

CABINET

15 JULY 2014

ROCHESTER RIVERSIDE – RETAIL UNIT

Portfolio Holder: Councillor Rodney Chambers, Leader of the Council

Report from: Robin Cooper, Director of Regeneration, Community and Culture

Author: Kate Greenaway, Rochester Riverside Project Manager

Summary

This report seeks delegated authority to acquire the vacant retail unit on Rochester Riverside. The unit is located in a key strategic gateway to the site, and acquisition of the unit will enable its letting to a tenant who will meet the Council's aspirations for the regeneration site. The unit will be purchased using Growing Places Funding.

1. Budget and Policy Framework

- 1.1 As the acquisition cost will be over £100,000, but below £1,000,000, the council's policy and budget framework requires Cabinet approval for the acquisition.
- 1.2 The unit will be purchased using Growing Places Funding allocated to the Rochester Riverside project, in the Council's approved capital programme.

2. Background

- 2.1 Rochester Riverside is a flagship project in the Council's regeneration programme. The site comprises 32 hectares (74 acres) of development land, stretching from Rochester Bridge to the north and Doust Way to the south. Whilst meeting the Council's objective of providing new homes and jobs for Medway, development at Rochester Riverside will bring other benefits including a range of publicly accessible open spaces, retail and leisure facilities as well as improvements to the 'Gateways' between the River and Rochester High St.
- 2.2 The first phase of development at Rochester Riverside – the Southern Gateway - has already been delivered through the completion of 73 affordable housing units by Hyde Housing and the creation of the 'Southern Gateway' public square. The Hyde housing units are now all fully occupied.

- 2.3 Block 1 of the Hyde Housing scheme (Royal Oak House) includes a ground floor retail unit. The intention is for the unit to provide an amenity for local residents, in accordance with the principles of mixed-use development at Rochester Riverside including housing, retail, commercial and public open spaces.
- 2.4 The retail unit provides a lettable floor area of 412sqm. The unit has been constructed to shell and core. Planning consent allows for A1 (retail) or A3 (restaurant/café) uses.
- 2.5 The retail unit is located on one of the main entrances to the Rochester Riverside site, the 'Southern Gateway'. Once development of Rochester Riverside progresses, this Gateway will act as a hub for residents and visitors and will provide a concentration of community and commercial uses.
- 2.6 Following construction in 2012, Hyde Housing commenced marketing of the unit. However, Hyde report that interest has so far been limited and Hyde has struggled to find a suitable tenant. The limited interest received is from tenants and users who do not meet the Council's regeneration objectives or aspirations for the site. Soft market testing has indicated that the unit is not currently viewed as a viable proposition by the larger retail chains and quality tenants until additional homes are developed on the site.
- 2.7 The unit has remained vacant and boarded up for a substantial period of time. Whilst construction at Stanley Wharf – the next phase of development at Rochester Riverside - is due to start in April 2015 - it will be some time before the first units are occupied. There is a risk therefore that the unit will remain vacant for some time, which is unacceptable considering its location at a key entrance to the Council's priority regeneration site. If the unit remains vacant and unused then it will impact on the perception of the site and the value of future development.
- 2.8 In 2013 the Rochester Riverside Board considered an officer recommendation to consider the acquisition of the unit from Hyde Housing. This was on the basis that the purchase of the unit will ensure Council control over its occupation, tenancy and any temporary uses of the space. It will provide certainty of use in the short and long term.
- 2.9 If purchased the intention is for the Council to sublet the unit to a tenant who meets the Council's aspirations for the site, or for temporary uses until such time that the unit becomes a more viable retail proposition.
- 2.10 Following the Board's recommendation, officers pursued negotiations with Hyde Housing and acceptable terms have been agreed for the Council to acquire the unit.

3. Options

- 3.1 Cabinet could decide not to purchase the unit. Hyde Housing would continue to market the unit and the financial risk of non-occupation would remain with them. As development at Rochester Riverside progressed the unit could be viewed as a more attractive proposition and Hyde could then let it to a tenant who would meet the Council's aspirations for the site.

4. Advice and analysis

- 4.1 Rochester Riverside is the Council's flagship regeneration project. The key 'Gateways' and entrances to the site are critical in the creation of a strong identity for the scheme and ensuring linkages between the regeneration site and the existing town and community.
- 4.2 The Hyde Housing scheme on the Southern Gateway is a popular and successful housing scheme and the residential part is fully occupied. However, a retail unit on part of the site has proved less successful and currently stands vacant. Tenants have proved difficult to attract due to the perceived lack of footfall. Further housing units are required before the unit can attract a tenant that would meet the aspirations of the Council and project partners.
- 4.3 Rather than continue to allow the unit to remain vacant, officers recommend that the unit is purchased from Hyde Housing. The Council would then have control over the unit. Officers would commence an extensive marketing campaign to attract a quality tenant who would meet the regeneration objectives for the site. Alternatively the unit would be let on a short-term basis to a 'temporary' occupier until such time that further housing units are developed on Rochester Riverside and a long-term tenant is sought.
- 4.4 Cabinet is asked to delegate authority to the Assistant Director, Legal and Corporate Services, in consultation with the Leader to acquire the vacant unit.

5. Consultation

- 5.1 Consultation has taken place with the relevant Directorates and no objections to the acquisition have been received.

6. Financial and legal implications

- 6.1 The Council granted Hyde a 999-year development lease of the land that the block is built on (The Head-lease.) which includes the retail unit. As a result, if the Council acquires the retail unit, this will be by way of a sub-lease. As part of any deal for the Council to acquire the retail unit, it may also be necessary for the Head-lease to be varied.
- 6.2 The Council has power under section 227 Town and Country Planning Act 1990 to acquire by agreement any land it requires to facilitate the carrying out of development, re-development or improvement on or in relation to the land. This power can only be exercised where the Council considers that the development, re-development or improvement is likely to contribute to the promotion or improvement of the economic, social or environmental well being of the area.
- 6.3 The exercise of this power is an executive function and so the decision to acquire this land is a decision for Cabinet.

- 6.4 The unit would be purchased using Growing Places Funding. Growing Places Funding is a programme of affordable loan finance, allocated by Local Enterprise Partnerships, to cash flow strategic investment in development opportunities and to enable the quicker delivery of developments, which might otherwise stall, enabling economic growth through the creation of new jobs and homes.
- 6.5 £4,410,000 of Growing Places Funding is allocated to Rochester Riverside in the Council's approved capital programme. As the funding is a form of loan, it will need to be repaid in full at the end of the agreed term, with staged payments over a 7-year period. It is intended that the loan required to purchase the vacant retail unit on Rochester Riverside will be repaid using income from the letting of the unit/capital receipts from the Stanley Wharf development.
- 6.6 Under the development lease, (Head-lease) which the Council granted to Hyde of the site, Hyde is required to pay £250,000 to the Council by 31 March 2016 for the retail unit. This payment will be deducted from any price that the Council pays for the unit.
- 6.7 The Council will not need to pay empty business rates on the unit until it is fitted out, but once it is fitted out, if it remains un-let or becomes void, then the Council will need to pay empty business rates.

7. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Council unable to let the unit or it becomes void once let – financial and reputational risk.	It could be many years before enough dwellings are occupied at Rochester Riverside to create the demand for a higher quality retailer to let the unit and therefore many years before the Council receives any return on its investment.	Construction of the next phase of development – Stanley Wharf – will commence in April 2015. Ongoing development of the site should ensure the unit becomes a more attractive proposition. The Council will undertake a focussed marketing campaign (including information on Stanley Wharf and the revised Masterplan) to attract a long-term tenant. The unit could be let on a short-term basis until such time that retail uses become more viable.	B2
Additional funding required for fit out of the unit.	In order to attract a tenant, the Council may have to fund fit out costs or offer a reduced rental.	Focussed marketing to tenants who would be able to part of fully fund additional fit out costs.	B2

8. Recommendations

- 8.1 That Cabinet delegates authority to the Assistant Director, Legal and Corporate Services, in consultation with the Leader to:
 - 8.1.1 Acquire the shell and core of the vacant retail unit together with any ancillary areas (for example parking and forecourts etc) on Rochester Riverside.
 - 8.1.2 Enter into a deed of variation of the head-lease granted to Hyde.
 - 8.1.3 Sub let the unit to an occupier(s).

9. Suggested reasons for decision(s)

- 9.1 To ensure the continued regeneration of a key strategic gateway to the Council priority development site.

Lead officer contact

Kate Greenaway, Rochester Riverside Project Manager, Gun Wharf, ext 2498,
kate.greenaway@medway.gov.uk

Background papers

Rochester Riverside Development Brief, Draft Supplementary Planning Document:

http://www.medway.gov.uk/pdf/885_R_140424_Development%20Brief.pdf

Medway Local Plan, May 2003

<http://www.medway.gov.uk/pdf/Medway%20Local%20Plan%202003.pdf>

Details of planning application – MC/11/0400

<http://planning.medway.gov.uk/dconline/AcolNetCGI.gov?ACTION=UNWRAP&RIPN/AME=Root.PgeResultDetail&TheSystemkey=122347>