

CABINET MEETING – 11 MARCH 2015
EXECUTIVE SUMMARY SHEET – PART I

Title of Report:

Disposal of land and acquisition of a head lease on land adjacent to Keel Square, Sunderland

Author(s):

Report of the Deputy Chief Executive

Purpose of Report:

To seek approval for the disposal of land adjacent to Keel Square, Sunderland by way of a long ground lease and the subsequent acquisition by the Council of an option to acquire a head lease of part of the completed development.

Description of Decision:

Cabinet is recommended to:

- (1) Agree to the disposal by way of a ground lease of approximately 0.2 ha (0.5 ac.) of land adjacent to Keel Square, Sunderland to a CHG company (Cairn Hotel Group) at a price which is the best consideration reasonably obtainable;
- (2) Agree to the acquisition by the Council of an option to acquire a head lease in the ground floor of the proposed completed development, on terms detailed in part II of this report, and otherwise as agreed by the Deputy Chief Executive in consultation with the Leader and Cabinet Secretary; and
- (3) Authorise the Deputy Chief Executive in consultation with the Leader and Cabinet Secretary to exercise the option.

Is the decision consistent with the Budget/Policy Framework? Yes

If not, Council approval is required to change the Budget/Policy Framework

Suggested reason(s) for Decision:

The site was acquired by the Council as a strategic acquisition for redevelopment.

The disposal will secure early and further investment in the City and facilitate a development which will assist with the regeneration of the City Centre and provide employment opportunities. In addition the development will result in the Council receiving additional business rates.

Taking an option to acquire a head lease will enable the Council to retain control over prominent commercial units in a strategically important position.

It is considered appropriate to progress with the recommendation to enable appropriate development to occur and to retain control over the uses of the ground floor units in the development.

Alternative options to be considered and recommended to be rejected:

The alternative options are:-

- (i) Retain the land. This would not secure the early and further investment in the City or provide the additional business rates and employment opportunities. In addition to this the Council would continue to incur the costs associated with holding the site
- (ii) Advertise the site on the open market. The Council has received an offer for the site without the costs and delay of marketing the opportunity. The offer complies with the Council's statutory duty to obtain the best consideration reasonably obtainable for disposals of land which is supported by external valuation evidence.
- (iii) Dispose of the long leasehold interest but not acquire an option for a head lease in the completed development. This option would not give the Council the ability to control the uses fronting onto the new Keel Square. It would also eliminate the Council's ability to accelerate the development in the short to medium term.

These options have therefore been considered and are not recommended

Impacts analysed;

Equality N/A Privacy N/A Sustainability N/A Crime and Disorder N/A

Is this a "Key Decision" as defined in the Constitution? Yes

Is it included in the 28 day Notice of Decisions? Yes

Scrutiny Committee

**DISPOSAL OF LAND AND ACQUISITION OF A HEADLEASE ON LAND
ADJACENT TO KEEL SQUARE, SUNDERLAND**

REPORT OF THE DEPUTY CHIEF EXECUTIVE

1.0 Purpose of the Report

- 1.1 To seek approval for the disposal of land adjacent to Keel Square, Sunderland by way of a long ground lease and the subsequent acquisition by the Council of an option to acquire a head lease of part of the completed development.

2.0 Description of Decision

Cabinet is recommended to:

- 2.1
- (1) Agree to the disposal by way of a ground lease of approximately 0.2 ha (0.5 ac.) of land adjacent to Keel Square, Sunderland to a CHG company (Cairn Hotel Group) at a price which is the best consideration reasonably obtainable;
 - (2) Agree to the acquisition by the Council of an option to acquire a head lease in the ground floor of the proposed completed development, on terms detailed in part II of this report, and otherwise as agreed by the Deputy Chief Executive in consultation with the Leader and Cabinet Secretary; and
 - (3) Authorise the Deputy Chief Executive in consultation with the Leader and Cabinet Secretary to exercise the option.

3.0 Background

- 3.1 As part of the wider regeneration of the City Centre the Council made strategic acquisitions of sites which could be developed to provide high quality buildings and which would complement the investment in the new Keel Square and gateway into the former Vaux site. The Council therefore now owns the freehold of the land adjacent to Keel Square shown verged black on the plan in Appendix 1.
- 3.2 Discussions have taken place with CHG who are an established hotel operator for a hotel development on this prominent and sensitive site. The proposals are considered to be appropriate for

this location and meet the Council's vision for a high quality building with suitable ground floor commercial uses fronting on to the new square.

3.3 CHG have a track record of operating high quality hotel developments nationally and it is therefore considered they would be a suitable operator for such a significant development.

3.4 In addition to the hotel development the benefits of the Council taking an option to acquire a head lease and sub letting the ground floor space are recognised.

Such an arrangement provides the Council with the ability to retain control of the ground floor space in a strategically important position for the future regeneration of the city centre fronting onto Keel Square.

Furthermore, the option to acquire a head lease gives the Council the ability to accelerate the timetable for development commencing on the site by the developer having certainty over the rental income from the ground floor from the outset if the option is exercised as opposed to development commencing when suitable tenants are secured.

4.0 Current Position

4.1 The Council has provisionally agreed terms for the disposal of the site via a ground lease to CHG on terms which represent the best consideration reasonably obtainable for the Council

Provisional terms for the Council to acquire a head lease of part of the proposed development via an option have also been agreed with CHG. Should the Council exercise the option for the head lease the Council will be liable for the financial risk for any voids in the ground floor space which are not immediately sublet to appropriate occupiers. The financial details of this are contained in part two of this report.

The disposal by way of a ground lease and acquisition of an option to acquire a head lease will be conditional upon approval of the design proposals and CHG obtaining satisfactory planning permission for the scheme.

Agreement to the proposals contained within this report will enable a conditional contract to be entered into with CHG who will then progress the scheme to the next stages of full design and planning application.

5.0 Reasons for Decision

The site was acquired by the Council as a strategic acquisition for redevelopment.

The disposal will secure early and further investment in the City and facilitate a development which will assist with the regeneration of the City Centre and provide employment opportunities. In addition the development will result in the Council receiving additional business rates.

Taking an option to acquire a head lease will enable the Council to retain control over prominent commercial units in a strategically important position.

It is considered appropriate to progress with the recommendation to enable appropriate development to occur and to retain control over the uses of the ground floor units in the development.

6.0 Alternative Options

The alternative options are:-

- (i) Retain the land. This would not secure the early and further investment in the City or provide the additional business rates and employment opportunities. In addition to this the Council would continue to incur the costs associated with holding the site
- (ii) Advertise the site on the open market. The Council has received an offer for the site without the costs and delay of marketing the opportunity. The offer complies with the Council's statutory duty to obtain the best consideration reasonably obtainable for disposals of land which is supported by external valuation evidence.
- (iii) Dispose of the long leasehold interest but not acquire an option for a head lease in the completed development. This option would not give the Council the ability to control the uses fronting onto the new Keel Square. It would also eliminate the Council's ability to accelerate the development in the short to medium term.

These options have therefore been considered and are not recommended

7.0 Financial Implications

There will be a financial cost to the Council in relation to the head lease which will be mitigated by the rental income secured by the Council from the sub-letting of the space to commercial operators. The details of this are contained in the report on Part II of this agenda. The Council will also receive additional business rates income following completion of the development.

8.0 Impact Analysis

8(a) Equalities – N/A

**8(b) Privacy Impact Assessment (PIA) – N/A
Sustainability**

8(c) Sustainability Impact Appraisal

Sunderland Strategy Objectives cross check with decisions outcomes:

• Prosperous City

The development will result in the delivery of high quality building, appropriate commercial uses that benefit the city and create new job opportunities and significant private sector investment.

• Healthy City / SafeCity

No impact

• LearningCity

No impact

• Attractive and Inclusive City

The development will accord with the councils vision for attractive and inclusive development

**8(d) Reduction of Crime and Disorder – Community Cohesion /
Social Inclusion – N/A**

9 Other Relevant Considerations / Consultations

9 (a) Financial Implications / Sunderland Way of Working

The Director of Finance has been consulted and comments are contained in this report.

Risk Analysis

9 (b) None

Employee Implications

9 (c) None.

Legal Implications

9 (d) The Head of Law and Governance has been consulted and comments are contained in this report.

Policy Implications

9 (e) None.

Health and Safety Considerations

9 (f) None

Property Implications

9 (g) Property Services have undertaken a valuation exercise and have obtained external valuation advice which confirms a price which is the best consideration reasonably obtainable is being obtained for the disposal of the land in accordance with Section 123 of the Local Government Act 1972 which is the statutory provision enabling local authorities to dispose of land.

9 (h) Implications for Other Services

None

9 (i) The Public

None.

- 9 (j) **Compatibility with European Convention on Human Rights**
N/A
- 9 (k) **Project Management Methodology**
N/A
- 9 (l) **Children's Services**
N/A
- 9 (m) **Procurement**
None
10. **List of Appendices**
Appendix 1 Plan of Land adjacent to Keel Square, Sunderland
11. **Background Papers**
N/A