



# SOUTHAMPTON CITY COUNCIL: SITES STUDY

## Western Gateway and Town Depot

On behalf of:



June 2013



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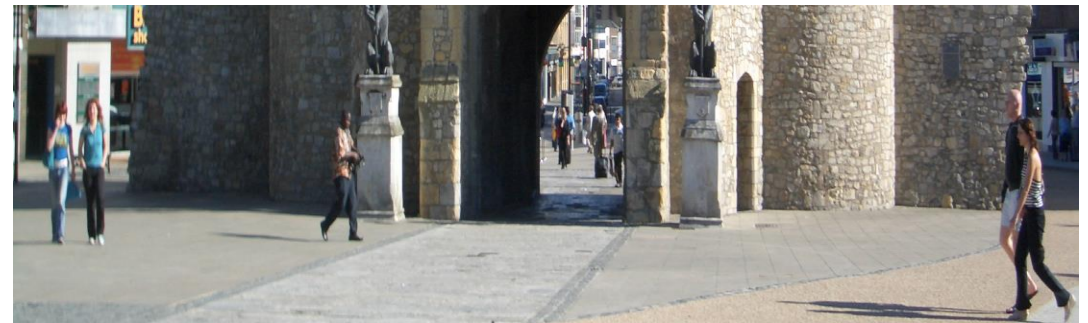
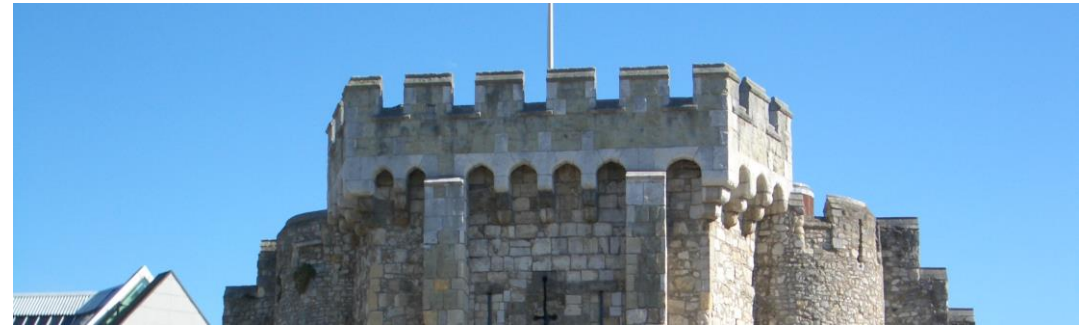
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# 1. INTRODUCTION

Montagu Evans LLP alongside Urban Initiatives Studio have been commissioned by Southampton City Council to provide delivery and viability advice in relation to two sites in Southampton City Centre. The sites – Town Depot and Western Gateway - form part of the emerging Southampton City Centre AAP, and have previously been subject to a masterplanning exercise to inform the Development Plan Document.

The key focus of the study is to consider delivery and viability issues for indicative scheme proposals for each site. The outputs are intended to provide a platform for the Council to prepare a robust and sound development plan.

In order to meet the aims of the study we have undertaken the following key tasks:

- Review of key opportunities and constraints affecting the sites.
- A broad review of the planning policy that will influence future development/land use for the two sites.
- A review of Southampton's commercial property market in the context of the Western Gateway and Town Depot sites.
- A synopsis of the sites key landowners/stakeholders, and land ownership patterns.
- Preparation and identification of high level indicative development options/concepts for the sites, in order to understand more fully their capacity to accommodate new development.
- High level viability assessments of the indicative options.
- Preparation of a site delivery framework

In order to achieve the core aims of this study, this report is structured as follows:

- **Section 2 – Site Context**
- **Section 3 – Key Planning Matters**
- **Section 4 – Property Market Review**
- **Section 5 - Estates Review**
- **Section 6 - Scheme Concepts**
- **Section 7 - Viability Assessment**
- **Section 8 - Delivery Framework**
- **Section 9 – Conclusions**

## 2. SITE CONTEXT – WESTERN GATEWAY

### WESTERN GATEWAY

The Western Gateway site covers an area of 12.6Ha and is located in the south-west of Southampton city centre. The site is defined by West Quay Road to the east, by Southern Road to the north, Solent Road to the west and by Herbert Walker Avenue to the south. At its widest the area measures approximately 270m across and it extends for approximately 600m along West Quay Road. West Quay Road is a dual carriageway that forms the main westerly approach into Southampton City Centre and as such the Western Gateway site is highly visible to visitors to the city and important in defining initial impressions of the city. Immediately to the west is port land managed and owned by Associated British Ports (ABP) and including a cruise terminal at Berth 101, where some of the world's largest cruise ships dock.

The north-western corner of the Western Gateway site is approximately 250m south west of Southampton Central Station with Southern Road providing a direct connection. A number of retail parks are located between the station and the Western Gateway area. These provide large floorplate retail sheds with extensive car parks around them. Immediately opposite the site on West Quay Road is an Ikea Store. This takes a more urban form with car park in a multi-storey structure attached to the store. To the south of the Ikea Store is a five-storey office building, the headquarters to Carnival, which helps to define the southern end of Harbour Parade. Further to the east is the West Quay Shopping Centre and to the south Mayflower Park and the Royal Pier site.

### WESTERN GATEWAY - SITE OUTLINE AND LOCATION



## 2. SITE CONTEXT – WESTERN GATEWAY

### Current Uses

The Western Gateway site is currently occupied by a mix of light industrial, car showroom, storage and distribution and leisure uses. The area is subdivided into a number of sites. To the north are three larger sites occupied by the City Industrial Estate (40 small units, 6 vacant as of January 2013), John Lewis distribution centre and Leisure World which includes an Odeon Imax Cinema, night club, casino and a number of food and drink uses with associated car parking. Further to the south the area is more fragmented with a number of car showrooms fronting West Quay Road, and other buildings occupied by car hire facilities and small businesses. There are several vacant buildings in the area including the former Quayside public house that fronts West Quay Road.

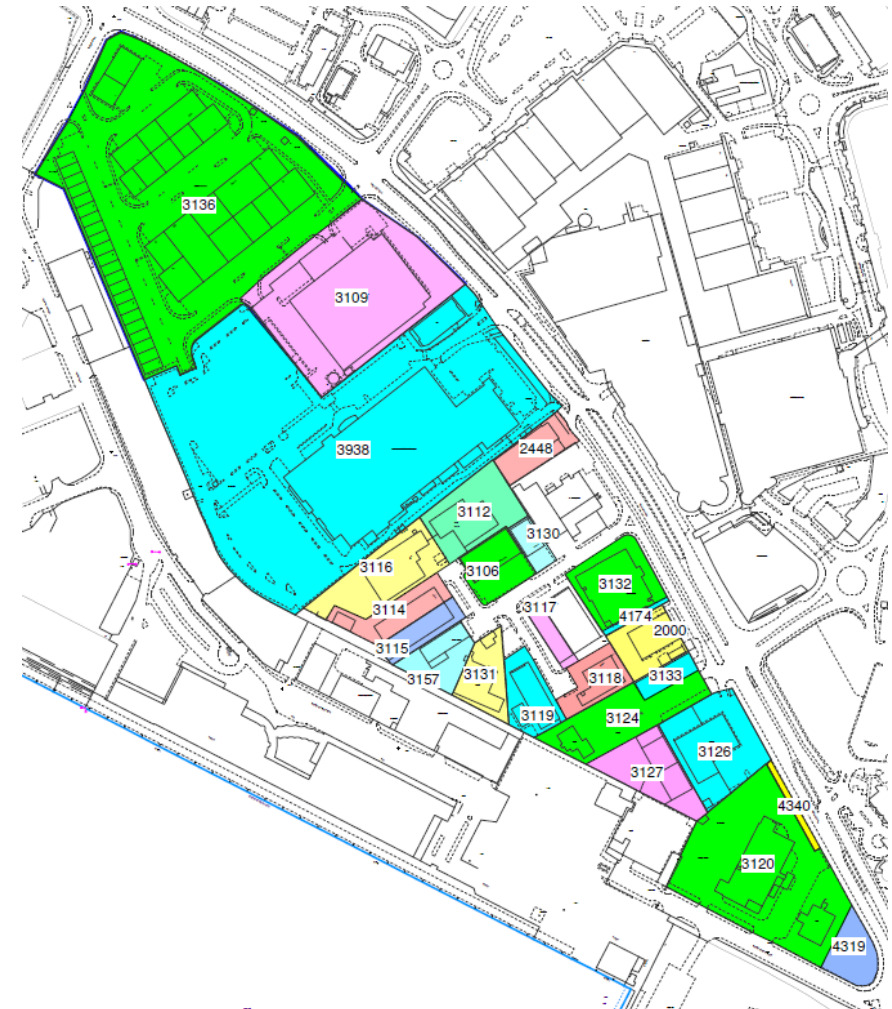
### History

The Western Gateway area sits on land that was reclaimed from Southampton Water in the 1930s. There are however a number of notable features in the area, in particular the gates to the port which are Grade II listed (Dock Gate 10 on Southern Road and Dock Gate 8 on Herbert Walker Avenue) and the impressive red brick Solent Flour Mills which rises to 7 storeys and provides the termination of the view along Southern Road. This building is locally listed.

### Land ownership

The majority of the Western Gateway site is in Council ownership however occupiers are nearly all on long lease terms, and the site is subject to numerous subleases. Further discussion is provided on this in Section 5.

### WESTERN GATEWAY – KEY LANDOWNERSHIPS



## 2. SITE CONTEXT – WESTERN GATEWAY

### Current Development Activity

Whilst there are no major applications within the Western Gateway area a scheme to deliver a new waterfront for Southampton at the Royal Pier site to the south is well advanced (preferred developer in place and negotiations with landowners progressing). Hammersons have outline approval to deliver a mixed-use scheme as a third phase of the West Quay shopping centre development on Harbour Parade/Western Esplanade. This scheme known as 'Watermark' would deliver a mix of uses including retail, residential and leisure uses including a cinema. Permission was granted in 2009 and given the changing economic climate since then the scheme that comes forward is likely to be more leisure focused.

Development Securities are promoting an office development scheme, known as Aqua – just to the north of Western Gateway.

### Roads

West Quay Road is the main route into the city from the west and carries a significant volume of traffic from the M27 via the M271 into the city centre. It is a dual carriageway route with signal controlled junctions along its length notably at Southern Road and Harbour Parade.

Access to the port is via Dock Gates 10 (at Southern Road to the northern edge of the Western Gateway site) and Dock Gate 8 (at Herbert Walker Avenue to the south of the Western Gateway site). The Royal Pier scheme proposes a new arm to the Harbour Parade junction to give access to the Cruise Terminal at Berth 101. This would replace Herbert Walker Avenue and provide a new 'Dock Gate 8'.

Provision of any new junctions onto West Quay Road will require negotiation with the City Council and Highways Authority. A service road runs parallel to West Quay Road for part of its length and this ensures that front door access can be provided to properties along its length. Tree planting and public realm improvements have been introduced along parts of West Quay Road and this enhances the environmental quality of the route.

A number of east west connections provide access to sites within the Western Gateway

### Port Activities

The Western Gateway is immediately adjacent to the port and cruise terminal. Associated British Ports (ABP) will be concerned about any proposals that may impact on their operations in particular in relation to access and concerns raised over noise or other disturbance. In this context residential uses adjacent the port are likely to be resisted by ABP, along with any uses that will generate high volumes of traffic and that could increase congestion on West Quay Road.

## 2. SITE CONTEXT – WESTERN GATEWAY

### Utilities and infrastructure

Whilst statutory undertakers apparatus passes through the site these provide local supply and therefore it is anticipated that diversions will be possible.

### Contamination

Given the former uses on the site contamination is possible although at this stage information is not available.

### Flood Risk

The site is at risk of flooding, and this risk will increase with sea level rise. The majority of the site is within Flood Risk Zone 3 (annual probability of flooding is 0.5% or greater). A redevelopment will need to take account of PPS25 (flood risk), as well as wider regeneration benefits. In particular it will need to provide adequate safety, particularly with respect to residential development. This is likely to include safe access to / from the site during flood events, achieved through land raising and / or raised pedestrian routes where practicable; and improvements to the sea wall defences. In flood risk terms, housing, bars and hotels are classed as “more vulnerable” and offices / most other leisure uses as “less vulnerable”.

The Council’s Flood and Coastal Erosion Risk Management Strategy proposes that land is elevated in a 50m wide strip (by on average 1.5m) in order to create a flood barrier.

### WESTERN GATEWAY – FLOOD RISK



## 2. SITE CONTEXT – WESTERN GATEWAY

### SITE CONTEXT

The adjacent plan summarises the key physical constraints and influences affecting the Western Gateway site.



-  Royal pier development site
-  Watermark development site
-  Aqua development site
-  Statutory listed buildings
-  Locally listed buildings
-  Scheduled ancient monuments
-  Conservation area
-  Existing trees
-  Sub station
-  Area affected by heavy traffic
-  ABP operational area



## 2. SITE CONTEXT – WESTERN GATEWAY

### **WESTERN GATEWAY - OPPORTUNITIES**

From our analysis there are a number of key opportunities that are evident from our site analysis for Western Gateway, and can potentially be used to help develop a positive scheme for the area.

#### **City gateway**

The Western Gateway is highly visible on the approach into the City and development can help to create a positive impression of the city and its offer.

#### **Links to the waterfront**

Well structured development offers the potential to create a network of high quality connections that link different destinations in the city including the waterfront and station.

#### **Good accessibility**

The site benefits from excellent access onto the road network.

### **Views**

The Western Gateway is adjacent to the cruise terminal and offers the potential of impressive views to the large vessels that dock in the port.

### **History**

There is an opportunity to enhance the setting of the Solent Flour Mills a substantial red brick building immediately to the north of the area.

### **Critical mass**

The site covers a substantial area and this presents an opportunity to deliver a transformational change.

### **Level site**

The site is level and this ensures that development is easy to lay-out and construct.

## 2. SITE CONTEXT – TOWN DEPOT

### TOWN DEPOT

The Town Depot site covers an area of 8.14Ha and is located in the east of Southampton city centre adjacent to the River Itchen. The site is defined by the river to its eastern edge, by Albert Road North (B3039) to the west and by Albert Road South and Floating Bridge Road to the south. The site is bisected by Endle Road, which provides a significant route into Southampton's Docks from the north east of the city. The southern edge of the site lies beneath the western end of the Itchen Bridge which rises to a height of 28m over the river and connects to Woolston to the east. This bridge replaced the previous 'floating bridge' and was constructed in 1977.

Ocean Village is located immediately to the south of the Town Depot site but this inward facing development focused on a marina feels disconnected from the city centre. To the west of the site, four storey residential development has recently been completed on Nelson and Paget Streets. This provides frontage to Chapel Road an east-west route that leads towards Hoglands and Palmerston Parks and is the best opportunity to create an attractive pedestrian connection to the city centre.

Immediately to the north are active wharves and leisure boat pontoons. Further north is Southampton Football Club's St Mary's Stadium. There is limited access to the waterfront throughout the area.

### TOWN DEPOT - SITE OUTLINE AND LOCATION



## 2. SITE CONTEXT – TOWN DEPOT

### Current Uses

The northern portion of the site was until recently home to the Council's waste and recycling depot which was relocated to Milbrook in the west of the city at Dock Gate 20 in 2011. The depot is now vacant but still occupied by three large water storage tanks (approximately 62m x 41m) which act as holding tanks in storm water conditions. The south and western portion of the site is occupied by a number of small industrial units, storage sheds and parking areas. The site is also home to Southampton's Sea Cadets, and other sports and angling clubs who occupy a number of buildings on the water's edge to the south of the Crosshouse Road car park.

### History/Archaeology

Land adjacent to the River Itchen was initially settled by Anglo-Saxons in the 7<sup>th</sup> Century and known as Hamwic. The first St Mary's Church dated from this period and was located a short distance to the west of the site. In later years the sites adjacent to the river developed as wharves and boat and ship building yards. In more recent years the wharves have become loading and storage areas for aggregates.

The Town Depot site was historically a crossing point for ferries to Woolston on the east bank of the river. In the 19<sup>th</sup> Century consideration was given to construction of a bridge across the river however after objections from the navy about the impact on navigation a floating bridge was proposed. This started service in 1834 and continued to operate until the Itchen Bridge opened in 1977. The historical nature of the site means that it could have significant archaeological implications for development.

### Listed Buildings

The mediaeval Crosshouse on Crosshouse Road, to the south of the Council Depot, is Grade II listed. The Crosshouse which dates from the C16th is believed to be the base of an old boundary cross used as a circular stone shelter with seats for those waiting to be ferried across the Itchen.

Chapel Mills/American Wharf is a Grade II\* listed building immediately to the north of the Town Depot site. It provides a complex of buildings the south-east portion of which is a steam mill and bakehouse built in 1781 to provide biscuits for the Royal Navy during the American War of Independence. The building was extended to the north and west in the early 19<sup>th</sup> Century to provide a further bakehouse and grainstore. While planning permission has been granted, plans to convert the building to provide offices and luxury flats have not come to fruition and the building is currently vacant.

### Roads

Both Endle Street and Albert Road North carry heavy goods vehicles accessing the eastern docks and approaching the Itchen Bridge from the north east of the city. In the short to medium term this traffic will not be diverted and development must therefore accept the traffic impact as a constraint and create an environment where the impact can be minimized for new users. Generally, access to the site is poor, and potentially inadequate. Development will require a robust transport assessment.

### Utilities and Infrastructure

Whilst statutory undertakers apparatus passes through the site these provide local supply and therefore it is anticipated that diversions will be possible.

Of more significance are three water storage tanks located on the Council Depot site that have a combined area of approximately 2,540m<sup>2</sup> (62 x 41m). These serve as additional stormwater capacity for the city and must be retained although it is understood that they can be built over. Pipes lead from these tanks in a southwesterly direction towards a single story brick structure assumed to be a pump house and beyond this to a second single storey building on Endle Street.

It is assumed that these storm tanks can be built over – previous proposals for the site indicates that it is possible. Also, at times the storm tanks we understand can occasionally emit odours. The expectation is that this issue can be overcome – for example Thames Water is installing odour control units. This could include total enclosure. There is also government guidance available on how to tackle such matters.

### Intertidal Mud Flats

Intertidal mud flats lie adjacent to Town Dept. These are protected for conservation purposes. This could be a constraint on water front / related development here. There is however still potential access to the Town Depot site from the River Itched without possibly impacting on the mud flats. This would need to be technically assessed, alongside matters such as water depth and access generally from the River Itchen to the Town Depot site.

## 2. SITE CONTEXT – TOWN DEPOT

### Flood Risk

The site is at risk of flooding, and this risk will increase with sea level rise. The majority of the site is within Flood Risk Zone 3 (annual probability of flooding is 0.5% or greater). A redevelopment will need to take account of PPS25 (flood risk), as well as wider regeneration benefits. In particular it will need to provide adequate safety, particularly with respect to residential development. This is likely to include safe access to / from the site during flood events, achieved through land raising and / or raised pedestrian routes; and improvements to the sea wall defenses. In flood risk terms, housing, bars and hotels are classed as “more vulnerable” and offices / most other leisure uses as “less vulnerable”.

The Council’s Flood and Coastal Erosion Risk Management Strategy proposes that land is elevated in a 50m wide strip (by on average 1.5m) in order to create a flood barrier. As with Western Gateway, the expectation is that any new development at the Town Depot will need to design in flood defences.

### TOWN DEPOT - FLOOD RISK

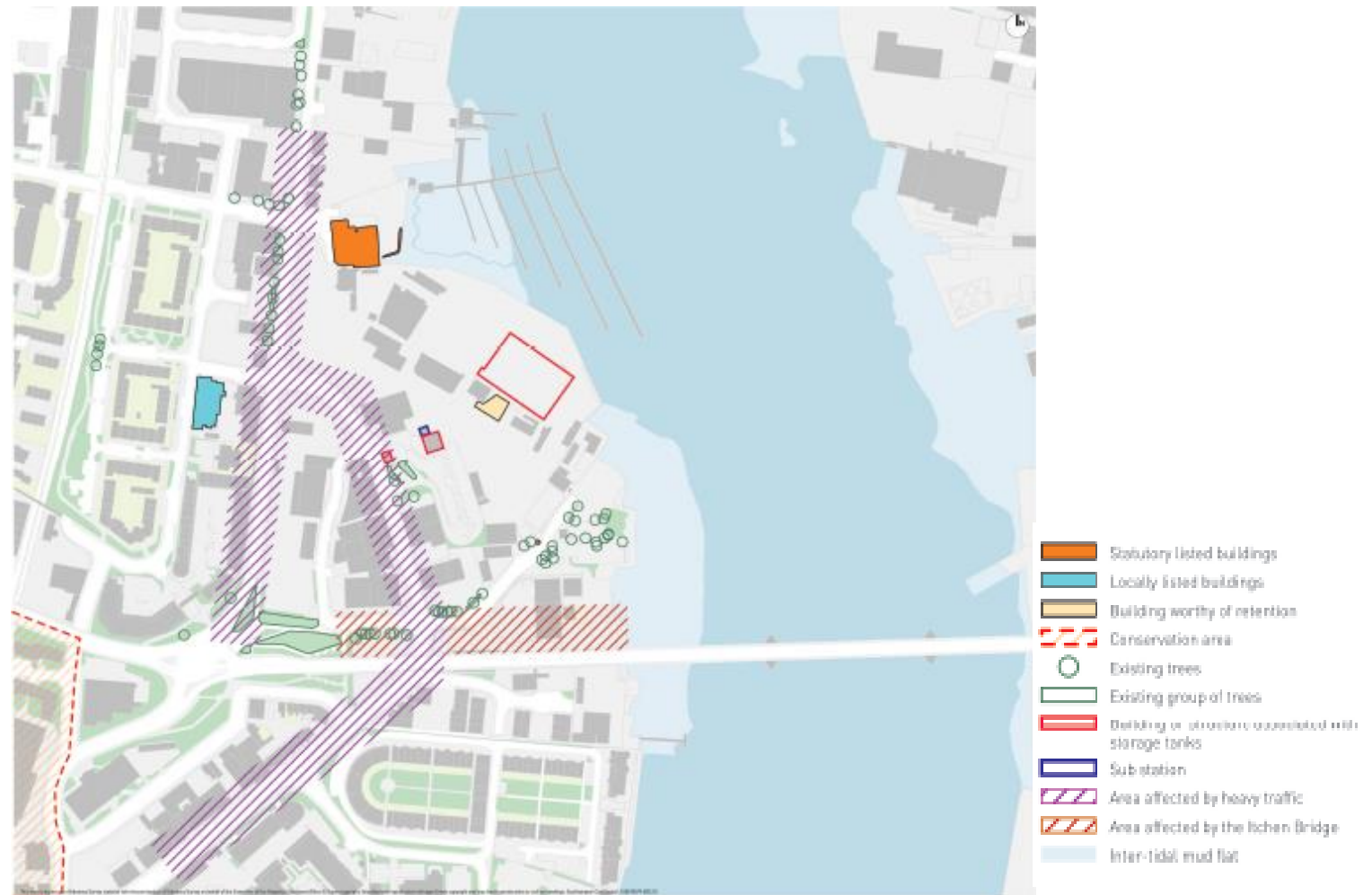


## 2. SITE CONTEXT – TOWN DEPOT

### SITE CONTEXT

The adjacent plan summarises the key physical constraints and influences affecting the Western Gateway site.

Additionally, whilst not shown on the plan, we understand that contamination could also be a significant development constraint.



## 3. SITE CONTEXT – TOWN DEPOT

### **TOWN DEPOT - OPPORTUNITIES**

From our analysis there are a number of key opportunities that are evident from our site analysis for the Town Depot area, and can potentially be used to help develop a positive scheme for the area.

#### **Waterfront location**

The site offers one of the best opportunities to provide waterside living in the city.

#### **Waterside access**

The site offers potential to provide pedestrian access to the waterfront and to deliver a continuous promenade along the River Itchen to link with Ocean Village to the south, and in the longer term St Mary's to the north.

#### **Connection back to City Centre**

Chapel Road creates a quick and convenient connection to the City Centre. This route carries little traffic and could be promoted as a good cycle and pedestrian connection.

#### **Good accessibility**

The site benefits from easy access onto the road network and some bus services on Albert Road North.

#### **History**

There are two significant historic buildings within the site and there is opportunity to enhance their setting.

#### **Substantial portion in Council ownership**

The Council Depot is a significant site (3.61Ha) in Council ownership which benefits from good access and a view across the river. This allows a critical mass of development that can bring about a transformational change to the area to be delivered in one phase.

#### **Vacant site**

The Council depot site is vacant.

## 3. PLANNING CONTEXT

In this section we draw out the key planning background for the City Centre and more specifically the Western Gateway and Town Depot sites. The review is not intended to be exhaustive, but instead sets out the overarching framework and objectives included in the current relevant Development Plan Documents. Reference is made to Southampton's Core Strategy, Southampton's City Centre Area Action Plan (SCCAAP) and the City Centre Masterplan.

### ***Southampton City Council Core Strategy (2010)***

Southampton City Council adopted its Core Strategy in 2010. The Core Strategy informs, at a high level, the future spatial strategy for Southampton. It also sets out vision contained in the City of Southampton's Strategy as a foundation to the document. In the Core Strategy, the future key vision for Southampton to 2026 is described as:

*"a growing regional centre within a prosperous South Hampshire".*

Underlying this ambition are a number of more detailed vision statements, including:

- *"Southampton will have developed further as a major regional centre for economic growth and as a social and cultural hub with a thriving night time economy focused in the city centre.*
- *There will be additional office space of at least 322,000 sq m, 97,000 sq m of industrial warehouse uses plus 130,000 sq m of new comparison shopping.*
- *Growth would be accompanied by improvements to transport infrastructure including public transport, walking and cycling facilities".*

The Core Strategy also looks towards seeking to make Southampton a good place to live, and an environmentally sustainable city.

Included in the Core Strategy are a series of strategic objectives which add detail to this vision. Many of these have a focus on the city centre. In particular, Strategic Objective S3 seeks to create a vibrant, high quality regional city centre that is the focus for major retail, tourism, leisure, culture and office investment and connects with the waterfront.

A Core Strategy Partial Review is presently being undertaken, with public consultation on the draft undertaken between January - March 2012. This work will update the existing Core Strategy. Perhaps the most important change which is relevant to this study is the proposed reduction in the office space development target from 322,000 sq m to 120,000 sq m. We understand that this downward revision reflects the recent recession and changing working practices.

## 3. PLANNING CONTEXT

### **Southampton City Centre Masterplan**

To provide flesh and detail to the Core Strategy – and particularly to inform the preparation of the Southampton City Centre Area Action Plan – in 2010 the City Council prepared a City Centre Masterplan. This masterplan identifies a number of very important development oriented projects within the City Centre. These development projects are illustrated via high level proposals, including for Western Gateway and Town Depot. At a high level, the broad development concepts contained in the masterplan for the sites are:

- Western Gateway – referred to alongside an area known as Station Quarter, which lies to the north of Western Gateway. The Western Gateway is specifically acknowledged to be a longer term opportunity, with a new mixed use quarter developed to the south of West Quay Road. Broad masterplan uses point toward business, leisure and housing being developed here.
- Itchen Riverside including Town Depot – At the time of producing the masterplan, the Town Depot was the subject of developer’s proposals for a waterside community with leisure uses including a major indoor ski facility. It is now acknowledged that this proposal will not go ahead as envisaged, albeit the Council remains keen to initiate change on this site. The mix of uses for this site is therefore reconsidered as part of this study.

### **Southampton City Centre Area Action Plan (SCCAAP)**

The SCCAAP (Draft) embodies the Core Strategy framework and reflects much of the detail contained in the City Centre masterplan. It reiterates the growth targets set down by the Core Strategy for retail housing and offices. It states that by 2026 Southampton City Centre will have:-

- 100,000 sq m of new shopping.
- 110,000 sq m additional office space.
- 5,450 new homes.
- Food and drink uses.

The SCCAAP also recognises that the transformation of the City Centre will be carefully co-ordinated over time to ensure that new development is properly integrated with existing areas. The SCCAAP also envisages that this future office development space may well form part of a mixed use development. In turn, this could provide stronger planning benefits and a sustainable business environment. The SCCAAP is clear too that, in locational terms, the City Centre is the first preference for office development in Southampton.

For retail, the intention is that if this use comes forward it should be located within the Primary Shopping Area, or at least closely linked to it. The SCCAAP identifies an area of search for expansion of the Primary Shopping Area, but this does not extend as far as the Western Gateway. [NB - In sequential terms, the Western Gateway might reasonably be described as an edge of centre location, given its proximity to a small part of Primary Shopping Area, although it is separated by the busy West Quay Road and is some distance from the main Primary Shopping Area along ill defined routes. The Town Depot site would be expected to be regarded as an out of centre location].

The Western Gateway is located in a part of the city identified as the ‘Major Development Quarter’ (MDQ). Paragraph 5.4 of the City Centre Action Plan describes the Major Development Quarter:

*‘The Major Development Quarter (MDQ) currently comprises 55 hectares of low-density development in the western city centre, between the Central Station, main shopping area and waterfront. The Core Strategy identifies the MDQ as a strategic site for comprehensive high density mixed use redevelopment to enhance the city centre’s regional commercial status.’*

Paragraph 5.6 describes the potential of the area further:

*‘The MDQ will deliver substantial new retail and leisure development, and will create a new business district in the Station Quarter and Western Gateway, incorporating major office development. This will make a significant contribution to the economic growth needed in Southampton and South Hampshire, and promote development in a highly sustainable location. It can also include new residential communities provided flood risk is appropriately managed. It offers an exciting opportunity to create a series of new mixed use neighbourhoods within the city centre, where new streets, public squares and pedestrian links will fundamentally enhance connections between the Central Station, main shopping area and waterfront.’*



## 3. PLANNING CONTEXT

The MDQ comprises the Western Gateway together with parts of the Station Quarter, Heart of the City, Royal Pier Waterfront and Old Town. Paragraphs 5.34 of the City Centre Action Plan describe the opportunity at the Western Gateway:

*'The area will be redeveloped to create a high quality mixed-use district with excellent connections to the Central Station, Heart of the City, and waterfront, including at Royal Pier / Mayflower Park. The quarter will incorporate an expansion of the business district from the Station Quarter, accommodating large-scale office and leisure developments and supporting facilities. The City Cruise terminal may become a new waterfront destination, should the Port wish to facilitate this. Hotel and conference facilities could also be developed in the area nearby. There is also the potential to create a new residential community close to West Quay Road, separated from the Port, and subject to managing flood risk.'*

Development of the Western Gateway has to be considered in the context of the adjacent sites where development activity is also anticipated and identified in the SCCAAP.

### **Office Development**

The Council has provided revised future projections for the longer term delivery of offices over the SCCAAP plan provided. This acknowledges that delivery of offices will be low between 2011 –2016. Thereafter office development is expected to increase. 10,000 sqm of B1 space is envisaged to come forward at Western Gateway between 2021 – 2026

### **Station Quarter (to the north)**

*The Central Station is a key 'gateway' to the city centre. It will be fundamentally enhanced to present a more attractive and distinctive sense of arrival and handle increasing numbers of passengers.'* (para 5.22 City Centre Action Plan Preferred Approach January 2012

*'... A high density development hub, including major office development, small shops, restaurants, cafes and bars, residential and other uses, will be created around the station. Together with further investment in the station, this will realise the commercial potential of this accessible location, and form a first phase of the wider business district.'* (para 5.24 extract)

### **Royal Pier Waterfront (to the south)**

*'The whole quarter has been identified as one of the Major Developments in the city and a preferred developer has been appointed. In the future, redevelopment will deliver dramatic improvements to this waterfront and transform this area into an international quality waterfront destination. It will have a mix of uses that could include culture, leisure, office, residential and ancillary retail uses and major new waterfront open spaces. Current proposals include development fronting Town Quay Road and on the site of Royal Pier, improvements to Mayflower Park with changes to its boundaries and new public spaces, the relocation of the ferry services, a landmark building, improved public access to the waterfront and links through and to the site.'* (para 5.47, City Centre Action Plan Preferred Approach January 2012)

### **Itchen Riverside/Town Depot**

The SCCAAP also notes that some sites offer important waterside regeneration opportunities along the Itchen Riverside area. The Town Depot would be expected to fall into that category.

More specifically, Paragraphs 5.73 and 5.74 of the City Centre Action Plan describe the opportunity at the Itchen Riverside (including the Town Depot site):

*"This area provides one of the main opportunities to create a waterside residential / leisure mixed use community, including family accommodation, to enhance the attractiveness of the city centre as a place to live. The longer-term redevelopment of the existing mineral wharves also offer the potential to support marine business uses. There is an opportunity to link the football stadium in to a wider waterside leisure based destination, with a new riverside walkway south to Ocean Village; and to enhance links from the waterfront back in to the core of the city centre. (para 5.73)".*

In the short term, the key development site opportunity is at Town Depot, offering the potential for a mixed leisure / residential led waterside development. (para 5.74).

Of relevance too is that the SCCAAP acknowledges that the Western Gateway and Town Depot site would be suitable for taller, landmark buildings: more generally, higher density development may be appropriate.

## 4. PROPERTY MARKET REVIEW

This section reviews Southampton's property market, with particular reference to the City Centre and the Western Gateway and Town Depot sites. It is intended to identify the dynamics of the area's property market and particularly where there is likely to be demand for those uses, and whether they are likely to be viable and contribute to the development mix at Western Gateway and the Town Depot. It therefore focuses on the key property sectors relevant to these sites and the SCCAAP proposals:

- Offices
- Retail
- Leisure
- Hotels
- Residential

This property market review relies on existing evidence supplied by the Council, supplemented by our own research and information drawn from a wide range of property data resources such as Costar Focus, Egi, and Promis. The analysis is also strengthened through discussions with local agents. The outputs of this review seek to inform the potential mix of uses for each of the sites, as well as feed into later viability testing.

### *Offices*

Southampton is a regional office centre. It is one of the largest commercial centres in the South East, with an estimated office stock of 7.3m sq ft (Promis 2012 - figures refer to wider Southampton office market). Originally, Southampton's commercial trade focused on port activities. Whilst this remains a key economic driver for Southampton and the region generally, the focus has shifted somewhat. A particular strength for Southampton now lies in the finance and service sector.

The financial and business service sector accounts for 23.4% of jobs in Southampton as at 2010 – this is broadly in line with the wider rest of south east average of 24.9% (Promis -2010). This sector is therefore an important driver of office demand. Public services also make up a large proportion of the employment base and again this sector too has a strong bearing on office demand in the area. The financial and services sector has however been in decline on Southampton, with the financial subsector performing the most weakly (albeit that this sub sector has, on average, performed even more weakly across regional UK office centres).

As a general rule UK regional office locations have fared poorly in recent years. Investors presently consider office locations outside London as much riskier propositions, and have shied away from funding developments here. Southampton is no different in that respect.

For the future, forecasts suggest that to 2016 employment growth will grow only marginally. For Southampton though, this key financial and business service sector is expected to grow at 1.6% p.a. to 2016 – better than the office market average – and reflecting higher employment growth in this sector. According to Promis, this ranks Southampton 1st out of 67 office centres considered in terms of forecast growth (accepting that the definition of Southampton extends beyond the city to the wider area, including Eastleigh). A recent Employment Study (2010) for the PUSH area also indicates that there will be an increased requirement for office space in sub region, both for replacement stock and new demand to 2026.

Increased employment growth would be expected to drive demand for office space.

## 4. PROPERTY MARKET REVIEW

In recent times what office activity has occurred in Southampton has been much stronger in out of centre rather than city centre locations. The fairly limited amount of high quality, Grade A space in the city centre may have contributed to occupiers electing to locate at out of centre developments in order to fulfill their quality requirements. Much of Southampton's city centre office stock is dated although this is not unusual for regional centres. Perhaps equally important in occupiers decision making is that out of centre offices are favoured for being more readily accessible (or at least perceived to be), especially by car. Out of centre offices also tend to come with more generous parking ratios compared to their City Centre counterparts. Out of centre locations are the key competitor for Southampton's City Centre office market.

There is however a continued presence of major financial and service sector employers in the city centre (Zurich, Aviva and HSBC for example) – although many of their operations have moved to out of centre locations. Even so, while major office development in the centre has been fairly limited, requirements do occur and this is likely to continue. The 60,000 sq ft P&O Carnivals HQ offices (immediately north of the Western Gateway site) is the prime example. Public sector requirements may also arise – consolidation by the Police and City Council means new space in the city centre has been taken up in recent years.

In the city centre, occupiers could well favour the factors of availability of amenities (retail, leisure) and a more attractive urban setting (which with public realm improvements will assist further). The accessibility of the city centre by a range of transport modes, including public transport, set against an often congested M27 corridor may also be a positive factor for occupiers.

Southampton's City Centre office market is primarily concentrated around two areas – in and around the train station, spreading northward by the parks and around the waterfront area. The station area has generally larger buildings, with the waterfront area smaller office premises.

Overall, take up in Southampton has fallen considerably since the peak of 2006 – 2008. The average annual take up of floorspace over 5 years in the Southampton area is still however 463,000 sq ft. This is much higher than any of the other nearby competing office centres such as Portsmouth or Bournemouth, and demonstrates the relative regional strength of Southampton's office market. Average annual delivery of new office development over the longer term for offices for the city centre is also 7,800 sqm per annum (SCC – 2012)

Office take up has been focused on larger requirements, with a considerable proportion of pre-lets/ purpose built stock driving development activity. The most frequent letting activity still though remains within the smaller 0 – 25,000 sq ft category.

The generally more muted office activity in Southampton in recent years is illustrated through office stock only increasing by 7% since 2007. This compares to 30% across the wider rest of south east centres. Of this, only 25% of this office space has been developed in the City Centre, with the majority on a pre-let basis (c.60%).

The trend toward out of centre office activity is not only a characteristic of Southampton's market - the wider rest of south east area also shows a high percentage of office activity occurring at out of centre locations. There is some office development activity in the City Centre however – the largest and most notable is the Maritime Centre of Excellence: an innovation centre which is being phased in its delivery. Indeed, around 2.6m sq ft of office space in the Southampton market has planning permission, with around 20% of this is earmarked for the City Centre (Promis 2012). Planning permissions do not necessarily translate into built developments. One major pipeline scheme has for example sought a change of use from offices to student accommodation – potentially a more viable proposition in current property market conditions.

Some City Centre speculative office development has occurred - for example at Charlotte Place. Built in 2006, around 50,000 sq ft remains available from a total of 85,000 sq ft. The slow take up here may in part reflect the peripheral location on offer, although does demonstrate the risk associated with large speculative city centre office development in the present economic climate. A less risky development approach may well be for a pre let to be secured, such as occurred for the P&O Carnivals building. Encouragingly however, office vacancy rates in Southampton remain stable at around 10% of available stock.

## 4. PROPERTY MARKET REVIEW

Office rents in Southampton have fallen back since 2008, when headline rents were £21.00 psf. They now stand at about £18.00 psf for the city centre. At Charlotte Place some rents have been only £9 psf. Again this shows the challenges faced in developing a stronger city centre office market. Rents are however forecast to grow. CBRE have for example recently published rental growth forecasts (2012) for Southampton – this envisages rents to grow by 2.1% per annum by 2017. This equates to a value of £20 per sq ft. Of the main UK regional centres considered however, Southampton presently has the lowest prime rent.

Prime office yields are currently in the order of 7.25% - a far cry from their level of 5.25% in 2006. This does however demonstrate how much yield fluctuation in the market can occur over a relatively short timescale – and such changes are easily possible over the lifetime of the SCCAAP. Based on existing rents and yields however, office development is likely to prove an unviable prospect at present.

Assuming that office development is considered, of the two sites examined, arguably the Western Gateway offers the best prospect of being attractive to office occupiers. It lies close to the City Centre with reasonable access to the train station and arterial roads. There are also some signs that of an emergence of a new office area here – the P&O Carnival building, plus the marketing of the Aqua site on adjacent land by Development Securities and the Bond site in the northern part of the city centre.

Even so, creating a new quarter which has a significant office component will be very challenging. Almost undoubtedly, office development will have to be supported by other more lucrative uses – unless there is a substantial demand from a pre let. An alternative however might be to look toward providing smaller suites, which reflects the balance of lettings which have taken place. This might perhaps take the form of smaller start up units, and developing more of an innovation style product. Care would however need to be taken not to oversupply the market with this type of offer, and a slow release of space might be needed to manage risk effectively.

If office development is to occur in Southampton then it is likely to be based on a pre-let, and would need to offer good levels of parking in an attractive setting. Another alternative would be through the public sector taking a much more significant intervention route to assemble and secure a new office development quarter. Cleared and available sites would be seen as more attractive by the market too – especially given the risks associated with this type of development, and that out of centre locations may well be able to offer more over ready sites. Significant tenant incentives might also be needed to kick start the process. Wider improvements to the city centre environment would also be welcome.

## 4. PROPERTY MARKET REVIEW

### **Retail Sector**

Recent economic trends have brought about far greater polarisation of the retail market in the UK. Save for the strongest centres, the UK high street has suffered considerably in recent years. Stronger centres, and particularly those offering modern, larger good quality retail stock have generally performed better.

The increasing use of the internet to purchase goods has increased pressure on high street retailers, especially those operators who are more susceptible to such competition (for example, Travel Agents).

The out of town, big box retail format has continued to expand – often at the expense of their high street counterpart. The typical format for such retail forms is larger units with associated surface car parking. Developments are low density, and rarely if at all are other uses stacked above the ground floor retail uses. There are however exceptions to this rule. For example, in secondary retail locations and combined with strong planning policy, this has sometimes enabled more mixed use development to come forward. Often retail tenants in such locations include lifestyle operators, selling goods such as beds, bathrooms or other home furnishings. Highly visible locations are a prerequisite.

Foodstores continue to increase their presence too, with focus turning somewhat to smaller formats more suited to changing shoppers' needs. Large scale foodstore formats though (say 4,000 sqm plus) are still of interest to operators though (and we understand that there is continued interest from operators in the Southampton City Centre area). These large scale foodstore formats are however generally low intensity, and are rarely developed with uses above.

Smaller convenience foodstore formats offer more development flexibility. Stores are typically 0 - 15,000 sq ft and the requirement for associated parking is less stringent compared to larger stores, albeit that adequate servicing is still needed. This format can also work well in a number of locations – feeding off nearby residential development, close to offices and other commercial uses and in primary or secondary retail locations. It can be well suited too to both edge of town or city centre locations. Good visibility and footfall remain important. Rents and yields are presently robust, thus offering a viable development format – and one which still allows uses to be stacked above, say residential or offices.

Restaurants, cafes and takeaways have also experienced considerable growth in the last decade. The economic woes have done little to dent people's appetite for this type of leisure entertainment, and arguably is seen as a convenient service. Often restaurants cluster around major leisure uses. However, this is not a prerequisite with, for example, branded coffee shops opening where there is a good business trade available. Independent outlets might also consider more off pitch locations where visibility and passing trade might be substantial – or where there is another attraction, such as access to a good quality water front setting. This retailing format is also more flexible in terms of accepting more irregular shaped retail units. Again, rents and yields are generally strong enough to form viable development propositions with generally units of 1,000 – 2,000 sq ft sought, although the scale of requirement can be larger in some cases.

Some service sector related uses (A2) have been impacted by the growth of the internet. Banking and travel agents have for example seen their high street representation fall. Other services, such as hairdressers and nail bars are perhaps more resilient to the changing nature of shopping. There can also be synergies between office uses and service sector retailing (say for example, printing services).

## 4. PROPERTY MARKET REVIEW

To provide a flavour of the strength and nature of demand in Southampton, we have reviewed logged retailer requirements available through the EGI database. This shows the strength of retail demand for Southampton (133 requirements in total as at January 2013), and is disaggregated below against use classes.

Use Class	Number of requirements
A1 Comparison	74
A1 Convenience	8
A2	5
A3 - A5	37
D2 Leisure	4
Miscellaneous	5

Of those listed as having a requirement for Southampton, many cite that an edge of town location would be considered. Nor are all known requirements listed on such databases. Clearly, a cautionary note must be placed with this high level review of retail demand. Nevertheless, it does suggest that if an acceptable development format could be provided for the sites, then there may be scope to integrate some retail uses.

The Western Gateway site, for example, could appeal in commercial terms to a wide range of retailers, such as convenience stores, restaurants, bars and cafes and possibly larger units. It offers good accessibility relatively close to the core of Southampton's shopping area. The scale of the area means too that a range of unit sizes could be accommodated, and these could provide active frontages to key roads within a mixed use development format, accepting that some forms and scale of retail work better with uses stacked above. This diverse mix of uses can add significant activity at street level, and enable a richer range of uses on development sites. It can also add to the attraction of employment or office areas with more modern business areas looking to accommodate a better range of services to meet workers' needs.

In planning terms, the Western Gateway site is not within or particularly well connected to the centre, the Town Depot site is 'out of centre', and major retail development is unlikely to be acceptable.

The much more off pitch location of the Town Depot is unlikely to appeal commercially – or be acceptable - to such a wide range of retailers. If however the right form of development product can be created this would serve to attract certain retailers. An attractive waterfront setting, which is open to the public would probably be seen favourably by A3-A5 operators. A strong residential content would also be expected to be supported by local services, including convenience, if a sustainable and more marketable destination is to be secured for this site.

## 4. PROPERTY MARKET REVIEW

### *Leisure sector*

The leisure sector covers a wide range of uses – bowling alleys, children’s play facilities, cinemas, health and fitness centres and casinos. Generally, these types of uses are land hungry and require good visibility - often with adequate surface parking. They are also rarely viable in their own right and developers look to cross fund such uses, with other more lucrative uses such as restaurants.

The Western Gateway site already has a range of leisure uses – a large cinema, casino and some supporting bars and cafes. The Town Depot site was previously earmarked for a major new leisure offer for Southampton: the scheme we understand did not however proceed, as demand from the proposed anchor tenant (a large indoor ski facility) receded.

Southampton does have a number of very positive factors: a large casino licence is available for the city; the annual Boat Show (and lies close to Western Gateway) is of international significance, drawing in well over 100,000 visitors per year (Daily Echo 2012) ; Royal Pier improvements and the capacity to increase cruise passenger numbers.

Southampton City Centre is already subject to another major new leisure development in the pipeline – the Watermark. It is reported that this £150m extension to Southampton West Quay shopping centre will be completed within three years. This leisure driven proposal of up to 66,000 sq m will include a wide range of restaurants, cafes and will be anchored by a new 14 screen cinema. The proposals include a hotel as well as a substantial amount of residential uses.

In the wake of this development it is difficult to see how another sizable city centre leisure destination could be delivered in the short to mid term, given the strong critical mass the Watermark will create. Possibly redevelopment or improvement of the existing leisure facilities might occur at Western Gateway. Alternatively, any new leisure proposition would need to offer a distinctly different product to that at the Watermark – for example, the Town Depot using its waterfront setting to create a unique development more focused on water leisure activities. This prognosis should not however rule out leisure uses entirely. A gym, for example could sit at upper levels of a scheme to provide a more diverse mix of uses.

We also note that there is demand for associated leisure uses – such as bars, cafés and restaurants. While these are commonly associated with leisure destinations, they are capable of taking space in other locations too.

## 4. PROPERTY MARKET REVIEW

### *Hotels*

Generally, there has been very significant growth in the hotel sector during the last decade. Most notable has been the growth in the budget sector and in the mid range and boutique accommodation sector. Despite the pace of growth in supply, the branded budget sector has continued to perform strongly and has outperformed other segments of hotel supply through the recent economic downturn.

Of particular note, as the sector's growth has continued, is the trend toward hotels in town and city centres and the growth in the average size of budget hotels. Factors in these trends include the expansion of existing hotels where there is evidence that the market will support it and the larger number of rooms. Larger formats are often needed to be developed to support the land value of development sites, particularly where there is competition from other uses.

The branded budget groups are looking to continue their aggressive roll out plans, in particular Premier Inn and Accor (whose UK budget brands encompass Ibis, Etap, Formule 1 and All Seasons). Travelodge, allowing for restructuring, are also reportedly planning to resume their roll out. Importantly the majority of the demand for these hotel expansion plans is expected to be in and around London and the South East.

Southampton City Centre already has a reasonable range of hotels within easy walking distance of the Western Gateway site, for example Holiday Inn, Novotel and Ibis. Hotels are less prevalent on the eastern side of the City Centre generally and there is no accommodation of note particularly close to the Town Depot site.

A detailed report in to the future prospects and demand for hotels for the sub region has been prepared for PUSH (Partnership for Urban South Hampshire - South Hampshire Hotel Futures, July 2010). The study comments favourably on current demand in Southampton City, citing that budget hotels are consistently turning away business due to full occupancy levels and small boutique hotels are trading well, among other favourable comments for this market sector.

It notes too that there has been some recent hotel development activity in Southampton City Centre – Jury's Inn, opened in 2005; Etap in 2008; and the Dolphin Hotel recently opened as a 4 star hotel after refurbishment. Travelodge have permission for a new hotel on Castle Way and there is anew boutique hotel in the city – Pig in the Wall.

Future drivers of hotel demand are also viewed positively by the PUSH report. It recognises that South Hampshire is set to undergo major transformational change over the next few decades. This will bring significant population and employment growth. Increased office development in the city centre will be expected to increase demand for accommodation. Other factors that suggest growth for hotel space will increase too include expansion of the airport, the Boat Show and wider leisure demand, such as from weddings or visiting family and friends.

The strength of future demand for Southampton City Centre is summarised as equating to 14 hotels, equivalent to 1,340 new hotel bedrooms within the 2010 – 2031 period. The study also cites that there was interest from 26 hotel developers, investors and operators in developing hotels in South Hampshire, covering a wide range of formats and ratings.



## 4. PROPERTY MARKET REVIEW

In terms of viability, rents for budget hotels in Southampton City Centre are around £5,000 - £6,000 per room per annum. Yields depend on the tenant covenant, but can be as low as 6.5%.

Over time, there appears to be good possibilities for hotels to form part of the development package for each of the sites. At the Western Gateway, the proximity to the City Centre and the prospect of a stronger, higher quality business environment suggests that hotel development would be oriented toward this sector here, for example budget or mid market.

The Town Depot could offer a high quality waterside setting. While the location may not be so suitable for business oriented custom (due to distance from core office areas and the city centre), it might for example suit serviced apartments or perhaps some limited luxury accommodation benefitting from the waterfront location. One detractor may be possible odour issues associated with the storm tanks, although we envisage that there may be technical solutions to overcome this. In due course, were a residential led proposal favoured, the site would need to be market tested to examine the market appetite for this type of product here – and given the scale and new location on offer.

Even so, the strong factors of a waterside location, good proximity to the core retail area (and the largely good pedestrian connections to it) as well as the success of Ocean Village point toward a good quality/prime residential offer being possible here.

### Residential Sector

Like all property sectors, the housing market has faced a challenging period. Mortgage lending is more constrained than previously, with the effects of increased inflation and low wages rises all playing their part in stalling development. The impact is stark when comparing levels of housing completions with just 662 completed in 2011/12 in Southampton compared to 1,268 in 2006/7. There is however an acknowledged undersupply of housing in the South East – made more acute by the low build out rates in the last few years.

Generally finance constraints and a challenging labour market are suppressing confidence and activity in the housing market. Government lending schemes (such as Get Britain Building and providing capital to the banking system on favourable terms) is, according to some commentators, now beginning to feed into increased sales volumes. There are other potential signs that the housing market has turned a corner – improving profits for housebuilders and the increased number of higher loan to value mortgages presently available, suggesting that the lending market has loosened a little.

Given viability issues, a number of Section 106 Agreements and affordable housing quotas are being contested by developers, while many large scale regeneration sites requiring significant infrastructure investment have been stalled. Registered Providers remain active but are proving more selective, due to less competition from private developers, while also looking to develop sites for private sales to cross subsidise their affordable programmes.

The Western Gateway falls within postal sector SO15 with Town Depot in SO14. For SO15, according to Proviser, house prices have generally fluctuated since the trough of 2009. A similar trend in house prices is shown for SO14. Zoopla identifies that both postal areas have seen modest price increases in average house prices. An average cost of a flat in SO15 stands at c.£135,000 (£227 per sq ft); this compares to a value of c.£172,000 (£250 per sq ft) in SO14. There is no new housing development in the vicinity of the Western Gateway area. Delivering housing here may well need a step change in the perception of the area – presently one of commercial activity. Generally housing immediately adjacent to the port will need careful consideration due to possible conflict with port activities and their often changing operational requirements. Any new residential development would need to resolve conflicts of use through careful design. Tall buildings may however afford sea views.

New residential development at the Watermark would also bring residential uses closer to this area, and help to begin to change the perception of this area toward one which is more akin to an established housing area.

## 4. PROPERTY MARKET REVIEW

For the Town Depot site, there has been substantial and successful development at the nearby Ocean Village complex, with further opportunities for housing development here. Ocean Village provides a waterside setting, with parts overlooking the River Itchen and marina. There are a range of house styles available, including flats and town houses. This form of residential waterside development could provide a template for the type of development that could come forward at Town Depot. Properties offering a waterside setting command a significantly higher price premium. For example, a three bedroom town house in Ocean Village with a waterfront setting is currently being marketed for around £575,000, albeit with a mooring.

### **Private Rental Sector**

The marked decline in house building can be contrasted with strong growth of the private rental sector. While previously this has been more of a small investor market there has been recent increased interest from major investors in the private rental market. The Homes and Community Agency is also actively pursuing this housing model, and we understand, including in the Southampton area. The number of new buy to let mortgages has soared by 20% in the first nine months of 2012, showing the strength of the rental market. This product might offer an alternative and viable housing solution, although perhaps not in the short term due to this being an embryonic market for large scale investors and developers.

Recent figures from Paragon Mortgages show that landlords are continuing to enjoy healthy rental returns, with average yields of 6.7%, up from a figure of 6.2% in June. According to the latest Buy-to-Let index from LSL Property Services rents continue to rise in the South East at a faster rate than the rest of the country (with the exception of London), up by 0.7% in October and 3.2% year on year.

### **Student Accommodation.**

There has been very considerable growth in the student accommodation market. Such is the strength of the market that many of the mainstream institutional investors are actively seeking these forms of investment opportunities. The increase in student numbers continues to outpace the increase in accommodation. Investment yields remain strong for direct let schemes, and even more so for those investments with a university lease. These can easily be in the region of 5.5% – 6.5%.

There are now around 490,000 students living in the private rented sector, representing an increase of over 154,500 students since 2007. The marker view is that there is still headroom for growth in this market. According to sparerroom.co.uk, the average weekly rent for student accommodation in Southampton is £93 with good levels of demand.

There is also significant development activity in this sector, with 1,100 student units being constructed at Mayflower Plaza, with a further 364 at Swathling Gateway site. Planning permission is also granted for 154 flats at St Mary's Road.

Some university facilities are in the City centre (Southampton Solent), and Highfield Campus is within reasonable striking distance of Western Gateway area, close to port areas. Thus, this location might offer an attractive site for this use, given it lies close to the city centre and teaching facilities, subject to viability considerations.

## 4. PROPERTY MARKET REVIEW

### THE MARINE MARKET SECTOR

This section sets out a broad review of the marine property market sector. Analysis of this market is challenging, not least that the marine market sector is a broad term and property requirements may be cross cutting with other sectors described above, such as offices.

According to a 'Strategy for Growth for the UK Marine Industries' (2011) there are four main marine market sectors. These are:

- Naval Sector
- Leisure Sector – comprising a mix of service and manufacturing, such as surveyors, and charterers, specialist equipment manufacturers and marine leisure clothing brands.
- Commercial Sector – for example sales of marine items and equipment.
- Renewables Sector –including off shore wind farms and wave and tidal energy devices.

Within this, core marine industries include; ships and boats, marine renewable devices, equipment and accessories, safety and chandlery, naval, mariners, maritime security and marine science equipment. Marine services can include; research, development, innovation, design, building, equipment, installation testing, education/training and consultation.

There are also indirectly connected wider marine industries such as the shipping operation and charter, ports and terminals, business services such as insurance, finance, law (marine planning) as well as offshore and coastal infrastructure and services and abstraction (aggregates, fisheries, aquaculture).

More particularly for The Solent, the marine industry sector contains a wide diversity of businesses in addition to commercial ports. The main categories are:

- Industrial processing sites.
- Businesses requiring a waterside location to provide services for a recreational and commercial craft, for example mariners, boatyards, shipyards and sailing clubs.
- Businesses providing products and services to sustain principally by the local market requiring a location near to the main customer base (e.g. boat sales, chandlers, sale makers).
- The maritime research and development sector.
- National manufacturers or service providers.

Therefore, for the Solent area property requirements are extremely diverse, ranging from small boat builders through to complex and technically challenging equipment manufacturers to large capital projects such as ports, ships and off shore installations for wave, wind and tidal power. This makes analysing the property market challenging given the broad range of needs.

The sector is also dominated by small firms with 95% of marine companies in the south east of England being small to medium size employees. This would suggest that the property requirements are likely to be mainly small but diverse.

It is however clear that the marine sector is a considerable economic driver. According to the 'Strategy for Growth for the UK Marine Industries (2011)' the value of the marine industries to the UK accounts for over 5,000 companies, which employ nearly 90,000 people and generate a turnover of £10 billion. The 'Marine Profile' (April 2013) for the Solent area describes South Hampshire and Isle of Wight as being at the heart of the marine sector. The Solent Waterfront Strategy (2007) estimates that 25,000 direct jobs are provided by the marine sector in the Solent, accounting for £3.6bn of GDP contributions and around 18% of the total value of the Solent economy.

Clustering of marine uses can also occur. The main commercial logistics port, and the Eastern and Western Docks as well as the City Cruise Terminal offering leisure cruise facilities. Land close by also hosts the annual International Boat Show. The River Itchen area is regarded as a more recreational/leisure hub for marine activities (for example, there are marinas both north and south of Town Depot), albeit other marine uses are present too, especially in relation to aggregates transportation.

## 4. PROPERTY MARKET REVIEW

### Demand

Being a diverse sector, there are also likely to be positive and negative trends within individual subsectors. Even so, there appears to be signs of good demand for locations which offer access to the waterfront. This message is strengthened by the recent interest and sale of Dibbles Wharf, which lies north of the Town Depot on the River Itchen. This c.4 acre waterfront site with access to the river sold for around £4,000,000 in early 2013, with a good level of interest from parties seeking sites for marine related industries. The site contains warehousing, berths and storage). We understand that the new owners will let the premises rather than redevelop them for alternative uses.

In addition to this, we are also aware that the Council has been approached by a specialist marine service provider which would develop a form of 'stacked' boat storage facility at Town Depot.

With a diverse sector, the property values will reflect differing and diverse requirements, and those of the property types needed by these marine occupiers - for example, offices, light industrial, manufacturing or storage premises, among others.

Of the sites considered, it is likely that the Town Depot would be viewed as most favourable for marine uses. There is potential for waterfront access here. Set against this however is the constraint of the intertidal mud flats which lie adjacent to the Town Depot. This may limit boat access and more crucially development within the River Itchen itself. Technical studies to assess the overall potential of this site and surrounds would be needed to confirm what marine uses could possibly be located here (save for those that don't especially require access to the water).

Assuming that technical studies did identify scope for broad range of marine industry activities, there would also need to be a careful balance of uses at Town Depot. Undoubtedly, some marine related industries would not be compatible with other uses – especially residential which could be a value driver. Arguably more service related buildings (rather than manufacturing or processing) could be more compatible. Leisure related recreational marine use could though act as a positive contributor to a mixed use scheme including residential. A good example of this is the Ocean Village scheme with its integral marina: it is also the location for a marine sector innovation centre. Using the Town Depot however partly for say manufacturing could have a negative impact on other uses.

## 4. PROPERTY MARKET REVIEW

### Key Property Market Messages

- Office development, although fairly muted, has continued in Southampton City Centre during recent years.
- Demand and rents are forecast to increase.
- Modest rents and yields mean office use is unlikely to be viable at present – however, longer term these factors may improve considerably. Securing a pre-let would also reduce risk and profit margin requirements.
- There is occasional large scale requirements for city centre office space.
- A key competitor to the City Centre market is out of town stock – this benefits from good accessibility, higher parking ratios and potentially better quality working environment.
- Where office development has been invigorated in other major cities, this is often through public sector involvement or intervention.
- Other factors contribute to the attractiveness of an area for office occupiers. For the city centre this would include available retail and leisure amenities, accessibility by a range of public transport modes as well as a good quality public realm environment.
- Some sectors of the retail market continue to perform well – foodstores, larger edge/out of town centre formats as well as restaurants, cafés and takeaways.
- Secondary or edge of centre locations such as Western Gateway may suit some retailer requirements.
- Leisure uses remain in good demand, including gyms and cinemas.
- Leisure uses tend not to be viable in their own right, and are often cross funded by more lucrative uses.
- There is strong forecast growth for additional hotel space in South Hampshire, and especially Southampton City Centre.
- While the residential market has been muted in recent years, there are signs of increased activity and better profit margins.
- Generally, city centre residential values are modest. High quality locations, such as waterfront settings do however command considerably enhanced values.
- The growth of the private residential sector is beginning to attract government and major commercial interest and investment.
- Student accommodation is likely to be a viable product, with good demand for such uses in Southampton. This would however be subject to demand and development viability.
- The marine sector is an important contributor to Southampton and the Solent's economy.
- There is likely to be demand from marine related occupiers, and especially for sites which could offer access to the water.
- The viability of marine uses will vary depending on the nature and form of premises required.

## 5. ESTATES REVIEW

### WESTERN GATEWAY

The City Council owns the freehold of virtually all the Western Gateway site study area, save for four properties in third party ownership. The land is however subject to 24 leases let to head tenants who then sublet individual units and premises to sub tenants. There are over 70 separate interests detailed for the site 2010 VOA Rating List. There are also 5 easements affecting the Western Gateway. Key areas and tenants include:

- **City Industrial Park:** (Zone A – see plan on page 29) covers the north western part of the site. It is let to the Coal Pension Fund with 82 years unexpired remaining on their headlease. The park is then let to over 40 individual tenants.
- **John Lewis Plc:** (part Zone B – see plan on page 29) own the headlease for a 50,000 sq ft depot in the central part of the study area. There are 70 years unexpired on this lease.
- **Leisure World** (part Zone A – see plan on page 29). A leisure complex, more or less centrally located in the study area. The complex includes an Odeon cinema, casino, nightclub and restaurants. Let to UBS with 82 years remaining on the current term.

The vast majority of the headleases across the study area have been granted for 80 + years – a considerable timescale [NB – virtual freeholds are generally considered at 99+ years]. Headleases are due to terminate (excluding easements) from 2046 through to 2135. We also understand that while the Council owns the freehold of the site, it does not have any significant control over redevelopment rights through the headleases. This would however need to be subject to a more detailed review. While outside the scope of this study as there may be possibilities for the Council to exert some influence on redevelopment proposals, say through headleases seeking a change of use on development plots.

While undoubtedly, the Western Gateway area is characterised by a complex landownership pattern, there may still be opportunities for promoting changes in land use, albeit perhaps in the mid to long term. Possible avenues to explore would include:

- In the main, the entire site is characterised by low intensity uses, comprising only one or two storey buildings. Higher density development could generate higher returns.
- The City Industrial Park is under a single headlease. Control of this headlease could allow an asset management strategy to be formed which enables part, or all of the site to be vacated so as to enable a development plot (or plots) to be created.
- Over time properties may not be entirely suitable for occupier requirements. We understand, for example, that the John Lewis depot may no longer appropriately match the operator's needs. Equally, some operators may not wish to continue trading due to changing market conditions. Where buildings have been developed for specific operator needs their reuse by other occupiers could be challenging. An example of this could be Leisure World, especially if competition from the proposed Watermark leisure scheme seriously adversely affected trade here, and especially the cinema – the anchor leisure use.

## 5. ESTATES REVIEW

Given these possible avenues we have sought to contact those key head tenants to discuss their views on their ownerships, and their appetite for change in the short, medium and longer term. Their comments are summarised as follows.

**Coal Pension Fund / City Industrial Park** – Discussion with the managing agent, (LaSalle IM) indicate that the park generally trades quite well. Larger units tend to go to national companies with smaller units more favoured by start ups. Rental range is £6 - £8 psf depending on unit size.

The Coal Pension Fund is open to the idea of redeveloping the site more intensively. They do not however favour offices. Their concern is two-fold; that there is no demand for offices to the south of West Quay Road and that office rents would need to be in the order of £24 per sq ft before such a product were viable (they are presently c. £18 psf, albeit forecast to grow to £20psf). We understand that their preference would be for retail - and ideally a foodstore. They noted the possibility of housing on the site, albeit that due to the site's proximity to port uses, it were more likely to be for affordable housing, if at all.

Similar comments were expressed through their representations in relation to the draft SCAAP.

**Leisure World** – discussion with the headlease owners – UBS – indicates a willingness to consider change on this site. This is likely to be more seriously investigated in 5-10 years, which coincides with the lease length of the main tenant – Odeon Cinema.

While UBS accept in principle the opportunity to redevelop the site for a mix of uses, they are less willing to consider offices as part of this mix. Even so, there is a clear aspiration to redevelop the site in the future – and within the SCCAAP plan period.

**John Lewis Depot** – Through discussions between John Lewis and Southampton City Council we are aware that John Lewis would consider relocating from its current location at Western Gateway. The depot is used as a base for customer deliveries throughout Hampshire. Although centrally located, customer services issues arise due to delivery vehicles being delayed by congestion when leaving the city. The Company has expressed an interesting relocating, possibly to a location offer more ready access to the M27. deliveries can be hampered. John Lewis has a review provision in its lease in 2015 (which is currently on favourable terms), that possibly may allow them to relocate at this juncture. We understand too, that there have been preliminary discussions between John Lewis and UBS, perhaps suggesting that there might be a prospect that this land could be jointly borough forward for redevelopment in the near future.

### TOWN DEPOT

We understand that Southampton City Council own around 80% of the study area. Of this, around 50% is vacant (essentially the former Town Depot and civic recycling centre. The remaining area is in third party ownership. Around 30 separate entries are included for the site in the 2010 VOA Rating List.

The core Town Depot area which is in vacant possession of the Council is an obvious location on which to focus any initial development opportunity as a first phase. Other development phases would require assembling the affected land interests.

The Council looked to market the site in 2011, although no developer was selected due to a number of reasons. At that time, existing occupiers were made aware of the Council's ambitions to redevelop their site and potentially the wider area at a later date. No detailed discussions were however undertaken with individual occupiers.

## 5. ESTATES REVIEW

### Land Assembly Costs

In order to inform the viability testing we have undertaken a broad brush review of the land assembly costs of the site, split into broad zones. Land assembly costs are estimated by reviewing the rateable value of individual commercial properties and applying broad investment yields. A further margin (20% of base assembly costs) is applied as a viability cushion and possible costs associated with dealing with leasehold interests.

Plans of the zones examined are attached on the following pages. The outputs of this high level exercise are:

#### Western Gateway

Zone	Estimated existing use value
A1	£0.75m
A2	£3m
A3	£5.2m
A4	£1m
B	£29.2m
C1	£3.5m
C2	£4m
C3	£1.2m
C4	£1.4m
<b>TOTAL</b>	<b>£51.4m</b>

#### Town Depot

Zone	Estimated existing use value
A	£2.1m
B	1.9m
C	£2m
D	£0.8m
<b>TOTAL</b>	<b>£6.8m</b>

The outputs are high level assessments and must be considered with the following limitations:

- The rateable values are drawn from 2010 and it is assumed that they are reflective of current rents.
- Individual sub-tenant leases have not been reviewed. Smaller lease lengths would impact on values.
- Costs are assumed to reflect existing use values. Additional costs may be incurred if sub leases were to be acquired or Compulsory Purchases were needed to assemble the site.
- Equally though, where properties are no longer modern and fit for purpose – or demand recedes - then this could reduce the value of the premises considerably.

In that respect, the following broad comments might apply:

- **City Industrial Estates (Zone A)** – the properties are reasonably modern. Toward the end of the SCCAAP period, these premises may still be adequate to meet occupier needs, assuming demand remained in this location for light industrial uses.  
  
Here redevelopment is only likely to take place if greater value than existing can be achieved for the site, and/or existing leases can be managed effectively to create development plots. This might for example be through reducing vacancy levels by relocating occupiers, thus freeing up development areas.
- **Leisure World (Zone B)** – with 10 year term remaining for the cinema, and the scheme rather dated, the value of this investment may fall quite rapidly. This would certainly be the case if the cinema operator did not extend its lease beyond the current lease terms, and no new occupier could be found. The bespoke nature of the building may mean that alternative uses are quite limited and redevelopment would be a preferred approach in the longer term (say 10+ years). This potential for redevelopment is consistent with the views of the head tenant.
- **John Lewis (Zone B)** – if this depot were relocated then there could be a prospect of a lower value attributable to this unit, especially if finding a new tenant were proving challenging.
- **Car showrooms area (Zone C)** – the myriad of ownerships and interests means that assembling this site in entirety (or at least reasonably sized development plots) could be very challenging without strategic land assembly (e.g. CPO). However, many of the properties are dated and do not offer modern, efficient layouts or trading formats. This could hasten change here – at least in an organic form.



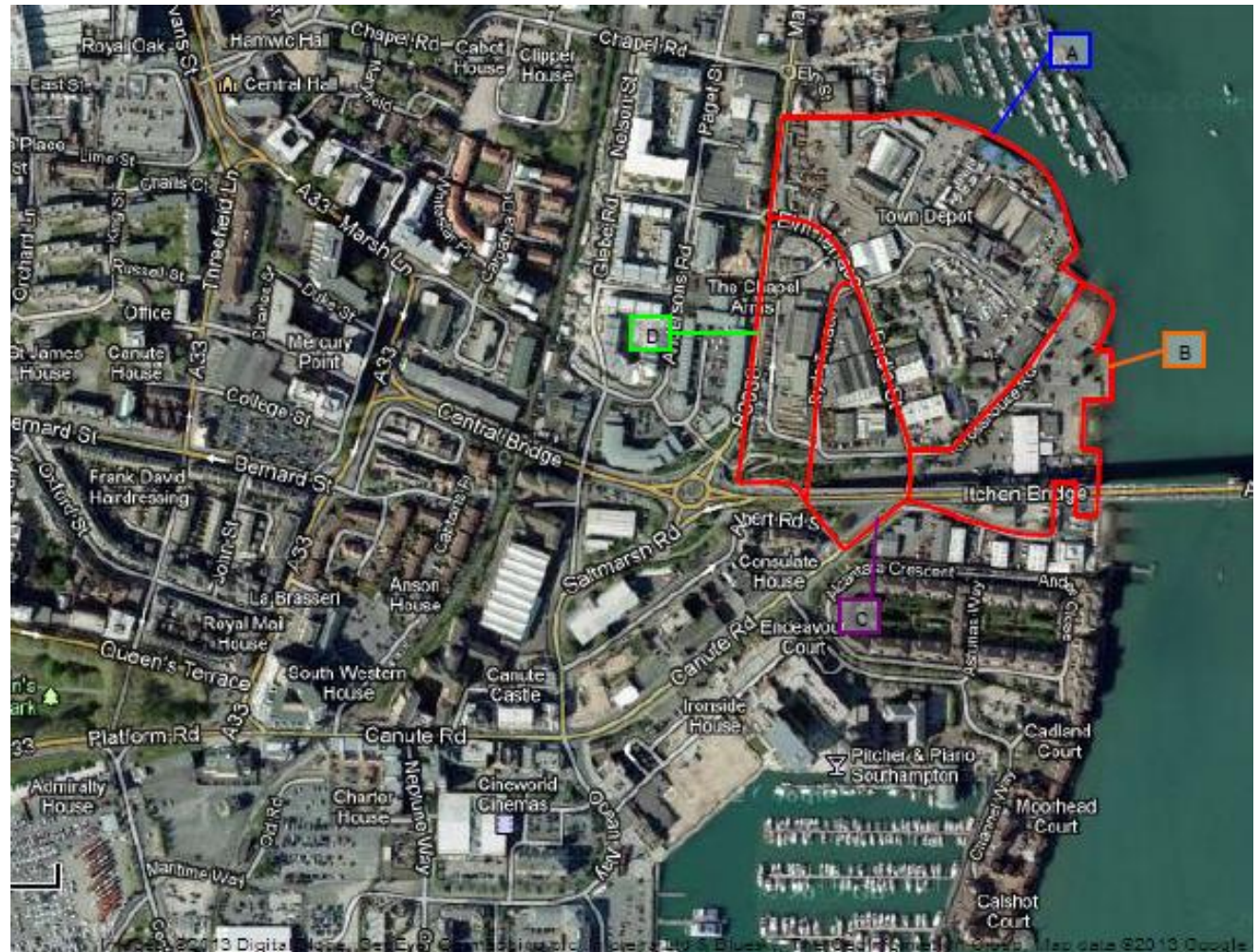
# 5. ESTATES REVIEW

WESTERN GATEWAY - LAND ASSEMBLY ZONES



# 5. ESTATES REVIEW

TOWN DEPOT - LAND ASSEMBLY ZONES



## 6. SCHEME CONCEPTS

Leading on from the earlier research, this section examines issues of scheme design for Western Gateway and Town Depot in the context of viability. Each site is considered separately, beginning with Western Gateway. Two concepts are considered for Town Depot, with a greater focus on Option 1 – Residential led.

### WESTERN GATEWAY

To guide the form and mix of development uses that could come forward at Western Gateway some preliminary high level viability testing of potential development uses was undertaken. This is particularly important given the high costs of assembling the site – c.£50m for the freehold (and this would exclude any leasehold acquisition costs). In broad terms, the results of this initial viability work can be summarised as follows:

**Offices** – unlikely to be viable based on current market conditions. Prospect of being viable based on more optimistic terms (i.e. improved rent and yield profiles), but would require a very significant amount of office floorspace to be generate development land values higher than land assembly costs.

**Retail** - Has potential to generate positive land values. To achieve sufficient value however the development form and scale would be likely to resemble a retail park format. This would be inconsistent with the key objectives of the masterplan, and emerging AAP objectives: a higher density mixed use quarter, and providing retail development closer to the Primary Shopping Area.

**Hotel** – Has potential to generate modest positive land values, but insufficient to generate a value capable of meeting land assembly costs. The scale of hotel development that would be needed to create enough value would be inconsistent with the likely quantum of demand for this type of accommodation.

**Residential** – Marginal viability, and unlikely to generate the level of values needed to overcome land assembly costs. Concerns regarding this use at present also relate to the perception of the area as a new residential quarter, with possible conflicts between housing and Port activities - as well as the fairly dominant nature of the road network in the area.

**Leisure** – Might provide modest development viability, but would require a very significant, and an unrealistic, amount of floorspace to generate sufficient value to meet land assembly costs at Western Gateway. Therefore, difficult to conceive a position where there would be sufficient occupier demand to take up such an amount of leisure space.

**Student Accommodation** – provides modest development viability, but would need to be a very considerable, and probably unacceptable scale to overcome land assembly costs. Coupled with this, there is no strong certainty that Western Gateway would be seen as a favourable location for this use.

For Western Gateway, the upshot of this high level viability analysis on scheme evolution and delivery is that:

1. The range of uses tested for viability – and which would be compatible with the aspirations of the masterplan and SCAAP – are unlikely to generate the values that would be needed to exceed land assembly costs based on today's cost / today's values. Even assuming that extremely high density development were acceptable in planning policy terms, it would be doubtful if there were sufficient occupier demand to take the quantum of space needed
2. In light of this, developers would be unwilling to risk building out a scheme which financially would not produce a land value higher than the current use values

The challenge of redeveloping Western Gateway in a comprehensive form is heightened by the prospect of needing to assemble numerous freehold, long leasehold and leasehold interests that exist throughout the site. Thus, without a strong interventionist approach to land assembly - or a very strong estates strategy - it is unlikely that all the land could be readily assembled. Indeed, given the outputs of high level viability testing there would appear to be little or no private sector financial incentive to do so in current market conditions.

## 6. SCHEME CONCEPTS

For these reasons we consider that, on balance, the masterplan aspirations for Western Gateway are unlikely to all be delivered within the 15 year AAP timeframe, and it is more likely that change will be delivered beyond his date. This situation would however be expected to be kept under review as the plan period progresses.

While the likelihood of wholesale change at Western Gateway in the plan period seems very unlikely, recognition does however need to be made that circumstances do change, and there still remains a prospect that some parts of the Western Gateway could be promoted and come forward for redevelopment within the AAP plan period. Reasons for this include:

1. Significant property market changes can occur - and in relatively short time periods. This could increase demand and values for some types of property uses. This is especially the case given the timing of this study – undertaken during a period of sustained low economic growth. Improved economic circumstances can lead to improved values.
2. There is also a clear prospect that some of the existing property assets could fall in value. This may particularly be the case where leases end for buildings which are less flexible in meeting other future occupier needs and become obsolete.

One candidate for this is the Leisure World site at Western Gateway. Likewise, some of the older industrial stock may soon no longer be fit for purpose, and redevelopment opportunities may arise.

3. Three long leaseholders at Western Gateway – Coal Pension Properties, John Lewis and UBS – are open minded about the prospect of change happening here, with the view that the land could be more intensively developed. This is particularly the case for the Leisure World site where the main leisure anchor’s lease will end in around 10 years, and there is no certainty that their occupation would continue after this time.
4. The perception of the area may change. The development of the Watermark leisure scheme and delivery of new offices adjacent to the site would be expected to have a positive impact on how occupiers and developers perceive this location.

Thus, planning policy should still be sufficiently flexible to guide development at the Western Gateway should it come forward within the AAP plan period, while accepting on these grounds that this may be more of a phased approach to redevelopment, rather than a more comprehensive scheme.

As a framework for such development in the AAP plan period, then arguably the masterplan offers a useful broad vision: it provides a broad mix of uses, and sets the tone for the type of transformation envisaged:

- new mixed use neighbourhoods within the city centre
- new streets, public squares and pedestrian links that will enhance connections between the Central Station, main shopping area and waterfront.
- masterplan uses point toward business, leisure and housing being developed at Western Gateway.

Allied to this there probably needs to be a recognition that ancillary retail might also contribute to creating a sustainable mixed use quarter. The masterplan concept drawing is provided over leaf for reference, with the Western Gateway area outlined in red.

# 6. SCHEME CONCEPTS

WESTERN GATEWAY – MASTERPLAN CONCEPT



## 6. SCHEME CONCEPTS

### TOWN DEPOT

For the Town Depot site, having regard to the property market analysis, the site’s context and initial viability considerations, a development concept has been prepared for a residential led scheme. A second, more mixed use concept is also examined, though no indicative designs have been prepared.

The residential led proposition, in part takes its marker from nearby Ocean Village – and the successful step change that has occurred there in creating a very attractive residential waterside location.

Prepared by Urban Initiatives, a concept plan, block plans, ground and upper floor uses as well as massing diagrams are set out on the following pages. Key features are:

- A residential led scheme, comprising a mix of mainly 5-6 storey buildings. This format provides the opportunity to provide a mix of town houses, apartments and maisonettes.
- The potential to include some commercially orientated accommodation – either serviced apartments or perhaps a hotel, located at a waterside position in a prominent location.
- Local/neighbourhood retail uses, aimed at servicing the needs of the new residential area, and positioned fairly centrally, in a visible location and where trade is likely to be maximised.

- Small scale leisure oriented commercial uses (e.g. A1-A5 uses), benefitting from the waterside aspects.
- A permeable scheme which allows public access to the waterside.
- Other commercial uses, possibly modern small scale offices, workshops or light industrial. The intention here is to allow a fairly flexible approach to this space so that employment uses can adapt to market needs.
- Buildings worthy of retention retained, and design sympathetic to statutory listed buildings.
- Landmark frontages / features at key nodes/gateways to the development

There is also a strong emphasis placed on improving the public realm within the site area. A green area is placed close to the waterside, trees are retained where possible, and the vision is that the location will be open to, and attractive to the public for waterside leisure activities.

The highways network is retained, with the prospect that the development can take place in a phased manner.

It is acknowledged that the proposal is indicative. Flood defences would for example need to be built into the scheme design. The storm tanks are also assumed to be integrated in to the design. Nor have the designs been tested in terms of highways and other matters of detail. The expectation is that any scheme would be fine-tuned to maximise the opportunity available.

In floorspace terms, the indicative proposal for Town Depot provides for around:

- c.63,000 sq m gross of residential space, equating to c.690 units
- c.5,000 sq m gross of retail/ mixed commercial space
- c.4,500 sq m serviced / hotel accommodation
- c.2,200 sq m gross of employment space

A more detailed floorspace schedule set out on a block by block basis is described in the following pages alongside the design concept.

# 6. SCHEME CONCEPTS

**TOWN DEPOT - CONCEPT PLAN**



**TOWN DEPOT - BLOCK PLAN**



# 6. SCHEME CONCEPTS

**TOWN DEPOT - GROUND FLOOR USES**



**TOWN DEPOT - UPPER FLOOR USES**





# 6. SCHEME CONCEPTS

TOWN DEPOT – AREA SCHEDULE



Block	Resi	Retail	Mixed	Comm. Accom (resi)	Light Ind / office.
A (1-5)	11,920	927			
B (1-3)	9,838				
C (1)				4,577	
D (1-5)	7,194		1,462		
E (1-3)	5,844				
F (1-3)	5,690	972			
G (1-3)	2,126	616			
H (1-3)	7,384		1,166		
J (1-2)	6,781				
K (1-2)	6,121				
L (1)					2,256
<b>TOTAL</b>	<b>62,898</b>	<b>2,515</b>	<b>2,628</b>	<b>4,577</b>	<b>2,256</b>

NB – scheme allows for c.550 car spaces

# 6. SCHEME CONCEPTS

TOWN DEPOT – MASSING, LOOKING NORTH



## 6. SCHEME CONCEPTS

TOWN DEPOT – MASSING, LOOKING SOUTH



## 6. SCHEME CONCEPTS

### TOWN DEPOT – AN ALTERNATIVE CONCEPT (OPTION 2)

A second option high level concept has been considered for the Town Depot. This alternative option examines a concept which would principally relate to the development of the vacant Council owned land at Town Depot.

This alternative concept considers the prospect of delivering a broader mix of uses, comprising housing, industrial and office space. The key floorspace mix tested is as follows:

- Residential – c.26,00 sq m (280,00 sq ft) net, equating to around 350 residential units.
- Industrial / Warehousing - 7,200 sq m (77,500 sq ft)
- Offices – 1,800 sq m (c.19,500 sq ft).

No architectural plans or designs have been prepared to support this mix – instead it is based on a series of assumptions relating to plot ratios and densities. These high level assumptions are set out at Appendix A: they must be considered as indicative. The concept would need to be tested in design terms, having regard to scheme fit and site capacity. This concept provides for a more marine oriented development, given the waterfront characteristics of the Town Depot site and a general acknowledgement that such sites are relatively limited in supply.

While this alternative concept would require further design work, we make the following high level initial comments:

- Residential uses are located where they have a positive outlook overlooking the River Itchen;
- Business and warehousing uses are located where they are accessible and visually prominent from the routes through the area;
- The option will maintain employment uses in this part of the city centre but arguably is a partial underutilisation of a well located city centre site. However, conversely the limited supply of waterfront sites means development for non-commercial uses could be detrimental to this segment of Southampton's economy;
- The waterfront is overlooked by the residential uses and this help to create a safe and attractive environment alongside the river;
- Whilst residential uses will benefit from the waterside outlook they will feel more isolated and less connected to the city centre. The light industrial and warehouse users will create a barrier that separates the new homes from the residential neighbourhood to the west of Albert Road North. Rather than creating a waterside extension of that neighbourhood with a connected network of streets leading to the river, this option will deliver a somewhat isolated residential development that will have less regenerative impact and less value. Nonetheless, if carefully designed (and subject to the industrial/marine uses involved) then there may be a solution which can marry this type of activity with housing in the form of vibrant, more diverse mixed use area, which is more common in inner urban locations;

- New homes will look over non-residential uses and the internal street may not function as an attractive route through a new waterside neighbourhood but rather as an edge and interface between an employment and residential area;
- While the concept will still be expected to accommodate some A1-A4 uses in order to create a destination by the waterside (or provide supporting facilities for residents), with less critical mass of residential development to support them and a less comprehensive change to the area they will be less viable;
- It will be more difficult to create an image change on the approach to the city from the west along Albert Road North, Endle Street or over the Itchen Bridge with these main routes being fronted by warehousing / light industrial uses;

Overall, from a design perspective this option will deliver a less transformational change and does not take full advantage of the opportunity to create a waterside neighbourhood that could provide high quality living in the city centre.

# 7. VIABILITY ANALYSIS

A high level viability analysis has been undertaken for the Town Depot site and concept scheme, alongside testing the second high level, mixed use option. These analyses have been prepared using Argus Developer, and adopt a today's cost, today's value basis. A summary of the key assumptions used for both options is attached at Appendix A. In essence, the approach to viability testing is to assess the residual land value, allowing for all costs (including land acquisition) and values to be taken into account. The appraisal is indicative and not intended to form a Red Book compliant assessment.

For the residential led concept the indicative land assembly costs are based on the existing use values (as per section 5) plus an additional 20% cost on land costs to act as a viability margin.

For the mixed residential and marine concept, which includes only the vacant Council owned Town Depot land, then a residual appraisal is undertaken to test whether a positive financial return is created, assuming an acceptable return for a developer.

The residential led concept has been undertaken on a phase by phase basis, as shown in the adjacent plan. Three broad development phases are assumed, as shown. It is recognised however that a more detailed phasing and delivery plan would be prepared alongside detailed scheme plans – and that delivery of the housing is likely to come forward in tranches (or blocks) of say around 50 -100 units at one time. This would help minimise financial risk for the developer.

**TOWN DEPOT - OPTION 1: INDICATIVE PHASING PLAN**



## 7. VIABILITY ANALYSIS

### VIABILITY OUTPUTS (OPTION 1 – HOUSING LED)

Based on the assumptions used, the development as a whole would return a profit close to 20% on cost - a return considered reasonable for a developer – with a value in excess of £150m. This demonstrates a good prospect of delivery, subject to overcoming any constraints.

There is also further potential flexibility in the appraisal. This includes:

- Very substantial sums for dealing with flooding, contamination and abnormal construction needs. This totals some £5m.
- A significant sum is allocated for archaeology – c£3m
- The appraisal carries a contingency of close to £5m
- The prospect of some cost savings occurring. Professional fees are set a 12%, albeit that for a residential led scheme this figure might be lower. Parking is all assumed to be at undercroft level – a relatively expensive approach, compared to at least some being at surface level.
- There is an acquisition cost of around £2.5m assumed for the Town Depot itself. Arguably, this sum could well be lower, as the site is vacant.

The appraisal also assumes the full allocation of affordable housing would be secured. A reduction on this (while not policy compliant) would serve to make the development more viable. It should also be recognised that small changes in the key appraisal assumptions can have a significant impact on the outputs of development appraisals. A small rise in house prices would for example improve viability considerably.

Therefore, while only indicative proposals, on balance there appears to be a good prospect of a residential led scheme being deliverable at the Town Depot and wider area, given that the indicative scheme gives a return very close to an acceptable developers profit, based on the assumptions used.

### PHASING CONSIDERATIONS

From the approach to modelling the indicative scheme, a number of comments can be made regarding the approach to phasing:

**Phase 1** – Good viability, with the expectation that this largely vacant site could be delivered first

**Phase 2** – Reasonable viability, with potential for this to follow an initial phase

**Phase 3** – Not viable, and would need to be cross funded by earlier phases, if it is to be delivered.

This suggests that if comprehensive change is to be delivered at the Town Depot, then a comprehensive approach to taking forward a scheme would be more likely to realise this, although it is acknowledged that Phase 3 is quite small, and perhaps not critical to the overall vision for the area.

### VIABILITY OUTPUTS (OPTION 2 – MIXED SCHEME)

Based on the assumptions used, the mixed use marine oriented proposal would return a small positive sum for the land, allowing for a 20% profit on cost return. This demonstrates – from a financial perspective - that there is a fair prospect that the scheme could be delivered (although the outcome ignores any issues relating to the Council's S123 and best consideration requirements). There might also be ways of reducing development costs – say less need for piling, land remediation or perhaps careful design to avoid any high costs for archaeological reasons. This prognosis is however subject to a number of key caveats, in particular:

- This option needs to be supported by further technical studies, such as assessing potential access to the River Itchen.
  - The scheme needs to be fully tested in design terms.
  - The more isolated nature of the residential component, and being surrounded by mainly commercial uses could compromise sales values. These factors might also dissuade residential developers considering the opportunity together with other factors such as dealing with the presence of the storm tanks.
  - The mix of uses in this concept is arguably incongruous, and could be challenging to deliver, albeit it could create an interesting and diverse development.
  - That development costs could rise, especially say if waterfront mitigation measures are needed to protect intertidal mud flats.
- Despite these concerns, the early financial modelling work does suggest that there is merit in examining this option further, including how it might be phased.

## 8. DELIVERY FRAMEWORK AND FUNDING

This section focusses on the broad approach to delivering change at Western Gateway and Town Depot.

Overleaf a framework is described for the individual sites, and key considerations. It describes in broad terms issues such as:

- Key parties
- Potential delivery mechanisms
- Phasing
- Relocations
- Timescales
- Key next steps
- Priorities

The delivery framework will be expected to evolve as more information and detail becomes known about the sites, their current uses, occupiers, opportunities, constraints and design issues, among other factors.

In considering delivery issues, it should also be recognised that there may be opportunities to secure funding toward the scheme, were that necessary. This could come, for example, from a range of potential avenues, including:

**Prudential Borrowing** – perhaps used by the City Council to fund land assembly costs.

**Community Infrastructure Levy** – over time proceeds from this pot could be directed toward wider site infrastructure requirements.

**New Homes Bonus** – Payment on homes completed (net addition to housing stock) to Councils and can be allocated to future development phases.

**Environment Agency** – potentially, may allocate funding for flood defence schemes.

**Local Enterprise Partnerships** - Solent LEP which covers Southampton has a Growing Places funding pot available (of c.£20m). This can be made available to housing and infrastructure delivery projects.

There is also a likelihood that the LEPs will be given greater spending powers – and this may enable the City Council to tap into further grant funding at a later date.

The relevant highways agency may also have funds available for local transport initiatives. For example, the Council has recently successfully secured a range of funding from the Department of Transport. Likewise, the Homes and Community Agency could offer a further avenue through assistance on housing initiatives. Previous examples include Kick Start, Get Britain Building as well as interest in the private rented sector.

The grant / funding regime is continually evolving and other avenues may open up which are relevant to both the Town Depot and Western Gateway. The City Deal proposal for Southampton is targeting the River Itchen and marine employment as a key part of the area's economic strategy.

## 8. DELIVERY FRAMEWORK AND FUNDING

SITE/USES	KEY PARTIES	POTENTIAL DELIVERY MECHANISM	NEXT STEPS	DELIVERY TIMESCALES	PRIORITY
<p><b>Town Depot*</b></p> <p>Option 1 - Residential led with ancillary retail and mixed commercial.</p>	Southampton City Council (SCC)	<p>Public sector / SCC lead in bringing site to the market. Potentially through developer selection process (OJEU compliant) set round a core area / first phase using the vacant land at the Town Depot/land in Council Ownership with scope for a wider area of consideration where there is a more mixed ownership pattern delivering future phases.</p> <p>Negotiations with third parties, to secure land, ideally through private treaty negotiations, with potential fall back position to use compulsory purchase powers.</p> <p>Alternative approach for SCC to dispose land through simple marketing exercise, and then rely on development control and planning policy to manage development outcome.</p>	<p>Steps prior to marketing/disposal of the site include:</p> <ul style="list-style-type: none"> <li>- Discussions with Southern Water to reach agreement over access to storm tanks and any technical provisions.</li> <li>- Land registry / title search</li> <li>- Technical study to assess solutions to mitigate any odour issues.</li> <li>- Soft market testing opportunity with developers.</li> <li>- Prepare Estates Strategy in order to manage the possible relocation of businesses affected by potential development. Enter into discussions negotiations with key affected parties, especially those viewed to fall into an initial development phase.</li> </ul>	<p>Pre-marketing tasks: 0-1 year</p> <p>Marketing: 1-2 years</p> <p>Housing Delivery: 5 – 15 years</p>	Mid/high
<p><b>Western Gateway</b></p> <p>Mixed use, leisure, housing</p>	Various Landowners / SCC	Individual private sector owners / head lessees to take forward proposals as opportunities arise, and in broad accordance with masterplan objectives.	Market led initiatives	15 Years +, but with possibility for some change to occur prior to this depending on individual land owner / leasehold circumstances	Low/mid

\*NB – The delivery framework for Option 2 (mixed/ marine use), Town Depot is not detailed in the table above. The steps are however similar to those described under Option 1, although would require more technical assessments to support its delivery. This second option may also not require the land to be assembled given the single Council ownership. This could help to speed up delivery timescales, subject to the outcome of technical assessments.



## 9. CONCLUSION

The key focus of the study is to consider delivery and viability issues for indicative scheme proposals for the Town Depot and Western Gateway sites. The outputs are intended to provide a platform for the Council to prepare a robust and sound development plan.

From our analysis we consider for the Western Gateway site that:

- Within the timescale of the AAP (0 -15 years), the prospect of delivering significant change at Western Gateway in accordance with the City Centre masterplan is limited. A significant factor in this relates to the very large land assembly costs which are estimated to exist at this site versus likely residual development values.
- The prospect of delivering significant change at Western Gateway is also more challenging given the numerous leasehold and sub lease interests on the site: achieving suitable land assembly here would be lengthy without major public sector intervention.
- The Western Gateway also presently suffers from a weak perception of its capacity to accommodate future, new uses – beyond the commercial activity presently there.

While the likelihood of wholesale change at Western Gateway in the plan period seems very unlikely, there still remains a prospect that some parts of the Western Gateway could be promoted and come forward for redevelopment within the core AAP plan period. Reasons for this include:

- Significant property market changes can occur - and in relatively short time periods. This could increase demand and values for some types of property uses. This is particularly important given that this study has been undertaken at a time of sustained low economic growth in the UK.
- There is also a clear prospect that some of the existing property assets could fall in value, especially for buildings which are less flexible in meeting future occupier needs and become obsolete.
- Some long leaseholders are open minded about the prospect of change happening here
- The perception of the area may change due to new surrounding development.

Thus, planning policy should still be sufficiently flexible to guide development at the Western Gateway should it come forward within the AAP plan period, while accepting that this may be more of a phased approach to redevelopment, rather than a comprehensive scheme.

For the Town Depot, the property market analysis and design work suggests that a residential led scheme has a reasonable prospect of delivery. The high level viability work supports this view further, providing an acceptable financial return all owing for assumed costs and development values (accepting that there are a number of constraints that still need to be investigated further, especially those relating to the Storm Water tanks).

While only indicative scheme concepts designs have been prepared, there is the prospect that this site could open up a major new residential quarter in the city centre – and one which allows public access to a high quality waterside location. Nevertheless, we expect the Council will need to be a proactive delivery partner in order to drive forward the proposals, especially given the complex nature of the site and the scale of transformation envisaged.

Assuming reasonable delivery timescales – and that potential constraints can be overcome - it is possible that the site could bring forward housing from years 5 onwards. The expectation is that the City Council would be the key party enabling change here, and a number of possible steps are suggested to begin this process.

A second concept for the Town Depot examined a mixed residential and marine industry oriented scheme. High level, early financial modelling work suggests that this might create a financially positive outcome if focussed only on the vacant Council Town Depot site, albeit that there are a number of design and delivery aspects which would need to be assessed thoroughly in more detail.

# APPENDIX A – KEY APPRAISAL ASSUMPTIONS

## Residential Led Concept - Appraisal Assumptions (Option 1)

This note sets out the key assumptions used to test site viability in the context of examining the residential led concept for the Town Depot site. The appraisals are based on the assessing Residual Land Values and benchmarking these against existing use values. The appraisals will be based on today's costs / today's values.

### Site Costs

Purchasers Costs	5.80%
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### Finance Costs

Finance Costs	7%
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## Construction Costs

High level construction costs drawn from BCIS and other sources, such as Southampton City Council knowledge of the sites. Other high level indicative 'spot' costs assumed:

- Flood defence - £1.9m
- Archaeology - £3.1m
- Contamination - £1.5m
- Piling - £1.1m
- Public Realm / Landscaping - £2.5m
- Storm Tank Works – £0.75m

### Key Unit Build Costs:

- Residential - £888 - £1,004 sq m
- Retail - £836 sq m
- Mixed Use - £888 sq m
- Office / Industrial - £1,339
- Apartments / Hotel - £1,300 sq m
- Parking - £8,000 per space (assumed podium / undercroft)

Full Cost Schedule would in due course need to be prepared by a suitably qualified Cost Consultant.

## Construction Fees / Misc Costs

Contingency	5%
Professional Fees	12%

The above costs are expressed as a % of the build cost.

## Community Infrastructure Levy (CIL)

The Community Infrastructure Levy is applied to the development space, as follows:

Residential	£90 per sq m
Retail	£43 per sq m
All other uses	£0 per sq m

NB. While financial assessment is based on all built development area excluding car parking, CIL is however only charged on net additional development area.

## Agents & Legal Fees

Agents Letting Fees	10%
Legal Letting Fees	5%
Agents Sale Fee	2% (inc marketing costs)
Legal Sale Fees	0.50%

# APPENDIX A – KEY APPRAISAL ASSUMPTIONS

## Capital Values / Rents / Yields

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### Commercial Rental Income

- Hotel - £142 per sq m pa
- Mixed Commercial - £15 - £17.50 psf
- Retail - £20 psf

### Tenant Incentives

- Serviced Apartments - 6 months incentive
- Mixed Employment – 6 months
- Retail – 9 months

### Yields

Hotel	7.5%
Mixed Commercial	8.0%
Retail	7.25%

A gross to net ratio of 85% to commercial space.

## Unit Sales Values

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Affordable housing policies apply. The overall requirement is 35%, split 70/30 between social rented and intermediate.

### Residential Sales Rates

Residential – Private	£250 - 350 psf
Residential – Social rented	35% of private value
Residential – Intermediate	55% of private value

A sales rate of 5 units per month is assumed with no pre sales.

A gross to net ratio of 80% is applied to residential (flatted) units.

### Profit

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Developers Profit	20% profit on cost
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## Testing Viability

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Land costs based on existing use values (see section 5), and these are factored into the appraisal, subject to an additional a valuation cushion of 20% of their overall cost

# APPENDIX A – KEY APPRAISAL ASSUMPTIONS

## Mixed Use Concept - Appraisal Assumptions (Option 2)

Based solely on vacant town depot site 3.6 Ha (36,000 sq m)

### Land Use Split

	Residential	B1	B2/B8
<b>% of Land Take</b>	50%	20%	30%
<b>Amount of Land</b>	1.8 Ha	7,200 sqm	10,800 sqm
<b>Plot Ratio</b>	n/a	50% on 1 level (B1 (c)) 25% on 2 levels (B1)	50% on 1 level
<b>Units/Floorspace</b>	28,952 sqm	1,800 + 1,800 sqm	5,400 sqm

Notes:

- Blocks A, B, C, D for resi from Urban Initiatives Block Plan. Hotel converted to residential. Assume standard affordable housing assumptions. All flats.
- Assume B1 (c) 10% / B1 10%
  - B1 (c) – 50% plot ratio on 3,600 sqm = 1,800 sqm (19,375 sqft)
  - B1 (offices) – say 25% on 2 levels on 3,600 sqm = 1,800 sqm (19,375 sqft)
  - B2/B8 (warehousing) – say 50% plot ratio on 10,800 sqm = 5,400 sqm (58,125 sqft)

### Site Costs

Purchasers Costs 5.80%

### Finance Costs

Finance Costs 7%

## Construction Costs

High level construction costs drawn from BCIS and other sources, such as Southampton City Council knowledge of the sites. Other high level indicative 'spot' costs assumed:

- Flood defence - £1.9m
- Archaeology - £3.1m
- Contamination - £0.75m
- Piling - £1.1m
- Public Realm / Landscaping - £1.5m
- Storm Tank Works – £0.5m
- Parking/Yards - £1m
- Utilities - £0.75m

### Key Unit Build Costs:

- Residential - £1,004 sq m
- Office - £1,339 sq m
- Warehousing - £550 sq m
- Light Industrial - £540 sq m

Full Cost Schedule would in due course need to be prepared by a suitably qualified Cost Consultant.

## Construction Fees / Misc Costs

Contingency 5%  
Professional Fees 12%

The above costs are expressed as a % of the build cost.

## Community Infrastructure Levy (CIL)

The Community Infrastructure Levy is applied to the development space, as follows:

Residential £90 per sq m  
All other uses £0 per sq m

NB. While financial assessment is based on all built development area excluding car parking, CIL is however only charged on net additional development area.

## Agents & Legal Fees

Agents Letting Fees 10%  
Legal Letting Fees 5%  
  
Agents Sale Fee 2% (inc marketing costs)  
Legal Sale Fees 0.50%

# APPENDIX A – KEY APPRAISAL ASSUMPTIONS

## Capital Values / Rents / Yields

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### Commercial Rental Income

- Mixed Commercial - £15 psf
- Light Industrial - £8 psf
- Storage/Warehouse - £5psf

### Tenant Incentives

- Light Industrial - 6 months
- Offices - 12 months
- Warehousing - 6 months

### Yields

A gross to net ratio of 85% to office space.

- Light Industrial - 7.5%
- Offices - 8.5%
- Warehousing - 8%

## Unit Sales Values

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Affordable housing policies apply. The overall requirement is 35%, split 70/30 between social rented and intermediate.

### Residential Sales Rates

Residential – Private	£300 psf
Residential – Social rented	35% of private value
Residential – Intermediate	55% of private value

A sales rate of 5 units per month is assumed with no pre sales.

A gross to net ratio of 80% is applied to residential (flatted) units.

### Profit

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Developers Profit	20% profit on cost
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## Testing Viability

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Residual assessment testing value of Council Town depot site only, allowing for all development costs and receipts.