

**Meeting:** Cabinet **Date:** 24/05/22

**Wards affected:** Tormohun

**Report Title:** Regeneration of 12-14 Strand (former Debenhams building).

**When does the decision need to be implemented?** Immediately

**Cabinet Member Contact Details:** Cllr Swithin Long, Cabinet Member Economic Regeneration, Tourism and Housing

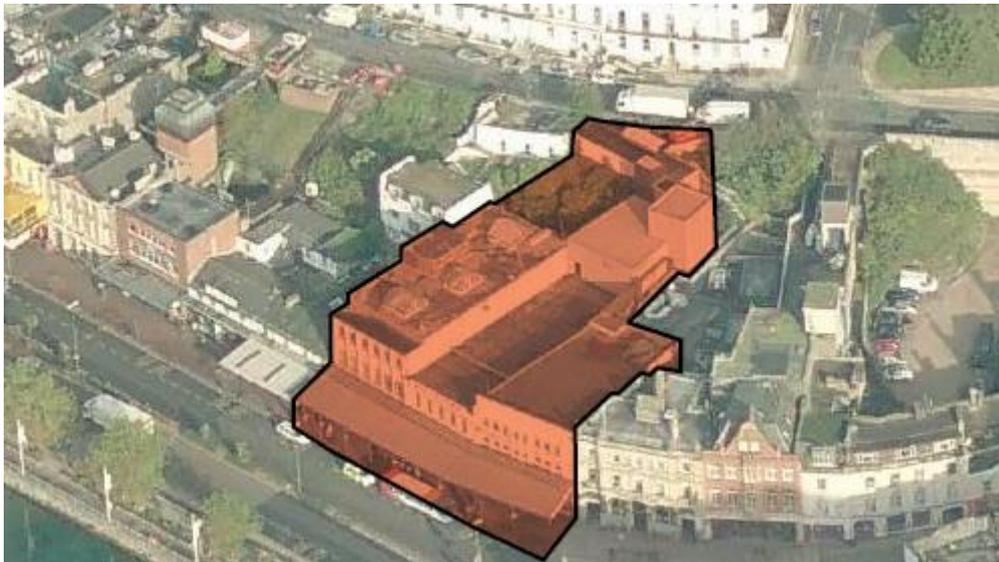
**Director/Divisional Director Contact Details:** Liam Montgomery, Director of Asset Management, Investment & Housing, [liam.montgomery@tda.uk.net](mailto:liam.montgomery@tda.uk.net)

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## 1. Purpose of Report

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- 1.1 The purpose of this report is to seek consent to fund the redevelopment of 12-14 Strand which is owned by the Council since it was acquired for regeneration purposes in 2020. It is currently empty following the departure of Debenhams. The site is shown below coloured in red.



- 1.2 A planning application is due to be submitted shortly to regenerate the Strand by demolishing the existing building and construct a replacement building in its place. The replacement building will be partly funded from the Town Deal fund with the remainder to be funded, via borrowing, by Torbay Council.

## 2. Reason for Proposal and its benefits

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We want Torbay and its residents to thrive.

We want Torbay to be a place where we have turned the tide on poverty and tackled inequalities; where our children and older people will have high aspirations and where there are quality jobs, good pay and affordable housing for our residents.

We want Torbay to be the premier resort in the UK, with a vibrant arts and cultural offer for our residents and visitors to enjoy; where our built and natural environment is celebrated and where we play our part in addressing the climate change emergency.

- 2.1 The proposals in this report help us to deliver this ambition by delivering an important regeneration project of new mixed used building that will complement the adjacent public realm improvement works, that replaces an empty building with residential apartments and commercial units which will benefit economic and housing growth. Good quality homes will be delivered above ground floor level. Regeneration and employment opportunities will be provided through the provision of new food outlets and possibly retail on the commercial ground floor space once the development is completed. Further employment opportunities will also exist through the delivery of the design and construction phase. Such development will rejuvenate this part of Torquay and compliment other Town Deal projects in what is a prominent location for residents and visitors alike. The replacement building will tackle climate change by being more energy efficient than the existing building as a result of current building regulations. Air Source and Water Source Heat Pumps are viable options to heat the residential apartments and are being considered along with other sustainable heating options. The site is also located in a sustainable location within walking distance to shops, employment and a number of other facilities and amenities. The existing building is tired in its appearance. It sits in a prominent part of Torquay harbour and regeneration of this area is strategically important. The replacement building will complement the surrounding conservation area and encourage visitors through the provision of commercial units (including cafes/restaurants) served off a square helping to provide a positive impact to the area.
- 2.2 The reasons for the decision are to provide funding for the regeneration and redevelopment of 12-14 Strand. The Council is asked to fund up to £9,600,000 from prudential borrowing. This figure includes a contingency discussed later in this report at paragraph 8.2..

## 3. Recommendation(s) / Proposed Decision

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- 3.1 That Cabinet authorise up to £9,600,000 funding from the Growth Fund to redevelop (demolition and construction) 12-14 Strand;
- 3.2 That delegated authority be given to the Director of Finance in consultation with the Cabinet Member for Finance to approve the detailed business case once the contractor procurement and further due diligence is completed, on the basis that the financial criteria continue to be met for the economic growth fund;
- 3.3 That delegated authority be given to the Director of Finance in consultation with the Cabinet Member for Economic Regeneration, Tourism and Housing to agree and finalise the detailed terms of any agreement for lease with perspective tenants of the commercial units; and

- 3.4 That delegated authority be given to the Director of Finance in consultation with the Cabinet Member for Finance to agree the sales terms of any residential unit sold and authorise the disposal on a long leasehold basis.

## **Appendices**

Appendix 1: Design and public consultation boards

Appendix 2: PART 2 Confidential - Financial appraisal

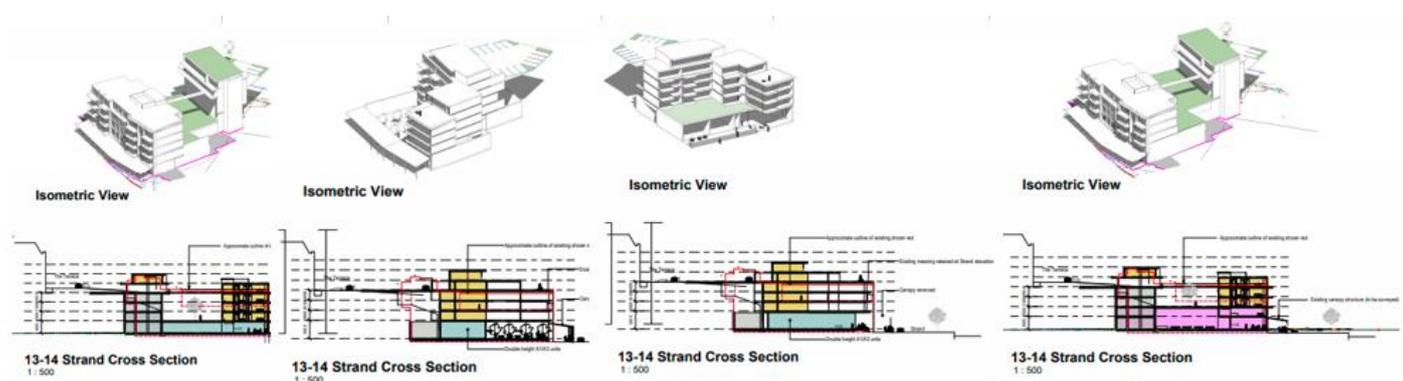
## **Background Documents**

None

# Supporting Information

## 1. Introduction

- 1.1 Currently 12-14 is empty as a result of Debenhams having ceased trading.
- 1.2 This has left the Council with an empty property in a strategically important location whilst still being responsible for all associated holding costs.
- 1.3 A mixed used development would help rejuvenate this part of Torquay alongside the Strand Public Realm improvements by increasing footfall into the town centre and provide a more attractive commercial floor area to rent.
- 1.4 The sale of the residential units is expected to pay for the vast majority of the development costs for both residential units and commercial units thus leaving the Council with very little legacy debt and the commercial units which will be rented out providing a net income to the council over a number of years.
- 1.5 There is a cost breakdown of the project in appendix 2 illustrating the income and expenditure along with the cashflow required. The information also considers a number of different scenarios and sensitivity testing on key metrics such as the open market values assumed and the sales rates.
- 1.6 On 06/10/21 at a Cabinet briefing a number of different massing options and uses were discussed. The uses considered residential with commercial, residential with event space and separately a hotel. The massing options considered are shown below:



- 2.2 The conclusion from this meeting was that the most viable and deliverable option was to pursue residential with commercial units in the form of an L-shape where a square is introduced to complement the adjacent public realm improvement works. This is the second image from the left. Subsequently this option has been worked up in considerably more detail with a view to submitting a planning application following a community engagement exercise where we will be seeking views from residents and key stakeholders.

### 3. Financial Opportunities and Implications

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- 3.1 In order to regenerate and redevelop the site the Council will need to provide funding in addition to the available Town Deal grant.
- 3.2 Due to the nature of the build, the mixed-use regeneration proposal will need to be finished before the commercial units can be rented out and the residential units sold. This means the majority of the scheme costs will be spent before revenues can be received. This results in the peak debt in year 4 (24/25) before residential sales are received. This assumes a residential sales rate of 2 per month which based on external sales advice is thought to be prudent and sensible. Other sales rates have been modelled to understand the impact of this. It is possible that some apartments are sold off plan, but this has not been accounted for.
- 3.4 The property will need to be managed and maintained in perpetuity although all the costs associated with this will be covered through the service charge applied to all leaseholders. During any void period on the commercial unit the Council will be liable for the service charge contribution for that unit.
- 3.4 Three different residential sales rates have been considered with the mid point assumed for the purposes of an appraisal. Of greater consideration are build costs and the inflation that we are currently experiencing and also sales revenues. As such a high level of contingency has been allowed for (see paragraph 8.2).
- 3.5 Further advice is being sought on the accounting treatment for this regeneration project and whether the build/sale of the residential property is treated as inventory or primarily regeneration activity. The impact on this is if deemed as inventory its not counted as capital expenditure and therefore the Council would need to fund the proposal from cashflow, whereas if treated as regeneration activity then borrowing would be drawn down to fund the proposal. While we believe this is a regeneration project it is important to realise that this is purely how we account for the project and all the numbers within the appraisal would remain the same.

### 4. Legal Implications

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- 4.1 There is a risk of judicial review if s.203 HPA 2016 (power to override rights and easements) is not used properly. A right to light surveyor has been appointed and has been involved in the design process throughout to mitigate this risk.

A decision on whether to set up a Management company will need to be taken once the pros and cons have been considered to setting up a separate management company to manage the freehold. Either way the costs of this and wider management will be covered by a service charge imposed on the tenants and leaseholders.

Legal Services will provide detailed advice on both the commercial and residential Leases that are offered as part of the sales.

## 5. Engagement and Consultation

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- 5.1 Consultation will be carried out with residents and key stakeholders via an online public exhibition and an in person public exhibition. The online exhibition will go live before the in-person exhibition and will remain live after the in-person exhibition. A further set of all information will be available at Torquay library for the same duration as the online exhibition where people will be invited to comment. All platforms will allow for comments to be left via a questionnaire. At the time of writing this report these events have not taken place but are expected to commence on the 26<sup>th</sup> April 2022.
- 5.2 In addition to the exhibition the proposals will be presented at an 'All Member Briefing' on the 26<sup>th</sup> April and further presentations will also be given to the Neighbourhood Planning Forum and the Community Partnership.
- 5.3 The proposals have been submitted to Historic England which included an on site meeting and we have received their formal comments on the proposals.

## 6. Purchasing or Hiring of Goods and/or Services

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- 6.1 The proposal will involve the procurement of services. Local companies will be invited to provide quotes for various disciplines and all Public Procurement Regulations will be met in the appointment of the contractor for this project.

## 7. Tackling Climate Change

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- 7.1 The scheme is in a sustainable town centre location which provides shops, employment and public transport all within walking distance. This is confirmed through its site allocation in the Local Plan to provide housing.
- 7.2 Electric car charging points will be provided for each apartment.
- 7.3 The detailed heating methodology is still being considered for the properties but it is important to note that the apartments will be either heated by Air Source Heat Pumps or Water Source Heat Pumps (being a bespoke site-specific solution using water from the inner harbour) or alternatively some form of sustainable heating source not reliant on fossil fuels.
- 7.4 The buildings orientation will allow for solar gain.

- 7.5 The replacement building will have greater levels of insulation when compared to the existing building. The new building envelope will perform better at retaining heat and reduce heating bills and reduce carbon subsequently.
- 7.6 There will also be opportunities to make the site more flood resilient as a result of a Flood Risk Assessment through raised floor levels in line with feedback from the Environment Agency consultation.

## 8. Associated Risks

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- 8.1 There are risks associated with making this decision. These risks centre on the estimated scheme costs, projected sales values and sales rates for the residential units and the occupancy levels and estimated rent levels for the commercial units. To mitigate this risk a further decision gateway has been included as part of the due diligence process for the business case to be reviewed once the build costs are known following a procurement exercise.
- 8.2 There is 22% contingency allowance within the project which is considerably higher than we would have been recommending only 12 months ago. However, the level of build cost inflation is unprecedented and important that this risk is mitigated. In addition to the contingency the high levels of house price inflation helps to off set the additional costs. Finally, a revised business case will be presented to the Chief Finance Officer following a planning permission and contractor procurement to ensure the assumptions made are still accurate and the risk profile has not increased.
- 8.3 External advice on sales values has been sought and prior to presenting a final business case to the Chief Finance Officer a second opinion on the value estimates will be obtained. There are useful comparisons in the areas which has, in part, provided further comfort on the valuations provided. The housing stock in the area consists of a large number of subdivisions of older houses into small apartments. There are similarities between the mixed-use development at Abbey Sands and this proposed mixed use development with regard to location and proposed uses. Market research informs that larger two and three bed apartments with sea views are in demand. Monthly sales rates have been cash flowed on the basis of 1, 2 and 3 sales per month. There are 16 proposed apartments in total. Sales advice predicts a monthly sales rate of 2 per month as being sensible to achieve. Although it may be possible to achieve 3 per month and off plan sales.
- 8.4 Commercial advice has been sought from an external consultant to inform what the commercial demand is and expected rental rate along with advice to inform the design phase to ensure the units meet the expectations of potential occupiers. The expected demand is in the food and beverage sector but there may also be some interest from the retail sector. Estimated rental rates are given in a range, the upper end of this range is expected to be achieved should a square form part of the proposed plans which is the

intention. However, the appraisal works on the mid-range figure being achieved which is seen as very achievable, but could be bettered.

- 8.5 If no decision is made the Council continues to be responsible for an empty building with running costs with limited prospect of finding an end user due to the level of Business Rates and total running costs of a building of this nature.

## 9. Equality Impacts - Identify the potential positive and negative impacts on specific groups

	Positive Impact	Negative Impact & Mitigating Actions	Neutral Impact
Older or younger people	The commercial element of the proposed development would provide employment for all ages. The proposed housing would be capable of housing younger or older people.		
People with caring Responsibilities			There is no differential impact.
People with a disability	The mixed-use development will be designed to current building regulations that are inclusive of people with a disability.		
Women or men			There is no differential impact.
People who are black or from a minority ethnic background (BME) (Please note Gypsies / Roma are within this community)			There is no differential impact.
Religion or belief (including lack of belief)			There is no differential impact.
People who are lesbian, gay or bisexual			There is no differential impact.
People who are transgendered			There is no differential impact.
People who are in a marriage or civil partnership			There is no differential impact.

Women who are pregnant / on maternity leave			There is no differential impact.
Socio-economic impacts (Including impact on child poverty issues and deprivation)	The proposals will have a positive economic impact through the provision of jobs and increased housing growth/delivery within Torbay.		
Public Health impacts (How will your proposal impact on the general health of the population of Torbay)			There is no differential impact.

## 10. Cumulative Council Impact

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10.1 None

## 11. Cumulative Community Impacts

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11.1 None