddick has made a substantial financial investment in anticipation of acquiring the site and has acted in good faith. No legally binding contract has been exchanged between the Council and Caddick, but Members' decisions at Executive Board to select Caddick as preferred purchaser and then to continue with the sale after consideration of the unsolicited competing bid gave a commitment that the site would be withdrawn from the market and the Council would proceed to sell the site, subject to satisfactory detailed terms being agreed.

4.6.3 Further legal advice is provided in the confidential report for Members' consideration.

4.7 Risk Management

4.7.1 Risks associated with the proposal to complete the sale on the provisionally revised terms are detailed in the Risk Management section of the confidential appendix accompanying this report.

5 Conclusions

5.1 The global and local economy have changed considerably since Caddick was selected, but unlike some developers, the company is still keen to acquire the site. Although construction will not start until economic conditions improve, which could be many years, Caddick considers that with the site in the company's ownership and control there is a greater possibility of securing occupiers at which time construction would commence on a pre-let basis. In the current market no large development will take place on a speculative basis due to development finance risk. Caddick will continue to operate the car parks which will maintain the supply of public parking in this part of the city centre. Caddick will commence development when a pre-let occupier is secured and will be obliged to construct a public multi-storey car park on site prior to the existing surface car parks closing.

5.2 Caddick advises a considerable amount of time and expense has been incurred in pursuing the purchase since the company's selection by Executive Board as preferred purchaser. Caddick progressed the sale based on the Council's decision.

5.3 It can be concluded that the provisionally agreed terms detailed in the confidential appendix can be recommended for approval and for the sale of Quarry Hill completed on those terms.

6 Recommendations

6.1 It is recommended that Members consider and approve the terms detailed in the confidential report.

7 Background documents¹

- 7.1
1. Report entitled “Plots 1 – 4 Centenary Square, Plot 1 Playhouse Square, Quarry Hill – Selection of Scheme and Developer” approved by Members of Executive Board on 11 June 2003.
 2. Report entitled “Quarry Hill” approved by Members of Executive Board on 11 June 2008.

¹ The background documents listed in this section are available for inspection on request for a period of four years following the date of the relevant meeting. Accordingly this list does not include documents containing exempt or confidential information, or any published works. Requests to inspect any background documents should be submitted to the report author.