



DECISION OF SECTION 151 OFFICER OF THE COUNCIL,
CORPORATE SERVICES DIRECTORATE

DECISION NO: CSD124

SUBJECT: DOLPHIN SQUARE, WESTON-SUPER-MARE

BACKGROUND:

The Council holds the freehold interest in Dolphin Square, Weston-super-Mare subject to a lease granted to McLaren Life Ltd (MLL) for a 200 year term from 2012 at a geared ground rent of 12.5% of income received by MLL from all sub-lettings, subject to a rent guarantee agreement that secures a minimum rent payable to the Council of £360,000pa over the first 5 years i.e. until 31/03/2017. Rent payable to the Council after April 2017 will no longer be subject to a minimum guarantee agreement but will simply be 12.5% of income received by MLL from its sub-tenants.

The Council approved a variation to the lease to allow MLL to grant two 200 year subleases to enable the development to be delivered in 2 parts with the first part to be a leisure based development comprising an 8-screen cinema, a health & fitness gym and a range of restaurants and retail units (Phase 3). Construction on Phase 3 has already commenced with an anticipated completion of the main structure in Easter 2017 with openings and the start of rent payments expected in mid/late 2017. The Estimated Rental Value (ERV) of Phase 3 is circa £1.3m which will deliver the Council approximately £160,000pa as its rental return once the whole of Phase 3 is let and occupied.

The future rental return to the Council from the eventual development of Phase 4 will depend on what uses are eventually brought forward. However, as the total development will not be completed by April 2017 the Council's future income stream from the site will, inevitably, fall from the anticipated £360,000 after April 2017 until such time as phase 4 is delivered.

Since the original 200 year lease was granted in 2012 the Council has published the Prospectus for Change for the Town Centre and has commissioned a range of Town Centre Regeneration documents setting out the vision for the town. As part of this work the Phase 4 site has been identified as an important element for the delivery of new high quality residential development within the town centre and, as such, has been included within the town's newly designated Housing Zone.

The designation of the site as part of the Housing Zone brings an expectation that it should be possible to speed up and simplify the process of house building on brownfield land through locally led partnerships. The introduction of Housing Zone status represents an opportunity to break down some of the barriers that might hold back development. Housing Zones are an opportunity for local authorities to set out a vision for the transformation of

large brownfield sites locally, and through the support government is offering, take the lead in realising that vision in partnership with public and private sector organisations.

One of the immediate benefits from the Housing Zone designation is that it opens the door to secure potential funding opportunities through the HCA. To date this has resulted in the loan facility of up to £1.7m to fund the purchase of the Police Station/Magistrate Court including ancillary costs as well as capacity funding allocations nearly totalling a £1m. It has also led to the recent discussions for the HCA to purchase Locking Road Car Park from the Council.

HCA's ongoing involvement with developments in Weston-Super-Mare have also resulted in their offer to acquire McLaren Life Ltd's interest in the Phase 4 Dolphin Square site. Their offer to purchase MLL's interest should therefore be seen in the context of the Council's ambition to invest and grow the town in a sustained fashion and the government's commitment to support the ambition through granting Housing Zone status and directing enabling investment.

In order to proceed with the acquisition of MLL's interest the Council will need to approve the transfer and agree to vary the lease structure to enable residential use to be introduced into the scheme. As the introduction of residential use will reduce the commercial rent and, hence, reduce the Council's geared rent income from the site agreement has been reached for the Council's income to be re-gearred and for MLL to extend the minimum rent guarantee payable to the Council. The agreed terms are summarised below:

1. The Council to consent to MLL granting a lease on Phase 4 Dolphin Square to HCA
2. The Council to consent to a variation of the lease structure to permit residential development to be included within Phase 4
3. The Council's geared rent from Phase 4 to be amended to be 20% of the rents received
4. MLL agree to make an additional payment of £130,000 to the Council in April 2017 as an extension to the original minimum rent guarantee

DECISION:

1. That the Council consents to MLL granting a lease to the HCA in respect of Phase 4 Dolphin Square and for that lease to be suitably varied to permit residential development on the site
2. As part of the variation of the lease the Council's rental income to be re-gearred from 12.5% to 20% of the rents received
3. That MLL makes a one off payment to the Council of £130,000 in April 2017 as an extension to the original minimum rent guarantee

Reasons:

To facilitate HCA's acquisition of McLaren Life Ltd's interest in Phase 4 Dolphin Square

Other Alternatives Considered:

None

Financial Implications:

The re-gearing of the Council's income basis and the receipt of the additional payment from McLaren Life will largely protect the Council's financial position

Implications for Future Years:

As above



Signed:
Section 151 Officer, North Somerset Council

Dated: 9/3/16

