

Manchester City Council Report for Resolution

Report to: Executive – 8 March 2017

Subject: Securing the Future Development of Ancoats

Report of: Strategic Director (Development)

Summary

In 2014 the City Council set out its ambition to drive and coordinate development momentum within Ancoats and New Islington as a Priority Investment Area to be guided and delivered via the Manchester Place partnership with the Homes and Communities Agency (HCA) and the Manchester Life Development Company (MLDC). Following the recent endorsement of the Ancoats and New Islington Neighbourhood Development Framework, this report provides an update regarding the next steps towards realising the City Council's vision for the area.

Recommendations

Executive is recommended to:

1. Note the progress being made in securing investment and residential development momentum in the Ancoats neighbourhood, including the Phase One of activities being delivered by the Manchester Life Joint Venture Initiative.
2. Agree that, subject to the outcome of appropriate due diligence, the City Council acquires:
 - a) the HCA's Commercial Investment Portfolio in the Ancoats neighbourhood; and,
 - b) the HCA's Freehold land interests in the Ancoats neighbourhood.
3. Agree to the City Council entering into further land disposals into the Manchester Life Joint Venture to enable the progression of the next phase of Manchester Life development activity provided that, in the opinion of the Head of Development, the disposals are the best consideration that can be reasonably obtained.
4. Delegate authority to the Strategic Director Development, City Treasurer and the Head of Development, in consultation with the Leader of the Council, the Executive Member for Housing and Regeneration and the Executive Member for Finance and Human Resources to negotiate and finalise the terms of the proposed acquisitions and disposals taking into consideration any risks associated with such acquisitions and the legal requirements and relationships and business case necessary for the establishment of an Estate Management Company for the Ancoats estate, which can be funded in full through an estate charge levied on existing leaseholders.

5. Authorise the City Solicitor to conclude and complete all documents and agreements necessary to give effect to:
- a) the terms agreed, and
 - b) the recommendations in this Report,
- as to the proposed acquisitions and disposals

Wards Affected Ancoats and Clayton

Manchester Strategy outcomes	Summary of the contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The proposals contained within this report offers the potential to bring forward mixed use developments in Ancoats and New Islington that will contribute to the creation of jobs within the area and provide residential accommodation for the growing population of the city.
A highly skilled city: world class and home grown talent sustaining the city's economic success	Ancoats and New Islington will continue to provide direct employment opportunities and also meet the demand for housing from workers who wish to live close to the Regional Centre.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	The continued development of Ancoats and New Islington will involve the creation of high quality amenity space that will be accessible to the local community.
A liveable and low carbon city: a destination of choice to live, visit, work	The successful delivery of the Ancoats and New Islington regeneration initiative will support the delivery of new residential developments using state of the art technologies to reduce the carbon footprint and create neighbourhoods with a range of amenities to support its residents.
A connected city: world class infrastructure and connectivity to drive growth	Ancoats and New Islington will create a seamless connection between the City Centre and the neighbourhoods of East Manchester, contributing to the vibrancy and attractiveness of these areas.

Full details are in the body of the report, along with any implications for

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

Any costs arising out of the recommendations in this report will be met from existing budgets supplemented by income generated by an estate service charge levied against existing and new leaseholders in the Ancoats area. Arrangements for the collection of this service charge have already been established by the HCA. These

arrangements will be transferred to the City Council at the point that the acquisition of the HCA's Freehold land interests is completed.

Financial Consequences – Capital

Further details of implementation and delivery costs are dealt with in the Part B report on this agenda.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

- A Stimulus for Residential Growth, Executive, 24 June 2014
- Refresh of the Ancoats & New Islington NDF, Executive, 14 December 2016

1.0 Introduction

- 1.1 In June 2013 the Executive considered a detailed report on the development of a Residential Growth Prospectus for Manchester. The Prospectus set out to encourage and guide the delivery of new housing across the city to accelerate housing growth, at the same time as delivering attractive and successful neighbourhoods where increasing numbers of people will choose to live; close to employment opportunities and all the other attractions to be found in a successful and growing city. The Prospectus clearly signalled the need for mechanisms by which development opportunities and individual sites could be brought forward for delivery.
- 1.2 Given its location, development characteristics and the availability of considerable public sector landholdings, Ancoats / New Islington was identified as the ideal location to initiate this growth stimulus. In June 2014, the Executive approved a collaboration between the City Council and the Homes and Communities Agency (HCA), known as “Manchester Place” to deliver residential growth opportunities across Manchester with an initial focus on the Ancoats and New Islington neighbourhood. At the same Executive meeting, approval was provided for the City Council to enter into a Joint Venture partnership with the Abu Dhabi United Group (ADUG) to be known as “Manchester Life” that would establish a vehicle capable of deploying the scale of inward investment required to make a significant contribution towards achieving the City’s residential growth ambitions. The first phase of development activity was to be focused in Ancoats and New Islington.
- 1.3 In 2014 a number of development plots alongside public realm and infrastructure assets were acquired by the City Council from the Homes and Community Agency for the delivery of residential led development schemes by Manchester Life. Five plots are now under construction; with a sixth due to start later this year. In total these plots will deliver over 1,000 units of high quality residential property together with ancillary commercial space.
- 1.4 Alongside developments being undertaken by Manchester Life, other residential and commercial schemes are being progressed in the neighbourhood. With development momentum firmly re-established, officers now propose further intervention to underpin and build upon progress made to date.

2.0 Background

- 2.1 Ancoats (incorporating New Islington) is a distinctive neighbourhood on the north eastern edge of the City Centre, which acts as a critical link between the City Centre and East Manchester.
- 2.2 From the early 1990’s onwards the City Council has worked in conjunction with national and regional government agencies, business and community stakeholders and a variety of developer partners to develop and deliver a comprehensive regeneration strategy in this neighbourhood. During the first fifteen years of this period a significant amount of activity was undertaken to

stabilise and reverse the economic fortunes of the neighbourhood, with obsolescent industrial premises and housing acquired and cleared; key heritage assets secured and restored; and early commercial and residential development schemes delivered. For the majority of this period, strategic oversight for this regeneration process rested with New East Manchester Limited (NEM), the Urban Regeneration Company established by the City Council; the North West Development Agency (NWDA), who invested significant sums in assembling land and creating a development platform in Ancoats; and English Partnerships – now known as the Homes and Communities Agency (HCA), who led on the delivery of the New Islington Millennium Communities initiative, clearing the unpopular former Cardroom Council estate and creating residential development plots alongside a new Canal Marina and Park, and a new Health Centre.

2.3 The global economic downturn that commenced in 2008 meant that private sector development in Ancoats stalled at the end of the last decade. However, Manchester's economy remained resilient during this period and from 2013 onwards positive development momentum has been re-established and a significant number of residential and commercial development schemes have come forward, including: -

- Manchester Life: The Joint Venture partnership with ADUG is initially focused on the development of six sites across Ancoats and New Islington, delivering 1,015 residential units, of which 860 are for market rent and 155 for sale. All six of the schemes have planning permission, five of which have commenced on site and the remaining project is due to start on site imminently.
- Urban Splash: The "HoUSE" scheme has recently delivered 42 houses in phase 1 and a further planning application for 21 houses and 84 apartments has recently received planning consent. In addition to this Urban Splash have recently undertaken the refurbishment and letting of Stubbs Mill which offers 2,554 sq m of new commercial floor space with associated car parking.
- Northern Group: The redevelopment of Jactin House, overlooking Cutting Room Square, has created 3,716 sq m of new commercial floor space in the heart of Ancoats.
- The Point: McCaul Developments are in the process of completing the second and final phase of this 104 apartments and 13 town houses scheme, on the junction of New Union Street and Navigation Street.
- New Islington Free School: a new two - form entry (460 places) Primary School situated on land abutting the New Islington Marina / Cottonfields Park opened in September 2016.
- Residenza, Ancoats: Hillcrest Homes are currently on-site delivering the 14 unit townhouse scheme on George Leigh Street.
- Sirius, Ancoats: Forshaw Land and Property Group are on site delivering 20 apartments on the former Morning Star Hostel site on George Leigh Street at the junction with Cotton Street.
- First Step Group is about to start on site on the former Edinburgh Castle site on Blossom Street. The scheme will deliver 21 residential units, a restaurant at ground floor and office space at 2nd floor.

- Mulbury Homes have recently obtained planning permission for a 141 unit PRS scheme on Blossom Street.
- Yo Homes – a 24 unit apartment scheme on Old Mill Street has recently approved planning permission.
- A new Development Framework for Central Retail Park: TH Real Estate have developed a framework that was approved by the Executive in January 2016 and proposes a consolidated retail offer in the north of the site with reconfigured servicing and car parking and the creation of a high density residential offer up to 900 units in the remainder of the site with complimentary ground floor uses.

2.4 Due to the successes noted above, there is now an opportunity to expand the regeneration process beyond the heart of the Ancoats Conservation/New Islington Marina areas into the more northern part of the Ancoats area (stretching from Bengal Street to Butler Street) and to the Ashton Canal / Pollard Street Corridor, where there are a number of potential development sites adjacent to the New Islington Metrolink station.

2.5 In order to ensure that the City Council has articulated a vision for these areas that can help guide development interest, the existing Ancoats and New Islington Neighbourhood Development Framework (NDF) has recently been reviewed and refreshed to ensure that it reflects current thinking regarding redevelopment in these areas and provides a robust framework to ensure that residential and commercial development opportunities are maximised; that connectivity and public amenity opportunities are not lost; and that fragmented land ownership and unrealistic expectations of land value do not frustrate development momentum. This refreshed Framework was approved by the Executive in December 2016.

2.6 To assist in developing a place-making strategy for the area the City Council has also commissioned external consultancy advice from CF Commercial Limited to assess the extent of commercial ground floor uses; the extent of vacant premises; the type of ground floor uses that could appropriately animate and support the creation of a mixed-use but predominantly residential neighbourhood and the key locations where specific uses would best be sited. This work has assisted the City Council and the HCA in working with developers and landowners in marketing specific units and has underpinned the strategy that the HCA have taken forward in letting and managing their commercial portfolio of premises – details of which are set out in Section 3 below. It should be noted that the Manchester Life JV will also deploy its commercial ground floor assets in pursuance of the strategy that has been established.

3.0 Ancoats Commercial Portfolio

3.1 As part of the development plan for Ancoats and New Islington agreed via the Manchester Place collaboration, the HCA acquired a number of underused commercial assets in the area with the aim of revitalising them and securing appropriate commercial uses and tenants that will support the wider regeneration objectives for this key neighbourhood.

- 3.2 Five properties are comprised within the HCA's commercial estate. Three of these are let as investment properties, namely Sedgewick Mill, Nuovo and the Fairbarn Building alongside shell space within Royal Mill and Paragon Mill which are vacant awaiting refurbishment. Following significant investment the HCA were successful in securing a number of occupiers to establish an independent food and retail presence thus helping to activate Great Ancoats Street as well as Cutting Room Square. Sedgewick Mill has also developed a roster of independent PR and Marketing agencies alongside businesses operating in emerging technologies.
- 3.3 Since the original acquisition, commercial activity in the Ancoats area has increased significantly as the city centre commercial fringe has pushed out thus increasing residential density and footfall. This momentum is further underpinned by the activity of the Manchester Life joint venture and the success of the Northern Quarter, which has provided a robust demand in the vicinity for start-ups and linked businesses in creative sectors, with increasing evidence that businesses are now making the jump across Great Ancoats Street into the Ancoats locale.
- 3.4 Having undertaken a detailed valuation appraisal of the investment, and an assessment of existing and likely commercial activity and footfall in the area given the City's growth ambitions for the Eastern Gateway officers are confident that demand for commercial property in the area will continue to rise therefore driving rental growth. It should be noted that Urban Splash have recently pre-let the whole of the nearby Stubbs Mill, comprising 25,000ft² of office space. Such a deal underlines the growing viability of the area for office users and provides a statement of confidence to other investors.
- 3.5 As such, Officers have identified the HCA's Commercial Portfolio in Ancoats as an attractive investment that would allow the City to participate in the financial upside generated by its joint venture activities and broader investment in the area, with the added benefit that the City would act as the custodian of a significant amount of commercial floor-plate in an emerging location for market activity. As such the City will have the ability to continue with the approach that has been taken to date by the HCA and implement a letting strategy which captures tenants appropriate to the individual character of the area; bolstering the City's strategic vision for employment generation and the delivery of a coherent approach to place-making in this neighbourhood.
- 3.6 Following extensive due diligence, Officers within the Strategic Development Team have agreed the principal terms for the acquisition of the Commercial Estate with the HCA and have satisfied themselves that this presents best value to the public purse. The commercial details of these terms are contained within part B of this report.
- 3.7 The portfolio constitutes twenty six commercial units spread over four buildings and as such the management and operation of the buildings and its tenants will require considerable resource and attention. The HCA currently use GVA Grimley to manage the buildings and tenants; the management fee

for which is levied against the building occupants as part of the service charge. Given their familiarity with the tenants as well as the leasing and management structures for the portfolio, it is proposed, in order to maintain continuity for tenants during the transition of ownership, that the retention of GVA Grimley in this function is explored.

- 3.8 The portfolio contains two vacant spaces within Royal Mill and Paragon Mill which will require considerable refurbishment to bring them to a lettable standard. Options currently under consideration to achieve this include disposing of the space via a long lease according to a suitable bid or by the City funding the works and letting the space itself. As part of the funding bid for this project, Officers will request an allowance to undertake further feasibility work to establish the most suitable option.

4.0 Ancoats Estate Freehold

- 4.1 As a result of the Ancoats Compulsory Purchase Order undertaken in 2003, the NWDA secured ownership of 44 individual freehold plots – known as the Ancoats Estate. When the NWDA was disestablished in 2011, responsibility for this Estate was transferred to the HCA. The Estate comprises both new developments and listed buildings, public realm and estate infrastructure. Each plot is held under an estate lease. The majority of the leases contain obligations for the head lessee to contribute towards an estate charge for the upkeep and maintenance of the Estate. Given the majority of these plots have now either been sold and delivered, or are under development, the HCA has largely achieved its objectives to stimulate regeneration in the area and as such is keen to plan and undertake a controlled exit from the area.
- 4.2 With foresight of the HCA's gradual exit, and in consideration of its growing role in the area under the Manchester Life joint venture, in 2014 the City Council and the HCA agreed a right of pre-emption in favour of the City to provide it with first refusal on the sale of the Estate's freehold. The rationale behind this pre-emption is predicated on the City Council's long term interest as custodian of the area and its role in protecting and maintaining the significant public and private investment which has been deployed into the Estate.
- 4.3 To this end, Officers within the City Council are exploring the acquisition of the HCA's freehold interest. An extensive programme of legal due diligence is currently underway to review potential risks associated with the acquisition of the Estate. Officers are also reviewing the potential procurement of an Estate Management Company to be established to oversee the maintenance of the estate common parts and public realm, as well as providing a budget for other interventions that will sustain and secure the future of the Estate as a place to live, work and invest.
- 4.4 The principal terms for the acquisition of the HCA's freehold interests have been agreed. Subject to completing the detailed legal due diligence on the obligations and liabilities that the City Council will be entering into, or assume on completion of the acquisition, it is proposed that authority is delegated to

the Strategic Director - Development, City Treasurer and the Head of Development, in consultation with the Leader of the Council, the Executive Member for Housing and Regeneration and the Executive Member for Finance and Human Resources, to negotiate and finalise the terms of the proposed acquisition taking into consideration any risks associated with such acquisitions and the legal requirements and relationships and business case necessary for the establishment of an Estate Management Company which can be financed in whole through the estate charge payable by the head lessees of the Development Plots.

5.0 Manchester Life

- 5.1 As outlined above, since the establishment of the Manchester Life Joint Venture in June 2014, the Manchester Life Development Company (MLDC) has secured planning consent for all six Phase 1 sites and five of these have commenced on site, delivering over 800 homes. The sixth and final Phase One building contract will be let later this year, bringing the total homes under construction to over 1,000. Over 400 of these homes will be completed during 2017.
- 5.2 Twenty-six apprentices have joined the Manchester Life Higher Apprenticeship Scheme and a local recruitment campaign is underway to attract local residents into the permanent jobs that will be created when the first rental building opens later this year.
- 5.3 Building on this significant momentum, Manchester Life is currently preparing planning applications for three Phase Two projects, delivering around 440 more homes and beginning to work on longer-term planning for possible later phases.
- 5.4 In order to sustain the momentum accrued in Phase One, Manchester Life will need to secure its future pipeline. In doing this a number of plots have been identified that should be acquired from the Council within Ancoats and New Islington. Terms for these acquisitions will be similar to the terms under which the Phase One sites were acquired including provisions for the Council to share in the success of the developments via overage. The commercial detail of these arrangements will be covered in Part B of this report.

6.0 Contributing to the Manchester Strategy

(a) A thriving and sustainable city

- 6.1 The proposals for Ancoats and New Islington will contribute to the delivery of residential and commercial development that will support the City's economic and residential growth objectives and contribute to the performance of the local and regional economy.

(b) A highly skilled city

- 6.2 Ancoats and New Islington will continue to provide direct employment

opportunities and also meet the demand for housing from workers who wish to live close to the Regional Centre

(c) A progressive and equitable city

- 6.3 The adopted NDF offers the potential to help deliver the Manchester Residential Growth prospectus, helping contribute to and meet the demand for new homes in the city. The continued development of Ancoats and New Islington will involve the creation of high quality new environments and the provision of facilities that are accessible to the local community.

(d) A liveable and low carbon city

- 6.4 The proposals in the NDF will support the delivery of high quality residential development using technologies to reduce the carbon footprint and create neighbourhoods with a range of amenities to support its residents.

(e) A connected city

- 6.5 Ancoats and New Islington will create a seamless connection between the City Centre and the neighbourhoods of East Manchester, contributing to the vibrancy and attractiveness of these areas.

7.0 Key Policies and Considerations

(a) Equal Opportunities

- 7.1 Not applicable

(b) Risk Management

- 7.2 Risks relating to the acquisition of the HCA's commercial and freehold interests are being assessed as part of an extensive due diligence exercise that will be completed in advance of any contracts being entered into.

(c) Legal Considerations

- 7.3 The City Solicitor will provide advice and support to give effect to the recommendations set out within this report.