

CABINET
11 JUNE 2024

WILKINSON'S BUILDING ACQUISITION AND PROCUREMENT OF DEVELOPMENT PARTNER

Responsible Cabinet Member –
Councillor Chris McEwan Deputy Leader and Economic Portfolio
Councillor Mandy Porter, Resources Portfolio

Responsible Director – Ian Williams, Chief Executive

SUMMARY REPORT

Purpose of the Report

1. The purpose of this report is to seek Cabinet approval in principle to the Council entering into an agreement with a developer to bring forward redevelopment of key town centre sites. Detailed terms of any such agreement and subsequent detailed proposals will be submitted to future meetings of Cabinet for approval. The currently identified sites for redevelopment are detailed in **Appendix 1**.
2. In addition, this report is to seek Cabinet approval to acquire the long leasehold interest of the land and buildings of the former Wilkinson's store at East Street. The ambition will be to include this site as part of the programme of town centre strategic development. It is earmarked as a site with potential redevelopment opportunity in the published Town Centre Strategy. The property is shown hatched on the plan at **Appendix 2**.

Summary

Development Partner Proposal

3. Members will recall that the adopted Town Centre Strategy focuses upon the diversification of the town centre with an emphasis on developing both residential and commercial in former commercial buildings and vacant land as one of the main drivers in meeting the Council's objective in stimulating economic growth.
4. To date there are several notable successes in the delivery of this ambition. The former Sports Direct building been acquired and demolished to present a cleared site for future development. In addition, the Northern Echo building has been acquired and work has commenced to transform this building into an Adult Training Hub on the ground floor and high-quality managed office space on the upper floors.
5. The Council's objective of stimulating economic growth by attracting more businesses and jobs to the town centre is being led by the delivery of the various Town Fund initiatives and acquisitions through the TVCA Ingenious Growth Fund and the relocation of Darlington Economic Campus (DEC) which will in turn stimulate further commercial

development and corporate investment. One of the key factors for the success of such a strategy is being able to convince inward investors and resizing/relocating businesses, that Darlington town centre is the right location for them and their employees.

6. The Aspinall Verdi Office Workplace Study prepared in May 2022 concluded that up to 250,000 sqft of new office space, in addition to the DEC, would be required over the next 10 years.
7. New development will be crucial to meeting this demand, and in attracting new business and investment into the town centre. With limited capacity to carry out major new development operations itself, it is considered essential that the Council appoints a preferred private development partner to provide specialist development skills and expertise and to limit the Council's risks.
8. The development partner's role will be to oversee the development management process, prepare design work, secure planning permission, place construction building contracts, market and let schemes to occupiers, and secure the required funding commitments.
9. It is envisaged that a development partner would work with the Council over a 10 to 15 year period to bring forward three core town centre sites, plus any others as may be identified in a phased approach. This would maximise private sector commercial investment as well as public sector funding opportunities available now and in the future.
10. The three core areas identified for redevelopment are at Kendrew Street, East Street and Commercial Street, and offer a range of development options including residential, mixed use and office led commercial development.

Wilkinson's Acquisition

11. Following Wilkinson's administration, the opportunity has arisen to assemble the East Street core development area as originally envisaged as part of the Town Centre Strategy. The Wilkinson's East Street site has long been earmarked for redevelopment and was subject to an unsuccessful bid a few years ago for High Street Funding.
12. The proximity of the former Wilkinson's building to both the former Sports Direct site and the Brunswick Street site lends itself well to strategic and comprehensive development options which could have a significant impact on the economic development of the town centre. Cohesive future development of these sites would continue the regeneration of this area of town and support recent investment in the Northern Echo Building, the Library, and nearby Brunswick Street – future home of the Darlington Economic Campus. Refer to **Appendices 3 and 4** for locational context.
13. The Council owns the freehold of the former Wilkinson's East Street site, which is subject to a 125-year long lease to a private concern. Now that the retail element of the property is vacant, the leaseholder is marketing their long leasehold interest of the whole building for sale or let.
14. It is proposed that the Council acquire the long leasehold interest. This acquisition would give the Council full control over 0.54 hectares (1.35 acres) of strategically important development land.

15. The Local Plan policies provide flexibility in terms of future use. They encourage the site to be retained as a main town centre use such as retail, leisure or offices, but do not preclude some residential development, subject to satisfying certain criteria.
16. This proposal has presented itself at a time when Council budget is being considered and the constraints are clear as set out in MTFP. However, a consequence of a failure to secure the property will result in the council having limited control over this important Town Centre site with no clarity on future intentions or condition for the building.
17. Re-letting of the store by the current leaseholder may result in an incompatible user adjacent to Council owned sites that have recently been subject to significant investment. Sale of the leasehold interest to another party may introduce a risk that the building/site may be land banked and development may not come forward for many years. The building / site could become an eyesore and a health and safety risk during this time.
18. Following acquisition, if approved, a short-term flexible letting by the Council to a suitable tenant to reduce holding costs can be explored.
19. Some discussion with the long leaseholder has taken place and although provisional, agreed terms are set out in **Appendix 5** to be considered as a **Part III** to this report.

Recommendations

20. It is recommended that:
 - (a) Cabinet approves the acquisition of the long leasehold interest by way of acceptance of a lease surrender for a premium sum as set out in Appendix 5 Part III of this report, and;
 - (b) The Assistant Director for Law and Governance be authorised to complete the transaction accordingly, and;
 - (c) Cabinet set aside budget to cover holding costs as estimated in paragraph 60 of this report, and;
 - (d) The Assistant Director for Economic Growth be authorised to approve final holding costs, and;
 - (e) Cabinet approves in principle, entering into an agreement with a private sector development partner to bring forward development on several town centre sites, the details of the agreement and the final list of sites to be included, to be presented to Cabinet at a future meeting for approval.

Reasons

21. The recommendations are supported by the following reasons:
 - (a) To secure property for future strategic Town Centre development, and

(b) To give the Council control of a prominent town centre site.

**Ian Williams
Chief Executive**

Background Papers

No background papers were used in the preparation of this report.

Sarah Wayman

S17 Crime and Disorder	The report has no implications for crime and disorder
Health and Wellbeing	The report has no implications for health and wellbeing
Carbon Impact and Climate Change	<p>If the site is maintained as is and leased out in the short term, climate emissions are likely to be minimal during this period, other than emissions from normal operations.</p> <p>If the site is demolished and redeveloped there will be climate emissions related to both processes. Redevelopment by a third party would be recorded and tracked against borough wide statistics.</p> <p>As one of the cheaper car parks in town it is well used by Council staff. Removal of the car park is likely to have an impact on staff coming into Town Hall.</p>
Diversity	No implications
Wards Affected	Park East
Groups Affected	None
Budget and Policy Framework	The resolutions in this report are not likely to result in changes to the budget framework.
Key Decision	No
Urgent Decision	No
Council Plan	Growing Darlington's Economy
Efficiency	The workload resulting from the recommendations in this report assumes resources at existing levels.
Impact on Looked After Children and Care Leavers	There is no impact on Looked After Children and Care Leavers

MAIN REPORT

Information and Analysis

Development Partner Proposal

22. Darlington Town Centre is a key element of the economic, social and environmental fabric of the town. It needs to be at the core of community and economic life, offering spaces in

which to live, meet and interact, do business, and access facilities and services. The Council together with partners needs to take collective responsibility to help the town centre thrive sustainably, reinvent its function, and meet the needs of residents, businesses, and visitors.

23. Given the changes in both the environment of the high street and changes in peoples shopping habits there is a need for all towns to develop plans that have business investment at their heart and are focused on transforming the place into a complete community hub incorporating health, housing, arts, education, entertainment, leisure, business/office space, as well as retail. Councils together with business and the communities needs to develop a compelling proposition both for residents, stakeholders and visitors, a proposition that embraces the heritage, culture and social context of the town.
24. The market is extremely limited Given the long-term occupation of Feethams House and the lack of availability of Grade A office buildings in the town centre for future business enquiries,. Following the announcement of the development of DEC the Council has experienced a growth in enquiries from professional service organisations into available office space within the town centre. These enquiries often require a location within the town centre near the DEC and in high quality office facilities. The Aspinall Verdi Office Workplace Study prepared in May 2022 concluded that up to 250,000 sqft of office space, in addition to the DEC, would be required over the next 10 years.
25. The Council has been successful in assembling three core development sites to act as opportunities and catalysts for regeneration of the town centre and to meet market demand. The sites have been assembled by the recent acquisition of several buildings and parcels of land together with long standing ownership of land in prominent areas of the town centre which are currently used for surface car parks.
26. The three core development sites are shown at Appendix 1 and are summarised below:
 - (a) Commercial Street:
 - (i) Comprising the existing surface car park and the cleared site on Union Street
 - (ii) Shown coloured red and labelled A
 - (b) Kendrew Street:
 - (i) Comprising Kendrew Street car park, Northgate House, and the adjacent buildings in private ownership
 - (ii) Shown coloured light and dark green and labelled B
 - (c) East Street:
 - (i) Comprising the former Wilkinson and Sports Direct stores
 - (ii) Shown coloured blue and yellow and labelled C and D respectively

27. The three core development sites are largely within the ownership or control of the Council, with only a few exceptions. One of the most significant exceptions is the Wilkinson's East Street site. A proposed solution to the Wilkinson ownership issue is addressed later in this report.
28. These sites offer a range of development options including residential, mixed use and office led commercial development.
29. The town centre redevelopment would be a large and ambitious regeneration initiative of a scale that has not been seen since the town centre remodelling works carried out in the 1960s and 80s. It also involves the key objective to establish a residential community in a location where the residential property market is still immature and emerging, making financial viability a key issue for its successful delivery. In addition, it will complement the DEC investment and ensure the anticipated demand for high quality office space can be met in the town centre. However, recent retailing and business trends have driven a downturn in fortunes for several parts of the town centre, resulting in what once were quality high street shops becoming empty or accommodating secondary or low grade uses. The development of these areas will bring the critical mass of demand and spending power that will help to boost retail, business and leisure sectors and produce a truly economically sustainable city centre.
30. The successful and viable delivery of the various town centre schemes will ultimately depend on a mixture of private and public sector investment, in a time when securing such funding is extremely challenging. In engaging with its key public sector partners, Homes England and the Tees Valley Combined Authority, the Council has been able to gain their interest and support in recognising the strategic importance of the redevelopment of Darlington and the Region, and having a delivery partner with a track record of successful delivery of similar urban regeneration schemes, such a three way public private sector partnership should be well placed to attract the essential funding needed to see the scheme through to fruition.
31. As any redevelopment of these sites will require substantial public sector support/backing it is considered beneficial to engage a development partner with skills in public/private sector regeneration schemes early in the development process to bring innovation and commercial skills to the process of scheme design and limit the Council's risks. The development partner's role will be to oversee the development management process, prepare design work, secure planning permission, place construction building contracts, market and let schemes to occupiers, and secure the required funding commitments.
32. It is envisaged that a development partner would work with the Council over a 10-to-15-year period to bring forward the core sites in a phased approach which would maximise private sector commercial investment as well as public sector funding opportunities available now and in the future.
33. The Council has limited capacity and expertise to carry out such major new development operations itself.
34. In order to establish an early insight into the required interventions Savills were appointed to provide a Market Demand and Viability Assessment to support the process for selecting

a preferred Development Partner to deliver the proposals for the Council's core Town Centre regeneration sites.

35. A future report on the outcome of this process will be presented to Cabinet for agreement.

Acquisition of the former Wilkinson's Building

36. The former Wilkinson's building actively fronts the junction of Quebec Street, East Street and Crown Street and consists of a large floorplate retail shop with car parking above. The shop is currently fitted out to Wilkinson's specification. Vehicular access to the car park is via a spiralling concrete ramp to the rear of the building. Pedestrian access to the car park is via a separate stairwell at the southwest corner of the building, or a lift which is located within the shop itself with no separate access.
37. The Council owns the freehold of the land upon which the property is situated. The Council granted a 125-year lease of the building in 1981 to Hambro Life Assurance Limited. In 2017 the current owners acquired the lease by assignment.
38. Wilkinson's was in occupation of the basement and ground floor of the property from 1995 until Q3 2023 when the company went into administration and their lease ended. The retail section of the building is currently vacant.
39. The Council holds a lease of the car park on the first floor and roof. The Council car park is not well utilised but remains in operation with pedestrian access via the stairwell only.
40. It is proposed that the Council acquire the 125 year leasehold interest. This transaction would result in the Council having full control over the future of the site, with no third party interests remaining.
41. The site is located within the East Street core development area, as described at paragraph 26. The proximity of the subject property to the former Sports Direct site and the Brunswick Street site lends itself well to strategic and comprehensive development options which could have a significant impact on the economic development of the town centre. Future development of the site would continue the regeneration of this area of town and support recent investment in the Northern Echo Building and the Library. The nearby sites are highlighted on the plans at Appendices 2 and 3.
42. The Brunswick Street site has been confirmed as the location for the new Darlington Economic Campus with the creation of up to 1400 civil servant posts. Earlier this year the Council and Tees Valley Combined Authority commissioned an independent Economic Impact study, carried out by Urban Foresight and a market research and demand study carried out by Aspinall Verdi. These reports highlight and predict continued and significant Grade A office demand in the town over the next 10 years. The former Sports Direct site has recently been the subject of a design competition and ideas have been put forward for an office led development. The acquisition of the former Wilkinson's site presents an opportunity to consider the context and development of these three sites together. The site may also present an opportunity to bring forward modern residential accommodation in the town centre.

43. The Local Plan (2016-2036) shows the former Wilkinson's building being located within development limits identified by Policy H3. This policy confirms that development will be acceptable in principle subject to compliance with national and local policies. It is also located within the Town Centre Boundary and Primary Shopping Area identified by Policies TC1 and TC2 of the Local Plan which ensures that main town centre uses are maintained in this area. The supporting text to Policy TC2 states "there is a need for flexibility due to the changing role of town centres, which are no longer solely a shopping destination but provide a range of other leisure and social functions including housing use on the upper floors". Policy TC2 states that to maintain vitality and viability the Local Planning Authority will permit non-retail uses in shopping frontages where appropriate subject to its position and attractiveness within the frontage and the relative pedestrian flow associated with the unit compared with the wider centre.
44. In summary, the Local Plan policies provide flexibility in terms of future use, encouraging the site to be retained as a main town centre use such as retail, leisure or offices, but do not preclude some residential development, subject to satisfying certain criteria. The Town Centre Strategy had identified this site as a potential redevelopment opportunity and this proposal if approved is a necessary step in achieving the Strategic Town Centre objectives.

Risks – Development Partner

45. This is a large scale, long term proposal. The redevelopment opportunities outlined in this report are significant, covering several sites and present many challenges. Should the proposal receive approval, a large amount of work will be required over several years before the delivery of a finished project will be realised. For example, further site assembly, procurement process for a preferred development partner, design and planning process, demolition and construction. It is envisaged that a developer will phase development of the three sites over a period of 10-15 years. As a result of phasing the development sites sequentially, some of the land parcels may stand vacant for over 10 years until ground is broken.

46. Below is an example timeline to reach completion of Phase 1. Whilst it is likely that planning for subsequent phases will begin during timeline of Phase 1 and will run concurrently, there are many other variables over the course of the 10-15 year period which will impact the timeline such as further site assembly and applying for funding to bridge the viability gap.

Action	Action Complete
Cabinet Decision to Proceed	June 2024
Acquisition of East Street (former Wilkinson's)	July 2024
Procurement Options	October 2024
Cabinet Decision to Proceed following due diligence	November 2024
Procurement process	December 2024
Contracts complete	February 2025
Development scoping work and phasing plan	May 2025
Agree phase 1 in principle	July 2025
Cabinet Decision to begin- Ph 1	September 2025
Development due diligence and design – Ph 1	December 2025
Planning pre-app – Ph 1	March 2026
Planning permission – Ph 1	August 2026
Site preparation and demolition – Ph 1	February 2027
Construction – Ph 1	March 2028

47. As stated above, these sites present many challenges to delivery. The recent viability study carried out by Savills estimated that total costs will exceed value by approximately 20%. This is known as a viability gap. There could be additional site assembly costs and demolition costs which would further put pressure on the viability gap. There is a risk that the viability gap is too great to bridge and sites cannot be developed.
48. Due to the long term nature of this proposal and risk that development may not come forward, or stall for a longer period than is reasonable, any contract with a developer will be carefully considered to include an exit strategy for the Council.
49. Development risk, such as abnormal costs and requirement to find an end user will be passed to the developer.
50. Council owned surface car park is located on each of the core development sites. Redevelopment of the sites will in time mean the loss of Kendrew Street car parks, East Street car park and Commercial Street car park. The East Street car park will remain in use following the acquisition until such point that the building is demolished when its future use is determined.
51. Car parking considerations and requirements for the Town Centre will be factored into any redevelopment proposal.

Risks – Acquisition of Wilkinson's

52. As a result of the long-term nature of this proposal, there will be inevitable holding costs of buildings and land until such time as they are demolished or development begins. Should the former Wilkinson's building be acquired, the holding costs could be in the

region of £112,000 per year. It is possible that, due to the lack of demand for large floor plate retail space in town centres at present, and the time to bring an approved scheme forward this property could remain vacant for a period. It is suggested that we provisionally allow holding costs for a three-year period. It is expected that Government will provide through TVCA schemes to facilitate demolition and clearance of brownfield sites but no absolute guarantee. The holding cost break down estimate is shown below. There is currently no provision in the MTFP for holding costs.

Business Rates Liability	£97,000 per annum
Security estimate	£5,000 per annum
Ad hoc repair estimate (to keep safe)	£10,000 per annum

53. Ideally the building would be demolished at the earliest opportunity, and conversation with TVCA has indicated that this proposal may well be an early candidate for Brownfield Infrastructure and Land regeneration grant. Alternatively, the demolition of the building could be passed to an appointed development partner at the earliest opportunity following an appointment, thus passing risk to a third party. Holding costs would be minimal following demolition.
54. Notwithstanding the challenges in the retail market, every effort could be made to let the space on a short-term flexible lease. This would mean that the Council could terminate the lease when the site was required and the holding costs, including business rates and costs of maintaining the property, would be met by the tenant whilst the lease was in place. Furthermore, with the shop open, the lift to the car park could be re-opened and increase the use of the car park and the income to the Council.
55. The Council's external non-domestic rating surveyor has provided a review of the property and has advised that there could be justification to support a reduction in the rates liability subject to further work being undertaken, which could help reduce holding costs.
56. If no action is taken to acquire control of this asset there is a risk that the current owner will sell the property to an inactive and obstructive landlord. It is widely accepted that buildings of this nature are now largely functionally obsolete due to market changes and the rise of internet shopping. Securing an occupier for a large retail floorplate is now extremely difficult but not impossible.
57. Vacant buildings usually fall into disrepair, become targets for vandalism and anti-social behaviour. Given the proximity of the former Wilkinson's building to the Council's former Sports Direct development site, and the DEC development site at Brunswick Street, this could have a detrimental impact on these redevelopment proposals, and negatively impact end values. The negative issues arising from long term vacant building would also impact the Council's East Street car park on the upper floors, and the library. Users may become more reluctant to use these facilities, health and safety issues may arise, and the Council may be called upon to enforce action via the long lease provisions or through other powers.
58. If the long leasehold is not acquired, there is a risk that an opportunity will be missed to regenerate a significant proportion of the town centre in a coherent approach, capitalising on the interest and demand generated from the DEC development to lever private

investment and further funding to support the economic development of the town centre and meet a strategic Council objective.

59. The provisionally agreed terms are set out in Appendix 5 to be considered as a Part III to this report.

Valuation Comment – Acquisition of Leasehold at East Street

60. It is considered that the price provisionally agreed for the acquisition of the long leasehold interest, (or more formally, the lease surrender premium), represents best consideration as required by S.123 of the Local Government Act 1972.

Finance Comment

61. This report seeks approval for the acquisition price / surrender premium as detailed in Appendix 5 Part III.
62. The acquisition price / surrender premium detailed in Appendix 5 Part III is not included in the MTFP and will be funded via Economic Growth Investment Fund (EGIF), and residual TVCA IGF.
63. This report also seeks approval for some short-term holding costs, possibly for three years of £112,000 pa. This is not included in the MTFP and will be a pressure on this budget.
64. This proposal to acquire what is considered a strategic Town Centre site has presented itself at a time when Council budget is being considered and the constraints are clear as set out in MTFP. Whilst it is believed this can be mitigated by either early demolition, or by agreeing short term tenancy lease with an occupier, nevertheless the proposal potentially will most likely add revenue cost until such time the property can be disposed of.
65. Cabinet should note that it is anticipated that the future sale of the site for development will be subject to planning, and sale/procurement and at this stage there is no cast iron guarantee that the full acquisition cost will be recouped. However, with urban living a clear need expressed in our Town Centre Strategy, with demand expected to rise, and with commercial space confirmed by independent consultants (Aspinal Verdi) in short supply and in close proximity to Darlington Economic Campus, Officers feel that the prospect of securing private sector interest is a high probability.

Planning Comment

66. There are no planning issues associated with this transaction. However, any future demolition will require planning consent, a pre-application will be required to fully assess planning issues.

Legal Implications

67. As this proposal concerns the acquisition of land, the Council must ensure that it complies with S.123 of the Local Government Act 1972. Save for the above there are no legal

implications arising from the proposal in this report at this stage, though legal implications may arise following title investigations.

Procurement

68. All subsequent procurement activity will be via a compliant process, in line with the Public Contracts Regulations 2015 and the Councils Contract Procedure Rules, with an option being an award via the Pagabo Developer Led Framework.