

**OXFORD CITY COUNCIL
EXECUTIVE BOARD
7 NOVEMBER 2005**

Report of: Financial and Asset Management Business Manager

Title: Odeon Cinema, George Street

Ward: Carfax

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Key Decision: No

Lead Member: Councillor Hollingsworth

Scrutiny responsibility: Finance

RECOMMENDATIONS

That the Executive Board agrees :

1. Under Contract Regulation 9.04, to enter into negotiations for a long leasehold disposal of the Odeon Cinema to AXA Sun Life, and, on completion of any redevelopment, to the surrender of this lease and the grant of a new lease to comprise the new building, and Blocks A, B and D,
2. To appoint consultants to negotiate on the Councils behalf, the costs to be met by the prospective developer.
3. Await a report back on negotiated terms for final approval, under Contract Regulation 9.05

1. Background and Current Property Holdings

- 1.1 Gloucester Green is a mixed use urban renewal scheme completed in 1989 by Guardian Properties in partnership with Oxford City Council. The project delivered a new coach station, public square, offices, shops, restaurants and an underground car park.
- 1.2 Following completion of the scheme, the City Council granted leases of the three blocks shown as A, B and D on the plan attached as Appendix 1. (Block C was sold freehold) Blocks A and B together comprise 14 shops and 87 flats, whilst Block D comprises offices over the rear entrances to the Old Fire Station. The leases run until 2115, with rent reviews every 10 years to 5% of market value. The current total annual income is £23,900 with the next rent review in 2010. The leases are now held by subsidiary companies of AXA REIM, in its Sun Life Property Fund ('AXA Sun Life'). The Fund has a value of £870m.
- 1.3 The Council is also the freehold owner of the Odeon Cinema, which is let on a 75 year lease to ABC Cinemas, expiring in 2009 at a nominal ground rent. The Council also owns the four kiosk units on the north side of the cinema, three of which are let on short leases, (the fourth is the market office).
- 1.4 The Councils combined income from the above lettings (ie the three blocks, cinema and kiosks) is currently just under £50,000 per year
- 1.4 The open space at Gloucester Green is owned freehold by the Council and subject to a management agreement with AXA Sun Life. AXA Sun Life also owns Threeways House, a mixed use site on the east side of the square.
- 1.5 The above properties are all shown on the plan at Appendix 1. The cinema is a designated development site in the Local Plan (DS 50)

2. Proposal

- 2.1 AXA Sun Life has submitted an outline proposal to the City Council for a redevelopment of the Cinema, and improvements to Gloucester Green which it feels will balance the ongoing and proposed developments to the south of the City Centre (i.e. the Castle site and Westgate), and anchor what it sees as the 'Northern Quarter' of the City Centre.
- 2.2. Following a consultation with its tenants in the Gloucester Green shops, AXA Sun Life commissioned an architectural study to show how redevelopment of the Odeon Cinema could provide new retailing frontages to Gloucester Green, George Street and St Georges Place, retaining the established cinema use on the upper floors. It feels that the scheme will add continuity of activities between Gloucester Green

and George Street, and could trigger public realm improvements in the Square itself.

- 2.3 AXA Sun Life is willing to finance the design and implementation of an agreed scheme, and take on the speculative development risks, it has requested the City Council to select it as the development partner for the project outlined above. Following implementation, AXA Sun Life proposes that the existing lease of Blocks A, B and D, and the cinema site be subsumed into a single new head lease from the City Council to them.

3. Financial Implications

- 3.1 The value of the Council's current interests at Gloucester Green, (i.e. the cinema, the three blocks let to AXA Sun Life, and the four kiosk units) is estimated at £3.6m. This is based on the cinema rent rising to a full market level in 2009.
- 3.2 The AXA Sun Life proposal envisages an initial capital payment to purchase a long lease in the cinema. Following redevelopment the proposed long lease for the whole complex would provide an income to the City Council of 10% of the full market rents, reviewable on a five year basis. As an alternative, the Council could take a lower percentage share, which would be balanced by a larger initial premium

On the basis of the preliminary development appraisal, which has been undertaken, the value of the Council's interest following development, taken together with the premium payment, will exceed the current valuation.

The figures are contained in Appendix 2, on the confidential section of the agenda. It should be stressed that they are provisional only at this stage.

4. Procurement Issues/Developer Options

- 4.1 The alternative to entering into negotiations with AXA Sun Life is to tender the opportunity to redevelop the cinema on the open market. However, such an approach would lose some of the advantages of negotiation with them, i.e.
- The opportunity to improve the linking of Gloucester Green and George Street may be lost as a third party developer is likely to concentrate solely on the cinema site itself.
 - The Council has an opportunity to create a large single property investment with better prospects for long term income and capital growth than retaining separate smaller investments. This includes the opportunity to obtain an improved gearing and more frequent rent reviews on Blocks A, B, and D, which would not be obtained otherwise

- AXA Sun Life has an interest in improving the public open space as part of an integrated scheme, and also in long term management arrangements .for Gloucester Green

5. Staffing Implications and Property Consultancy Advice

5.1.1 In the event that the City Council opts to negotiate a redevelopment package with AXA Sun Life, it is recommended that specialist agents are commissioned to carry out the detailed negotiations to ensure any disposal meets the statutory requirement on the Council to obtain full market value, as required by S123 of the 1972 Local Government Act.

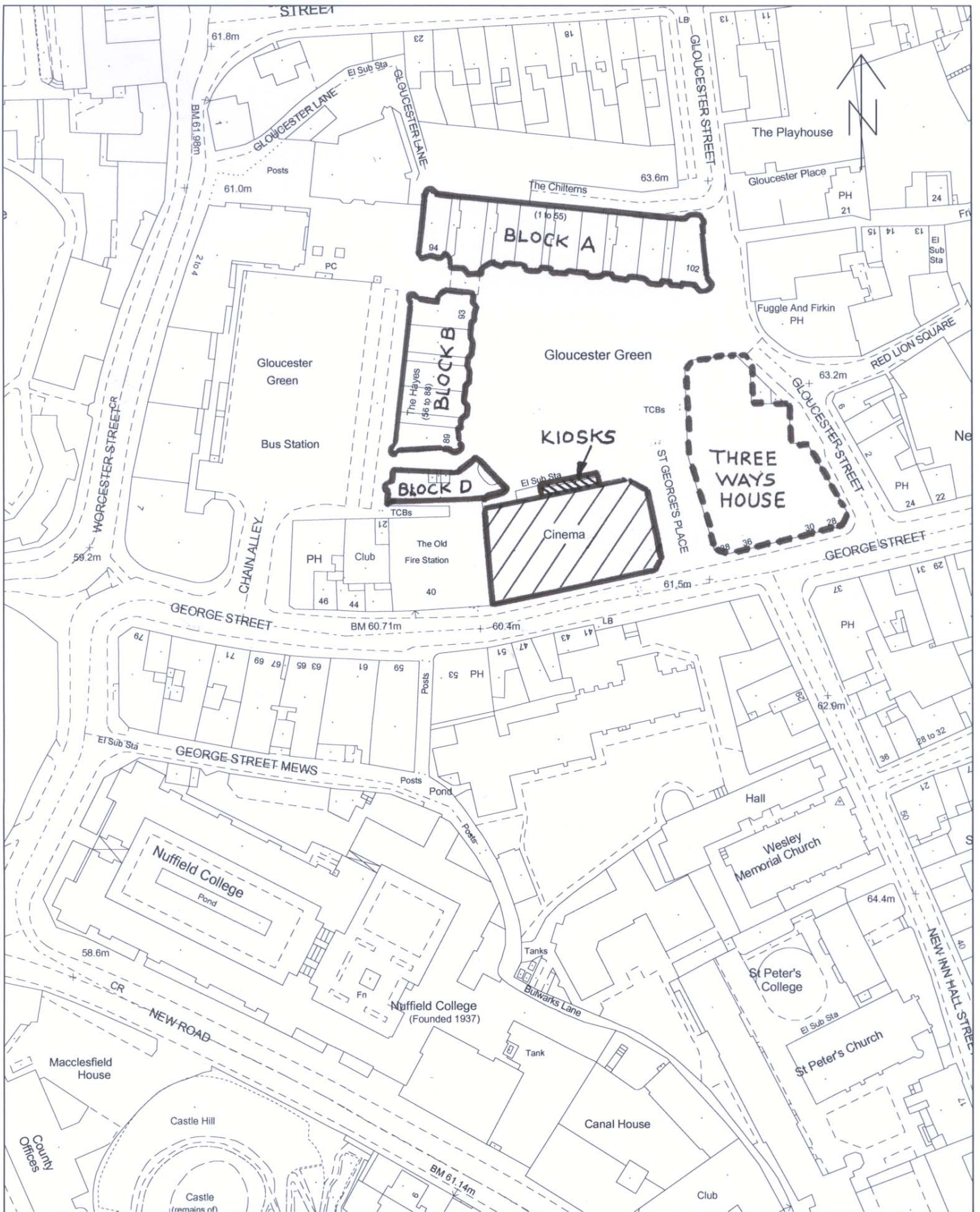
5.2 At this stage it is envisaged that any legal work would be carried out in-house, costs to be met by AXA Sun Life

6. Vision Implications

6.1 This project would meet the Councils aims of maintaining financial stability through enhancement of its property investment, and improving the environment of the West End in line with the approved development framework, and the Local Plan

THIS REPORT HAS BEEN SEEN AND APPROVED BY:
Portfolio Holder: Councillor Hollingsworth
Legal and Democratic Services: Jeremy Thomas
Financial Management: Andy Collett
Asset Manager : John Kulasek

Background papers: Letter from A Clarke, dated 7 July with attached proposal from AXA REIM



Title: George Street/Gloucester Green, Site of cinema&other holdings

Scale: 1:1250; Map Reference: SP5106SW

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