

CABINET

9 AUGUST 2016

THE PENTAGON CENTRE AND MOUNTBATTEN HOUSE CHATHAM

Portfolio Holder: Councillor Alan Jarrett, Leader
Councillor Adrian Gulvin, Resources
Councillor Rodney Chambers OBE, Inward Investment,
Strategic Regeneration and Partnerships

Report from: Perry Holmes, Chief Legal Officer

Author: Noel Filmer, Head of Valuation & Asset Management

Summary

This report seeks delegated authority for officers to complete the variation or surrender/re-grant of the existing head lease of the Pentagon Centre in order to facilitate improvement of the shopping centre and the development of Mountbatten House.

1. Budget and Policy Framework

- 1.1 This will be a matter for Cabinet, as if it is agreed that a premium is payable to the Council, then this is likely to be over £100,000. As the law stands at present, Mountbatten House could be converted to residential use using permitted development rights rather than the developer needing to obtain planning permission.

2. Background

- 2.1 The Council owns the freehold of the Pentagon Centre , the retail and office parts are let on a long head lease with approximately 84 years to run (the lease expires in 2100), for which the Council receives no rent. Mountbatten House is sublet out of the main head lease for a term which is a few days shorter than the head lease. In order for this sub lease to be extended, the head lease of the Pentagon Centre would also need to be extended.
- 2.2 Ownership of the head lease has now changed hands following its assignment on 10 December 2015 to Ellandi. Ellandi owns 29

community shopping centres throughout the U.K with a combined area of over 6.8M sqft of floor space.

- 2.3 Ellandi would like (if viable), to facilitate the redevelopment of Mountbatten House. This is expected to involve residential conversion from its existing office use, possibly including other uses. If the development is purely for residential use, then permitted development rights are likely to be used to enable the development to proceed without the need for a full planning consent. Under the terms of Class O of the Town and Country Planning (General Permitted Development) (England) Order 2015, the change of use of a building from an office use (Class B1a) to a class C3 (dwelling houses) use is permitted subject to the condition that before beginning the development, the developer must apply to the Local Planning Authority for a determination as to whether the prior approval of the authority is required as to (a) The transport and highway impacts of the development, (b) contamination risks on the site and (c) flooding risks on the site.
- 2.4 The remaining leasehold term of about 84 years is unlikely to be sufficient for Ellandi and any developer of Mountbatten House to want to invest in the premises in order to facilitate development. A longer lease of at least 125 years but preferably up to 150 years would also be required to enable the developer to market for sale long leasehold interests in residential apartments within Mountbatten House. As those people buying apartments will want to acquire a minimum of 125 year plus leases, which will mean that, any developer of Mountbatten House would need a lease for longer than 125 years.
- 2.5 The existing head lease also contains restrictions that limit the use of the premises to town centre uses. It is therefore considered that the Council's consent as freeholder may also be needed before any residential development can go ahead.
- 2.6 Chatham Town Centre is central both physically and strategically to Medway Council's regeneration plans. Significant levels of external funding have already been drawn down to improve the infrastructure in the town centre and the investment continues with the Chatham Place making project. Mountbatten House is a key asset within the area that is underused. From a regeneration and planning point of view, the Council would welcome proposals for appropriate alternative uses, which will secure the regeneration and re-use of the building and increase the amount of people accessing the town centre. Although historically the building has been used as an office under the B1 class, the alternative use of housing would be welcomed in principle subject to the appropriate permissions and processes.
- 2.7 In addition, the Council would want to be satisfied that any residential conversion of Mountbatten House is of a sufficient quality to meet the National Housing Standards as set out by the Department for Communities and Local Government (DCLG), although this is not

controllable through the prior approval planning process the Council will seek to achieve this as landowner. There are a number of brownfield sites in the town centre that are potential development schemes and a good standard of housing is needed throughout Chatham Town Centre to ensure the success of the regeneration of the area.

3. Options

- 3.1. The Council could refuse to vary the head lease or agree to a surrender/renewal. If it does, this it is unlikely that Mountbatten House will come forward for development and even if it does it is likely to be for a poor quality rented residential scheme.
- 3.2. The Council could agree to vary the head lease or agree to a surrender/renewal, in which case, the Council will receive a premium for the variation and there are likely to be positive regeneration benefits for the area. The Council would also take this opportunity to regularise some of the unusual areas of the lease. However, it is unlikely that the Council will be able to compel the owners of the Pentagon to bring Mountbatten House back into use, as this property is not in their control and any redevelopment/reuse of the premises would have to be viable before it proceeds.
- 3.3. Option 3.2 is recommended.

4. Risk Management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Undesirable development of Mountbatten House.	Building utilised without full planning control and to a poor standard.	Consultation with owners and grant of longer lease dependent on any residential development meeting DCLG standards.	C2
The continuation of the present position with Mountbatten House empty and deteriorating.	The attraction of Chatham town centre is reduced because this prominent building is unused.	Ensure that a satisfactory agreement is reached with the new leaseholder to enable development to take place.	C2

5. Consultation

- 5.1 Consultation has taken place with officers from the Regeneration, Culture Environment and Transformation Directorate and no objections have been received.

6. Financial and legal implications

- 6.1 At present, the Council receives no rent from the letting of the Pentagon Centre or Mountbatten House. The Council will seek to maximise its returns in terms of the financial and regeneration position from the variation or surrender/renewal of the leases.
- 6.2 The Council is under a duty to comply with section 123 of the Local Government Act 1972 and to obtain the Best Consideration reasonably obtainable when it disposes of interests in property, unless consent is obtained from the Secretary of State or one of the general consents applies.

7. Recommendation

- 7.1 That Cabinet delegates authority to the Chief Legal Officer in consultation with the Leader, the Portfolio Holder for Inward Investment, Strategic Regeneration and Partnerships and the Portfolio Holder for Resources to vary or enter into a surrender/re-grant of the existing leases at the Pentagon Centre with grant of a new lease or leases on the best terms reasonably obtainable.

8. Suggested reasons for decision

- 8.1 In order to facilitate the development of the Pentagon Centre and Mountbatten House and realise a capital receipt.

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Appendices:

None

Background Papers:

None