



Reigate & Banstead
BOROUGH COUNCIL
Banstead | Horley | Redhill | Reigate

REPORT OF:	Head of Property
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TO:	EXECUTIVE
DATE:	20 April 2017
EXECUTIVE MEMBER:	COUNCILLOR NATALIE BRAMHALL

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

SUBJECT:	DEVELOPMENT OF 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 • Executive Member for Property; and • Executive Member for Planning Policy and 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 and Executive Members for Property and Planning Policy and Finance, to make the necessary arrangements to finance the project subject to key stage sign off as 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 and Executive Member for Property 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 Executive Member for Property 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> <p>(v) Authorisation is given to the Head of Property in consultation with the Executive Member for Property 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</p>	

key stage sign off set out in this report;

- (vi) Authorisation is given to the Head of Property in consultation with the Executive Members for Property and Planning Policy and Finance to finalise, agree and sign construction contracts subject to key stage sign off set out in this report;
- (vii) Authorisation is given to the Head of Property, in consultation with the Executive Member for Property to market and sell long leasehold interests on the residential flats subject to key stage sign off set out in this report; and
- (viii) To note that these proposals replace those agreed by the Executive in November 2015 to take account of the changed circumstances.

REASONS FOR RECOMMENDATIONS:

The existing asset is in poor condition and has been identified for possible re development. The property is predominantly vacant and produces a minimal income for the Council in its existing form, so options have been considered for the future of the asset.

The recommended option completes redevelopment of this part of the town centre and represents a commercially acceptable return on capital employed, increases the income generation from the asset, whilst increasing the asset value once construction work is complete.

EXECUTIVE SUMMARY:

Cromwell Road is an important regeneration opportunity in Redhill and the Council owned site is identified as being in need of investment/redevelopment. This has become more apparent, following the successful redevelopment of the neighbouring building, located on the corner of Cromwell Road and High Street, shown in **Annex 1**.

The existing Council asset is in poor condition and considered in its existing form to be unattractive to potential occupiers so remains predominantly vacant producing only a small level of income for the Council.

The recommendation of this report is to undertake a redevelopment of the property, comprising demolition of the existing building and redevelopment to create a modern ground floor retail unit and 32 flats above. The residential flats are proposed to be a mix of 1 and 2 bedrooms.

The proposal is to sell the flats on the open market on long leases, the retail unit would be retained as a commercial asset and let to a retailer. This proposal enables the Council to retain a ground rent income from the flats plus a market rent from the retail unit. 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.

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 financial, 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 Cromwell Road owned by the Council comprises 8 small retail units with 8 three-bedroom, two storey flats above, which are capable of separate occupation. The existing property is in poor condition requiring substantial capital investment to enable the existing building to be entirely capable of 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. The units are small and incapable of amalgamation into a larger unit which is considered likely to be attractive to commercial occupiers.
4. The adjacent site to the Council's asset, has recently been subject of a similar redevelopment with conversion of the upper parts into modern 1 and 2 bedroom flats. The sale of this accommodation has been received well in the marketplace and the majority of the flats were under offer prior to completion of the redevelopment.

KEY INFORMATION

Current Position

5. Six of the eight flats are vacant and not capable of occupation in their current condition, even for temporary housing, without major refurbishment. The other two flats are occupied in connection with the commercial leases of the shops below.
6. 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.
7. The property appears neglected and rundown and is within an area identified in the draft Redhill Town Centre Area Action Plan 2012 (RTCAAP) as a priority for regeneration within Redhill. In this document the site, together with a number of adjacent sites, was provisionally identified for demolition and redevelopment for a food store. This option is not progressing as it is not economically viable.
8. The emerging Development Management Plan (Regulation 18 consultation version), which incorporates parts of the RTCAAP and its outstanding sites, proposes the Cromwell Road site is allocated for ground floor retail, leisure or commercial (no net gain in floor area) with approximately 30 units on the upper floors.
9. The owner of the adjacent building (now known as Queensgate), shown in **Annex 1** has undertaken a redevelopment of this site, converting the original office space into

a mix of 1 and 2 bedroom flats. The conversion has been completed to a high standard both internally and in external appearance. The new look building has been received very well in the marketplace and over 75% of the flats were under offer in advance of the construction work being complete.

Development Proposals

10. The redevelopment of the adjacent building prompted re-consideration of the refurbishment proposals reported to Executive in November 2015 and consideration of alternative options. As a result a revised scheme has been prepared that comprises demolition of the existing building and replacement with a new build that provides modern flexible retail and residential accommodation, designed in line with market requirements.
11. The scheme proposes the creation of a modern and flexible ground floor retail unit, which is capable of sub division allowing maximum flexibility to suit a variety of retailer requirements. The retail frontage will be more prominent and presentable and the external appearance will be designed to complement the adjoining Queensgate development.
12. The upper parts of the building will be increased from two to four floors and will increase the number of flats from 8 three bed units to 32 one and two bed units. It is proposed to address the provision of affordable housing via a financial contribution towards off site housing provision. This is because it is likely the re development will not achieve a sufficient financial return to make the project commercially viable.
13. The retail units will be developed to an industry standard 'shell' specification allowing immediate occupation by tenants to fit the unit out to their own requirements. Marketing will be aimed at national retailers from which local agents suggest there is demand due to the lack of alternative accommodation.
14. The new residential units will be sold as market housing and the sale receipts will cover the construction costs and represents the most attractive financial proposition.
15. Indicative floor layouts are attached as **Annex 2** to this report.
16. The project will be governed by key stage sign off;
 - Stage 1 - Appointment of relevant members of the professional team and sourcing necessary surveys with Planning application and updated appraisals.
 - Stage 2 – Appointment of any additional consultants and surveys required to prepare the tender documents and submit documentation to Building contractors for tendering and receipt of tender.
 - Stage 3 – Review and updated appraisals and appointment of building contractor to build the scheme followed by subsequent lettings and sales. Where possible pre-sale/letting agreements for the sale of the residential and letting of the retail accommodation will be entered into.

OPTIONS

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

Option 1

18. Obtain vacant possession, demolish and redevelop the property as set out above. **This is the recommended option**, which will result in a vastly improved building thus regenerating this part of the town as well as maximising the council's income and asset value.

19. There are three sub-options regarding the completed development:

Option 1a

20. Retain the shops as an income producing investment and sell the flats on a long leasehold basis. **This is the recommended sub-option**, as it represents the most beneficial combination of capital receipt, income and return on capital invested, leaving the scheme debt free on completion of the residential sales.

Option 1b

21. 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, which would incur additional costs.

Option 1c

22. Retain both the shops and flats as an income producing investment. **This is not the recommended sub-option**, as the council would be left with construction debt following completion and interest charges would be likely to exceed or equal the annual income.

23. 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 redevelopment.

Option 2

24. Refurbish the existing property. **This is not the recommended option** as the property is not configured to current retailer and residential market requirements, which severally limits occupier interest and rental value. 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.

Option 3

25. 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 are vacant and/or are not generating an income, hence any sale would only happen at a deeply discounted price to reflect this.

26. 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

27. 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.
28. 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.
29. 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.
30. 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.
31. 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.

POLICY FRAMEWORK

32. The draft Redhill Town Centre Area Action Plan 2012 (RTCAAP), identified that the shops and maisonettes are in need of investment.
33. Redhill town centre is identified in the Core Strategy 2014 as a priority regeneration area. The document states that an infrastructure priority is the relocation of community facilities from Cromwell Road to enable the redevelopment of the Cromwell Road site to support the role of Redhill town centre.

LEGAL IMPLICATIONS

34. 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.
35. 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.
36. 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.
37. 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.
38. 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

39. 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

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

RISK MANAGEMENT CONSIDERATIONS

41. The main risks for the Council in undertaking development are in terms of construction cost changes and market fluctuations.
42. However, in this case, these risks are considered to be small, as the construction programme is short and the intention would be to pre-let the commercial element prior to the construction. The high level of early sales of the adjacent Queensgate development demonstrates the market demand for similar properties within the town.
43. Furthermore the housing market is still strong and demand for retail premises continues to be steady.

CONSULTATION

44. Portfolio Holders for Property and Planning Policy 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

Annexes

- Visual of the adjacent Queensway Development (Annex 1)
- Proposed development – Indicative Floor Plans (Annex 2)

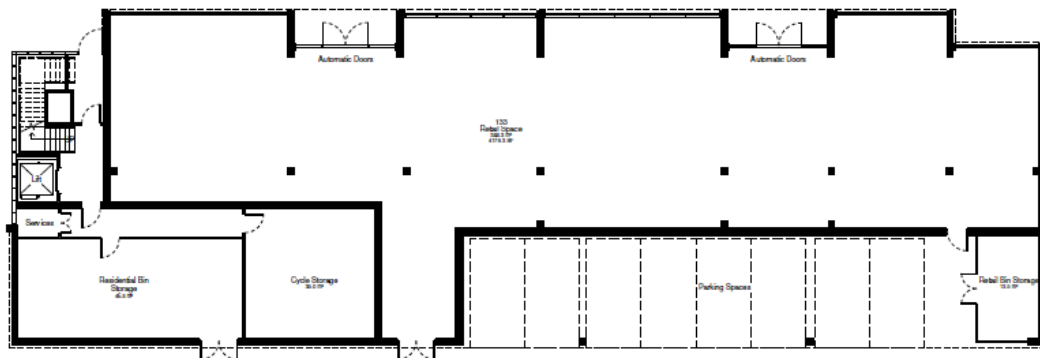
Visual of the adjacent Queensway Development



Proposed development – Indicative Floor Plans



First Floor Plan



Ground Floor Plan