

Manchester City Council Report for Resolution

Report to: Executive – 29 June 2022

Subject: Acquisition of St Modwen’s interest at Wythenshawe Civic Centre, Wythenshawe, Manchester (Part A)

Report of: Strategic Director (Growth and Development)

Summary

This report seeks approval for the acquisition of the St Modwen freehold and leasehold interests in the Wythenshawe Shopping Centre on the main terms and conditions outlined in this paper.

The acquisition is on an ‘invest to save’ basis as it will create significant revenue in the short-term as well as providing a strong platform for investment in and redevelopment of the district centre in the medium to longer term through the consolidation of freehold and leasehold interests. The Council, as Freeholder, has the ability to merge its existing freehold interest with St Modwen’s interests upon acquisition to create a simpler legal title to support future investment. The acquisition will realise a rental income substantially more than the existing ground rent income. The net income position is forecast to comfortably cover MCC’s borrowing costs for the acquisition and associated fees.

The acquisition of St Modwen’s interests will act as a catalyst to the wider strategic regeneration programme proposed for the centre linked to a LUF bid. More comment herein.

It should be highlighted that whilst the acquisition is intended to act as a springboard for regeneration in conjunction with a bid for LUF funding, the acquisition is nonetheless a commercial move that unlocks wider regeneration benefits, involving the acquisition of an income producing asset, at a level supported by an external valuation to give MCC significant control over the centre.

This report outlines the scope of due diligence required on tenancy, legal title and physical survey that will be completed prior to conclusion of the acquisition.

Recommendations

The Executive is recommended to:

- (1) Note the contents of the report, and decisions in relation to which are set out in part B of this report.
 - (2) Note the progress made in relation to the wider regeneration proposals for Wythenshawe Town Centre.
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Wards Affected – Woodhouse Park

Environmental Impact Assessment - the impact of the decisions proposed in this report on achieving the zero-carbon target for the city

Given the nature of the buildings on site and the proposed interventions, achieving net zero is not considered realistic at this time. However, at its core this acquisition and the wider regeneration principles amount to the Council taking control of the town centre and ensuring all regeneration works are considerate of MCC's net zero target.

A central part of the proposals is the repurposing of existing buildings. Rather than demolishing and starting again, where buildings remain in a salvageable condition, they will be reused, repurposed and revitalised in line with wider ambitions for the centre around diversification.

The re-use and revitalisation of the existing buildings is eminently sustainable and saves significant embodied carbon, waste and construction impact.

The multi-storey car park, vacant upper floors of the retail and the vacant building to the east of the site are all to be reused and given new purposes as part of the proposal. The vacant upper floors above the retail units and the vacant former Co-op building, is to be transformed into flexible working spaces and art studios to foster a new creative community.

New build developments will be considered with a fabric first approach, lowering the embodied carbon through thermal efficiency and heat recovery whilst reducing the reliance on mechanical ventilation.

The balance between emitted carbon and equivalent offset will be considered through whole life carbon assessments. Choosing materials and products which are sustainably made with long life spans will reduce the need for replacement. Maximising light but limiting solar gain with natural ventilation and implementing green technologies such as MVHR with ambient heat pumps and solar arrays should be the ethos of each development.

The creation of a new Mobility Hub to address the needs of car users, but also to assist in the promotion of other forms of sustainable travel, including facilities for electric vehicle charging and cycle hire.

Our Manchester Strategy outcomes	Contribution to the strategy
<p>A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities</p>	<p>The diversification of the centre will provide for office space, diversifying the centre's offer and providing opportunities for large and small businesses to locate in Wythenshawe with associated opportunities for the local community.</p> <p>Given the proximity to Manchester Airport, local businesses may see the centre as a well-connected (in terms of both transport and fibre) and with a local workforce. Further, we're aware that MAG are on a significant recruitment drive. The proposed 1,000+ homes would be an ideal location for residents to live whilst working at the Airport.</p> <p>The proposed cultural hub will further diversify the centre, providing opportunity for local residents to engage with creative groups whether performing alongside or attending performances.</p>
<p>A highly skilled city: world class and home-grown talent sustaining the city's economic success</p>	<p>The proposed major inward investment, diversification of the centre, and the creation of office space, creative space and a night-time economy will give significant opportunity to Manchester residents in terms of jobs and training.</p> <p>The Civic Centre is very well-connected in terms of fibre and is therefore well-suited to tech companies who could provide job opportunities in a high demand highly skilled field.</p> <p>Opportunity for schools engagement with the creative hub.</p> <p>During construction phases, there will be jobs available on site.</p> <p>The provision of new homes at the site would support the growing population in an area identified for high density development. The site is also well-connected to the city centre thereby helping to support Manchester's local economy.</p>

<p>A progressive and equitable city: making a positive contribution by unlocking the potential of our communities</p>	<p>Any contractual capital works resultant from the regeneration of the shopping centre post acquisition will incorporate significant social value outputs as part of the procurement and evaluation. This will include a commitment to local employment strategies. The provision of high-quality affordable homes is vital to support a growing population. A range of tenures would ensure all homes needs are catered for including social rent and shared ownership in line with local housing needs.</p>
<p>A liveable and low carbon city: a destination of choice to live, visit, work</p>	<p>As detailed above, the proposed interventions will utilise existing building wherever possible and all works will be undertaken in line with sustainability principles to meet wider MCC targets.</p>
<p>A connected city: world class infrastructure and connectivity to drive growth</p>	<p>The centre is well-connected in terms of public transport via the Metrolink to the city centre and the Airport. There are also bus services connecting the centre to the neighbouring areas. Through acquisition of the shopping centre this unlocks the ability for the Council to link public realm improvements on key gateway locations to the wider active travel network and also the prospective works envisaged by TfGMs LUF round 2 bid proposals.</p>

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

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The revenue implications are set out in the Part B report of the same name on this agenda.

Financial Consequences – Capital

The capital consequences of this report are set out in the report of the same title on Part B of 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.

- Land ownership plan showing interests to be acquired

1.0 Introduction

- 1.1 This report seeks approval to the terms for the acquisition of St Modwen's interest in Wythenshawe Town/Civic Centre.
- 1.2 The acquisition will provide MCC with significant control of Wythenshawe Town Centre, together with a substantial rent roll. Furthermore, the acquisition will provide the Council with the ability to restructure the current legal arrangements which can then support the delivery of a programme of physical and place-making interventions linked to an LUF bid.
- 1.3 Whilst the acquisition will act as a catalyst for the wider regeneration programme for Wythenshawe Town Centre, in isolation the acquisition makes commercial sense, with contingency plans in place were the LUF bid to be unsuccessful.

2.0 Background

- 2.1 Wythenshawe town centre has been subject to several masterplans, SRFs and policy documents in recent years which have not been delivered. The main obstacle to redevelopment has been that the existing shopping centre and adjacent Etrop Court are owned by St Modwen on a long leasehold (part freehold) basis. The Council is the freeholder.
- 2.2 The Council has attempted to acquire St Modwen's interests previously on several occasions. However, at the time the metrics for the deal were unsustainable. This position has now changed with terms agreed for a disposal at a level which works for MCC and can be supported on a red book valuation basis.
- 2.3 Wythenshawe Shopping Centre is an operational, income producing asset and there are two primary interests within it, the Council's freehold and St Modwen's headlease. St Modwen have other interests in the centre (amounting largely to a reversionary leasehold interest in the title at Etrop Court¹), which also form part of the acquisition and agreed sale price. There is a ground rental reserved to the Council under the principal headlease and St Modwen let out the retail units and upper floors to occupiers who pay rent and service charge.
- 2.4 Today the shopping centre is well-managed with a considerable rent roll but is tired in fabric, completely closed out of hours and has not evolved with economic and societal changes over the last 20 years. There are a number of well-established multiple retailers along with a variety of more local businesses.
- 2.5 There are some vacancies, particularly in relation to the upper floors which, whilst challenging to let currently and inevitably a drain through business rates, represent opportunity to support investment and outputs through a Levelling Up round 2 bid (see later in the note).

- 2.6 Time is critical as St Modwen have given the Council an exclusivity period to work through due diligence and complete the acquisition prior to them taking the asset to market.
- 2.7 In summary, the acquisition of St Modwen's interests in the centre will act as a catalyst for the wider regeneration programme for the centre, linking into a bid for LUF funding. Through strategic asset management, inward investment and the revitalisation of the centre, the intention is to improve the cash flow and capital value whilst delivering meaningful change for the centre and local residents.
- 2.8 In addition to the freehold of the shopping centre, the Council owns significant adjacent land that will benefit from the regeneration proposals. Through the acquisition and regeneration of the centre, we foresee the value of these land parcels improving and they will be developed as part of the regeneration strategy.
- 2.9 Diversifying the use of the town centre is key to the success of the strategy, with development of high-density housing proposed on these Council owned plots. Current indications are that well in excess of 1,000 new homes of urban density could be accommodated within the centre and on vacant Council owned land on the fringe.

3.0 Wider Regeneration

- 3.1 The acquisition of St Modwen's interest is seen as the first step in the regeneration of this local centre. In conjunction with the acquisition, the advent of the Levelling Up Fund provides opportunity to accelerate delivering on the long term ambition of regenerating the centre and catalysing a sustainable modern Town Centre that meets the needs of its residents.
- 3.2 A multidisciplinary team has been established to lead the design development of proposals with a view to utilising prescribed interventions as the basis of a potential Levelling Up Fund application.
- 3.3 An internal team has been formed to resource the programme from Development, City Growth, Policy & Neighbourhoods. A team of external consultants has been procured including Savills (development, valuation & cost management), 5Plus (architects & masterplanners), Solid Ground (placemaking advisors) along with Amion Consulting (economists & bid writers).
- 3.4 Current proposals under the regeneration programme include changing the configuration and public realm to improve perceptions and dwell time, improved travel infrastructure and connectivity, creation of office space (particularly in respect of the presently vacant uppers) to diversify the centre and provide commercial space for local operators or larger operators seeking satellite space, delivery of 1,000+ new homes, creation of a creative hub, and the delivery of a new F&B market.

- 3.5 The centre is considered well-placed to host these interventions and deliver maximum return for each. The centre benefits from its location between the city centre and Cheshire and in close proximity to the airport, hospital and HS2.
- 3.6 Proposals seek to shift the centre away from being solely high street retail to a more diverse offer, to attract greater activity across a broader range of sectors and thereby delivering an active, functional district centre to the benefit of existing residents and groups.
- 3.7 Were MCC to be unsuccessful in their LUF bid, contingency plans are in place. It should be emphasised that, even if unsuccessful in the LUF bid, the acquisition makes commercial sense and unlocks wider opportunities.
- 3.8 Whilst it will be business as usual post acquisition, it is envisaged that MCC act only as interim custodian of the shopping centre and the wider development land. MCCs development team are considering partnership arrangements including but not limited to procuring a development partner later in the year. The form of this partnership will be subject to approval of the Executive later in 2022/early 2023.

4.0 Revenue & Capital Matters

- 4.1 The direct revenue and capital implications of the acquisition are set out in the report of the same title on Part B of this agenda.

5.0 Value Add

- 5.1 In addition to the freehold of the shopping centre the Council owns significant adjacent land that will benefit from the regeneration proposals. Through the acquisition and regeneration of the centre, we foresee the value of these land parcels improving and they will be developed as part of the regeneration strategy.
- 5.2 Diversifying the use of the town centre is key to the success of the strategy, with development of high-density housing on these Council owned plots. Current indications are that well in excess of 1,000 new homes of urban density could be accommodated within the centre and on vacant Council owned land on the fringe. The value of this land will be in the £millions and enhanced through the regeneration proposals.
- 5.3 Further, the upper floors of the shopping centre are demonstrably under-utilised, and we believe should be brought forward for beneficial employment use through a flexible workspace proposal. Gap analysis work with Savills has identified a demand for this type of space within the locality and there is a great potential to turn vacant space that is a financial drain on the performance of the centre into an income generating asset.

6.0 Contributing to a Zero-Carbon City

- 6.1 Given the nature of the buildings on site and the proposed interventions, achieving net zero is not considered realistic at this time. However, at its core this acquisition and the wider regeneration principles amount to the Council taking control of the town centre and ensuring all regeneration works are considerate of MCC's net zero target.
- 6.2 A central part of the proposals is the repurposing of existing buildings. Rather than demolishing and starting again, where buildings remain in a salvageable condition, they will be reused, repurposed and revitalised in line with wider ambitions for the centre around diversification.
- 6.3 The re-use and revitalisation of the existing buildings is eminently sustainable and saves significant embodied carbon, waste and construction impact.
- 6.4 The multi-storey car park, vacant upper floors of the retail and the vacant building to the east of the site are all to be reused and given new purposes as part of the proposal. The vacant upper floors above the retail units and the vacant former Co-op building, is to be transformed into flexible working spaces and art studios to foster a new creative community.
- 6.5 New build developments will be considered with a fabric first approach, lowering the embodied carbon through thermal efficiency and heat recovery whilst reducing the reliance on mechanical ventilation.
- 6.6 The balance between emitted carbon and equivalent offset will be considered through whole life carbon assessments. Choosing materials and products which are sustainably made with long life spans will reduce the need for replacement. Maximising light but limiting solar gain with natural ventilation and implementing green technologies such as MVHR with ambient heat pumps and solar arrays should be the ethos of each development.
- 6.7 The creation of a new Mobility Hub to address the needs of car users, but also to assist in the promotion of other forms of sustainable travel, including facilities for electric vehicle charging and cycle hire.

7.0 Contributing to the Our Manchester Strategy

(a) A thriving and sustainable city

- 7.1 The diversification of the centre will provide for office space, diversifying the centre's offer and providing opportunities for large and small businesses to locate in Wythenshawe with associated opportunities for the local community.
- 7.2 Given the proximity to Manchester Airport, local businesses may see the centre as a well-connected (in terms of both transport and fibre) and with a local workforce. Further, we're aware that MAG are on a significant recruitment drive. The proposed 1,000+ homes would be an ideal location for residents to live whilst working at the Airport.

- 7.3 The proposed cultural hub will further diversify the centre, providing opportunity for local residents to engage with creative groups whether performing alongside or attending performances.

(b) A highly skilled city

- 7.4 The proposed major inward investment, diversification of the centre, and the creation of office space, creative space and a night-time economy will give significant opportunity to Manchester residents in terms of jobs and training.
- 7.5 The Civic Centre is very well-connected in terms of fibre and is therefore well-suited to tech companies who could provide job opportunities in a high demand highly skilled field.
- 7.6 Opportunity for schools engagement with the creative hub.
- 7.7 During construction phases, there will be jobs available on site.
- 7.8 The provision of new homes at the site would support the growing population in an area identified for high density development. The site is also well-connected to the city centre thereby helping to support Manchester's local economy.

(c) A progressive and equitable city

- 7.9 Any contractual capital works resultant from the regeneration of the shopping centre post acquisition will incorporate significant social value outputs as part of the procurement and evaluation. This will include a commitment to local employment strategies.
- 7.10 The provision of high-quality affordable homes is vital to support a growing population. A range of tenures would ensure all homes needs are catered for including social rent and shared ownership in line with local housing needs.

(d) A liveable and low carbon city

- 7.11 As detailed above, the proposed interventions will utilise existing building wherever possible and all works will be undertaken in line with sustainability principles to meet wider MCC targets.

(e) A connected city

- 7.12 The centre is well-connected in terms of public transport via the Metrolink to the city centre and the Airport. There are also bus services connecting the centre to the neighbouring areas.
- 7.13 Through acquisition of the shopping centre this unlocks the ability for the Council to link public realm improvements on key gateway locations to the wider active travel network and also the prospective works envisaged by

TfGM's LUF round 2 bid proposals.

8.0 Key Policies and Considerations

(a) Equal Opportunities

- 8.1 The properties within the development will be available to all people regardless of their age, race, religion, gender or other characteristics.

(b) Risk Management

- 8.2 Upon acquisition, a lettings and management agent will be appointed to ensure continued active asset management to protect the income profile and capital value. Due diligence and familiarisation work is well underway to ensure a swift and orderly transition to the new ownership arrangements.
- 8.3 Red book valuation to be provided confirming MCC achieving best consideration.
- 8.4 If unsuccessful with the LUF bid, MCC has contingency plans in place. The most likely forward avenue (if unsuccessful with LUF bid) is to enter a Joint Venture alongside a trusted partner.

(c) Legal Considerations

- 8.5 The Council is proposing to acquire both leasehold and freehold interests in Wythenshawe Town Centre area. The Council pursuant to its general powers, is enabled to acquire property for any of its functions or the for the benefit, improvement or development of its area. The Council's legal team supported by external legal advisors will continue to support the delivery of the property and commercial arrangements. Legal, financial, planning and property advice will be provided to ensure the most efficient arrangements are put in place to acquire the property interests, promote the operation of the centre and regeneration of the area.

9.0 Concluding Remarks

- 9.1 In summary, the proposed acquisition of St Modwen's interests in Wythenshawe Town Centre presents not only good value to the Council but will also give MCC control of an important district centre whilst acting as a catalyst for a wider programme of regeneration linked to an LUF bid.