

Manchester City Council Report for Resolution

Report to: Executive – 17 October 2018

Subject: Disposal of leasehold interests in land at Crown Street, Manchester to support comprehensive redevelopment of Great Jackson Street.

Report of: Strategic Director (Development)

Summary

This report sets out the detail of a series of connected leasehold disposals which will support the comprehensive redevelopment of Great Jackson Street in accordance with the recently updated Great Jackson Street SRF (the “SRF”). The SRF provides for the creation of a new residential neighbourhood in the City Centre, characterised by high quality high density residential development set in a transformed public realm, with a new park and enhanced connectivity. The leasehold disposals are extensions of existing leasehold arrangements, and will ensure that the early phases of development contemplated under the SRF will be delivered by a single developer, who has acquired the balance of interests in the remainder of this site.

Recommendations

The Executive is recommended to:-

1. Note the commitment by the Developer to provide new community amenities in the form of a new educational space, a medical centre and public park within their development proposals.
 2. Approve the disposal of new development leases to the existing leaseholder by way of a conditional agreement for lease and lease, on principle terms outlined in the body of this report.
 3. Delegate authority to the Strategic Director, Strategic Development, in consultation with the Leader and Executive Member for Housing and Regeneration, to finalise the detailed terms of the commercial agreements.
 4. Delegate authority to the City Solicitor to complete the necessary contracts to give effect to the above recommendations.
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Wards Affected: Deansgate, Hulme

Manchester Strategy outcomes	Summary of the contribution to the strategy
<p>A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities</p>	<p>The comprehensive redevelopment of Great Jackson Street will provide a major focus for new investment within the area. With significant construction already underway, delivering the initial phases of development, the area will support the city's residential growth requirements providing high quality new homes within a distinctive neighbourhood. Development at Great Jackson Street will act as a catalyst for further investment across the area and will align with and support investment made at First Street in creating a gateway to the city centre. The SRF will also support direct employment opportunities through the creation of retail and amenity units at street level.</p>
<p>A highly skilled city: world class and home grown talent sustaining the city's economic success</p>	<p>This new residential led development within the region's economic hub will both support population growth, as well as the attraction and retention of the talent required to support Manchester's strong growth trajectory over a range of economic sectors. The residential development will facilitate the delivery of a well-connected neighbourhood within close proximity to the range of employment opportunities offered within the city centre.</p>
<p>A progressive and equitable city: making a positive contribution by unlocking the potential of our communities</p>	<p>The proposals within the updated SRF will support and stimulate regeneration at the southern gateway and across the wider city centre. The SRF proposals will contribute to the delivery of the Manchester Residential Growth prospectus and meet the growing demand for new homes in the city. The SRF details proposals that will provide new public realm and public space, together with high quality design and uses that will provide a positive amenity that local residents and adjoining neighbourhoods can benefit from. Improved links to Hulme will enhance access to the city centre for local residents.</p>

<p>A liveable and low carbon city: a destination of choice to live, visit, work</p>	<p>The SRF will prioritise the delivery of enhanced pedestrian walkways and cycling routes into the city centre at a key gateway location. This will enhance the connectivity of Great Jackson Street with surrounding districts and deliver improved links and access to established city centre neighbourhoods including Castlefield and First Street. A key component of the framework is to deliver significant new high quality public spaces and connections throughout the area, which will comprehensively improve the environment of this part of the city centre. Additionally as a result of the improved routes and permeability through the Great Jackson Street area, enhanced access will be provided to Hulme Park. Aligned with the anticipated increasing number of families moving into the Great Jackson Street area and adjacent neighbourhoods, the Council is currently undertaking work on a city-wide basis to examine the potential for further school and nursery provision, to satisfy demand generated by those living within the city centre. Ground floor uses within development at Great Jackson Street hold the potential for retail and leisure uses such as restaurants, cafes and local convenience stores as well as amenity facilities to support the primarily residential neighbourhood, such as a residents' lounge, gym, health care facilities and flexible working space. This establishes a mechanism for social infrastructure such as doctors, dentists and crèche facilities to be provided within the framework Area.</p>
<p>A connected city: world class infrastructure and connectivity to drive growth</p>	<p>The development of the Great Jackson Street area will deliver a significant new residential neighbourhood at a key city centre gateway. The neighbourhood will be connected to and benefit from key amenities at First Street, Castlefield and Hulme, in addition to providing a differentiated residential offer which will be unique to the Great Jackson Street area through its mixture of residential typologies and high quality public spaces. The Great Jackson Street neighbourhood will benefit from strong transport connectivity. This includes excellent public transport links with both rail and Metrolink stations within a 5 minute walk from the SRF area, negating resident's and visitor's reliance on car usage.</p>

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

- Equal Opportunities Policy
 - Risk Management
 - Legal Considerations
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Financial Consequences – Revenue

The educational and medical accommodation provided by the developer as part of their development proposals will attract holding costs if held vacant by the Council. This can be mitigated through appropriate management of the process.

Financial Consequences – Capital

The Council will receive a capital receipt for the land in the region of £2.1M plus indexation, calculated by reference to the draw down date of the relevant lease.

If a lease of the education or medical space is not entered into within specific timescales, as set out in the report, the Developer has the option to pay a premium to secure removal of the restrictions on use placed against these elements, this would result in a capital receipt for the Council. If future phases of development stall, the Council may receive a payment equivalent to the pro rata developer commitment costs outstanding at that time.

There will be a reconciliation valuation based on financial performance of the scheme, this will take into account the community amenity and social infrastructure the developer is delivering, and will establish the financial contribution which will be allocated to the affordable housing fund.

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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.

- Report to the Executive – Southern Gateway: Great Jackson Street Development Framework – 24 October 2007.
- Draft Great Jackson Street Development Framework – January 2015
- Report to the Executive – Great Jackson Street Development Framework – 18 March 2015
- Report to the Executive – Great Jackson Street Development Framework – 1 July 2015
- Great Jackson Street Strategic Regeneration Framework – July 2015
- Draft updated Great Jackson Street Strategic Regeneration Framework – August 2017
- Report to the Executive – Great Jackson Street Strategic Regeneration Framework update – 13 September 2017
- Report to the Executive – Great Jackson Street SRF (Update) – 10 January 2018

1.0 Introduction

- 1.1 The Executive, at its meeting of 10 January 2018, endorsed the principles of the Great Jackson Street SRF (the “SRF”) and these were adopted as a material planning consideration in respect of applications submitted in the SRF area.
- 1.2 Since endorsement by the Executive, officers have been working with the principal landowner, Renaker, to develop a detailed second phase of development, building on the initial phase of construction at Owen Street. This second phase scheme comprises 644 apartments, ancillary amenity provision, cycle and parking and commercial space and was approved by planning committee on 28 June 2018.
- 1.3 The Council holds strategic land interests within the SRF area, and as part of the developer’s commitment to providing the social infrastructure and public realm required by the SRF, this report sets out the legal and commercial structure whereby the Council will leverage and secure these significant commitments through the regear of its land interests.

2.0 Background

- 2.1 The developer, Renaker, acquired the overarching interest in the Crown Street area from the distressed owner in 2015. This area is outlined red on the attached plan. The Council has 3 reversionary freehold interests located within this area, tinted blue, pink and green on the attached plan. These freeholds are subject to long leases out to Renaker. At the time of Renaker’s acquisition of the wider site, heads of terms for an agreement to create 2 new over-riding development leases were agreed in principle between the two parties.
- 2.2 The developer is also bringing forward the first phase of development within the Great Jackson Street area, the four residential buildings within Owen Street development. Through a collaborative approach with the Council, Renaker commenced development of the Owen Street scheme, and significant progress has been made with regards to that development, with 2 landmark residential towers now adding to the City’s changing skyline, and the remaining 2 residential buildings and podium well out of the ground.
- 2.3 Given the scale of development being undertaken by the developer in the immediate vicinity of the subject sites, it was important to ensure capability and capacity of the developer before finalising the terms of any commercial deal at Great Jackson Street.
- 2.4 Over the course of this year, and following the adoption of the updated SRF by Executive in January, the developer and officers have been finalising proposals for the second phase of development in the Great Jackson Street area. This has culminated in an initial tranche of residential development on a plot fronting ‘Deansgate’ comprising a part 51-storey and part 22-storey high density residential development. This development was approved by Planning

Committee on 28 June 2018. The planning report set out the over-arching developer commitment to delivering high quality buildings, public space and place-making in line with the principles of the SRF.

- 2.5 Further, the developer has recognised the importance of providing community amenity space and quality social infrastructure to support the scale of residential development that is being brought forward through Great Jackson and other neighbouring regeneration frameworks.

Developer Contributions

- 2.6 The developer has committed, through signing up to deliver the wider SRF, to significant developer contributions in to social infrastructure and public realm on the site in accordance with planning policy. In principle, the developer will provide:

Phase 2 – Tranche 1:

- Medical Space - provision of 400 sq m (4339 sq ft) of ground floor shell and core space to be accessed independently to the main scheme entrance, but off Chester Road.
- 31% of the public realm and publicly accessible space.

Phase 2 – Tranche 2:

- Educational space - provision of 1300 sq m (13,993 sq ft) of shell and core space located over 2 floors within buildings C3, C4 and C5. This space will be separately accessed and there will be arrangements put in place through the management arrangements to secure specific access to the public park being created.
- Public park
- Remainder of the public realm and publicly accessible space (69%).

- 2.7 The developer has proposed shell and core space to enable the Council and its partners to specify the final layout, fit-out and finish. To benefit from the contribution officers will work with stakeholders, potential tenants and the developer to agree commercial terms and finalise layouts, access, M&E at an early stage as possible to maximise efficiency and minimise any abortive costs.

- 2.8 There is an imbalance in respect of the contributions, in that the majority of developer contributions will be delivered within second tranche of development. To mitigate the risk to the Council of the developer not commencing this second tranche of development a condition has been attached to the planning consent outlining a transitional treatment of the site if development is not commenced within 12 months. This requires the developer to provide a hard-surfaced car park, with appropriate lighting, drainage and security. This will effectively equalise this financial imbalance ensuring that the Council secures the planning contributions due for the relevant tranche of development.

- 2.9 The developer has only secured planning approval for the first tranche of Phase 2 of the development within the SRF area. A planning agreement to

capture the second tranche community amenity and public infrastructure will be sought as part a later application by the developer or their successors in title.

3.0 Land Arrangements

- 3.1 The Council owns the freehold reversion in 3 plots of land which have been tinted blue, pink and green on the attached plan. These interests are arranged in 3 land registry titles, but are captured in 2 leases to Renaker. These are subject to long leasehold interests currently held by the Developer. These leases are restrictive in their use, permitting only industrial and car parking uses. The unexpired term is insufficient to secure funding for redevelopment of the site in accordance with the SRF. The proposed transaction would comprise an over-arching Agreement for Lease between the Council and the Developer.
- 3.2 The Agreement for Lease would incorporate a series of conditions precedent that would have to be satisfied prior to the drawdown of the land required to deliver the first tranche of development. These would be related to securing an implementable planning consent, free from challenge, evidence of funding to deliver the scheme, entry into a bona fide build contract, approval of an estate management strategy for the management of the blocks in the first phase and the associated public realm. The second tranche of development will require satisfaction of the same conditions along with a further performance related condition which would involve construction of the first tranche of development to 80% of practical completion, this may be waived at the discretion of the Council if it is of the opinion that progressing future development is appropriate.
- 3.3 On satisfaction of the conditions precedent the Council would grant an over-riding lease of the land with the usual landlord controls. Given the fact that the Council only own partial interests across the site, and the ownership will be fragmented across the buildings to be constructed it has been provisionally agreed to grant 999yr leases out of the Council's freeholds on this occasion. It is still considered important for the Council to retain its freehold ownership to ensure the area is built out to completion, and the buildings on this important gateway into the city are appropriate.
- 3.4 The developer contributions are to be captured by way of a s106 agreement or Unilateral Undertaking. This is considered to be the most appropriate mechanism for ensuring the developer and any successors in title comply with these requirements. The reason being that the Council's land interest is only partial, and officers are recommending that the restrictions are placed across the whole of the site, so that they run with the land and compliance can be enforced through planning control.
- 3.5 Entry into the s106 agreement or Unilateral Undertaking will be a further condition precedent in the Agreement for Lease and will need to be satisfied prior to the granting of development leases.

3.6 It is envisaged that the Council and the Developer will, through the planning process, negotiate a s106 agreement to cover developer obligations in respect of the future phases of development. To protect the Council, the requirement to provide the base level of developer contributions, as outlined in 2.6 above, will be written into the Agreement for Lease, and removed only if superseded by entry into a s106 agreement.

4.0 Analysis of pupil demand

4.1 Officers are undertaking analysis of pupil demand to review yields from new developments being constructed as they are completed and occupied, along with an assessment of the likely demographic which will be attracted to occupy the pipeline of future residential development as this comes forward. This will be used to establish the demand for new pupil places in the context of any changes to take account of any variations in the demographic of residents in the City Centre. This will be reviewed as required through the design development process to ensure that the planned accommodation is appropriate to the needs of the community.

4.2 The process of establishing a school requires the Council to undertake a Free School Presumption to identify a multi-academy trust to operate the school. This is a competitive process mandated by the Department for Education and requires that the Council publish a specification for the type of school it requires. The final decision on operators (or sponsors) the school is with the Regional Schools Commissioner on behalf of the Secretary of State. The Council has a capital fund to commission school places but it can only be used where there is a clear demand which will be evidenced by the analysis outlined in 4.1 above.

5.0 Contributing to the Manchester Strategy

(a) A thriving and sustainable city

5.1 The comprehensive redevelopment of Great Jackson Street will provide a major focus for new investment within the area. With significant construction already underway, delivering the initial phases of development, the area will support the city's residential growth requirements providing high quality new homes within a distinctive neighbourhood. Development at Great Jackson Street will act as a catalyst for further investment across the area and will align with and support investment made at First Street in creating a gateway to the city centre. The SRF will also support direct employment opportunities through the creation of retail and amenity units at street level.

(b) A highly skilled city

5.2 This new residential led development within the region's economic hub will both support population growth, as well as the attraction and retention of the talent required to support Manchester's strong growth trajectory over a range of economic sectors. The residential development will facilitate the delivery of a well-connected neighbourhood within close proximity to the range of

employment opportunities offered within the city centre.

(c) A progressive and equitable city

- 5.3 The proposals within the updated Great Jackson Street SRF will support and stimulate regeneration at the southern gateway and across the wider city centre. The SRF proposals will contribute to the delivery of the Manchester Residential Growth prospectus and meet the growing demand for new homes in the city. The SRF details proposals that will provide new public realm and public space, together with high quality design and uses that will provide a positive amenity that local residents and adjoining neighbourhoods can benefit from. Improved links to Hulme will enhance access to the city centre for local residents.

(d) A liveable and low carbon city

- 5.4 The SRF will prioritise the delivery of enhanced pedestrian walkways and cycling routes into the city centre at a key gateway location. This will enhance the connectivity of Great Jackson Street with surrounding districts and deliver improved links and access to established city centre neighbourhoods including Castlefield and First Street. A key component of the framework is to deliver significant new high quality public spaces and connections throughout the area, which will comprehensively improve the environment of this part of the city centre. Additionally as a result of the improved routes and permeability through the Great Jackson Street area, enhanced access will be provided to Hulme Park. Aligned with the anticipated increasing number of families moving into the Great Jackson Street area and adjacent neighbourhoods, the Council is currently undertaking work on a city-wide basis to examine the potential for further school and nursery provision, to satisfy demand generated by those living within the city centre. Ground floor uses within development at Great Jackson Street hold the potential for retail and leisure uses such as restaurants, cafes and local convenience stores as well as amenity facilities to support the primarily residential neighbourhood, such as a residents' lounge, gym, health care facilities and flexible working space. This establishes a mechanism for social infrastructure such as doctors, dentists and crèche facilities to be provided within the framework Area.

(e) A connected city

- 5.5 The development of the Great Jackson Street area will deliver a significant new residential neighbourhood at a key city centre gateway. The neighbourhood will be connected to and benefit from key amenities at First Street, Castlefield and Hulme, in addition to providing a differentiated residential offer which will be unique to the Great Jackson Street area through its mixture of residential typologies and high quality public spaces. The Great Jackson Street neighbourhood will benefit from strong transport connectivity. This includes excellent public transport links with both rail and Metrolink stations within a 5 minute walk from the SRF area, negating resident's and visitor's reliance on car usage.

6. Key Policies and Considerations

(a) Equal Opportunities

- 6.1 A key aim of the wider Strategic Regeneration Framework is to promote the delivery of high quality residential development in close proximity to the region's economic hub. The provision of social infrastructure, such as medical provision, educational space and a public park will act as a catalyst for a wider demographic to locate into this part of the City Centre. This will enhance sustainability of communities and add to community cohesion. The ground floor commercial uses will also add employment opportunities for residents of Manchester.

(b) Risk Management

- 6.2 The provision of a conditional agreement and entry into a s106/Unilateral Undertaking will provide an appropriate framework to capture developer's obligations, in terms of the delivery of the development and the wider social infrastructure. This is a critical part of the Strategic Regeneration Framework to support the regeneration of this part of the City.

(c) Legal Considerations

- 6.3 To protect the Council's position creating a standalone planning agreement to capture the developer's obligations is deemed appropriate. Whilst this is not an absolute requirement of the planning permission, the Council can frustrate the development by withholding the new leases. By including a condition in the agreement for lease that the s106 agreement or Unilateral Undertaking is entered into, the developer will have to commit contractually to providing these obligations and suitable enforcement provisions can be secured through the planning framework.