

**BIRMINGHAM CITY COUNCIL**

**PUBLIC REPORT**

<b>Report to:</b>	<b>CABINET</b>
<b>Report of:</b>	<b>Director of Property</b>
<b>Date of Decision:</b>	<b>28<sup>th</sup> June 2016</b>
<b>SUBJECT:</b>	<b>CITY CENTRE CHAMBERLAIN BUILDINGS</b>
<b>Key Decision: Yes</b>	<b>Relevant Forward Plan Ref: 001203/2016</b>
<b>If not in the Forward Plan: (please "tick" box)</b>	<b>Chief Executive Approved</b> <input type="checkbox"/>
	<b>O &amp; S Approved</b> <input type="checkbox"/>
<b>Type of decision:</b>	<b>Executive</b>
<b>Relevant Cabinet Member:</b>	<b>Councillor John Clancy - Leader of the Council</b>
<b>Relevant O&amp;S Chairman:</b>	<b>Councillor Mohammed Aikhlaq - Corporate Resources and Governance</b>
<b>Wards affected:</b>	<b>Ladywood</b>

**1. Purpose of report:**

- 1.1 On the 16<sup>th</sup> March 2015 Cabinet approved the overall strategy for the Commercial Investment Portfolio and authorised the Director of Property to investigate the potential to use the City Council's property assets to lever in private sector investment.
- 1.2 This report provides an update on this project which aims to contribute to the delivery of the Snow Hill Masterplan by releasing certain assets on Corporation Street (see plan at Appendix 1) so preserving the historic street scene and promoting the civic value of the buildings as well as providing an opportunity for collaborative working with the Police and Crime Commissioner West Midlands (PCCWM).

**2. Decision(s) recommended:**

That Cabinet:

- 2.1 Authorises the Director of Property to negotiate and enter into a collaboration agreement with PCCWM to facilitate a regeneration project involving the joint assets at Corporation Street/Steelhouse Lane, (see plan Appendix 2) which will contribute to the delivery of the Snow Hill Masterplan Victorian Quarter, and approves the joint marketing of those assets for disposal on a long leasehold basis.
- 2.2 Authorises the Director of Property to market the Pitman Building and Murdoch Chambers on Corporation Street for disposal on a long leasehold basis (see plan Appendix 3).
- 2.3 A further report will be presented once marketing and shortlisting has been undertaken, with a recommendation as to the preferred development partners for each opportunity.
- 2.4 Authorises the City Solicitor to negotiate, execute and complete all necessary legal documents to give effect to the above recommendations.

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### **3. Consultation**

#### **3.1 Internal**

Local Ward Members have been consulted on the contents of the report. Councillor Hartley has confirmed she has no objection to the proposal. Councillor Bore supports the report other than on one aspect, in that as too many buildings in the area are being converted to student accommodation, non- student residential would help maintain a better balance between residential, leisure and employment in this city quarter. Councillor Bore does not want to see all the buildings released given over to student accommodation.

Officers from City Finance and the City Solicitor have been involved in the preparation of this report.

#### **3.2 External**

Consultation has taken place with the PCCWM property team regarding the content of this report, who are supportive of the proposal.

### **4. Compliance Issues:**

#### **4.1 Are the recommended decisions consistent with the Council's policies, plans and strategies?**

4.1.1 The proposal contributes towards the strategic outcomes outlined in the 'Council Business Plan and Budget 2016+', specifically succeed economically, to help deliver a balanced budget and contribute to the Councils plan to rationalise its property portfolio as part of its asset management programme.

#### **4.2 Financial Implications**

4.2.1 The Commercial Investment Property Portfolio generates in excess of £30 million of external income for the City Council per annum. The disposals will improve the efficiency and financial performance of the portfolio over the medium term.

4.2.2 Any capital receipts arising from the disposal of the Pitman Building and Murdoch Chambers will be utilised in accordance with City Council policy. Further reports will consider the use of receipts in relation to the Business Case for investment in the Commercial Portfolio.

4.2.3 Soft market testing identified the need for a number of technical reports for the project to de-risk the development opportunity and so attract wider interest. Funding for this in the sum of £50,000 will be provided for in line with statute which states that up to 4% of the future capital receipt may be used to fund disposal costs. A proportion of the cost will be covered by PCCWM budgets. The collaboration agreement will set out the details of how costs will be split 50 / 50 between the parties. Purchasers will be responsible for the Councils legal, administrative and surveyors costs in relation to any disposal.

#### **4.3 Legal Implications**

4.3.1 The power to acquire, dispose and manage assets in land and property is contained in section 120 and 123 of the Local Government Act 1972, and section 32 of the Housing Act 1985 in respect of HRA controlled assets.

#### **4.4 Public Sector Equality Duty**

4.4.1 Having carried out an initial screening, there is no requirement to undertake a full equality analysis (attached as appendix 4).

**5. Relevant background/chronology of key events:**

- 5.1 The Chamberlain Buildings at the northern end of Corporation Street form part of an unbroken and nationally significant Victorian and Edwardian townscape extending from the civic and commercial heart of Birmingham. In particular the Steelhouse Lane area, which will be known as St Marys Place has been identified for reconfiguration which will unlock sites and provide an opportunity for investment as part of the Snow Hill Masterplan. Release of the buildings for refurbishment by specialist developers will assist in the creation of a new neighbourhood whilst protecting the historic street scene.
- 5.2 The City Centre Chamberlain Building (CCCB) portfolio comprises ten multi-storey Victorian, largely terracotta, buildings located along the length of Corporation Street in Birmingham city centre, as identified on the plan attached at Appendix 1. The total lettable area is circa 300,000 square feet. The portfolio presents an important collection of assets within the wider Commercial Investment Property portfolio given its role largely providing affordable office space for small businesses and shops for independent traders in a city centre location. The buildings also make a significant architectural and historical contribution to the city centre environment, six of the assets are listed.
- 5.3 Demand for the office space has significantly reduced over the last few years. It is clear from the financial analysis undertaken on the CCCB portfolio that although the ground floor retail space is performing well, overall the CCCB portfolio is underperforming as a net income generator due to high office vacancy rates, inefficient office floor plates, and an oversupply of tertiary office space. This position is expected to worsen and therefore “do nothing” is not an option. The portfolio is at a very sensitive point where voids are very likely to increase so reducing income, whilst costs associated with managing and holding the properties increase.
- 5.4 The current use as offices is no longer sustainable and in order to preserve the individual buildings and historic environment alternative uses need to be considered. The upper floors are most likely to attract residential or student accommodation conversions which will provide additional housing units and so expand the residential footprint in the City. Whilst the ground floor retail use of the properties is productive and already provides an opportunity for independent traders the conversion of the upper floors and increased footfall will give further opportunities for investment.
- 5.5 Following Cabinet approval in March 2015 Council officers instigated a review of the Chamberlain buildings portfolio. Two projects were identified which can support the Snow Hill Masterplan and are set out below.
- 5.6 The first project provides an exciting opportunity to work with the PCCWM on a joint disposal of assets. The block comprises three BCC owned buildings: Coleridge and Ruskin Chambers, which are both Grade II Listed, and King Edward Building and Steelhouse Lane Police station (shown hatched on plan at Appendix 2). PCCWM have declared the police station surplus to their requirements and intend to vacate by February 2017. They have approached BCC to investigate the potential to work together and enter into a collaboration agreement to dispose of the block in its entirety in order to maximise development potential.
- 5.7 Working collaboratively with PCCWM will provide an enhanced opportunity for both publically funded bodies to reduce running costs, create economic growth and bring investment to the City as well as provide regeneration, and the potential for new housing and jobs.
- 5.8 The three BCC owned buildings have a combined floor area of 68,250 sq ft. set on a footprint of 0.46 acres, the combined site extending to an acre. A disposal would be structured to retain the income stream from the retail units through an appropriate mechanism. Soft market testing suggests the most appropriate alternative use for the upper floors would either be residential or student accommodation. Although the asset at King Edwards building is fully let and not underperforming, soft market testing has highlighted a preference for inclusion of the buildings as part of any redevelopment, given the potential of the wider site which will provide an increased level of critical mass. It is proposed that priority is given to relocating tenants from this and other assets into other City Council property.

- 5.9 The second project is Pitman Building and Murdoch Chambers which are Grade II\* Listed 4 storey buildings providing a combined floor area of 27,324 sq ft set on a footprint of 0.32 acres. Soft market testing indicates the strongest interest from the residential and student accommodation markets.
- 5.10 It is proposed that consultants are appointed to market these assets. The appointment for the combined assets will be jointly with PCCWM and will be in accordance with the Council's Procurement Governance arrangements. The Pitman/ Murdoch block will be presented to the market first followed by the larger joint disposal opportunity. Part of the commission will be to develop a strategy for relocating existing office tenants elsewhere within the Council's portfolio where possible.
- 5.11 Due to the heritage value of the assets and the importance of this project to the Snow Hill Masterplan a targeted bespoke approach to marketing will be required to ensure developers with the appropriate track record and access to investment capital will be identified. It is proposed targeted expressions of interest are firstly sought on a qualitative basis which identifies the credibility of business plans and financial commitment. From the expression of interest a shortlist of preferred partners will be selected by the Director of Property and invited to submit detailed financial proposals. The Director of Property, in conjunction with the PCCWM where appropriate, will select a preferred partner for each project and report back to Cabinet for further approval.

**6. Evaluation of alternative option(s):**

6.1 Do nothing – this would mean an opportunity to secure the future of these buildings through appropriate re-use of the assets would be lost. The opportunity to deliver key projects within the context of the Snow Hill Masterplan would also be lost.

**7. Reasons for Decision(s):**

7.1 To support the delivery of the Snow Hill Masterplan objectives by releasing for refurbishment Pitman Building and Murdoch Chambers on a long lease.

7.2 To support the delivery of the Snow Hill Masterplan objectives, working collaboratively with PCCWM by entering into a collaboration agreement to facilitate the joint marketing of the four buildings between Steelhouse Lane and Corporation Street.

<b>Signatures</b>	<b><u>Date</u></b>
Leader of the Council .....	.....
Director of Property .....	.....

- List of Background Documents used to compile this Report:** Snow Hill Masterplan
- List of Appendices accompanying this Report :**
1. Appendix 1 – plan of Chamberlain building in relation to Snow Hill Masterplan
  2. Appendix 2 – plan of Steelhouse Lane and Corporation Street buildings
  3. Appendix 3 – plan of Pitman and Murdoch Chambers
  4. Equality Assessment Screening 001333