



**Joint Report of the Cabinet Members for Corporate Services & Performance and Investment, Regeneration, Events & Tourism**

**Cabinet – 21 September 2023**

**Proposed Freehold Sale or Lease Restructure of 254 – 260 Oxford Street, Swansea In Order to Facilitate Refurbishment of Ground Commercial Units and Repurposing of Upper Floor Accommodation Into Residential Units.**

<b>Purpose:</b>	The report will present a number of landowner options to Cabinet regarding 254 – 260 Oxford Street in order to facilitate the redevelopment of the block, including the refurbishment of ground commercial units and repurposing of upper floor accommodation into residential units.
<b>Policy Framework:</b>	Asset Management Plan 2017 - 2021; Land Transaction Procedure Rules
<b>Consultation:</b>	Finance, Legal, Access to Services
<b>Recommendation(s):</b>	<p>It is recommended that Cabinet:</p> <ol style="list-style-type: none"><li>1. Consider whether the Council should deviate from the current policy of retaining freehold interests in the city centre and approve the disposal of the freehold interest.</li><li>2. If recommendation 1 is approved, authorise the section 151 officer to make an appropriate amendment to the revenue budget to offset the loss of annual income with this pressure reflected as part of the budget process in 2024/25.</li><li>3. Alternatively to consider whether to approve a leasehold re-gearing of the property which does not represent best consideration. .</li><li>4. Alternatively to authorise officers to progress with a re-gear of the property on market value terms.</li><li>5. requests that a further report is prepared for Cabinet consideration on the policy of freehold retentions/disposals in the City Centre</li><li>6. Confirms that no further freehold disposals will be considered until the policy review is presented in line with recommendation 5 alongside a future report on a review of the City Centre Strategy.</li></ol>

<b>Report Author:</b>	Geoff Bacon
<b>Finance Officer:</b>	Ben Smith
<b>Legal Officer:</b>	Debbie Smith
<b>Access to Services Officer:</b>	Rhian Millar

## **1.0 Introduction**

- 1.1 The Council currently own the freehold interest in 254 – 260 Oxford Street, subject to a number of long leasehold interests which are currently held by Kartay Holdings Limited ('The Tenant'). In total, the tenant holds six individual leases on broadly similar terms and durations with unexpired terms ranging between 85-100 years. The various leasehold agreements are set out within the main body of this report.
- 1.2 The Council own a number of other freehold interests within the City Centre and most of which are subject to long ground lease arrangements. In total, the Council own 101 properties within the City Centre which generates an annual income for the Council in the region of nearly £1m. Historically, the main reasons for the Council holding land & buildings is to generate revenue and to help influence future development. For example, the Council's ability to participate in the current redevelopment proposals for the City Centre derives largely from its freehold ownership of assets. Although disposal of City Centre premises could generate a significant capital sum it is suggested that the revenue and development benefits are overriding.
- 1.3 The Council has a long standing strategy, specifically stated within the adopted Asset Management Plan 2006-7 to retain its freehold ownership in the City Centre to support the Council's (at that time) Interim Retail Strategy. Aside from revenue generation, the principal reason for retaining freehold interests is to control redevelopment of specific areas through its land ownership and the Council, in its capacity as a landlord, can control uses. Having fragmented ownership creates its own challenges and minimising gaps in its ownership are considered important. There have though been occasions where freehold disposals have been considered and more generally within the same Asset Management Plan when relating to disposals that: "Cabinet will consider consent to a freehold disposal if it is felt that the overriding reasons may apply, particularly for development purposes"
- 1.4 Due to the regeneration of the City Centre a large number of leases were originally granted for 99 years from the 1950/1960s. These reducing terms are unattractive to investors and approaches are often made to the Council to reconsider the granting of long leases but at improved rental terms for the Council. It should be noted that many of the City Centre have now been restructured on commercial terms which are designed to produce

additional income for the Council (as opposed to invariably fixed ground rents at relatively low levels) and also help facilitate redevelopment and repurposing of upper floor accommodation. The leases which are subject to this report were restructured in the 1990's and are therefore granted on more commercial terms.

- 1.5 Under the terms of the long leases, the tenant pays the Council a collective ground rent of £88,250 p.a. but benefits from a hypothetical profit rent as it collect market rents from the various sub-tenants, albeit the block is currently subject to a number of voids and therefore a significant amount of income is not being realised at present.
- 1.6 The tenant is now looking to redevelop the whole block which will include the refurbishment of the ground floor units and the repurposing of the upper floors to accommodate residential apartments.
- 1.7 In order to invest further in the asset, the tenant has asked the Council whether it would be prepared to alter the ground rent received in the short to medium term or alternatively sell the freehold interest of the block as they are of the opinion the current lease structure is onerous, especially given the ground rent which is currently payable and would prevent them from proceeding with the redevelopment. Alternatively, whilst purchasing the freehold interest is their preferred option, the tenant would possibly be willing to agree revised lease terms but on favourable conditions. These option are summarised within the main body of the report.
- 1.8 Officers opinion is that only the Freehold disposal represents best consideration, however, as stated above in 1.3 Cabinet will be aware that the Council has an established strategy to retain its freehold interest wherever possible, especially on income producing assts. Therefore, a decision to sell the freehold interest would require a shift in its approach. In the event of a lease restructure, this decision would normally be dealt with via delegated powers under the Council's Land Transaction Procedure Rules although on this occasion, a number of the potential options including proposed terms of the lease restructure are at less than best consideration and would therefore require a Cabinet decision.

## **2.0 The Property**

- 2.1 The subject property comprises a three-storey building which currently provides a parade of six retail units at ground floor to Oxford Street with basement storage and rear access, and two storeys of ancillary accommodation above. Currently only two retail units are leased to the ground floor only. 256 Oxford Street is leased to HT Pawn Brokers and 257 Oxford Street is leased to Fraser Hart. The remainder of the ground floor units are empty along with all of the upper ancillary accommodation which has been empty for several years.

### **3.0 The Situation**

- 3.1 The property is located at the heart of the City Centre and any redevelopment should be actively encouraged and supported in order to facilitate the ongoing regeneration of the City Centre. The property is located in a hugely important strategic area and a redevelopment project of this nature would provide a hugely positive impact on the surrounding retailers and the footfall it would create.
- 3.2 The tenant has recently received planning permission in April 2023 (2023/0559/FUL) for the refurbishment of the ground floor and basement levels for commercial purposes and the conversion of upper floors to residential use, including an additional storey which will provide 33 no units in total.

### **4.0 Strategic Regeneration Context and Potential Economic Benefits**

- 4.1 The project aligns with a number of local, regional and national strategies that aim to stimulate economic regeneration and create sustainable employment and living opportunities within the City Centre. The development will support local business growth by repurposing outdated commercial buildings allowing them to be brought back into use. It will increase sustainable living and contribute towards a vibrant city centre community, helping people to live and work locally.
- 4.2 The buildings are in a prominent position within the city centre and of high importance in maintaining a strong city centre retail premises offer and improving the look and feel of this area.
- 4.3 The retail sector, both locally and nationally, is very fragile and is still recovering from the effects of the Covid Pandemic in addition to changing consumer behaviour such as increased on-line shopping. This has led to the decrease in the numbers of city centre retail operators, and continues to affect major national anchor stores such as Wilko leaving the market and Next closing city centre premises. Increased levels of home working have also lead to reduced city centre footfall on weekdays. The current cost of living crisis is also impacting on footfall and consumer spend.
- 4.4 The redevelopment of these buildings in the primary city centre area would lead to increased footfall and customer spending in the new retail units, boosting local business revenues and generating economic activity.
- 4.5 Job creation during the construction phase of the redevelopment project will create temporary jobs and once the building is operational, new retail shops and residential units will require staff, leading to further job creation in the retail, hospitality, and property management sectors.
- 4.6 An increase in property values not only for the redeveloped building but also for neighbouring properties will come about with the regeneration of

the area. As property values rise, business rates revenue can increase too.

- 4.7 The addition of residential apartments will attract more people to live at the heart of the city, in line with the Council's city centre living policy, leading to increased demand for goods and services. This population influx can support local businesses and contribute to a vibrant city centre. Residential Council Tax will be payable on the 33 new apartments proposed for the site which will bring in additional revenue.
- 4.8 Mixed-use developments that combine retail and residential spaces often create synergies between the two. Residents living above the retail spaces are likely to be frequent customers, which can help sustain local businesses. Similarly, the availability of retail options nearby can enhance the quality of life for residents.
- 4.9 Revitalising an underperforming building prevents it from becoming a vacant and blighted space. Vacant properties have a negative effect on the overall aesthetics, image and safety of an area, reducing footfall and potentially causing existing businesses to move elsewhere. Redevelopment helps eliminate these negative impacts and can also help draw in further investment to the surrounding area and city centre.
- 4.10 When new retail stores open, they directly employ staff but also support a supply chain of suppliers, vendors, and service providers. The employees and owners of these supporting businesses then spend their income within the local economy, creating a ripple or multiplier effect.
- 4.11 A revitalised building will assist the city centre with vibrant retail and residential spaces which can attract tourists and visitors, further boosting economic activity in the form of tourism-related spending, such as accommodation, dining and entertainment.
- 4.12 A redeveloped building could instil a sense of pride and attachment among local residents. A more appealing and thriving city centre can boost civic engagement and community involvement.
- 4.13 Four retail units, currently unoccupied, around 1000sq ft each will be brought back into use, creating an estimated 16 FTE jobs.

## **5.0 Legal Implications**

- 5.1 In accordance with the Scheme of Delegation as set out in Part 3.1 of the Constitution, and subject to paragraph 5.4 below, the authority for approving disposals, acquisitions and leases shall be vested in:
  - a) Responsible Officers in relation to:
    - o Acquisition of freehold or leasehold property (where a premium only is payable) up to £1,000,000;

- Acquisition of freehold or leasehold property where a rent is payable – up to £250,000 per annum;
- Disposal of freehold property or leasehold property (where a premium only is payable) up to £1,000,000;
- Disposal of leasehold property where a rent is payable – up to £250,000 per annum.

Therefore, if Cabinet are minded to consider the freehold sale, this will require Cabinet approval as it is beyond Officer delegated authority thresholds.

5.2 If Cabinet consider the incentivised lease restructure options more appropriate then it should be noted that some of these terms are deemed less than best consideration.

5.3 The general power of disposal contained within section 123 of the Local Government Act 1972 provides a local authority the power to dispose of land held by it in any manner it wishes provided that the local authority achieves the best consideration that can reasonably be obtained except where the disposal is for a short tenancy (the grant of a term not exceeding seven years or the assignment of a term which has not more than seven years to run) or the local authority has the consent of the Secretary of State or the Welsh Ministers.

5.3 The Secretary of State and the Welsh Ministers have issued a general consent for disposals (Inc long leases) of land under section 123 for less than best consideration. This allows a local authority to dispose of land for less than best consideration if it considers that the disposal will contribute to the promotion or improvement of the economic, social or environmental well-being of its area and the extent of the undervalue is no more than £2m.

5.4 All options contained within this report are within the above thresholds and Cabinet therefore has the ability to agree such terms on the basis it can demonstrate the economic, social or environmental benefits.

5.5 Cabinet approval would not be required (other than to agree with the direction of travel) if a decision is taken to proceed with a lease regear based on market terms which would meet best consideration requirements and would therefore fall under Officer delegated thresholds.

## **6.0 Integrated Assessment Implications**

6.1 The Council is subject to the Equality Act (Public Sector Equality Duty and the socio-economic duty), the Well-being of Future Generations (Wales) Act 2015 and the Welsh Language (Wales) Measure, and must in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Acts.

- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.
- Deliver better outcomes for those people who experience socio-economic disadvantage
- Consider opportunities for people to use the Welsh language
- Treat the Welsh language no less favourably than English.
- Ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs.

6.1.1 The Well-being of Future Generations (Wales) Act 2015 mandates that public bodies in Wales must carry out sustainable development. Sustainable development means the process of improving the economic, social, environmental and cultural well-being of Wales by taking action, in accordance with the sustainable development principle, aimed at achieving the 'well-being goals'.

6.1.2 Our Integrated Impact Assessment (IIA) process ensures we have paid due regard to the above. It also takes into account other key issues and priorities, such as poverty and social exclusion, community cohesion, carers, the United Nations Convention on the Rights of the Child (UNCRC) and Welsh language.

6.2 An IIA screening form (**Appendix A**) has been completed with the outcome that a full IIA report will not be required as there is no disproportionate impact.

## **7.0 Financial Implications**

7.1 Depending on the decision taken by Cabinet, the Council's S.151 Officer will make an appropriate amendment to Property Services revenue budget to offset the loss of annual income with this pressure reflected as part of the budget process in 2024/25.

**Background Papers:** None

**Appendices:**

**Appendix A:** IIA Screening Form