

**Manchester City Council
Report for Resolution**

Report To: Executive – 10 March 2010

Subject: Spinningfields

Report of: The Chief Executive, The City Solicitor and the City Treasurer

Summary

To advise the Executive of progress made with the development and implementation of the Spinningfields Masterplan, to present proposals and further commercial details governing the future development of the area and to present recommendations.

Recommendations

1. The Executive is recommended to:
 - i) Note the work underway to evaluate and develop further opportunities to enhance the competitive and employment potential of Spinningfields, and the progress made to date in bringing forward further major mixed-use development at this important city centre business quarter;
 - ii) Approve the commercial arrangements as now provisionally agreed with Allied London, incorporating delivery and performance measures for the further development and implementation of the Spinningfields Masterplan;
 - iii) Authorise the Chief Executive, the City Treasurer and City Solicitor, following consultation with the Chair of the Executive Committee and Executive Member for Finance and Human Resources, to negotiate and complete all necessary agreements in order to implement the proposals, including the freehold acquisition, grant of the leases and the variations to the Development Agreement to which this report relates;
 - iv) Note the recommendation in the report on Spinningfields within Part B of this agenda that requests the Council approves a separate increase in the capital budget for the strategic acquisition of land in the area; and
 - v) Note approval of this report is subject to acceptance of the recommendations contained within the Part B report on Spinningfields, on this same agenda.

Wards Affected:

City Centre

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	This initiative will provide the catalyst for further investment and employment in the area.
Reaching full potential in education and employment	The redevelopment of this area will facilitate the creation of a substantial number of jobs in a range of employment sectors, but primarily within the financial and professional services sector.
Individual and collective self esteem – mutual respect	
Neighbourhoods of Choice	The quality of the public realm is a significant factor in determining the character of the area. The intention to encourage independent and niche uses to complement the range of commercial uses will create a distinctive experience in and quality of the area.

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

Allied London's development at Spinningfields currently does not generate any revenue for the City Council. In this Agreement the City Council will receive a regular income stream with growth potential which will cover the cost of borrowing.

Financial Consequences – Capital

The Capital Programme for the City Council's investment has been increased and will be met from Prudential Borrowing on Spend to Save.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

- Report to Policy and Resources City Centre Sub-Committee, Highways and Cleansing Committee, Environmental Planning Committee and Land and Property Sub-Committee, March 1995.
- Report to City Centre Sub-Committee and Environmental Planning Committee, June 1997.
- Report to City Centre Sub-Committee, Environmental Planning Committee and Social and Urban Strategy Sub-Committee, October 1997.
- Report to City Centre Sub-Committee, Environmental Planning Committee and Social and Urban Strategy Sub-Committee, February 1998. (Confidential).
- Report to City Centre Sub-Committee, Finance Committee and Policy and Resources Committee May/June 1998. (Confidential).
- Report to City Centre Sub-Committee, Environmental Planning Committee, Finance Committee and Policy and Resources Committee May/June 1998. (Confidential).
- Report to Executive Committee 6th March 2000.
- Report to Executive Committee 17th July 2000.
- Report to the Executive 5th October 2001. (Confidential).
- Report to the Executive 19th December 2001. (Confidential).
- Report to the Executive 16th October 2002.
- Report to the Executive 13th October 2004.

- Report to the Executive 21st December 2005
- Report to the Executive 27 June 2007

Reports held on file in Room 318, Town Hall, Albert Square.

1. Introduction

- 1.1 The city centre has undergone a remarkable transformation over the last decade. The 15-year redevelopment of the retail and commercial core has resulted in a range of high quality complementary buildings, and strong urban design has helped create a distinctive and contemporary centre. The renewal of the city centre has already brought many benefits to the City and the wider region, with landmark buildings and high quality new spaces and infrastructure.
- 1.2 Together with our partners, the Council has focused on delivering balanced development, shaping growth to achieve compatibility of supply and demand to drive improvements in the economic competitiveness of the City. There is a need to build on this success to ensure the City is able to both sustain its growth potential, while also becoming a place defined by excellence in design, quality and diversity of offer.
- 1.3 However the economic downturn has and continues to have an adverse effect on the City's ability to maintain this trajectory. Access to funding for new development is currently severely restricted or is so expensive or heavily conditioned as to be in practice inaccessible, resulting in developments being severely delayed and in some instances, shelved. This situation is compromising the City's ability to position itself to grasp new investment opportunities when they arise and to prepare for the upturn. The Council has a key role to play both in working with those seeking to bring forward new development that will add to the commercial offer in the City, and in working in partnership to anticipate the next phase of major development activity - with the need to focus on 'place-shaping' where we can invest with a view to securing returns in the medium term. This is becoming increasingly important as it is anticipated that major international institutions that are increasingly cost conscious will be seeking relocation options for their business units that are competitively priced.
- 1.4 With this in mind, the Council needs to exercise a strategic role in maintaining momentum by supporting development where it has the greatest potential to deliver these objectives. This will be best delivered in key gateway and commercial areas and includes, among others, Spinningfields, as these areas have the greatest ability to support our economic growth potential.

2. Background

- 2.1 The Executive has received previous reports outlining the principles to be used for securing comprehensive regeneration in the Spinningfields area and setting out progress made with the development and implementation of the Spinningfields Masterplan. The most recent report in June 2007, sought the endorsement of an updated and revised Masterplan to respond to the needs of new occupiers and ensure that Spinningfields could compete for new investors.
- 2.2 Since then, there has been a considerable amount of development and change in this area including further relocations by new investors; and the

need to continue to respond to end user requirements. As a result of this, it has been necessary to review certain aspects of the Masterplan in order to secure the continued development of the area, and to look at ways of ensuring the area continues to remain attractive to new, high end occupiers.

3. Spinningfields – Overview

- 3.1 Spinningfields has been designed not only to drive forward the continued economic success of Manchester, but also to enable the North West to close the productivity and wealth gap with London and the South East.
- 3.2 The creation of Spinningfields as a dynamic new prime business destination, in which strategic national and international investors can realise their business aspirations, is a central component of the City's strategy for improving its economic competitiveness and performance. The area is a prime attractor for major financial and professional services institutions, and high calibre organisations that are represented in both Europe and Worldwide. The sophisticated requirements of these organisations both in terms of employment needs and building design and infrastructure, demand that modern, large floor plate office sites, with first-class ICT connections, are located within a high quality environment and served by excellent transport links.
- 3.3 Spinningfields has already significantly strengthened and added value to Manchester's renown as a prime location in which businesses can operate, enhancing the City's growing reputation as an international destination of choice for world class investors in financial, legal and professional services and other high value-added sectors. The continued success of the development will help to ensure that the City realises its full economic potential as a world class Knowledge Capital. As Manchester's prime business quarter, the future developments at Spinningfields will help to generate the further step-change in the economic performance of the City that is required to remain competitive in the global market place for jobs, investment and visitors.
- 3.4 Since 2001, twelve buildings have been developed, including seven office buildings and 450 apartments, four new public squares and up to 30 new retail and catering outlets. Spinningfields already accounts for in excess of 35% of the City's prime office space and contains the two building with the largest floor plates in the City. Around 44 commercial organisations have now moved to the quarter, employing around 16,000 people. At the Masterplan's proposed completion in 2014 there will be around 25,000 people employed in the area.
- 3.5 Spinningfields is also home to a large number of high profile financial and professional services companies, such as RBS, Halliwells, HSBC, Grant Thornton and Deloitte. The most recent development, 3 Hardman Street, now has 95% occupancy within 12 months of completion. Financial and professional services occupy 70% of the space including:

- Banks (Barclays and BNY Mellon);
 - Law firms (Pinsent Masons, Shoosmiths and Beachcroft);
 - Accountants (PKF, Baker Tilly and BDO Stoy Hayward);
 - Regus has also taken 17,500 sq ft, which is home to an additional 23 small firm tenants.
- 3.6 Spinningfields has thus far been principally attractive to: existing Manchester investors looking to relocate to larger premises to meet their future expansion needs such as Baker Tilly; those wanting to consolidate several smaller operations into one centralised unit, such as Barclays and RBS; and other organisations wishing to use the area to co-locate, reposition and expand their regional business. The large floor plates have proved particularly desirable, allowing firms to bring separate divisions together that may have previously been spread across different floors/buildings. Spinningfields has also attracted many new investors to the City such as Shoosmiths, and second stage investment such BNY Mellon. The Regus offer has also provided an entry point for new investors, such as wealth management firm SG Hambros.
- 3.7 The success of Spinningfields has, in part, been due to its location in the heart of the city centre, its critical mass, and the high quality design of both the public realm and the buildings. However, equally important has been the delivery partnership between the City Council and Allied London, which has provided investors and end users with confidence in the Spinningfield's product and its importance as a commercial destination to the City.
- 3.8 Of vital importance has been a commercial philosophy of large office floor plates of between 20,000 to 45,000 sq ft which has made Spinningfields unique not only within the City, but also within the UK. It is the provision of quality infrastructure and highly accessible real estate that has enabled Manchester to effectively compete with other major cities in the UK, Europe and the United States.
- 3.9 Current availability at Spinningfields is, however, very limited, with around 55,000 sq ft of commercial space remaining between 3 Hardman Street and The Avenue, less than 2% of the commercial floor space that has been developed overall. Of this space, 25,000 sq ft has not yet been marketed and is programmed to be leased between March and December 2010.
- 3.10 Spinningfields has two further main development plots at 1 and 2 Hardman Square and 2 and 3 Hardman Boulevard, that have the potential for some 580,000 sq ft of offices and ancillary retail. Although much of the area has already been developed, further has had to be delayed. There are also elements of public realm that need to be completed to create key pedestrian linkages to the remaining parts of the central core, and surrounding streets and spaces including Deansgate through to Lincoln Square; Bridge Street through to Motor Square and House of Fraser; and Scott Street through to

Peter Street, thereby improving access to the retail and leisure opportunities that will be created.

- 3.11 It is, therefore, unclear when the next phase of development is likely to start, and whether this will commence at all without a significant pre-let. In view of this, officers and Allied London have been exploring further opportunities for accelerating commercial development to ensure Spinningfields is positioned to capture new investment opportunities coming forward. This has identified a proposal for the Council to invest on market terms in the development subject to the terms being agreed, which will enable Allied London to exercise full control over the developed sites, thus accelerating the future development in the area. Detailed proposals around these measures are set out in a report attached at Part B to this agenda, and are summarised in Section 4 of this report.
- 3.12 If the commercial arrangements are approved by the Executive, it is proposed to market the offices on the undeveloped plots this summer, with the intention of commencing development in 2011 with completion by the end of 2015. The two remaining development plots would be developed around floor plates of between 20,000 sq ft to 35,000 sq ft and will continue to provide the type and form of buildings which have been successfully leased to date. The early design and award of full detailed planning will enable the momentum of Spinningfields and the pace of change in the city centre to be maintained, and provide further opportunities to secure new high quality inward investment. These proposals will require some changes to the Masterplan to ensure buildings can be developed that are attractive to the market.
- 3.13 These buildings would, therefore, continue to enhance the city centre commercial property offer by providing buildings that cannot be provided elsewhere. It is important that this remains the commercial philosophy and objective of the development.

4. Commercial Issues

- 4.1 Allied London is the owner and developer of Spinningfields, and works in partnership with the Council under a Development Agreement covering the development of the Masterplan and measures to promote the area as a major business district. The Agreement expires in April 2014.
- 4.2 Under the terms of the Agreement, the Council benefits from an overage profit share of developments. The Council has used some of this investment to support a range of community and social events in the area, which has supported the marketing and promotion of Spinningfields as a leisure as well as business destination.
- 4.3 Allied London have funded all development to date and currently own 3 Hardman Street, 1 The Avenue and all the future development plots including Manchester House, Quay House (1 and 2 Hardman Square) and Hardman Boulevard. Terms have been offered by Allied London for the Council to acquire the freehold interest and grant back to Allied London long

leasehold interests in two development sites at Hardman Square and Hardman Boulevard. The acquisition will in turn be used by Allied London to provide the essential funding to enable the next strategically important phases of the Spinningfields project to be brought forward at the earliest possible opportunity. In the prevailing difficult market these projects will not be delivered before the current agreement expires in April 2014, and it is proposed to extend the agreement to 31 December 2015 to facilitate these developments.

- 4.4 By virtue of this transaction the Council will acquire a property investment in both a successful and strategically important area of the City. Given current market uncertainty, there is commercial risk in bringing forward development at this time. However set against this, the benefit to the City and the regional economy gained through the provision of high quality commercial space more than mitigates the associated risks.
- 4.5 The income that Allied London proposes to pay will support the required borrowing costs and therefore from an investment perspective, in the view of the Head of Corporate Property, this represents a transaction which represents best value.

5. Conclusion

- 5.1 ALP, in collaboration with the Council, has made very significant progress in terms of driving forward the implementation of the Masterplan. It is essential to recognise that the Masterplan framework needs to be robust and flexible in order to ensure that major investment opportunities can be captured for the benefit of both Spinningfields and the city centre as a whole. Therefore, the Masterplan needs to be regularly reviewed and be flexible in order to accommodate any necessary changes.
- 5.2 The issues set out in this report incorporate a number of changes that provide a strategy for the next phase of development, and sets out a programme of action to ensure that such development is sustainable and maximises the overall benefits to the City, whilst meeting the standards required by the Council.

6. Contributing to the Community Strategy

(a) Performance of the economy of the region and sub region

The completion of the Spinningfields Masterplan, and the opportunity to attract major new national and international investment will support the continued growth of the regional and sub-regional economy.

(b) Reaching full potential in education and employment

The reconstruction of the Spinningfields area, and the opportunity to attract major investment will create new jobs that are accessible to Manchester residents. Already, developments completed are providing around 15,000 jobs.

(c) Individual and collective self esteem – mutual respect

(d) Neighbourhoods of Choice

The redevelopment of the Spinningfields area will provide a much improved environment that will be well maintained and attractive to future occupiers and users.

The new public streets and squares that have been and will be implemented in Spinningfields will provide safe and accessible routes and destinations for all users, and the management and maintenance regime that has been adopted ensures that high standards of urban management are achieved. When individual applications are submitted for development, officers will ensure that they are all fully accessible to all people.

7. Key Polices and Considerations

(a) Equal Opportunities

- 7.1 A key aim of the Spinningfields initiative is to ensure that local people can access and benefit from the employment opportunities and wider facilities that are being created. In addition, there is a commitment to ensure that design standards throughout the development will comply with the highest standards of accessibility.

(b) Risk Management

- 7.2 The project Board will continually monitor and respond to risks throughout the lifetime of the project. The monitoring arrangements of the existing Development Agreement contain within it a process relating to performance and evaluation.

(c) Legal Considerations

- 7.3 The City Council's participation in this project will be authorised by s2 of the Local Government Act 2000, subject to the Executive being satisfied that it is in the interests of promoting the social, economic or environmental well being of the area. In determining whether and how to exercise this power, the Executive must have regard to its Community Strategy. If agreed by the Executive, a number of legal contracts will need to be concluded pursuant to the detail of this report.

Recommendations can be found at the front of the report.