Lincolnshire COUNTY COUNCIL
Working for a better future

Report Reference:
Policy and Scrutiny

Open Report on behalf of Executive Director For Environment And Economy

Report to:	**Economic Scrutiny Committee**
Date:	**08 December 2015**
Subject:	**Delivering Further Regeneration Along The Lincoln East West Link**

Summary:

This report sets out the findings of a recent study to examining the feasibility of developing residual plots along the new Lincoln East West Link.

The report identifies those parcels of land in the ownership of Lincolnshire County Council that are physically capable of development and assesses the form of development that is most likely to be viable from a perspective of planning, regeneration and finance.

Actions Required:

The Economic Scrutiny Committee is asked to note the report and support officers in seeking potential sources of grant funding.

1. Background

The construction of the Lincoln East West Link (EWL) road will facilitate and provide impetus for the regeneration of the area of Lincoln between St Mary's Street and Portland Street. Indeed plans are already emerging for a Public Transport Hub adjacent to the station, pedestrianisation of the lower High Street and a hotel on the site of the former Quantum House.

When Highway construction is completed midway through 2016, Lincolnshire County Council (LCC) will be left holding five land parcels alongside the road, of which three are considered developable. Two of the three plots could be brought forward immediately, whilst the third will be required to provide temporary car parking for rail users until completion of the new Transport Hub in approximately 2019.

Plan 1 appended to this report will help members identify the plots in question. The plots marked 2 and 3 are those which can be developed as soon as the EWL is complete.

Consultants Urbandelivery have been employed to investigate the forms of development that would be appropriate for the two plots (from a perspective of compliance with planning policy, market demand and economic regeneration benefit) and provide advice on the most financially viable option(s).

In fulfilling their commission Urbandelivery have consulted extensively with the City of Lincoln Council and sought evidence of demand from local agents Pygott and Crone.

Development options considered include: Freehold Residential, Affordable Housing, Private Rented, Live-work, Student Accommodation, Extra-care and Health, Retail, Leisure, Industrial and Office. Full analysis of each option is detailed in the Urbandelivery report attached at Appendix B.

In summary the report concludes that the form of development most appropriate for the two plots is office use (with potentially one of the undevelopable plots used as supporting car parking provision). This use provides the best fit with existing planning and economic development policies and based on the assessment by Pygott and Crone has the strongest market demand.

Urbandelivery has worked with contractors Wilmott Dixon to provide an estimate of the costs associated with developing the two plots for office uses at maximum permissible density.

The suggested project cost to develop plot 2 is **£4.18m** (assuming land is input at nil cost) and would provide 22,585sqft of office space.

The cost to develop plot 3 is stated as **£3.07m** (assuming land input at nil cost) and would provide 14,461 sqft of office space with café space at ground floor level totalling an additional 2,915 sqft.

The report suggests that with current market values / rental levels in central Lincoln, none of the examined uses are likely to be financially attractive to the private sector market. Office use however is the form of development where values are projected to see the greatest increase in the future and where grant support towards development costs are most likely to be available.

The consultants have indicated that with 50% grant support through a programme such as Growth Deal the development of plot 2 over a 30 year period would deliver a surplus of £39,138 per year and an IRR of 6.36%. For plot 3, the figures are £45,659 per annum and 7.69%.

Further commentary provided by Urbandelivery highlights that even with 50% grant support the levels of return being offered by the developments are unlikely to attract private sector developers who will have more profitable options available to them elsewhere in the country. It has been suggested that to make the development options attractive to the private sector Lincolnshire County Council could take a 25 year headlease on the properties thereby using the strength of LCC's "covenant" to reduce the developer's risk (and required yield). This approach would however transfer the risk to Lincolnshire County Council who would need to be confident of covering its headlease rent through income derived from subletting.

An alternative approach would be for LCC to explore acting as developer, using grant to support 50% of the development costs and then borrowing the balance of the development costs from either the PWLB or GLLEP Invest and Grow fund. The income surplus from either or both developments is calculated to be sufficient to cover loan repayments and interest (particularly if a discounted interest rate can be achieved).

Expected economic outputs from the development of plot 2 are 111 net additional jobs, whilst the development of plot 3 would bring 68 net jobs.

2. Conclusion

Completion of the EWL will create development potential on two plots of land alongside the road, owned by LCC.

The development of office space on these plots would fit within the existing policy context and would meet occupier demand.

Unfortunately market values and desired levels of investment return within the development industry are unlikely to make these plots an attractive proposition to the private sector /developer / investor even if supported with grant funding.

Options available to LCC are:

1. Do nothing and accept that there will be ongoing maintenance obligations on LCC to keep these prominent development sites tidy and secure.

2. Promote the sites to a private sector developer by securing grant to meet some of the likely development costs and agreeing to take a headlease on some or all of the office space provided. It should be noted that this approach will commit LCC to sizeable rent payments over an extended period which would eat into revenue resources if the spaces cannot be sublet to occupiers.

3. Act as developer using grant and PWLB or GLLEP loan funding. It should be noted that the risks with this approach are focused upon the ability to generate sufficient rent income from occupiers to cover loan repayments and interest charges.

It should be noted that in regard to options 2 and 3 the approach could be applied to just one plot or both. If one plot were to be selected for intervention then it should be noted that plot 3 is cheaper to develop, but has a level of return closer to that which the private sector investor would be seeking. Plot 2 will create more floorspace and generally has greater economic development outputs.

Both developments will result in an increase in the local business rates base and assuming a business rate retention scheme is put in place will help generate funds for the local authorities.

It is proposed as the next step that (subject to support from the Economic Scrutiny Committee) officers should seek to determine the likely availability of grant.

3. Consultation

a) Policy Proofing Actions Required

n/a

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Plan 1 - Plot Location Drawing
Appendix B	Initial Viability And Business Case For Development On Kesteven Street - Report By Urbandelivery
Appendix C	Visuals

5. Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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