



REPORT OF:	Head of Property
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TO:	EXECUTIVE
DATE:	12 NOVEMBER 2015
EXECUTIVE MEMBER:	COUNCILLOR NATALIE BRAMHALL

KEY DECISION REQUIRED:	YES
WARD (S) AFFECTED:	REDHILL WARDS

SUBJECT:	DEVELOPMENT OPTIONS FOR 16-46 CROMWELL ROAD, REDHILL
<p>RECOMMENDATIONS:</p> <p>(i) Authorisation is given to the Head of Property in consultation with the</p> <ul style="list-style-type: none"> • Head of Finance • Leader of the Council • Deputy Leader of the Council • Executive Member for Property and Regeneration; and • Executive Member for Finance <p>to make the necessary consultancy and contractor appointments to progress and submit a Planning Application for the development of 16-46 Cromwell Road, Redhill, in accordance with the budget envelope set out in the exempt report in Part 2 of this agenda;</p> <p>(ii) Authorisation is given to the Head of Finance , in consultation with the Head of Property, Leader of the Council, Deputy Leader and Executive Members for Property and Regeneration and Finance, to make the necessary arrangements to finance the project from reserves subject to key stage sign off set out in this report and to include the costs of the project within the Capital Programme as detailed in the Exempt part of the agenda;</p> <p>(iii) Authorisation is given to the Head of Property in consultation with the Leader of the Council, Deputy Leader and Executive Members for Property and Regeneration and Finance to market the development of 16-46 Cromwell Road, Redhill and negotiate, agree and enter into Agreement for Leases and Leases with commercial, public or other organisations subject to the key stage sign off set out in this report;</p> <p>(iv) Authorisation is given to the Head of Property in consultation with the Leader of the Council, Deputy Leader and Executive Members for Property and Regeneration and Finance to make arrangements to terminate existing leases within 16-46 Cromwell Road, Redhill, under existing Landlord and Tenant Law to facilitate the redevelopment of this site;</p>	

- (v) Authorisation is given to the Head of Property in consultation with the Leader of the Council, Deputy Leader and Executive Members for Property and Regeneration and Finance to appoint the necessary Consultants and construction Contractors for the redevelopment of 16-46 Cromwell Road, Redhill, to prepare the necessary documentation and to obtain competitive construction tenders, subject to key stage sign off set out in this report;
- (vi) Authorisation is given to the Head of Property in consultation with the Leader of the Council, Deputy Leader and Executive Members for Property and Regeneration and Finance to finalise, agree and sign construction contracts subject to key stage sign off set out in this report; and
- (vii) Authorisation is given to the Head of Property, in consultation with the Leader of the Council, Deputy Leader and Executive Members for Property and Regeneration and Finance to market and sell long leasehold interests on the residential flats subject to key stage sign off set out in this report.

REASONS FOR RECOMMENDATIONS:

As comprehensive redevelopment of the larger Cromwell Road site for a foodstore is now unlikely, options have been considered for the future of the asset.

The recommended option maximises the usage of the site, represents the best return on capital employed, increases the income from the asset and increases the value of the residual asset.

EXECUTIVE SUMMARY:

Cromwell Road is a key regeneration opportunity in Redhill and this site is identified as being in need of investment.

As comprehensive redevelopment of the Cromwell Road site for a foodstore is now unlikely, and the adjoining landowner is pursuing schemes for the adjoining property, options have been considered for the future of the Council's asset.

The recommendation of this report is to undertake a partial redevelopment of the property, comprising refurbishment of the shops and the conversion and extension of the upper parts to create 24 two-bedroom flats, which would then be sold on the open market with long leasehold interests. The shops would be retained as a commercial investment for their rental income.

This proposal would bring much needed revitalisation to a run down and poor quality area of Redhill.

Capital expenditure required for this development is set out in the exempt report at Part 2 of the agenda, together with the estimated disposal value of the residential element and the income from the shops.

Oversight of the development will be provided by the following Executive Members: Leader of the Council, Deputy Leader of the Council, Portfolio Holder for Finance, Portfolio Holder for Property and Regeneration. They are supported by the Chief Executive, Deputy Chief

Executive, Head of Finance, Head of Legal, Head of Property, Head of Places and Planning and Head of Corporate Policy, Performance and Parking.

The recommended option is considered to be the most financially viable option for bringing the property back into use and contributing to the Council's regeneration and other corporate objectives.

Executive has authority to approve the above recommendations subject to approval of recommendation (ii) by Full Council.

STATUTORY POWERS

1. The Council has no statutory obligation to undertake this work but has general powers of competence under section 1 of the Localism Act 2011 to do anything that individuals with full capacity generally may do, subject to the provisions of the Act.

BACKGROUND

2. The part of the Cromwell Road site that is owned by the Council comprises 8 small retail units with 8 three-bedroom, two storey flats above, which are capable of separate occupation.
3. The property is thought to have been constructed in the 1960/70's and the retail paraded is now characterised by tertiary / third sector occupiers together with a high proportion of empty units.
4. Six of the eight flats are vacant and not capable of occupation in their current condition. The other two flats are occupied in connection with the commercial leases of the shops below.
5. The property appears neglected and rundown and is within an area identified in the emerging local plan as a priority for regeneration within Redhill. Together with a number of adjacent sites, it was provisionally identified for demolition and redevelopment for a food store.
6. However, following extensive and protracted work by two major foodstore operators, it is now apparent that a foodstore development is unlikely as other operators have either already considered and rejected the site or have satisfied their requirements elsewhere in the town centre.
7. The majority of the remaining site is owned by two third parties, one of which is pursuing its own independent scheme.
8. For the reasons set out above, comprehensive redevelopment of the larger site is now considered unlikely. The Council must therefore consider options for its own asset.

KEY INFORMATION

Current Position

9. Whilst the site was being considered for a foodstore development, no new shop lettings were sought due to the cost and time that would have been required to secure vacant possession for development.

10. Only three of the eight shop units are now occupied following insolvency of one tenant, the closure of the Council's Help Shop that occupied two units and the termination of the use of another double unit as a winter night shelter and drop-in centre.
11. Furthermore, six of the eight residential units are also vacant and not capable of occupation, even for temporary housing, without major refurbishment. The other two flats are occupied in connection with the commercial leases of the shops below.
12. As a consequence void costs currently exceed the rent received on the entire block. Details are shown in the exempt report in Part 2 of the agenda. This has been planned to facilitate the redevelopment of this site.

Obsolescence

13. Over the years the shop units have been poorly modified resulting in difficult-to-let retail units. Garages and former open bin store areas have been absorbed into the shops resulting in systemic leaks from the rear asphalt roof deck that now comprises the access to the flats.
14. Letting the shop units in their current condition and configuration would be challenging and, even if suitable tenants can be found, would require lengthy rent-free periods.
15. Furthermore, the inherent problems with the deck above the rear of the shops will result in ongoing costs and maintenance issues that cannot be resolved without major repair and alterations.
16. The residential units themselves require extensive works before they are in a lettable condition. Furthermore, their current configuration as split level maisonettes is a poor use of the footprint of the property.

Development Proposals

17. Following a review of refurbishment and development options a scheme has been prepared that seeks to maximise the usage of the site.
18. The scheme proposes retention and refurbishment of the ground floor retail units including removal of the existing canopy and installation of new uniform shop fronts and signage panels. This will result in the units being more prominent and presentable.
19. The upper parts of the building will be increased from two to three floors and will increase the number of flats from 8 three bed units to 24 two bed units. The provision of affordable housing is not considered to make the scheme viable.
20. The retail units will be fitted out to an enhanced shell specification allowing immediate occupation by tenants. Marketing will be aimed at secondary and quasi retailers and service providers from which local agents suggest there is demand due to the lack of alternative accommodation.
21. The new residential units will be held as private rented sector market housing.
22. This proposed scheme represents the most attractive financial proposition and most marketable scheme for both residential and commercial tenants
23. Indicative plans and elevations are attached as **Annex 1** to this report.
24. The project will be governed by key stage sign off;

- Stage 1 – Viability. This report is viability sign off.
- Stage 2 - Appointment of relevant members of the professional team and sourcing necessary surveys with Planning application and updated appraisals.
- Stage 3 – Appointment of necessary consultants and surveys to prepare the tender documents and submit documentation to Building contractors for tendering and receipt of tender. If possible agreement of leases for commercial.
- Stage 4 – Review and updated appraisals and appointment of building contractor to build the project, followed by subsequent lettings and sales. If possible enter into pre sale agreements for the sale of the residential.

OPTIONS

25. The financial implications of the options below are set out in the exempt report in Part 2 of the agenda.

Option 1

26. Obtain vacant possession, refurbish and extend the property as set out above. **This is the recommended option**, as it is likely to generate the maximum income combined with the shortest void periods.
27. There are three sub-options regarding the completed development:

Option 1a

28. Retain the shops as an income producing investment and sell the flats on long leaseholds. **This is the recommended sub-option**, as it represents the most beneficial combination of capital receipt, income and return on capital invested.

Option 1b

29. Sell the entire refurbished property as an investment. **This is not the recommended sub-option**, as the Council would lose an improved income stream and would need to acquire a new investment to replace the current income stream.
30. If the Council were to look to replace the expected income stream with the expected capital receipt, we would have to acquire relatively poor secondary properties. Typically these tend to be smaller lot sizes with correspondingly lower aggregate rents. These typically tend to be secondary retail/office/industrial units where the quality of occupier is likely to be poor and the security of income low.
31. As a consequence the replacement portfolio would be spread across a significant number of sites conceivably this could be between 20 and 40 properties, which would require substantially more resource to manage and have less opportunity for asset enhancement.

Option 1c

32. Retain both the shops and flats as an income producing investment. **This is not the recommended sub-option.**
33. In order for the Council to become a residential landlord but not become liable to occupiers gaining secure tenancies and the “Right to Buy”, a limited Company would need to be created within which to hold the asset.

34. The costs of forming this company are minimal, and the legal process relatively simple, but there are more complex tax, governance and operational implications.
35. Furthermore, new processes and skillsets would be required to comply with legislation and codes of practice relating to residential tenancies.
36. It is therefore considered that it would be preferable to retain only the commercial element of the property, which produces a better return on net capital employed in the refurbishment plus a better return on the capital invested in the retained property and can be held and managed with existing processes and resources.

Option 2

37. Refurbish the existing property. **This is not the recommended option.**
38. It is possible that the inherent defects referred to in paragraph 13 above could be rectified by extensive and costly redesign and reconstruction of the decking and rainwater drainage system.
39. However, this would not solve the problem of obsolescence. Whilst piecemeal alterations have been carried out to make the properties more suitable for modern occupier requirements, the fundamentally problematic design of the upper parts of the property limit the extent to which this can be achieved without simultaneous re-development of the upper parts.
40. Furthermore, the existing property does not make best use of the site or potential for capital and revenue generation.

Option 3

41. Dispose of the property in its current condition and subject to existing tenancies. **This is not the recommended option** as, with the majority of the units void, a sale would only happen at a deeply discounted price to reflect the lack of income and the cost of making good.
42. Furthermore, any opportunity for income generation or profit from development will be lost, as well as any potential to control the regeneration of this site.

Option 4

43. Do nothing. **This is not the recommended option** as the regeneration of this key town centre site will not happen unless positive action is taken and the property will continue to be under-occupied.

POLICY FRAMEWORK

44. Redhill town centre is identified in the Local Plan Core Strategy as a priority regeneration area and Cromwell Road as a vital regeneration opportunity in the town.
45. The emerging Redhill Town Centre Area Action Plan (RTCAAP), part of the Local Development Framework identifies that the shops and maisonettes are in need of investment.
46. One of the priorities of the Organisation theme in the Council's 5 year plan 2015-2020 is to increase the value of, and income derived from, the Council's property and assets. This proposal will contribute to this objective.
47. The Finance theme of the plan also supports use of capital expenditure for maintaining assets.

LEGAL IMPLICATIONS

48. The Council has general powers of competence under Section 1 of the Localism Act 2011 to undertake any activity which an individual with full capacity may undertake. This includes improving service provision and quality of life in identified regeneration areas by developing the Council's own land.
49. The Council must show that commercial activity would benefit its area and the residents, and that the profit generated by such an activity is only ancillary to the general benefit to the residents. However, if profit is the main driver, a special purpose company must be created for that purpose.
50. In this case, the primary objective of the scheme is to achieve regeneration of a site within the RTCAAP that will not be achieved by market forces. This will generate direct economic and social benefits to the Borough by providing additional housing and creating local jobs through re-occupation of the shop units.
51. Therefore, since the profit the Council would generate is ancillary to this aim, the Council does have the legal capacity to undertake the scheme in its own right and not through a company.
52. The procurement of consultants and contractors required to perform the contract will comply with the Council's Contract Procedure Rules and any applicable EU legislation.

FINANCIAL IMPLICATIONS

53. The capital and revenue implications of the proposals have been set out above and in more detail in the exempt report in Part 2 of the agenda.

EQUALITIES IMPLICATIONS

54. There are no equalities implications arising from this proposal.

RISK MANAGEMENT CONSIDERATIONS

55. The main risks for the Council in undertaking development are in terms of construction cost changes and market fluctuations.
56. However, in this case, these risks are considered to be small, as the construction programme is short and as it comprises adaptation of an existing building, rather than ground-up development.
57. Furthermore the housing market is still strong and demand for retail premises continues to be steady.

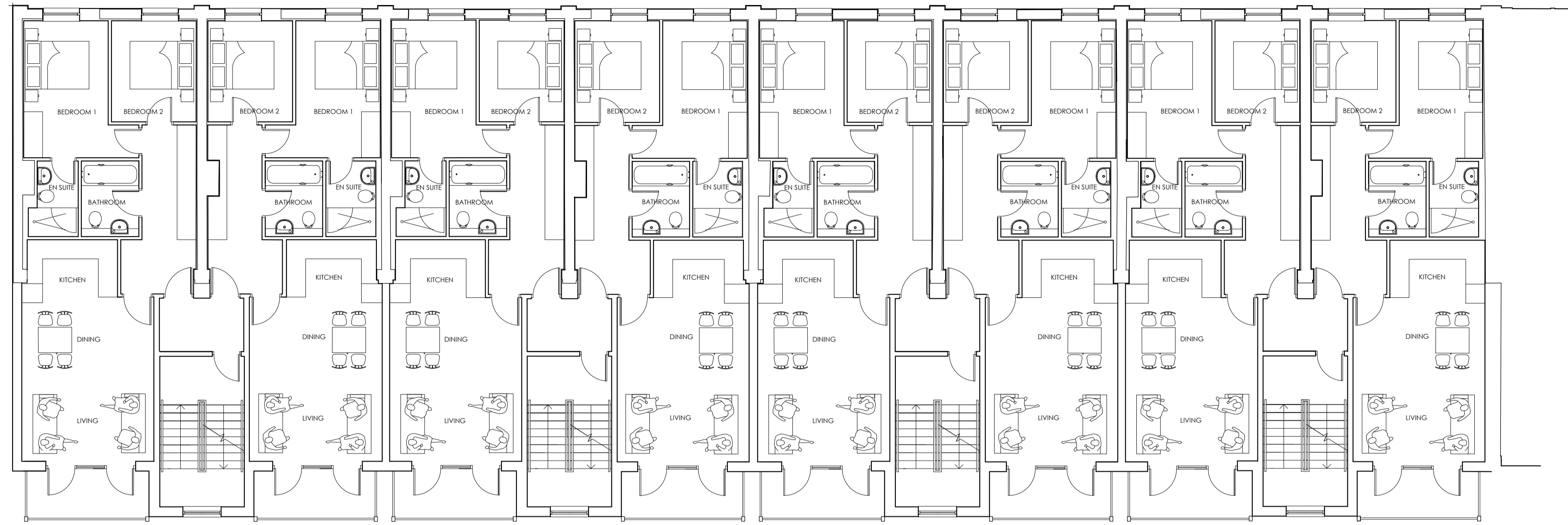
CONSULTATION

58. Portfolio Holders for Property & Regeneration and Finance have been consulted regarding these proposals.

Background Papers:

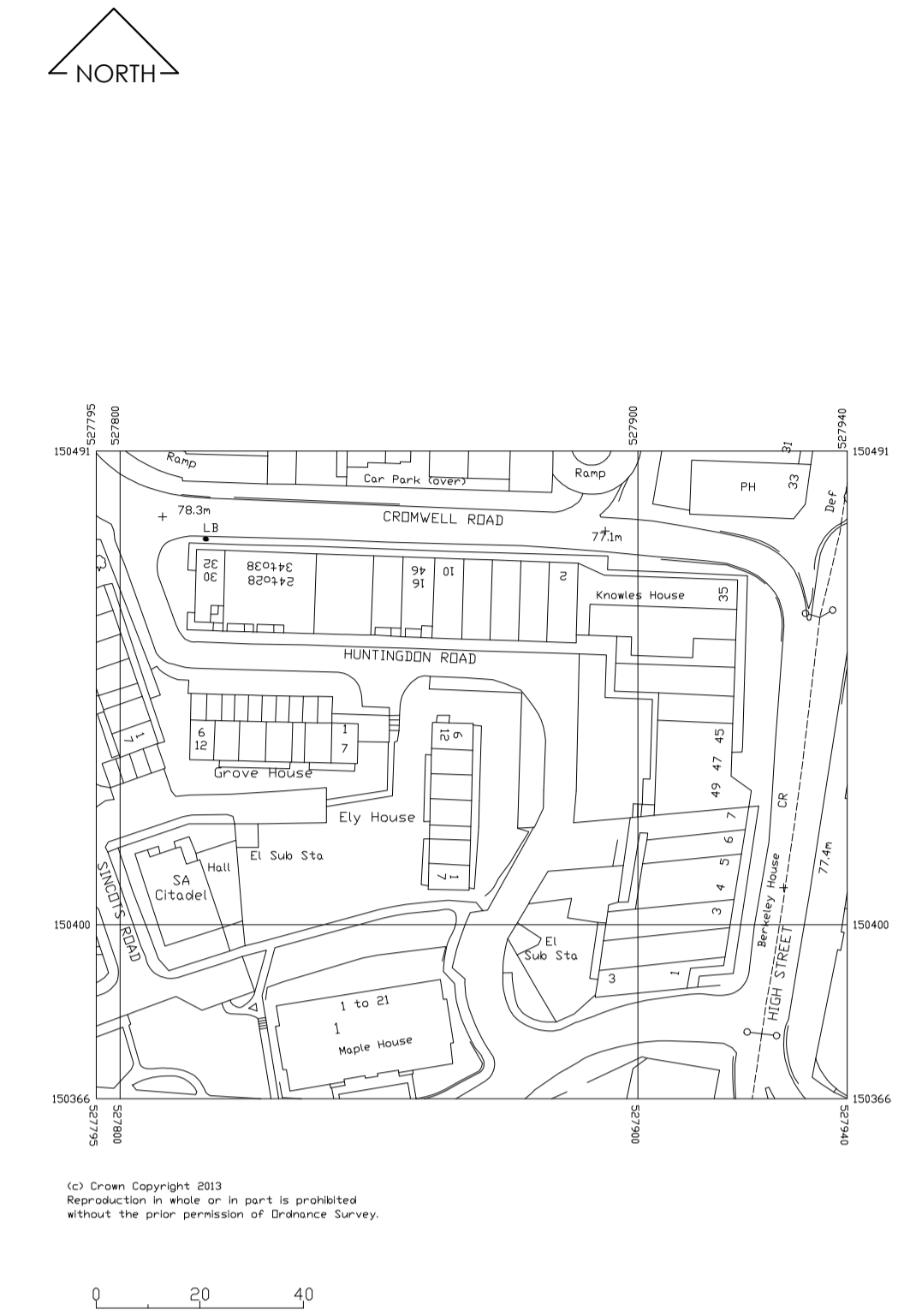
1. Local Plan: Core Strategy
http://www.reigate-banstead.gov.uk/downloads/download/22/adopted_core_strategy_july_2014

2. Redhill Town Centre Area Action Plan
http://www.reigate-banstead.gov.uk/downloads/download/109/redhill_town_centre_area_action_plan
3. 5 year plan 2015-2020
http://www.reigate-banstead.gov.uk/info/20205/plans_and_policies/280/our_5_year_plan

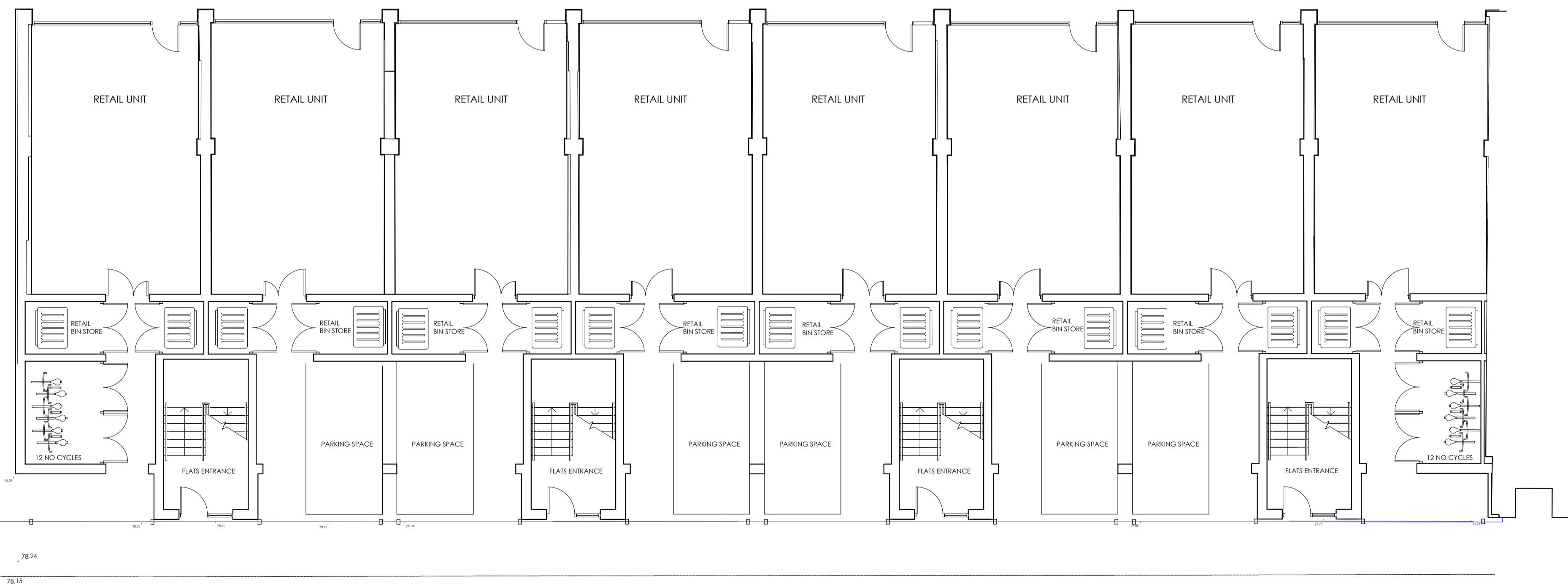


TYPICAL UPPER FLOOR LEVEL 1:100

CROMWELL ROAD



SITE LOCATION PLAN 1:1250



GROUND FLOOR LEVEL 1:100

SCHEDULE OF ACCOMMODATION

	SQ M	SQ FT
RETAIL UNIT	42.4	475
RESIDENTIAL UNIT	67.2	723

client: REIGATE AND BANSTEAD COUNCIL
project: RETAIL AND RESIDENTIAL DEVELOPMENT

site: CROMWELL ROAD REDHILL
CASTLEFIELD ROAD, REIGATE

content: GROUND FLOOR PLAN AND
TYPICAL UPPER FLOOR PLAN

date: MARCH 2015

scale: 1:200 @ A1

ALL DIMENSIONS TO BE CHECKED ON SITE

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