

**To:** City Executive Board

**Date:** 11<sup>th</sup> September 2013

**Report of:** Service Manager of Regeneration & Major Projects

**Title of Report:** 15-19 GEORGE STREET – LEASE RESTRUCTURING FOR REDEVELOPMENT

## Summary and Recommendations

### **Purpose of report:**

To seek approval to the restructuring of the lease of the part basement and upper floors and roof of 15-19 George Street to facilitate a hotel development.

**Key decision?** No

**Executive lead member:** Councillor Ed Turner

**Policy Framework:** Vibrant and Sustainable Economy

### **Recommendation(s):**

1. The Board is asked to approve the acceptance of a surrender of the existing Lease, together with the simultaneous grant of an Agreement for Lease, to be followed by a new Lease of the part basement and upper floors and roof of 15-19 George Street, for hotel development, on the terms and conditions attached in the Not for Publication Confidential Appendix 4 of this report, and otherwise on terms and conditions to be approved by the Service Manager of Regeneration and Major Projects.
2. Give authority to the Service Manager of Regeneration and Major Projects to vary the proposed terms as detailed herein in line with any further negotiation with the tenant provided the transaction continues to represent best consideration.

Appendix 1 – Plan of site

Appendix 2 - Risk Register

Appendix 3 – Confidential Not for Publication Appendix

Appendix 4 – Confidential Not for Publication Appendix

Background

1. This report seeks approval for the restructuring of a lease of premises owned by Oxford City Council as shown on the plan attached at Appendix 1.
2. The property, comprising vacant office accommodation at first to third floors and part basement, is let on a lease, the terms of which are summarised in the Not For Publication Confidential Appendix 3.
3. The building also comprises 2 shops at ground floor and part basement which are separately let to third parties (trading as Cheltenham & Gloucester and La Baguette) and which do not form part of this transaction/development.
4. The original lease was granted with a view to the implementation of a hotel development, for which planning permission was originally obtained in 2006 and renewed by the current tenant in 2010. At that point, works to create a 27 room hotel with a gym at basement level and restaurant at rooftop was provided for within the lease. The premises are understood to have been vacant for some time prior to the grant of the lease in 2007.
5. In 2012 a further planning consent was obtained by the tenant which removed both the gym and restaurant elements from the scheme and increased the hotel content to 41 bedrooms.
6. In view of the fact that the new scheme could not be implemented without a variation of the lease, and the tenant could not obtain the necessary external funding for the scheme based on the current length of lease, officers have been in discussion with the tenant to find a way to resolve the impasse.
7. Both sides agree that the most mutually beneficial way to bring forward the scheme is to surrender the existing lease and grant an Agreement for Lease, under which the tenant will carry out the works, followed by the grant of a new full repairing Lease of the completed scheme.
8. The main terms of the Agreement for Lease and new Lease are set out in the Not For Publication Confidential Appendix 4. The structure of the transaction closely follows that recently completed with Sojourn Hotels at 20-24 St Michael's Street, which was let in the open market on an Agreement for Lease followed by a 125 year lease and which now operates as the Vanbrugh House Hotel.

9. Under the Agreement for Lease, the developer will be obliged to build out in accordance with detailed plans and specifications approved by the Council as landlord. There will be timescales built in and penalties in the event of delay to encourage the completion of works in a timely fashion. The new lease will only be granted upon practical completion of the works, adding further incentive to the tenant to fulfil the development obligations.
10. The tenant will pay a stepped rent during the first 5 years of the lease and then a rent based on the full open market value of the developed premises from the fifth year onwards with reviews 5 yearly thereafter.
11. This proposal will bring back into beneficial use premises in the heart of the City centre which have lain vacant and semi derelict for a number of years and which have been targeted by squatters. It will secure the development of a scheme for which planning consent exists and for which the tenant appears to have funding (in principle). The restructured lease will also bring clear financial benefit to the Council in terms of enhanced rental income stream in the medium and longer term, based on a better quality product.

#### Risk Implications

12. A risk assessment has been undertaken and the risk register is attached at Appendix 2

#### Environmental and climate change implications

13. None arising out of this report. Any issues in relation to the new hotel development itself will have been addressed as part of the planning process.

#### Equalities implications

14. None arising from this report.

#### Financial implications

15. A comparison of the rental income that is payable under the current lease as opposed to that which will be received following the proposed restructuring is included within The Not For Publication Confidential Appendix 5.
16. Given the overall circumstances, the agreed terms represent best consideration to the Council and are recommended for acceptance accordingly.
17. The tenant will pay the Council's reasonable legal and surveying fees incurred in the overall transaction, up to a maximum of £12,000 including VAT.

### Legal Implications

18. The transaction is consistent with the provisions of s123 of the Local Government Act 1972 which require the Council to receive best consideration. The terms of the lease restructuring have been fully negotiated with the existing tenant.

#### **Name and contact details of author:-**

Name	Lucy Darnell
Job title	Senior Estates Surveyor
Service Area / Department	Regeneration & Major Projects
Tel: 01865 252137 e-mail:	ldarnell@oxford.gov.uk

**List of background papers: None**

**Version number: 1**