

APPENDIX I

WAVERLEY BOROUGH COUNCIL

EXECUTIVE - 29 JUNE 2010

Title:

EAST STREET REGENERATION PROJECT, FARNHAM

[Portfolio Holder: Cllr Adam Taylor-Smith
[Wards Affected: All]]

Summary and purpose:

The purpose of this report is to describe the current market conditions in relation to the East Street regeneration project at Farnham, and consider the length of time required for the project to proceed in the light of the current economic circumstances.

How this report relates to the Council's Corporate Priorities:

The implementation of the East Street regeneration project touches on all five corporate priorities, environment, improving lives, leisure, affordable housing and value for money.

Equality and Diversity Implications:

There are no equality and diversity implications emanating from this report.

Resource/Value for Money implications:

This report considers the opportunities for the commencement of the development at East Street, the timing of which is important for the eventual value for money implications for Waverley Borough Council.

Legal Implications:

There are legal resources required for the finalisation of the agreements between Waverley Borough Council and Crest Nicholson.

Climate Change Implications:

There are no specific climate change implications in this report.

Background

1. The East Street regeneration project is a major scheme for the provision of new shops, restaurants, residential, affordable housing, a multi-screen cinema and reprovision of day centre facilities to be built in the East Street /Brightwells area of Farnham. Planning permission was approved in 2008 and commencement of the scheme is now awaiting national market conditions to improve for work to commence and for the other contract conditions to be satisfied.

Introduction

2. In 2007 the Council negotiated with the chosen developer for East Street, Crest Nicholson and Sainsbury's (CNS), to redesign the project and reduce the scale of the project so that it better harmonised with Farnham's diversity of traditional styles. Following a lengthy consultation with the residents of Farnham, the result was a redesigned scheme intended to overcome previous concerns of size, and mass. Whilst it was smaller than previous proposals it was considered financially viable according to all then market benchmarks. In October 2008 the Council agreed to grant planning permission for the revised scheme, subject to a section 106 agreement, which was completed in August 2009.
3. The Development Agreement between CNS and the Council that was originally entered into in 2003 (as subsequently varied) is conditional on certain stated conditions being satisfied. The conditions that require being satisfied include:
 - a) the scheme being financially viable
 - b) the acquisition of land remaining outside of the Councils control
 - c) CNS securing funding for the scheme, and
 - d) the re-routing of certain footpaths.
4. The Development Agreement provides that potentially CNS or the Council may bring the Development Agreement to an end if the contract conditions are not satisfied by 31 December 2010, unless the agreement is automatically extended in the event of an ongoing CPO or planning appeal. This date is referred to in the Development Agreement as the 'Long Stop Date'.
5. This report deals with the case for agreeing a variation to the Development Agreement to extend the Long Stop Date to 31 December 2012.

Financial Viability

6. Since the date that the planning application was determined in October 2008 the current national (and international) recession had deepened to the point where all major town centre regeneration projects throughout the UK that were not pre-funded, have halted. The contract conditions relating to funding and financial viability are not satisfied and are unlikely to be satisfied until the overall economic position in the UK improves.

7. The CNS project team and the Council team led by the Chief Executive has in co-operation with the Portfolio Holder received regular quarterly updates on the financial viability of the project.
8. The pre-conditions for financial viability depend on a number of factors including:
 - (i) interest and commitment from retail, cinema, and restaurant operations at an acceptable level of rental income and most notably three anchor stores, which would establish the standard and mix of the resultant shopping space;
 - (ii) the recovery of the residential housing market; and
 - (iii) the state of the investment and funding market in the UK; and
9. The return of these three areas to a position of strength will then determine the interest and commitment of funders, who since the autumn of 2008, as a result of the banking crisis, have retreated from financing all town centre regeneration across the UK.

Current situation

10. The economy has shown signs of a recovery but recovery is fragile and the length of the downturn is still unknown and recovery not accurately predictable.
11. The housing market has recovered some of its lost ground, so that in the view of some valuers the level of pricing now stands at 10% less than before the recession started in 2008. Significantly the latest figures from The Nationwide Building Society have reported a 10.5% rise in house prices over the past 12 months. Construction costs have also fallen since 2008.
12. Whilst funders have expressed interest in the East Street scheme, there is currently general caution for investment in the retail elements.
13. CNS prepared a detailed viability calculation and presented the findings on 6 April 2010 to the Leader, Deputy Leader and Portfolio Holder for the East Street Project. Whilst this showed that the viability of the scheme was improving, particularly the residential elements, the scheme is not yet viable. The conclusion was that currently and foreseeably for the next 6 months there would be only very slow improvements in the viability criteria, and that according to economic sentiment it would take some time before town centre regeneration projects would become viable again nationally.
14. CNS and their valuers DTZ have expressed optimism that of all the stalled national projects Farnham East Street would be one of the most attractive to investors and tenants when the UK emerges from the economic downturn. Also the outlook for continuing improvement in the residential market

continued to be strongest in the South East and Waverley area in particular. They also produced written assurances from a major funder that given a critical mass of confident interest and commitment from the retail sector it would be prepared to invest.

15. CNS and their advisers believe that the scheme that has planning consent is of a type that remains relevant and is likely to return to financial viability over time.

Conclusion

16. Much work has been invested by the Council and CNS in the East Street project to the point at which a planning permission has been granted and work has been carried out on site preparation, land assembly, and footpath diversions. It is evident that the continuing fragility of the recovery is frustrating the final steps in allowing the project to become a reality. However both CNS and Waverley are preparing for a position to take advantage of improved economic conditions when they occur.
17. The Council has taken steps to improve and prepare the development site and for example during the past six months the former health centre and three former dwellings have been demolished. The development site no longer has such a dilapidated outlook. The Portfolio Holder is committed to maintaining the development site in a clean, tidy and cleared condition pending the start of comprehensive development.
18. It is clear that the outstanding Development Agreement conditions are not now achievable prior to the current Long Stop Date of 31 December 2010. It would therefore seem prudent to extend the Long Stop Date by a further period until 31 December 2012.
19. Viability reports and discussions will continue with another report being made to the Council in September 2011 or before if the market conditions improve sufficiently to achieve viability earlier.
20. The advantages of extending the Long Stop Date to 31 December 2012 can be summarised as follows:
 - (i) Both CNS and the Council will have a greater degree of certainty to progress the project and to continue spending money and time to move the project forward;
 - (ii) CNS will be able to continue with meaningful discussions with retailers, restaurant operators and cinema operators who will feel more certain about the likelihood of the project progressing; and
 - (iii) The extension reflects that the UK economy is not yet sufficiently strong to make the scheme currently viable.

Recommendation

It is recommended that

1. the Council agrees that the Portfolio Holder working with the Chief Executive will seek to negotiate with CNS to extend the Long Stop Date under the Development Agreement to 31 December 2012; and
2. subject to satisfactory negotiations, the Council enters into a further deed of variation with CNS to extend the Longstop Date to 31st December 2012.

Background Papers

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

CONTACT OFFICER:

Name: David Simmons **Telephone:** 01483 523374
E-mail: david.simmons@waverley.gov.uk

Comms/exec/2010-2011/005 east street