

## **Manchester City Council Report for Resolution**

**Report to:** Executive – 16 November 2022

**Subject:** King Street Multistorey Car Park & King Street West Shops (Part A)

**Report of:** Strategic Director (Growth & Development)

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### **Summary**

This report seeks approval for the disposal by way of a surrender of the Council's leasehold interest in the King Street West multi storey car park (MSCP) and ground floor retail shops on the principle terms and conditions outlined in the report at Part B of this agenda. This is to facilitate the redevelopment of the site comprising demolition of the block including Fraser House offices, the MSCP and ground floor retail shops. This will also include the comprehensive refurbishment of the adjacent Grade II Listed Kendals building on Deansgate, in accordance with the Parsonage Gardens SRF, which was approved in July 2020.

Fundamental to the redevelopment will be demolition, which will necessitate the closure of the ground floor shops. Engagement with the tenants has been ongoing during the SRF and planning process but both MCC and the developer will endeavour to work closely with each of them to ensure that they get offered advice and guidance along with as much notice as possible in respect of the date by which vacant possession of the units is required. They will also be provided with any detail of the relevant statutory or other process that the Council will follow to secure vacant possession of the shops.

It will also mean the closure of the public MSCP and will result in the loss of the current car parking and shop rental revenue stream to the Council, although the disposal will provide a capital receipt to the Council. It is anticipated that there will be a net gain from the redevelopment scheme in terms of Council's revenues through business rates and Council Tax.

The surrender of the Council's leasehold interest will act as a catalyst to the comprehensive refurbishment of an important heritage asset and contribute to delivering the regeneration aspirations outlined in the strategic regeneration framework for the wider site.

### **Recommendations**

The Executive is recommended to:

1. Approve the decision to declare the asset surplus to operational need for disposal by way of surrender of the lease.
2. Note the proposal to return to Executive in the event that (1) it has not been

possible to secure vacant possession of the site by agreement and a formal request be made to consider the use of Compulsory Purchase Powers and (2) following a period of negotiation with the beneficiaries of any adjoining third party rights affected by the proposed development, the freeholder has not reached a settlement and has requested the Council consider use its powers under section 203 Housing and Planning Act 2016 .

3. Delegate authority to the Deputy Chief Executive and City Treasurer, Strategic Director of Growth & Development in consultation with the Leader and Executive Member for Finance and Resources to negotiate and finalise the details and terms of the disposal by way of surrender together with the property, commercial and any ancillary arrangements.
4. Delegate authority to the City Solicitor to enter into and complete all documents or agreements necessary to give effect to the recommendations in this report.

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### Wards Affected – Deansgate

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

The proposed scheme constitutes the demolition of existing end of life assets and redevelopment in line with adopted planning policy and the Parsonage Gardens SRF. It is not considered viable to comply with the aspirations of the SRF through the retention and repurposing the existing car park structure, therefore demolition is considered the only realistic intervention in this instance.

The proposed redevelopment works have been designed to support MCC's net zero target through the targets outlined in the St Marys Parsonage SRF and will be low carbon buildings.

The King St West new build is part of an overall scheme being promoted by the freeholder, who also owns the Kendals building. In this wider context creating an investible proposition across both sites will safeguard the future of this important heritage asset including the modernisation of the building, reducing its carbon emissions.

The removal of a public car park at this location is in line with the objectives of encouraging active travel as part of the City Centre Transport Strategy. It will also assist in the reduction of car movements in the vicinity of Deansgate, which will be subject to further restrictions on general traffic in due course. This will ultimately aid longer term aspirations around air quality in the city, whilst indirectly helping to promote the use of other forms of sustainable forms of travel.

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 redevelopment of the site will provide for predominantly office space with some retail in the ground floor new build site and lower levels of Kendals. This will facilitate opportunities for large and small businesses to acquire space within the development. Coupled with the investment and remodelling of a significant city centre landmark listed building (Kendals) this scheme will not only create new jobs but will ensure the listed property remains viable and sustainable.</p>
<p>A highly skilled city: world class and home-grown talent sustaining the city's economic success</p>	<p>The proposed major investment within the wider site will see the creation of office space, retail space and improved public realm and pedestrian routes through the various access points. By attracting new and expanding businesses and occupiers, it will give significant indirect opportunities to Manchester residents in terms of jobs and training, all 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>The proposed development will provide a much higher density of development for employment generating activity on the site, removing a relatively low employment density use. The new development will deliver jobs through its construction and use and through discussions with the freeholder the Council will actively seek to optimise social benefit outputs into local communities. The protection of, and investment into, heritage assets in the city is an important strategy to ensure that the built environment contributes to the health and wellbeing of the residents of the city. Adopting a long-term sustainable approach to this through the comprehensive development of the wider site will support this outcome.</p>

<p>A liveable and low carbon city: a destination of choice to live, visit, work</p>	<p>As detailed above, the proposed redevelopment will seek to embody wider MCC principles as adopted through the St Marys Parsonage SRF.</p>
<p>A connected city: world class infrastructure and connectivity to drive growth</p>	<p>The site is located within easy walking distance of both Manchester Victoria and Salford Central railway stations. It is well-connected in terms of public transport via the Metrolink that runs along the nearby Cross Street. There are also bus services connecting the centre to the neighbouring areas.</p> <p>A key focus of the redevelopment is addressing the 'dark alley' network that lacks active frontages, to create more open and accessible public realm improvements. This will better connect with the adjoining areas of the city in safer and cohesive way.</p> <p>The MSCP will be closed and no parking is to be re-provided in the new development. However, there is other on street, surface and multi storey options with the vicinity for public use.</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 surrendered (this should be an appendix)
- Report to Executive 12<sup>th</sup> February 2020 - St Mary's Parsonage Strategic Regeneration Framework
- Design and Access statement

## **1.0 Introduction**

- 1.1 Following adoption of the St Mary's Parsonage SRF in July 2020, there has been an intention to support the redevelopment of the MSCP and ground floor shops for mixed use development. Officers have been in detailed discussions with the freeholder of this site and the adjacent Kendals building to explore the mechanism to achieve these ambitions and secure the long-term future of the architecturally important Kendals building.
- 1.2 This report seeks approval to the principle commercial terms for the land transaction between the Council and the freeholder that will facilitate the delivery of these ambitions.
- 1.3 The disposal of the Council's asset (MSCP and ground floor shops) will create a development platform to undertake the wholesale redevelopment of a cornerstone area of Deansgate and King Street West.
- 1.4 The redevelopment is planned to be one of the first major schemes to be brought forward following the adoption of the St Marys Parsonage SRF and is anticipated to provide a catalyst for the other schemes in the vicinity. Indeed, we are now seeing a number of those schemes in planning or pre-planning.

## **2.0 Background**

- 2.1 The King Street West site sits within the St Marys Parsonage SRF. The freehold is currently owned by Investec and the Council has a long leasehold interest in part of the site referred to as the 'back site.' This includes the MSCP, ground floor shops (35-47 odd) and two bridges which link the Kendals building to the MSCP. The MSCP was within the Joint Venture partnership with NCP, which was brought in-house in January 2021 and is now operated by the Council's parking team. The shops form part of the managed investment estate.
- 2.2 There is planning and listed building consent for the refurbishment of Kendals and the redevelopment of the King Street West site. The parties have been working towards a commercial deal and land assembly strategy for some time, alongside securing planning permission.
- 2.3 Following the planning approval, officers have concluded the negotiation of principle terms to dispose of the Council's leasehold interest, based on the approved scheme. To provide assurance on the commercial terms, an independent opinion of value has been sought to ensure the deal represents Best Value and consideration for the Council's asset.
- 2.4 Fundamental to the redevelopment will be demolition, which will necessitate the closure of the ground floor shops. Engagement with the tenants has been ongoing during the SRF and planning process but both MCC and the developer will endeavour to work closely with each of them to ensure that they get offered advice and guidance along with as much notice as possible in respect of the date by which vacant possession of the units is required. They

will also be provided with any detail of the relevant statutory or other process that the Council will follow to secure vacant possession of the shops.

- 2.5 The King Street West shops are directly managed by Jacobs on behalf of the Council as part of the investment estate and provide a rental income to the Council. The Council and the freeholder (and their respective representatives) will work together to ensure that any discussions and negotiations with those tenants in relation to securing vacant possession are reasonable and timely. It is acknowledged that the closure of these retail units will result in the extinguishment of some businesses and a consequent small number of job losses, should any of the businesses choose to permanently close. This cannot be evaluated at this moment but it is hoped that they can be supported to consider relocating locally and retain staff where possible.
- 2.5 A Rights of Light Strategy is being employed by the freeholder to deal with any third-party rights identified affecting the development. It is acknowledged that the freeholder may approach the Council to consider the use of S.203 acquisition powers to aid in the delivery of the development, once all reasonable attempts have been made to negotiate with the beneficiaries of the third-party rights. This will only be considered by the Council in its absolute discretion were it deemed appropriate and in line with the Council's current protocol and policies.

### **3.0 Wider Regeneration**

- 3.1 The St Mary's Parsonage SRF sets out a series of key principles for the growth and regeneration of this strategically and historically important part of the city. The SRF area occupies a significant frontage to both Deansgate and the River Irwell. The buildings within this location are varied, some of which are important heritage assets and others are end of life commercial buildings with no real prospect of making a positive contribution to the area.
- 3.2 The MSCP and ground floor shops are located within the King Street character zone, which also contains Kendal Milne and Reedham House. Property Alliance Group have submitted a planning application to bring forward Reedham House for a major 64,000sqft office led scheme.
- 3.3 Other current key developments within the SRF area include Alberton House, which is being refurbished, and Oval Developments are about to conclude their public consultation for Albert Bridge House, which includes the Council owned surface car park at Bridge Street. The proposed scheme is a blend of both residential and office accommodation across a new build scheme. The disposal of the car park will critically realise a significant capital receipt for the Council which is currently in negotiation.

### **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 Supporting the sustainable redevelopment of sites not fulfilling their commercial potential and maximising the contribution to the city is key to the success of the SRF strategy. Over 500,000sq/ft of [new] office space is to be created within this area that sits on a tight footprint. This new development will contribute to the economic success of the city through new jobs, homes and other infrastructure as well as providing a significant new income from business rates and council tax.
- 5.2 The change in retail trends, demonstrated through the administration of House of Fraser and Debenhams, has left large gaps in the high street from what were anchor occupiers. Cities and towns now have what are often landmark buildings, vacant or barely occupied. This is the situation at Kendals where currently the upper floors are under-utilised. This supports the view that high street needs to adapt and for this important iconic building to remain sustainable, it needs to repurpose and diversify the uses contained within.
- 5.3 The refurbishment and redevelopment proposals align with these principles and provide a consistent approach to investing in the SRF area to support the desired outputs. New development will create value to the city through new investment, employment and significantly increased business rates.

## **6.0 Contributing to a Zero-Carbon City**

- 6.1 Given the nature of the buildings located on the 'back site' demolition is the only viable option in the context of creating quality buildings that are fit for purpose in the long term. Achieving net zero from the wider development is not considered realistic at this time, primarily as a result of the retention of the heritage assets across the site. However, the principle of best-in-class design and development to secure desired outcomes in respect of the Council's net zero ambitions and which is in line with the principles adopted in the SRF, have been embedded throughout the design development process.
- 6.2 Whilst retention of the back-site cannot be achieved, a fundamental principle of the proposals is the repurposing of existing heritage buildings to deliver a modern energy efficient flexible building. The re-use and revitalisation of the existing buildings, which incorporates low carbon principles through a building-wide retrofit is eminently sustainable and saves significant embodied carbon, waste and construction impact.

## **7.0 Contributing to the Our Manchester Strategy**

### **(a) A thriving and sustainable city**

- 7.1 The redevelopment and change the use of the site will provide for office space, retail space and public realm that will contribute to the city centre economy and placemaking agenda. Providing opportunities for large and small businesses to locate in the accommodation which in turn provides potential for jobs and training.



### **(b) A highly skilled city**

- 7.2 The creation of new high grade office space and a focused retail offer will give significant opportunity to Manchester residents in terms of jobs and training, from the business both new and expanding to location.
- 7.3 During construction phases, there will be jobs available on site.

### **(c) A progressive and equitable city**

- 7.4 The proposed development will provide a much higher density of development for employment generating activity on the site, removing a relatively low employment density use. The new development will deliver jobs through its construction and use and through discussions with the freeholder the Council will actively seek to optimise social benefit outputs into local communities.
- 7.5 The protection of, and investment into, heritage assets in the city is an important strategy to ensure that the built environment contributes to the health and wellbeing of the residents of the city. Adopting a long-term sustainable approach to this through the comprehensive development of the wider site will support this outcome.

### **(d) A liveable and low carbon city**

- 7.6 As outlined above, the proposed redevelopment will utilise an existing building as part of the scheme and wherever possible all works will be undertaken in line with wider MCC targets and sustainability principles outlined in the SRF.

### **(e) A connected city**

- 7.7 The centre is well-connected in terms of public transport via multiple train stations and the Metrolink network that crosses the city centre to neighbouring areas. There are also bus services connecting the centre to the suburbs, and the major transport hubs.
- 7.8 The scheme approved via planning is underpinned by a focus to redesign and improve the pedestrian experience through the site from Motor Square through to Parsonage Gardens and Deansgate and further afield to Spinningfields and St Annes Square. Activating the ground floor frontages and maximising the public realm opportunities.

## **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. Significant public consultation has been carried out through the adoption of the SRF and the planning process.

## **(b) Risk Management**

- 8.2 The surrender of the long leasehold interest will take away an income stream for the Council, as well as removing significant liabilities.
- 8.3 The process to secure vacant possession of the retail shops and remove any other impediments to development will be captured within the legal agreement.
- 8.4 Best value considerations have been complied with through the commissioning of an independent Red Book valuation report. The commercial terms of the deal have been considered within this report, which has been provided confirming MCC is achieving best consideration in relation to the disposal of its asset.
- 8.5 Development obligations and pre-development activity will be captured through a series of contractual milestones and managed in line with the Council's corporate due diligence and assurance protocols.

## **(c) Legal Considerations**

- 8.6 The Council is proposing to dispose of its leasehold interest in the site by way of a surrender. The lease is for a term of 199 years from 24<sup>th</sup> June 1960. Section 123 Local Government Act 1972 sets out the statutory framework for the disposal of land in relation to the price to be achieved. An independent opinion of value has been obtained to determine best consideration in respect of the disposal price. The Council's development and parking teams supported by the legal team, will continue to manage the MSCP and the shops until notice is served and vacant possession secured. The agreed management strategy will be followed to engage with the occupying tenants and negotiate a route to vacant possession when required.

## **9.0 Concluding Remarks**

- 9.1 In summary, the proposed disposal represents not only good value to the Council but it will help revitalise an important part of the city centre.