

Executive Decision Report

VAUGHAN WAY/ GREAT CENTRAL STREET OFFICE
DEVELOPMENT

Decision to be taken by: City Mayor

Decision to be taken on: 12 April 2018

Lead director: Andrew Smith



City Mayor

Useful information

- Ward(s) affected: Castle
- Report author: Louise Seymour
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- Report version number: V6

1. Summary

This report sets out an agreement reached in principle with Westmoreland Properties Limited, a wholly owned subsidiary of Charles Street Buildings (CSB), regarding the Council entering into an option to take a lease for up to half of a new office block on the former Stibbe site which fronts Vaughan Way between Highcross Street and Great Central Street.

In order to facilitate the delivery of these offices a proactive approach is proposed on the basis that the Council enters into an option agreement which commits to leasing 50% of the space in the event that the offices are not let 6 months post completion of the construction of the office space.

This lease option is to enable the 33,800 sqft office to be developed and this report outlines the background to the proposal and the decision requirement.

2. Recommendations

The City Mayor is asked to:

- Delegate authority to the Strategic Director (City Development & Neighbourhoods) to agree to enter into an option for lease at the Vaughan Way / Great Central office development on the terms outlined in this report;
- Delegated authority to the City Barrister and Head of Standards to enter in to the agreement based upon the terms as agreed by the Strategic Director (City Development & Neighbourhoods)

3. Supporting information including options considered:

Leicester city centre has a shortage of Grade A office space for let / acquisition in the open market. The last substantial speculative Grade A office new build scheme was at Colton Square in the former Police HQ on Charles street, which is nearly 10 years old. The only other new city centre office development in recent times has been on the old New Walk Centre site where the Council made a conscious decision to require offices when the site was marketed. This office was pre- sold to Mattioli Woods before building works commenced.

Other sites suitable for offices have not come forward as the more favourable economics in delivering student accommodation has meant this is a far more profitable, lower risk venture for developers.

Consequently the lack of office space has led to an increased demand for new city centre offices, especially as recent events and interventions have made the city centre a much more attractive business location than previously, when many office based businesses moved to out of town business parks.

LCC work on the Waterside, where it is proposed to build 60,000 square feet of smaller offices and Friars Mill, where the converted mill is virtually let, has identified the growing demand for new office space. This is reinforced by local agents who are advising both the Council and developers that demand is there, if the right office product is delivered. The delivery office space is fundamental to the economic growth of the City and supports the Council's active inward investment activity.

The Vaughan Way/Great Central Street Scheme

Charles Street Buildings (CSB) have for many years owned the former Stibbe site. In October 2017 the Council granted planning permission for a scheme which includes two new hotels of approx. 250 rooms, a new 33,800 sqft office block, the refurbishment of the old Great Central station and high quality public realm through the new development site and along Great Central Street in front of the former train station. A plan of the proposed scheme is included in Appendix 1.

The new office will be in the Enterprise Zone which will give up to £55k per annum reduction in rates payable for each separate letting for 5 years which makes this development more attractive to prospective tenants and the likelihood of letting the premises even more likely.

Agreement with CSB

Although there is much evidence of demand for new offices, there is an element of doubt for every speculative developer when providing a new product to the market, especially when it has been untested for so long. In order to have sufficient security to deliver the scheme, the Council has taken advice from respected national property consultants CBRE on the potential to assist the delivery of new office space, through a variety of mechanisms. CBRE's advice is that it is becoming more common for councils to underwrite or enter into leases to enable the delivery of offices, especially outside London.

In order to facilitate the delivery of these offices a proactive approach is proposed which involves the Council entering an option agreement which commits to leasing 50% of the space in the event that the offices are not let 6 months post completion. This approach will ensure that CSB have the confidence to delivery these offices as part of their wider development scheme.

At present CSB are planning to practically complete the office element by September 2019 with the hotels also complete by December 2019.

The alternative option is for the Council not intervene in the market and to leave it to the development industry to bring forward speculative office development. The risk of this approach is that CSB will hold back on the delivery of the office space and only the hotel element will be delivered.

CSB have already commenced marketing office development. A copy of the marketing brochure is included as appendix 2. The Council commitment to 'step in' should the building not be half let in June 2020 will be in place to ensure the scheme is delivered, but in all likelihood the scheme will be let out well before then. This is due to the pent up demand for offices in Leicester city centre.

The detailed terms are set out in appendix 3, which is confidential on the basis of its commercial sensitivity

4. Details of Scrutiny

This development scheme at Vaughan Way has previously been considered by EDTT

5. Financial, legal and other implications

5.1 Financial implications

Not for Publication' because it contains exempt information as defined in paragraphs 3 or 5 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended: i.e. and "Information relating to the financial or business affairs of any particular person (including the Authority holding that information)" or "Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings."

5.2 Legal implications

Not for Publication' because it contains exempt information as defined in paragraphs 3 or 5 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended: i.e. and "Information relating to the financial or business affairs of any particular person (including the Authority holding that information)" or "Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings."

5.3 Climate Change and Carbon Reduction implications

No Climate Change Implications

5.4 Equalities Implications

This decision relates to an option to enter into a lease there are no equalities implications.

5.5 Other Implications (You will need to have considered other implications in preparing this report. Please indicate which ones apply?)

None

6. Background information and other papers:

None

7. Summary of appendices:

Appendix 1 – Proposed development

Appendix 2- Market brochure

Appendix 3 – Agreement terms (Exempt from publication under Paragraphs 3 and 5 Part 1 of Schedule 12A of the Local Government Act 1972 as amended – see Note below in paragraph 8)

8. Is this a private report (If so, please indicated the reasons and state why it is not in the public interest to be dealt with publicly)?

Parts of the report and Appendix 3 are exempt from publication.

The detailed terms of the agreement / financial implications / legal implications to the report are marked 'Not for Publication' because they contain exempt information as defined in paragraphs 3 and 5 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended: i.e. and "Information relating to the financial or business affairs of any particular person (including the Authority holding that information)" and "Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings."

9. Is this a "key decision"?

Yes,

10. If a key decision please explain reason

Potential spending commitments exceeding £1m would be entered into which have not been specifically approved by Council.