

<b>Subject:</b>	<b>New England House &amp; Longley Industrial Estate</b>		
<b>Date of Meeting:</b>	<b>3 December 2015</b>		
<b>Report of:</b>	<b>Acting Executive Director Environment, Development &amp; Housing and Interim Executive Director Finance &amp; Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Alan Buck</b>	<b>Tel: 29-3451</b>
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<b>Ward(s) affected:</b>	<b>St Peters and North Laine</b>		

**FOR GENERAL RELEASE**

**1. PURPOSE OF REPORT AND POLICY CONTEXT**

1.1 The purpose of this report is to request agreement to work towards a development agreement with Arcus-PCD, in order to secure a mixed use development across the New England House and Longley Industrial Estate sites that will provide for the refurbishment and expansion of New England House along with significant levels of new employment floorspace and housing.

**2. RECOMMENDATIONS:**

2.1 That the committee agrees the Heads of Terms ("HoTs") set out in Appendix 1, as forming the basis for a development agreement with Arcus-PCD, in order to work towards the integrated mixed-use development of the New England House and Longley Industrial Estate sites and secure the refurbishment and expansion of New England House, together with substantial levels of new employment floorspace and housing.

2.2 That the committee notes that the HoTs includes reference to the possible use of compulsory purchase powers to acquire the long leasehold interest of the Longley Industrial Estate, while continuing to help facilitate an agreed sale of the lease from the current leaseholder to Arcus.

2.3 That the committee authorises the Head of Legal Services to enter into (a) the development agreement referred to in the HoTs and if compulsory purchase is not required (b) the lease referred to in the HoTs,

2.4 That the committee agrees that if the development agreement is entered into but the parties agree that compulsory purchase of the leasehold interest referred to in 2.2 is necessary, a further report will be required to authorise the making of such an order,

### 3. CONTEXT/ BACKGROUND INFORMATION

#### New England House and City Deal

3.1 The Greater Brighton City Deal was signed on 10 March 2014. One key element of the deal is the proposal for a new growth centre at New England House (NEH), focusing on the Creative, Digital and IT (CDIT) sectors. NEH is one of the major hubs for Brighton's thriving CDIT businesses. It accommodates 96 businesses, mainly from the CDIT sector. There are around 1,000 people employed by companies based in NEH and many more are employed by others who form part of those businesses' supply chains. There are three critical elements that, delivered together, form an overall strategy to significantly improve NEH's value to the local and regional economy and sustain and accelerate the growth and development of Brighton's CDIT sector:

- **Workspace:** Refurbishing and expanding the building (cladding, lifts, access points and sanitation).
- **Business support:** Specifically designed for small, innovative businesses in the CDIT sector. This will expand and develop existing work through rollout of the FuseBox and Digital Catapult models.
- **High capacity connectivity:** Providing affordable, high capacity connectivity and hosting for businesses that are located in the building through cost-effective access to high bandwidth connectivity. Work on installing the Brighton Digital Exchange (DX), including the provision of fibre cabling connections to every unit in NEH, was completed in July this year and the DX is now up and running, managed by the BDX Co-op.

3.2 To inform the NEH Growth Centre element of the City Deal, the council prepared a business case for how the building might be refurbished, extended and then operated with improved business support. The business case looked at options for how the estimated £24.5m costs associated with those works would be met. The proposal agreed with government is that they would give a grant of 20% (£4.9m) through the City Deal. Of the remainder, 40% (£9.8m) would be funded by the city council, and 40% would be invested by a private sector partner.

3.3 The £4.9 million agreed through City Deal in March 2014 was paid to the council in December 2014. The money has been earmarked in a reserve to fund the project.

#### Longley Industrial Estate

3.4 Over the last year officers have had talks with various parties to explore potential funding models to take forward its aspirations in respect of refurbishing and expanding NEH. By far the most attractive proposal in terms of securing this objective is a development deal that would incorporate the adjacent Longley Industrial Estate, on which the council owns the freehold interest. It is a site comprising a mixture of low rise commercial trading units. The Longley site is held on a long lease (92 years left) that is currently owned by Maplebright. The site has a long-standing planning designation for new employment development (Use Class B1). The site has a key potential role in contributing towards the City Plan's strategic aspiration to secure an additional 20,000 sq m in the New England Quarter/London Road area.

## **Arcus development proposal**

- 3.5 The Council has been in discussion with the developer Arcus for the past eighteen months regarding a potential partnership for a wider redevelopment package that would deliver the refurbishment and expansion of NEH, along with the integrated redevelopment of the Longley site for a mixed use scheme including offices and housing. To achieve this they would need to acquire the lease for the Longley site.. The Longley site is shown on the plan appended to this report, where it is outlined in red. The site lies immediately north of and adjacent to the NEH car park.
- 3.6 The opportunity to undertake a development across the NEH and Longley sites has the potential to realise some major benefits that the redevelopment of the two sites in isolation under separate developers is unlikely to secure. These potential benefits could include the following.
- Significant reduction of the financial risk to the council of the project. Arcus/LaSalle would take on development risk and the financial responsibility for refurbishment and expansion of NEH along with Longley. The potential contribution from the enabling development should substantially reduce the council funding requirement and based on their initial high level appraisal could generate a sufficient return to allow a significant contribution towards the NEH refurbishment as part an overall redevelopment of the two sites. The current appraisal assumes that 30% of the enabling housing is affordable.
  - An integrated development across the NEH and Longley sites that is better able to provide for both the digital and creative side of the CDIT sector.
  - Avoidance of over-development of the NEH site (a risk associated with current expectations regarding net additional floor space).
  - A major expansion on the New England Quarter providing significant numbers of new jobs and homes. The figures proposed in the initial Arcus/LaSalle proposal are for between 10,000 - 13,000 sq m of additional office floor space and 250 residential units (1 and 2 bedrooms), 30% of which would be affordable.
- 3.7 Arcus-PCD is a recently-formed company whose Directors have a strong track record of working in partnership with a number of large UK Pension Funds in delivering institutional quality investments for their long term hold. A recent project was with Horsham DC on the John Lewis retail development. and with BA Pension Fund Trustees Ltd and HSBC Pension Fund Trustees on delivering over 350,000 sq ft of commercial development. LaSalle is a long-established and well-known financial institution investing in the development sector.
- 3.8 In order to work towards the current stage the Council has already entered into a Memorandum of Understanding (MoU) with Arcus/LaSalle to provide a level of comfort to both parties, particularly for Arcus/LaSalle who required a reasonable level of confirmation that the council is on board before seeking to purchase the leasehold interest of Longley site.

## **Discussions with Maplebright**

- 3.9 In June officers undertook discussions with Maplebright, the long leaseholder to the Longley site, regarding their willingness or otherwise to consider the sale of their lease interest to Arcus in order to enable the integrated development of the site in conjunction with the refurbishment and expansion of NEH. Arcus's subsequent financial offer, based on a considerable mark-up of the site's estimated value, was rejected as insufficient.
- 3.10 Both prior to and since the Arcus offer to Maplebright, its agent Fludes has approached BHCC with a proposed development package by the developer Bouygues, including a financial offer to extend the long lease. Both of these offers have been rejected by council officers on the basis that they neither represent an attractive return, nor provide sufficient certainty in securing the strategic objectives for the NEH/Longley sites and the wider New England Quarter Development Area.
- 3.11 Discussions with the current Longley lessee and its agents are ongoing and BHCC will continue to listen to alternative options. In the meantime Arcus has emphasised to BHCC that the 'window' to secure a viable development within the current economic cycle is rapidly diminishing. To ensure that the strategic development aspirations for NEH in tandem with Longley are secured, it may be necessary to embark on a Compulsory Purchase Order (CPO) of the Longley site. Under the proposed Heads of Terms attached at appendix 1, Arcus would undertake to fund any costs to the council arising from the CPO process.

## **4 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

- 4.1 There are various alternative models for seeking to bring forward the refurbishment of NEH – for example, seeking a development partner and/or funding standalone development of the site, or seeking an alternative development partner on an integrated development of both the Longley and NEH sites as per the Arcus offer.
- 4.2 At his point in time and with a rapidly diminishing window to secure a development within the current economic cycle, the Arcus offer represents a very attractive solution in terms of providing the necessary finance for NEH's refurbishment together with securing a range of planning and other strategic objectives in respect of the New England Quarter and London Road Area.

## **5 COMMUNITY ENGAGEMENT & CONSULTATION**

- 5.1 Stakeholder consultation, including engagement with current tenants in NEH will be an integral element in working towards a development agreement with Arcus.

## **6. CONCLUSION**

- 6.1 Working in partnership with Arcus will reduce financial risk for the council and should achieve a range of strategic objectives in respect of the council's planning

policies for the New England Quarter and London Road Area (DA4) securing the refurbishment and expansion of NEH, new employment floorspace and housing.

- 6.2 Working towards a CPO if necessary is an appropriate means of providing the necessary assurance to enable an integrated development that will best realise the development potential of the Longley and NEH sites in line with strategic objectives.

## **7. FINANCIAL & OTHER IMPLICATIONS:**

### Financial Implications:

- 7.1 The conditional offer from Arcus would provide a contribution towards the NEH refurbishment as part an overall redevelopment of the two sites. The contribution will be net of any loss of rent that the Council receives for the Longley site. This net contribution, along with the £4.9m already secured for the project through the City Deal, would reduce the amount that the council would need to invest into the project and improve the overall viability of the scheme whilst potentially keeping future rent levels in NEH below the levels assumed in the original business case. There may also be an opportunity to increase the level of affordable housing provided. In the longer term the council will also benefit from additional future income streams from council tax, new homes bonus and business rates once the development on both sites is completed. Further work will be undertaken on testing the viability of the business plan and reported back to Committee in the future.
- 7.2 As set out in paragraph 3.11 any costs associated with the CPO of the Longley site would be met in full by Arcus with no direct cost incurred by the Council.
- 7.3 Resources have been set aside in the Strategic Investment Fund to support costs associated with the ongoing negotiations and viability of the business plan of the development. .

*Finance Officer Consulted: Rob Allen*

*Date: 12/10/15*

### Legal Implications:

- 7.4 The draft HoTs propose a new 250 year lease for the Longley site subject to satisfactory planning permission for the development referred to in the HoTs being granted . It is also proposed that the Council would be indemnified in respect of any costs incurred in relation to the compulsory purchase of the existing Longley lease.
- 7.5 As (a) the proposed HoTs are considered reasonable and acceptable and satisfy the S123 Local Government Act requirements in terms of best consideration reasonably obtainable and (b) Arcus have funding available and are ready to enter into appropriate documentation, it is not considered necessary or appropriate to market the Longley site..

If the recommendations are agreed, appropriate documentation will be entered into. In the event of it being considered necessary to make a CPO a further

report will be presented to the committee seeking appropriate order making authority.

*Lawyer Consulted: Bob Bruce 18.11.15*

Equalities Implications:

7.5 None arising at this time.

Sustainability Implications:

7.6 The development proposed will comply with sustainability requirements.

8. Any Other Significant Implications:

Corporate / Citywide Implications:

8.1 Securing additional employment development on the New England House and Longley sites remains a long-standing strategic employment objective in the city. The two sites form a development allocation under policy EM1 in the 'saved' policies of the adopted Brighton & Hove Local Plan (2005) where they are described as the New England Business Area and are identified for B1 industrial and businesses uses. The sites fall within the Development Area DA4 (New England Quarter and London Road Area) of the more recent City Plan, where Longley has a strategic allocation for a net addition of 3,000 sq m employment floorspace as part of a mixed use development, which would help secure the 20,000 sq m of new employment floorspace that is sought in the wider development area. Securing the refurbishment of New England House is also a highlighted objective in DA4. By working with Arcus and its funding partner La Salle there is potential within the current development 'window' to secure both of the above objectives, along with achieving an integrated development across the two sites, that works within the context of the wider New England Quarter and also meets additional strategic needs for new residential development.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

1. Heads of Terms
2. Plan of relevant land
3. Confidential Part Two information re HoTs.

APPENDIX ONE

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