

Report of the Chief Executive

## **Roman House, Friar Gate - Joint Venture Partner for Refurbishment**

### **SUMMARY**

- 1.1 An options appraisal report has been prepared for Roman House and this identifies a preferred option of a comprehensive refurbishment scheme. It is proposed to secure a joint venture partner for the refurbishment of Roman House once it is vacated in December 2012.

### **RECOMMENDATION**

- 2.1 To note the contents of this report when considering the recommendations in the report in the private section of the agenda..

### **REASONS FOR RECOMMENDATION**

- 3.1 By using a joint venture partner for the delivery of the refurbishment of Roman House this will potentially bring forward a high quality refurbished office space not currently available within Derby City centre for which it has been established that there is an anticipated demand.
- 3.2 A joint venture will enable the Council to utilise private sector funding and expertise to deliver the refurbishment of the building. The selected developer partner will be responsible for the capital costs and associated fees of the refurbishment. This will reduce the Council's financial and risk exposure.
- 3.3 To deliver a scheme that will demonstrate the potential to upgrade vacant secondary office stock to good quality accommodation.
- 3.4 To reduce competition from other offices vacated within Heritage Gate impacting on the ability to dispose of Roman House in its existing state.
- 3.5 The recommendations in Paragraph 2.2 will give the Chief Executive flexibility to revise terms where necessary without the delay of reverting to Cabinet and so allowing the Council to operate in the required commercial time frames and within the overall aims and objectives of the project.

## SUPPORTING INFORMATION

- 4.1 At its meeting on 21 February 2012, Cabinet approved funding from the Regeneration Fund to support the procurement of a joint venture partner for the delivery of the refurbishment of Roman House.
- 4.2 The proposed project would comprise the securing of a private sector partner to undertake the refurbishment of the existing offices when they are vacated in early 2013 with the staff moving to the Council House. The existing building comprises around 3,289 sq.m. (35,400 sq.ft.) on four floors which was constructed in the 1970's and consists of out dated and constrained accommodation which would have limited appeal to the occupier market. The joint venture will be based upon the Council investing the capital asset whilst the selected private sector partner will invest all costs of the refurbishment works together with associated costs and will be responsible for the project on a day to day basis. The proceeds of disposal will be divided in proportion with investment made.
- 4.3 The building has only limited car parking spaces and over sails the Friar Gate Unitarian Chapel and physically adjoins Celtic House (part of the Heritage Gate scheme). The existing building has inadequate lift and toilet provision for multiple occupation. These can be addressed as part of the joint venture and may require the Council to acquire some car parking on land not contiguous with its Roman House ownership. In that situation a further report to Cabinet will be made.
- 4.4 The comprehensive refurbishment of Roman House would transform a dated secondary office building into a modern high quality development suitable to meet the requirements of inward investors to the city centre. Currently there is no such product available on the market for which there has been identified a demand. This scheme should highlight the potential to upgrade dated stock to provide a supply of high quality offices to meet the requirements of the market in the city centre.
- 4.5 An Options Assessment Report has been prepared for the building which considers four options for the building.

### **Option 1: Do Nothing**

- 4.6 The "Do Nothing" option would comprise the Council offering the building for sale in its existing state. Interested parties may include developers who have significant interests within the area and speculative interest from elsewhere.
- 4.7 On the assumption that the Council vacates the building in its existing state, then any purchaser will require to undertake significant works to secure an occupier for the building which will probably include the stripping out of all of the existing partitioning, new carpeting and ceilings and redecoration throughout. Even subject to the undertaking of these works due to the configuration of the building it will require to be let as a single property or sub let on a floor by floor basis providing suites of 650 – 900 sq.m. (7,000 - 10,000 sq.ft.)

- 4.8 The accommodation will continue to have issues with a shortage of car parking and it is likely that some additional provision would require to be secured in order to attract potential occupiers to this location.
- 4.9 Any interested party is likely to consider the scheme as a refurbishment opportunity but will also need to have regard to the position in relation to empty rates liability once the building has been vacated by the Council.

#### **Option 2: Do Minimum**

- 4.10 This option would comprise the Council undertaking a scheme of works which would reinstate the property to a shell condition, to redecorate and bring the building up to modern requirements in terms of toilet provision. This would create second hand accommodation which is the equivalent of accommodation within Saxon, Norman and Celtic Houses within the adjoining Heritage Gate complex.
- 4.11 It should be noted there is potential to sell an area of the second and third floors of Roman House to the owners of Celtic House as this relates better and may be more easily served from the existing service core of Celtic House. As a disposal of this area cannot be relied upon at this stage, it is identified as an alternative but is not costed within the option. However, an informal discussion with the owners of Celtic House has indicated that they are currently not interested in putting further capital into their holding.
- 4.12 The accommodation would not meet market requirements in Derby in terms of the size of suites and which would directly compete with the remainder of Heritage Gate, a considerable amount of which would then be vacant and available.

#### **Option 3: Comprehensive Refurbishment via a Joint Venture**

- 4.13 This option would involve a comprehensive project refurbishment to create high quality office accommodation within the frame of the existing building. It will create a new high profile entrance and reception area facing the Inner City Ring Road (Stafford Street) together with new windows to update the external appearance of the building. Internally, the new reception area will create a new service core including lifts and WCs which will subdivide the building into suites of 280 – 465 sq.m.(3,000 - 5,000 sq.ft.) and the introduction of comfort cooling throughout as part of an enhanced specification.
- 4.14 The creation of new high quality accommodation with a new visible reception area by refurbishment of the existing office building dividing the accommodation into suites which would be closely aligned to market requirements and avoid competition with vacant accommodation within Heritage Gate. This would provide a “new” offer to the Derby office market.
- 4.15 An Artist’s Impression is at Appendix 2

#### **Option 4: Redevelopment for Office Use**

- 4.16 This scheme would comprise of the acquisition of the Friar Gate Unitarian Chapel, the demolition of the existing building and construction of a new high quality office building on the site together with associated car parking. The scheme would bring the building forward towards the Stafford Street frontage and address issues of the floor to ceiling heights within the existing structure. This would provide raised access flooring and provide offices to a Grade A specification and achieving a BREEAM Excellent rating.
- 4.17 This option is constrained by requiring the acquisition of third party interests, additional capital outlay and providing accommodation that would compete with existing office space available or to be available in the city.

#### **General:**

- 4.18 The appraisal shown at Appendix 3 indicates the financial position for each of the options and demonstrates that the comprehensive refurbishment provides the residual value similar to a straight freehold disposal.
- 4.19 The Options Appraisal Report identifies a preferred option of a comprehensive refurbishment scheme. This includes a new entrance and reception from Stafford Street with lifts and new service core introduced with new windows and comfort cooling introduced to provide good quality office accommodation. The new re-positioned reception would increase the profile and increase the divisibility of the building.
- 4.20 The project will complement the nearby new build scheme at Friar Gate Square and further establish office development activity within the Friar Gate area.
- 4.21 However, the Council is currently considering the implications of a deferred project receipt against potential benefits of the delivery of a high quality refurbishment and the opportunity to demonstrate the potential for refurbishment of dated office stock. The intention would be for the Council to contribute the building into the partnership with the joint venture partner providing the capital for the refurbishment. The proceeds would be split on the basis of the successful partner tender bid
- 4.22 An approach has been made to several developers to ascertain their interest in the scheme. They have been broadly supportive of proposals although no specific details have been sought at this stage. This, along with the financial appraisals leads to the recommendation that a private sector partner be sought to deliver the scheme on a joint venture basis with the Council.
- 4.23 The programme envisages commencement of works as soon after vacant possession can be obtained with a contract for the building to be completed and available for re occupation by the end 2013/ early 2014

## OTHER OPTIONS CONSIDERED

- 5.1 To dispose of the property in its existing condition once staff had moved out to the refurbished Council House. This was discounted because it would not deliver the benefits of a comprehensive refurbishment and establish such a market for other office buildings.

**This report has been approved by the following officers:**

<b>Legal officer</b> <b>Financial officer</b> <b>Human Resources officer</b> <b>Service Director(s)</b> <b>Other(s)</b>	Stuart Leslie / Clare Wasteney Martyn Marples / Nicola Goodacre n/a  Steve Meynell Greg Jennings Richard Williams Mark Leach
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**Background papers:** Cabinet Paper 21<sup>st</sup> February 2012

**List of appendices:** Appendix 1 – Implications  
Appendix 2 – Artists Impression  
Appendix 3 – Financial Appraisals - CONFIDENTIAL

<b>IMPLICATIONS</b>
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**Financial and Value for Money**

- 1.1 The Regeneration Fund through the 21<sup>st</sup> February 2012 Cabinet Meeting has approval to invest £100,000 into the project to provide funding to support the procurement of a joint venture partner for the delivery of the refurbishment of Roman House. The intention is for the Council to contribute the building into the partnership whilst the joint venture partner would provide the capital for the refurbishment. Upon sale of the refurbished building, the receipt will be split on a proportionate basis which takes into account the value of capital put into the venture by each party.

**Legal**

- 2.1 The Council has a duty to obtain the best price reasonably obtainable for the sale of the land under S123 of the Local Government Act 1972.

**Personnel**

- 3.1 None arising from this report.

**Equalities Impact**

- 4.1 None arising from this report.

**Health and Safety**

- 5.1 None arising from this report.

**Environmental Sustainability**

- 6.1 As part of the refurbishment the environmental sustainability of the building would be improved.

**Asset Management**

- 7.1 The disposal of the property on a joint venture basis will allow it to be refurbished and demonstrate that there is a market for such office space.
- 7.2 To ensure that if and when the disposal happens it is taken off the Councils balance sheet.

## **Risk Management**

- 8.1 If no partner is forthcoming then there is a risk that the project unless funded by the Council could not then go ahead. By Autumn 2012 based on the indicative programme it will be identified whether a joint venture partner can be secured on acceptable terms. If no partner is found then this would not preclude the Council from disposing of the building upon vacant possession. A straight disposal of the property is an alternative but that would not necessarily achieve the objective of a comprehensive refurbishment to provide office accommodation not currently available to occupiers.
- 8.2 Disposal at a lower value than was originally planned will put added financial pressure on the deliverability of the indicative 2012/13 – 2014/15 capital programme.

## **Corporate objectives and priorities for change**

- 9.1 Creating a 21st century city centre  
Leading Derby towards a better environment  
Providing excellent services and value for money

ARTIST'S IMPRESSION

