

## CABINET MEETING – 15 JUNE 2021

### EXECUTIVE SUMMARY SHEET – PART I

**Title of Report:**

Sunniside Regeneration Update

**Author(s):**

Executive Director of City Development

**Purpose of Report:**

To provide a progress update and seek approval to take steps towards the appointment of preferred developers and the disposal of property interests to support the progression of regeneration proposals for the Nile & Villiers street area of Sunniside (“the Site”) shown edged red on the plan at Appendix 1.

**Description of Decision:**

Cabinet is recommended to:

Authorise the Executive Director of City Development, in consultation with the Chief Executive, Executive Director of Corporate Services and Leader of the Council, to:

- i) Note the proposals for regeneration of “the Site” as described in this report;
- ii) Grant an exclusivity agreement to a partnership (“the Partnership”) comprising TownDev Ltd (Town) and Create Streets Ltd (Create Streets) to produce a development proposal and funding strategy that will facilitate the delivery of high-quality new homes and workspaces;
- iii) Dispose of a leasehold interest in 177 High Street West, Sunniside (“the Property”) to Tyne and Wear Building Preservation Trust (TWBPT) for a nominal consideration of £1 (one pound), a price which is less than the best consideration that can reasonably be obtained in the market, on terms to be agreed by the Executive Director of City Development; and
- iv) Make any further land and property acquisitions or disposals within “the Site” to facilitate the regeneration proposals, at a price which represents best consideration.

**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 continued regeneration of Sunniside through the development of new and better homes, provision of new workspaces and establishment of a new community is a longstanding ambition of the Council and its partners and is aligned with the objectives of the City Plan.

Town and Create Streets have proven track records of delivering transformational regeneration through the development of high-quality new homes and establishment of socially and economically successful places. The granting of an exclusivity agreement will enable them to prepare a detailed development proposal, identify potential funding solutions, and support funding bids, and develop a delivery model that minimises any capital investment by the Council.

Disposal of “the Property” to TWBPT will ensure that a historically significant building is preserved and given a beneficial use that complements the Sunnyside regeneration plans delivering economic, social and well-being benefits as well as relieving the Council of an ongoing maintenance liability.

The Council is currently preparing a bid for Levelling Up Fund (LUF) grant to support the redevelopment of “the Site” and delivery of new homes and workspaces. Agreement to the proposals within this report will strengthen and increase the credibility of the Council’s bid.

**Alternative options to be considered and recommended to be rejected:**

The alternative options are: -

- i) Not grant an exclusivity agreement to the Partnership and openly market the development opportunity.

Market advice and viability appraisals have shown there is likely to be little interest from commercial developers and an extremely limited pool of organisations which have the capability and experience to successfully deliver the regeneration objectives. Marketing the opportunity is unlikely to realise any additional benefits and is more likely to cause delay and additional cost for the Council. This option would also weaken the LUF bid as there would be a less clarity and lower confidence in the development proposals.

- ii) Not dispose of the Property to TWBPT.

Holding the property would lead to further deterioration and increased risk of substantial holding and repair costs and the Council and local community would not realise the benefits from its redevelopment.

- iii) Unconditional disposal of the Property for open market value

It is highly likely that unconditional disposal of the Property based on its existing use could result in the building being acquired by a developer speculating on market growth. This could result in the building remaining unoccupied with little maintenance, similar to several other buildings in private ownership in the immediate locality. This option would not realise the benefits from its redevelopment and would have a negative impact on the wider regeneration of the Site and in the immediate locality.

These options have been considered and are recommended to be rejected.

**Impacts analysed;**

**Equality** ☒ **Privacy** ☒ **Sustainability** ☒ **Crime and Disorder** ☐

**Is the Decision consistent with the Council’s co-operative values?** **Yes**

**Is this a “Key Decision” as defined in the Constitution?** **Yes**

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

**SUNNISIDE REGENERATION UPDATE**

**Report of the Executive Director of City Development**

**1. Purpose of the Report**

- 1.1 To provide a progress update and seek approval to take steps towards the appointment of preferred developers and the disposal of property interests to support the progression of regeneration proposals for the Nile & Villiers street area of Sunnyside (“the Site”) shown edged red on the plan at Appendix 1.

**2. Description of Decision**

- 2.1 Cabinet is recommended to:

Authorise the Executive Director of City Development, in consultation with the Chief Executive, Executive Director of Corporate Services and Leader of the Council, to:

- i) Note the proposals for regeneration of the Site as described in this report;
- ii) Grant an exclusivity agreement to a partnership (“the Partnership”) comprising TownDev Ltd (Town) and Create Streets Ltd (Create Streets) to produce a development proposal and funding strategy that will facilitate the delivery of high-quality new homes and workspaces;
- iii) Dispose of the leasehold interest in 177 High Street West, Sunnyside (“the Property”) to Tyne and Wear Building Preservation Trust (TWBPT) for a nominal consideration of £1 (one pound), a price which is less than the best consideration that can reasonably be obtained in the market, on terms to be agreed by the Executive Director of City Development; and
- iv) Make any further land and property acquisitions or disposals within “the Site” to facilitate the regeneration proposals, at a price which represents best consideration

**3. Background**

**3.1 The Site**

- 3.1.1 The Site is centred around Nile Street and Villiers Street located within central Sunnyside at the edge of Sunderland city centre.
- 3.1.2 The Site is in a challenging transitional zone characterised by hostels, low footfall, low-quality housing, run-down industrial sites, and has a reputation for crime and anti-social behaviour.
- 3.1.3 Sunnyside has long been identified as a priority for regeneration within the city centre and over the last 15 years the Council and its partners have invested in the area through development of new buildings, provision of high quality public realm, acquisition of vacant land and dilapidated buildings and strategic site clearance.

- 3.1.4 In 2014 the Council entered into a partnership agreement with Homes England to fund, assemble and clear the Site for new mixed-use development. In 2021 the Council completed the purchase of Homes England's interests in Sunnyside and dissolved the partnership agreement. The Council currently owns the freehold of the land and property shown hatched on the plan at Appendix 1 which would facilitate an initial phase of development. A potential second phase of development has been identified on the West side of Nile Street which would require the acquisition of two buildings in private ownership
- 3.1.5 Create Streets and Hendon based community interest company Back on the Map created a community-led project which produced a vision to develop a Living Arts Hub in Nile & Villiers Street. More recently Town joined the project to provide commercial development experience and turn the vision into a credible development proposal.
- 3.1.6 The Living Arts Hub will be an exemplar residential-led mixed-use scheme with homes and workspace to rent or buy and offering custom-build opportunities, which will be particularly appealing to Sunderland's vibrant creative community. The scheme will be of contemporary design, built using modern methods of construction and will deliver high environmental performance.
- 3.1.7 Create Streets is an organisation which exists to help solve the housing crisis and to help neighbourhoods, communities, landowners, Councils and developers create and manage beautiful, sustainable places of gentle density that will be popular, improve health outcomes and wellbeing, and are likely to be transformational long term investments.
- 3.1.8 Town is a development company with a proven track record of successfully creating places with distinctive character, which respect and complement their surroundings. It designs streets to encourage the features of traditional town life: walking, social contact and exchange. Its most notable development to date is the award-winning Marmalade Lane co-housing development in Cambridge.
- 3.1.9 The Partnership's collective vision is the creation of a new Nile-Villiers neighbourhood which aims to tilt the precarious socio-economic balance in a positive direction by creating a popular and distinctive community which will attract new residents to the heart of the city and kick-start the regeneration of Sunnyside and Old Sunderland.
- 3.1.10 The Partnership has prepared a conceptual masterplan that comprises 87 new homes, workshop/studio space and shared private gardens. The intention is that the workshop/studio space will be situated at street level with shared surfaces and green streets designed to maximise walking and cycling, reduce vehicle movements and attract visitors to the area.

### **The Property**

- 3.2.1 To the North of the Site is the historically significant building comprising 177 High Street West and 1-2 Villiers Street which sits on a prominent corner within a conservation area and Heritage Action Zone (HAZ).
- 3.2.2 Its historical significance and setting limits the Council's options for the building as it would be difficult to make a case for demolition but it is financially unviable to restore the building to a beneficial use.

- 3.2.3 External valuation advice provided by Sanderson Weatherall LLP suggests that based upon its existing use the best consideration that could be reasonably obtained for the Property, with no restrictions or obligations to restore the building and bring it back into beneficial use, would be in the region of £90,000.
- 3.2.4 The Council and TWBPT have secured a grant of £220,000 from the Architectural Heritage Fund and Historic England to survey the Property and develop a business plan for renovation of the 3 storey 5,300 sq. ft building into a mixed use scheme providing ground floor commercial and upper floor residential space for lease by appropriate occupiers. This will complement other recent projects in the HAZ, notably the restoration (by TWBPT) of the nearby 170-175 High Street West
- 3.2.5 This detailed work has determined that the costs of restoring the Property, and bringing it back into a beneficial use which is complementary to the adjacent development proposals and wider area, would be in excess of the value of the building once completed.
- 3.2.6 The Council has a statutory duty under the Local Government Act 1972 ("1972 Act") not to dispose of its land or properties for a consideration less than the best that can reasonably be obtained (except in the case of short tenancies for a term of 7 years or less), without the express consent of the Secretary of State.
- 3.2.7 Circular 06/03: Local Government Act 1972 General Disposal Consent (England) 2003 does however provide that where an authority disposes of any interest in land or property and such disposals are at less than the market value, specific consent from the Secretary of State is not needed if the authority can demonstrate that the purpose of the disposal satisfies one or more of the following ("the Relevant Grounds") and the difference between the market value and the proposed consideration does not exceed £2 million.

The Relevant Grounds are:

- Promotion or improvement of economic wellbeing
- Promotion or improvement of social wellbeing
- Promotion or improvement of environmental wellbeing

- 3.2.8 Circular 06/031 sets out the requirements of the General Disposal Consent with steps to follow when disposing of land or property for less than best consideration. It is recommended that local authorities comply with normal and prudent commercial practices associated with selling land and buildings and that they obtain valuations from a professionally qualified valuer to ascertain the likely amount of undervalue.

## **4. Proposal**

### **4.1 The Site**

- 4.1.1 The Council is in the process of submitting a LUF bid to MHCLG seeking grant to support delivery of its City Centre Housing Ecosystem comprising the development of a Housing Innovation and Construction Skills Academy (HICSA), the 132 home Vaux Housing Scheme, and new homes on the Site at Sunnyside.
- 4.1.2 The Partnership is seeking an exclusivity agreement that will enable it to invest further resources and develop a detailed development and funding proposal for the Sunnyside regeneration.

- 4.1.3 The exclusivity agreement will be for a set period of 12 months during which the Council will be unable to dispose of the Site to any other parties.
- 4.1.4 Under the terms of the exclusivity agreement the Partnership will be required to advance the design and development proposals and produce a delivery model that demonstrates scheme viability. It will also expand its engagement with the local creative community and key project stakeholders to demonstrate the benefits and generate support for the proposals.
- 4.1.5 The exclusivity agreement and progression of the development proposals will add credibility to the Council's LUF bid and provide MHCLG with confidence that there is developer interest and a viable delivery model for the scheme.

## **4.2 The Property**

- 4.2.1 TWBPT has offered the Council a consideration of £1 for a 999yr lease of the Property with a peppercorn rent on the basis that they will secure further grant funding to renovation a 3 storey 5,300 sq. ft building into a mixed use scheme providing ground floor commercial and upper floor residential space for lease by appropriate occupiers.
- 4.2.2 External valuation advice provided by Sanderson Weatherall LLP in respect of the Property suggests that the grant of a long lease at a premium of £1 and a peppercorn rent will result in an undervalue of £90,000
- 4.2.3 In making the decision non-property benefits ("Voluntary Conditions") that will be realised by the Council such as operational savings, or income generated as a result of the transaction have been considered.
- 4.2.4 It is considered that the purpose of the disposal of the Property meets the Relevant Grounds cited in the General Disposal Consent through restoration of a historically significant building to provide new homes and employment opportunities and improvement of the local environment.
- 4.2.5 The Council will benefit from Voluntary Conditions as a result of the disposal, including the removal of the substantial future maintenance liability and the generation of new revenue from council tax and business rates
- 4.2.6 The Council would protect these benefits through a right to terminate the lease and take back the property if the works were not completed within a reasonable timescale. Covenants within the lease will give the Council long term control over the use, condition and future disposal of the building.
- 4.2.7 On the basis of the above it is proposed that the offer from TWBPT is accepted and the leasehold interest is transferred in accordance with terms to be agreed by the Executive Director of City Development.

## **5. Reasons for the Decision**

- 5.1 The continued regeneration of Sunnyside through the development of new and better homes, provision of new workspaces and establishment of a new community is a longstanding ambition of the Council and its partners and is aligned with the objectives of the City Plan.

- 5.2 Town and Create Streets have proven track records of delivering transformational regeneration through the development of high-quality new homes and establishment of socially and economically successful places. The granting of an exclusivity agreement will enable them to prepare a detailed development proposal, identify potential funding solutions, and support funding bids, and develop a delivery model that minimises any capital investment by the Council.
- 5.3 Disposal of “the Property” to TWBPT will ensure that a historically significant building is preserved and given a beneficial use that complements the Sunnyside regeneration plans delivering economic, social and well-being benefits as well as relieving the Council of an ongoing maintenance liability.
- 5.4 The Council is currently preparing a bid for Levelling Up Fund (LUF) grant to support the redevelopment of the Site and delivery of new homes and workspaces. Agreement to the proposals within this report will strengthen and increase the credibility of the Council’s bid.

## **6. Alternative Options**

6.1 The alternative options are: -

- i) Not grant an exclusivity agreement to the Partnership and openly market the development opportunity.

Market advice and viability appraisals have shown there is likely to be little interest from commercial developers and an extremely limited pool of organisations which have the capability and experience to successfully deliver the regeneration objectives. Marketing the opportunity is unlikely to realise any additional benefits and is more likely to cause delay and additional cost for the Council. This option would also weaken the LUF bid as there would be a less clarity and lower confidence in the development proposals.

- ii) Not dispose of the Property to TWBPT.

Holding the property would lead to further deterioration and increased risk of substantial holding and repair costs and the Council and local community would not realise the benefits from its redevelopment.

- iii) Unconditional disposal of the Property for open market value

It is highly likely that unconditional disposal of the Property based on its existing use could result in the building being acquired by a developer speculating on market growth. This could result in the building remaining unoccupied with little maintenance, similar to several other buildings in private ownership in the immediate locality. This option would not realise the benefits from its redevelopment and would have a negative impact on the wider regeneration of the Site and in the immediate locality.

6.2 These options have been considered and are recommended to be rejected.

## **7. Impact Analysis**

- 7.1 **Equalities** – Potential impacts of the decision have been analysed, concluding that there is no adverse impact on any specific group and the public sector equality duty (PSED) has been complied with.

7.2 **Privacy Impact Assessment (PIA)** – PIA has been considered and concluded that the decision has no impact on privacy

7.3 **Sustainability** - The development will conform to all the statutory requirements in terms of sustainability for new homes

## **8. Other Relevant Considerations / Consultations**

### **8.1 Financial Implications**

8.1.1 There are no direct financial implications arising from the report. The proposed disposal will, however, remove any holding costs that the Council has in relation to the Property.

8.1.2 Agreement to the proposals contained within the report will strengthen the Council's LUF bid which if successful would provide funding for capital investment to support the redevelopment of the Site and delivery of new homes and workspaces.

### **8.2 Legal Implications**

8.2.1 The general power granted to local authorities to dispose of land is contained in Section 123 of the Local Government Act 1972. This provision provides that a local authority shall not without the consent of the Secretary of State dispose of land unless the disposal is by way of lease for seven years or for a consideration less than the best that can be reasonably obtained.

8.2.2 The disposal of the Property is for a consideration less than the best that can be reasonably obtained but the consent of the Secretary of State is granted by the General Disposal Consent (England) 2003.

8.2.3 Both internal and third-party valuations have been undertaken to assess the price that is reasonably obtainable for the Property, taking into account the regeneration objectives, potential future use, and the longer-term benefits to the Council.

8.2.4 It is settled law that Section 123 of the Local Government Act 1972 does not require land to be marketed in a particular way, provided that the Council is satisfied that the consideration in a land transaction is the best that can be reasonably obtained. The Council is not therefore required by Section 123 of the Local Government Act 1972 to take the Site to the open market.

8.2.5 The total subsidy element of the proposed disposal to TWBPT is approximately £90,000 and granted to an organisation that operates primarily in Tyne and Wear. As such it is considered not to have an effect on international trade and is compliant with the law on subsidy control.

### **8.3 Procurement**

8.3.1 There are no procurement issues arising from the grant of an Exclusivity Agreement to the Town and Create Streets partnership. The function of the Exclusivity Agreement is to allow Town and Create Streets partnership to independently draw-up their prospective development proposal and funding strategy for the Site, in the knowledge that the Council will not dispose of the Site to any third parties for a 12 month period.



8.3.2 The Exclusivity Agreement does not create any pre-emption rights for the Partnership, nor will the Council be responsible for any costs incurred by the Partnership in progressing its development proposals. Should the Council wish to consider disposing of the Site to the Partnership in the future, this decision will be the subject of a future report to Cabinet.

#### 8.4 **Property Implications**

8.4.1 The Property is surplus to operational requirements, has no beneficial use, and is currently a maintenance liability

### 9. **Background Papers**

None

