

## **STOCKPORT EXCHANGE PHASE 5 AND FUTURE PHASES**

Commercially Sensitive –Appendices 2-5 of this report are confidential by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in respect of which the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

### **1. INTRODUCTION AND PURPOSE OF REPORT**

- 1.1 The report seeks authority for funding to undertake an update and refresh of the Stockport Exchange Masterplan, to secure detailed planning permission for Stockport Exchange Phase 5 for a building of circa 65,000 sq. ft together with outline planning permission for Phases 6, 7 and 8 Stockport Exchange by way of a hybrid planning application.
- 1.2 The existing planning permission expired in September 2022 and therefore a new hybrid planning application represents an exciting opportunity to refresh the masterplan and get in a position to deliver the future phases at Stockport Exchange, building on the successes to date.

### **2. BACKGROUND**

- 2.1 The Council acquired Stockport Exchange (formerly Grand Central) in January 2011, Muse Places Limited (previously named Muse Developments Limited (Muse) were appointed as the Council's preferred development partner in 2012. To date, the partnership has successfully delivered three phases with phase 4 due for completion in late summer 2023. Stockport Exchange is at the heart of an ambitious £1bn regeneration of the town centre which is being delivered by the Council, the Mayoral Development Corporation and partners including Muse Developments.
- 2.2 Phase 1 comprised a 1,000-space multi-storey car park (MSCP) was funded via a transaction with Canada Life Limited and prelet to NCP.
- 2.3 Phase 2 is complete and comprised 40,000 sq. ft of new office development together with a convenience store and café, public realm and a 115-bedroom hotel. The offices were completed in October 2016 and were fully let by the end of May 2017 to Music Magpie and Stagecoach. The Hotel opened in December 2016 and has consistently traded well above the expectations that were set out when the Cabinet decision to progress was made.
- 2.4 Phase 3 completed in May 2020 and comprises 61,502 sq. ft office development. The top two floors (21,460 sq. ft) are let to BASF. O'Neill Patient Solicitors have taken a lease for two floors (22,901 sq. ft), Industrials REIT (Real Estate Investment Trust) have taken a lease of part of the first floor (4,500 sq. ft) and Community Health and Eyecare Ltd (CHEC) have taken a lease of the

ground floor (6,500 sq. ft). Therefore, only 6,000 sq. ft is remaining with a number of active enquiries.

- 2.5 Phase 4 which will provide a further 64,500 sq ft of office space is due to complete late summer 2023. Terms have been agreed with an occupier for the top floor and terms issued on another two floors. If these lettings are finalised, then over half the building would be let prior to building completion. We continue to show potential occupiers the space and have been encouraged by their positive feedback.
- 2.5 The successes of Phases 1, 2 and 3 is testament to the high- quality Grade A accommodation on offer, the highly sustainable location, with public transport access and car parking, wellbeing, amenity and building sustainability, all of which are available at Stockport Exchange.
- 2.6 On completion of Phase 4 in October it will mean that over half of the original masterplan would have been delivered. The masterplan proposals were for 375,000 sq. ft of new office and employment space and this now presents a timely opportunity to undertake a refresh of the original masterplan and plan the remaining phases.
- 2.7 With companies gaining confidence in the return to office strategy, occupiers are committing early to acquire the best location and space for their business that meets their ESG requirements. Stockport Exchange has achieved some of the highest rental levels outside Manchester City Centre. Agents report that the lack of supply is set to drive up rental values over the next five years, especially for Grade A space coming online.

### **3. OPPORTUNITY AND MARKET DEMAND**

- 3.1 Joint Agents CBRE and Cushman and Wakefield have updated their market commentary and advice reflecting the Q1 2023 position, which is attached to this report in Confidential (Appendix 1). They confirm a shortage of new Grade A and sustained levels of take up in the coming years, due to a gap in supply, especially in the South Manchester market.
- 3.2 In summary, the total size of the South Manchester market for office space is 12.8m sq. ft. There is 1.5m sq. ft of available space across all grades, which equates to 16% of total availability. Of the 1.5m sq. ft of available space only 70,747sq ft is Grade A space (under 3 years old and never occupied). Four new office schemes are due for completion in the next 2 years but all of these are within Manchester City Centre, with none in South Manchester. These are developments at Angel Square near Victoria station, Eden in New Bailey, St Michaels off Deansgate and Island at St Ann's Square. Stockport Exchange is therefore well placed to capture current and future demand in the South Manchester area.
- 3.3 The agents also point to 600,000 sq. ft of lease events in the next 5-year period, meaning the current new build Grade A stock is expected to be absorbed in the next 18 months. Occupiers are willing to pay more for workspace that aligns with their Environmental, Social, Governance (ESG) targets, within buildings that offer a strong amenity proposition, which Stockport Exchange provides.

- 3.4 Securing planning consent for Phase 5 and future phases would put Stockport Exchange in the best position to meet this demand, to secure occupiers with strong covenants which are most attractive to the investment interest and provide brand new Grade A offices within the timescales required by occupiers.
- 3.5 The hybrid planning application will seek detailed consent for the office building in Phase 5 and outline planning consent for the Wellington Road frontage and the final phases in the masterplan, the boundary is shown in attached Appendix 2. Detailed market assessments will be undertaken for these phases for the proposed uses to reflect market conditions. The outline part of the hybrid application could also allow for some ground floor commercial use on the Wellington Rd frontage and some residential use potential on phase 8.
- 3.6 Securing a revised planning permission will also put Stockport Exchange in the best position to attract future grant funding through various channels where the highest priority is often given to 'shovel ready' schemes which can meet the delivery timescales often associated with funding streams. It is expected that there will be further rounds of this funding in the coming years. Council has previously secured grant in connection with Phase 4 due to the appointment of its development partner (Muse) and having a planning permission in place.
- 3.7 The existing outline planning consent for the whole Stockport Exchange Masterplan area expired in September 2022. Therefore, a refresh of the Masterplan, recognising any changes to meet current and future market demand is timely. This will also be needed should the council be required to pursue a CPO for any final land/premises assembly.
- 3.8 Social Value commitments will be created in line with a large scale development of this nature and form part of the future procurement process.

#### **4. FUTURE PHASES – WELLINGTON ROAD PROPERTIES**

- 4.1 In September 2022, Cabinet approved the demolition and subsequent landscaping of 76 - 84 Wellington Road South and 2 Railway Road. Efforts are continuing to complete the acquisition strategy for Stockport Exchange with only one property remaining to acquire. Demolition works are set to start on the first phase in summer 2023, creating an opportunity to open up main road visibility to Stockport Exchange.
- 4.2 If negotiations do not prove successful, the Council will consider using compulsory purchase powers to acquire the remaining property. A compulsory purchase order should only be made where there is a compelling case in the public interest. As part of the justification for a CPO, the Council would need to show that the scheme is unlikely to be blocked by any physical or legal impediments to implementation (including any need for planning consent). Accordingly, securing planning consent would strengthen a CPO case.
- 4.3 Landscaping and 'meanwhile uses' would serve to enhance the Wellington Rd frontage to Stockport Exchange pending redevelopment.

## 5. MUSE DEVELOPMENT PARTNER

- 5.1 Muse have been appointed as the Councils preferred development partner under the Overarching Development Agreement (ODA) signed in 2012. Muse have provided a breakdown of estimated planning application and design fees in order to obtain a hybrid planning permission. The total fees are £876,469 inclusive of Muse fees Muse will continue to perform the role of the Development Manager on behalf of the Council in line with the Development Agreement.
- 5.2 The total fees will be shared 50/50 between the council and Muse. The future funding structure of the development delivery will be agreed in due course but is likely to follow the structure of the previous phase.
- 5.3 It is likely that Phase 5 will require grant funding to support viability. However, it should be noted that the scheme is more likely to secure grant funding (similar to previously delivered through the scheme) with a planning permission in place.

## 6. PROGRAMME AND TIMESCALES

- 6.1 The current indicative programme is as follows:

Action	Date
Appointment of design team	August 23
Preparation of Planning Application	September 203 /February 24
Submission of Planning Application	March-24
Determination	April-July 24
Approval	August-September 24

## 7. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

### 7.1 Financial

- 7.1.1 The estimated cost to refresh the Stockport exchange Masterplan, secure a hybrid planning consent including detailed planning consent for a c 65,000 sq. ft office building and outline planning consent for all future phases in the masterplan is £876,469. This includes a 9% contingency. This cost is to be shared 50/50 between the Council and Muse.

- 7.1.2 The proposed funding of the fees is set on in Confidential Appendix 4.

- 7.1.3 In the event that Phase 5 is not progressed within the three-year planning consent period and a planning renewal is required, the design costs and technical survey element of the fees will remain valid.

### 7.2 Risk

- 7.2.1 The main risk associated with this proposal is the planning risk. This is mitigated through a Stockport Exchange Masterplan in place and successful delivery of earlier phases and track record in letting. The timescales for planning approval are not so time critical at this stage due to the early stage of submission in advance of the full scheme proposals and funding approach. The risk of not securing planning permission is mitigated by the detailed planning element being a c.65,000 sq. ft, similar to Phase 4 which received full approval and the outline planning element reflecting the masterplan.
- 7.2.2 The funding of the design costs, technical surveys and planning application in the amount of £876,469 inclusive of a 9% contingency, requires up front funding through the council through reserves. This cost will be transferred to the scheme once full funding is approved. The full cost includes the full scheme design and technical surveys which will not need to be incurred again, in the event that the scheme is not delivered within the active planning period and re-submission is required after three years. However, the planning application fees and some reports would need to be updated at additional cost.
- 7.2.3 The full capital project approval will identify detailed risks associated with the capital costs. In brief, the BCIS five year forecasting report, currently shows an increase of tender prices by 20% up to Quarter 2 2027 and building cost inflation risk will need to be factored into future appraisals.
- 7.2.4 The market demand, lettings and investment risk is the main risk for the capital project. The Market demand report in Appendix 1 reports a significant shortage of Grade A offices and provides assurance but this risk will be reviewed at the Capital project approval stage.

## **8. LEGAL CONSIDERATIONS**

- 8.1 As the scheme progresses to delivery stage, independent legal advice will be obtained on the proposed funding and delivery of Phase 5.

## **9. HUMAN RESOURCES IMPACT**

- 9.1 Not directly applicable to the report.

## **10. EQUALITIES IMPACT**

- 10.1 Not directly applicable to the report.

## **11. ENVIRONMENTAL IMPACT**

- 11.1 Stockport Exchange delivers on the ambitions of the Economic Plan, to grow Stockport's economy in a way that is Enterprising and Productive; Fair and Inclusive; Climate Friendly and Resilient and Accessible and Connected.

- 11.2 Phase 5 and the final phases of delivery continue to deliver on The MDCs long term visions to set a new benchmark for town centre regeneration under the guiding principles of community, sustainability and innovation. The development complements plans at Stockport 8, Stockport Interchange and Weir Mill and the overall delivery of 4000 new homes and 1m sq ft of new employment space over the next 15 years.
- 11.3 The Climate Action Now plan, commits Stockport to meet carbon neutral by 2038 and the Council to be net zero by 2030. Stockport Exchange will address this through design, to achieve BREEAM excellent and with the aid of grant will seek to explore and deliver additional sustainability outcomes.
- 11.4 The delivery of Phase 5 will further improve the environment of Stockport Exchange and public realm. The location encourages maximum use public transport systems, rail, cycling, walking. Car parking provides EV charging points, capable of future expansion to meet future needs. Corporate occupiers are prioritising ESG targets (Environmental, Social and Governance) and focussing on assets with a minimum EPC A or BREEAM Excellent rating. Occupiers are willing to pay more for best-in-class workspace that aligns with their ESG targets within buildings that offer a strong amenity proposition. This statement is supported by the transaction currently under offer on Stockport Exchange 3, where ESG was cited as a key consideration. The three pillars of sustainability and sustainable development are: economic growth, social progress and environmental sustainability. Economic growth and social progress are created by the scheme through job opportunities and investment.
- 11.5 Part of the Masterplan area along the Wellington Rd frontage requires demolition and whilst the reuse and refurbishment of buildings is always a last resort due to the embodied carbon in these structures, the retention and refurbishment of these is not economically viable and would prevent future phases of Stockport Exchange coming forward.

## **12. CONCLUSIONS AND RECOMMENDATIONS**

- 12.1 Scrutiny is asked to note the content and comment on the report and recommendations as appropriate.
- 12.2 Cabinet is asked to:
- 12.3 Approve that the Council proceeds with a refresh of the Stockport Exchange Masterplan and design and technical survey work for a hybrid planning application for a c. 65,000 sq. ft Office development in Phase 5 and an outline planning application for Phases 6, 7 and 8 Stockport Exchange Masterplan area within the site area shown in Appendix 2.
- 12.4 Delegate authority to the Deputy Chief Executive and Director for Development and regeneration in consultation with the Cabinet Member for Resources, Commissioning and Governance and the Cabinet Member for Economy and Regeneration:

- a) to instruct all professional work required for the design stage and submission of a hybrid planning application up to 50% the value of £876,469.
- b) to enter into such documentation as required to document the Council's financial contribution towards the planning costs on the terms set out in this report;

12.5 Delegate authority to the Strategic Head of Service (Legal & Democratic Governance) to do all things necessary or incidental to the implementation of the above-mentioned resolutions.

## **APPENDICES**

APPENDIX 1- CONFIDENTIAL Office Market update Q1 2023

APPENDIX 2- Stockport Exchange Phasing plan

APPENDIX 3- CONFIDENTIAL Stockport Exchange Fees

## **BACKGROUND PAPERS**

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Robert Goulsbra, Head of Development and Regeneration by telephone 0161 218 1764 or email [Robert.goulsbra@stockport.gov.uk](mailto:Robert.goulsbra@stockport.gov.uk).