

AGENDA ITEM NO.

Board/Committee:	Economic Development Board
Date of Meeting:	31 st January 2018
Title:	Royal Clarence Yard Retained Land
Author:	Tom Southall - Property Investment Manager
Status:	FOR DECISION

1. Purpose

- 1.1 To update the Board on status of discussions about the potential acquisition of part of Royal Clarence Yard

2. Recommendations

- 2.1 To note the contents of the report.
- 2.2 To continue to lobby relevant Government Ministers to ensure the site is presented, to either the Council or the wider market, in a viable manner to enable future development in line with Council ambitions for the site.
- 2.3 To continue to push to ensure that the Defence Infrastructure Organisation do not offer the site to the market until these discussions have had sufficient time to take place and effect change to make the site workable.

3. Background

- 3.1 The Council has a long standing ambition to see this 2 ha site of employment land with deep water frontage brought into productive use. Following extensive lobbying by the Council and its local MP dating back to 2013, the Defence Infrastructure Organisation (DIO) acting on behalf of MOD opened discussions about the potential sale of the site to the Council and issued Heads of Terms in November 2016. The terms offered the site with vacant possession and subject to some fence line works to separate off the Oil and Pipeline Agency operational areas.
- 3.2 The extent of the site is noted in the plan below.



3.3 Redevelopment of the site would include:

- 100 metres of quay wall and 45 m of pier berthing with deep water frontage brought into productive use
- Circa 90,000 sq ft of buildings brought back into economic use, most likely to be associated with the key maritime and marine sector
- Four listed buildings restored and brought into use
- Surplus and derelict public land and property brought forward for targeted commercial use

The next owners of the site will face a number of pressing matters relating to the condition and disrepair of the listed buildings and thus pre-purchase due diligence commenced.

3.4 Following receipt of Heads of Terms, funding opportunities were explored with the Solent Local Enterprise Partnership (LEP) to ascertain whether pre-purchase funding for survey work was available. Several due diligence reports were commissioned to ascertain the value of the site and the costs/liabilities associated with repairing the listed buildings and quayside to enable an onward sale or letting. The valuation was jointly commissioned by the Council and DIO, whereas the building survey was commissioned solely by the Council, but the contents informed the valuation.

3.5 The waterfront has been outside of the operational sphere of MOD / DIO in recent years. The land and waterfront structures have only been lightly used by external tenants with little maintenance and monitoring undertaken on the quay walls and waterfront structures as well as the water depths alongside the quay walls. All options for future use of the site include a mix of marine related

activities for which these assessments are necessary to understand the suitability of existing structures and safety of waterfront activities.

Potential Future Uses

- 3.6 Sites with deep water access in Portsmouth Harbour are very rare to come to the market and are likely to generate significant interest from both commercial and leisure marine sectors. Strong interest has been expressed through dialogue with a UK ship-repairs firm. It is also highly likely that the marine leisure sector would compete for the opportunity to extend shoreside operations, which could include having a multi-occupied site.
- 3.7 New development and any redevelopment of existing buildings and structures will need to take account of:
- **Flood risk.** The land is in Flood Zone 3. The draft Waterfront and Town Centre SPD suggests mitigation methods could include land raising.
 - **Contamination.** The land is known to be contaminated although the Council have not commissioned their own surveys and the Land Quality Assessment provided by DIO is considered to be out of date. Remediation will be required but the costs of this are unknown.
 - **Conservation Area / Listed Building Status.** Development will be subject to this status together with the constraints of the listed buildings.
 - **Services.** The land will be handed over unserviced without power, gas, water and drainage so initial outlay will be required to reconnect these services with the relevant utilities.
- 3.8 Further site investigations are required to inform investment needed to facilitate future development and this was the subject of a bid to the Solent LEP in 2017. The Council, as a landowner in this scenario, would have an ambition and a duty to ensure that the listed buildings were put and kept in repair, but also to make full use of the opportunity presented by strategic employment land with deep water access. The concern remains that if the site were placed on the open market, private entities are unlikely to have access to the significant required investment identified through the condition reports (summarised below) to bring the whole site, including the listed buildings, back into use.

Condition/ Technical Due Diligence Report

- 3.9 The site has remained vacant for some time and has not been subject to routine maintenance resulting in a number of significant items of disrepair and deterioration of the general condition of the properties across the site.
- 3.10 The technical due diligence report shows that £6.7m investment is required to make the buildings wind and watertight, prior to any required refurbishment. A sum of £3.7m of this amount will be required immediately to arrest the decay of three listed buildings (The New South Stores, The Tank Store and the Tin

Smiths Shop) and mitigate the risk of a Repairs Notice under listed buildings legislation.

- 3.11 These budget costs are an anticipated initial expenditure to make the properties wind and watertight and put them into repair. Inevitable on-going maintenance costs will follow the initial outlay. Further costs would be budgeted for refurbishment and any development on site following a decision on the future uses that any further development would facilitate. It should be noted that these are indicative budget costs and are not based on any intrusive surveys. Access to several listed buildings was not permitted and the budget assumes that should the land be purchased, further more detailed investigations would be required to confirm these figures.

Valuation Due Diligence Report

- 3.12 The Valuers were jointly appointed by the DIO and the Council and their report was finalised in September 2017. The Market Value (MV) of the freehold interest was established to be - £2,000,000. The negative value has arisen due to the significant financial constraints posed by the listed buildings and the general disrepair of the site.
- 3.13 Ideally the site would be phased back into use, targeting investment at the waterfront areas with immediate rental potential and leaving the buildings with least economic value to be refurbished latterly. However the New South Stores is in such disrepair that it is likely that a Repairs Notice requiring immediate works will be forthcoming on the new owners (the MOD are exempt from such action). The phasing of investment would therefore need to be switched, or required in much larger form to achieve the economic benefits to bring the waterfront back into use.
- 3.14 The valuation report does not take into account contamination on the site, which it is assumed will be dealt with only in the event of new development. Similarly the marine structures require further survey and inspection to ascertain load bearing capabilities and the level of investment required to bring these back into repair.

Local Politicians & DIO Ministerial Involvement

- 3.15 Local MPs have had longstanding involvement with the MOD in lobbying to get this site released. The Council and local politicians have worked together to express concerns to Ministers about the MOD's lack of repair of a number of important sites within Gosport. Most recently, following round table discussions locally with the DIO, the state of repair of Royal Clarence Yard and the concerns that a sale in its current state would pose to the local area have been communicated directly to the Minister for Defence.
- 3.16 Several Ministerial visits were facilitated in the autumn of 2017 covering the many MOD sites within the Borough that may be declared surplus in the coming years. At this session briefings around the hurdles that are unlikely to be overcome through an onward sale of the site to the open market in its

current state of repair took place. Discussions are expected to continue between Ministers, Ministry officials, local politicians and Council Officials with the aspiration that a transfer will include exploring the negotiation of a dowry to run with the site, or packaging the site up with more viable local sites to enable investment.

Solent Local Enterprise Partnership and One Public Estate

- 3.17 A bid was submitted to the Solent LEP in 2017 for Solent Growth Deal Development Funding, which outlined fees and survey work necessary to quantify the risk associated with the site. The funding sought was in the region of £250k and the bid submitted prior to procurement of the condition and valuation due diligence. The LEP decided not to assist with this site and instead suggested the Council approach One Public Estate initiative.
- 3.18 In January 2018 officials from One Public Estate visited the site and £50k has been allocated from their programme.

4. Conclusion

- 4.1 The site in its current state of repair is a large financial liability and presents much risk with unknown costs to remediate, repair and bring back elements into economic use.
- 4.2 There is opportunity to converse with the MOD and other relevant government bodies to assemble the site with more viable development opportunities, or to explore the sources of funding necessary to make development on the site viable.
- 4.3 It will be critical to ensure that local politicians including the local MP is kept up to speed at all times, to enable the matter to be lobbied within Government.

Financial Services comments:	To be completed by Financial Services
Legal Services comments:	As proposals do not currently commit the Council to a course of action that is legally binding, there are no anticipated legal consequences at the present time. An understanding of the potential liabilities of the site will be a key factor should the Council decide to purchase the site in the future, as will a consideration of its role as local planning authority regardless of who is the future owner of the site.
Crime and Disorder:	No implications related to potential land transfer

Equality and Diversity:	No implications related to potential land transfer
Service Improvement Plan implications:	<ul style="list-style-type: none"> • N/A
Corporate Plan:	This supports the Corporate Plan: Develop the Economy
Risk Assessment:	identified in body of the report
Background papers:	N/A
Appendices/Enclosures:	<ul style="list-style-type: none"> • N/A
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