

FINAL

Masterplan for Southampton City Centre

Stage Two Report

Strutt & Parker Advice on Outline Delivery Strategy

January 2011

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Executive Summary

1. The overall aim of this Phase 2 work is to provide guidance to the client on how to ensure that the approved Masterplan is grounded in a measure of commercial realism, so that it is capable of being delivered, potentially in phases, over a realistic long term timescale. It incorporates outline advice on the likely viability and deliverability of the Masterplan as a whole, together with other related advice on specific issues and areas within the City Centre. It also contains guidance on the likely phasing and the parties who will deliver the main development projects, including the role of the City Council and other agencies involved in procurement, funding and delivery.
2. The Stage 2 advice concludes that Southampton will become a more successful and economically thriving City Centre if it:-
 1. Attracts significant and diverse employment back into the City Centre.
 2. Consistently renews its 'customer services offer' in terms of shopping, culture, entertainment and leisure uses.
 3. Enables a regenerated residential population to grow, together with other elements of a balanced community.
 4. Is easy to get to and also to move around.
 5. Creates and maintains a lasting heritage and an outstanding environment.
3. Many key challenges remain in delivering the Masterplan including:-
 1. The possible impact of the economic downturn – and hence the reduced scale of occupier demand in the short and medium term.
 2. The absence of a recognisable compelling property market 'product' which might be termed Southampton's regional office quarter or CBD.
 3. The need for an inward investment strategy which is clear and consistently focused on securing and sustaining growth.
4. Southampton City Council is likely to be the leading agency which is at the forefront of securing new investment in the City Centre, prompted in part by this new City Centre Masterplan. Southampton needs to consider and agree what options it should explore for future partnership working with other private and public sector stakeholders, in order to secure maximum benefits from this strategy and the initiatives outlines in the Masterplan.
5. Southampton also needs to set out to exploit the commercial opportunities across the City Centre and to take appropriate steps towards achieving its office goals; steps towards achieving further new retail schemes; and to securing other key elements of change in the City Centre, including – a) new hotels and visitor facilities and b) improved City Centre housing and other uses.

6. The Stage 2 report identifies 13 urban quarters and five Areas of Major Change:-
 - Station Quarter
 - Western Gateway Quarter
 - Heart of the City Quarter
 - Itchen Riverside Quarter (including Town Depot)
 - Royal Pier Waterfront Quarter
7. The Stage 2 report sets out advice on the likely mix of development and the delivery strategy for each of these Areas of Major Change and highlights the agencies which are most likely to work with the City Council in order to secure successful development in each case.
8. The City Council actions required to secure delivery are described fully, with indications as to potential new sources of funding which may be relevant in the next five years and beyond.
9. An emerging phasing plan, with three principal phases is described, showing the mix of developments and activities which are likely to be implemented in each of the following periods:-
 - a) Within the next 5 years (immediate)
 - b) Within the next 10 years (early projects) – a) and b) are shown as Phase 1 on the phasing plans
 - c) Within the next 15 years (mid-term projects) – shown as Phase 2
 - d) Within the next 20 years (longer term projects) – shown as Phase 3
10. The possible scale of development and the proposed building blocks (with an indicative floor space schedule) are included, along with the Quarters Plan and the Phasing Plans, in the appendices to this Stage 2 report.

Section 1 – The Purpose of the Stage Two Report

Introduction

1.1. Strutt & Parker were appointed by Southampton City Council in February 2010 to advise on commercial property matters, as part of a team led by David Lock Associates, responsible for producing a new Masterplan for Southampton City Centre. This complex study has required extensive collaboration and joint working from the various teams of co-consultants, working with a wide range of City Council officers. This has been particularly the case during the process of moving towards the conclusion of Stage Two – i.e. focusing on the emerging ‘delivery strategy’. The overall aim during this phase of the work is to provide guidance to the client group on how to ensure that the approved Masterplan is grounded in a measure of commercial realism – i.e. it is capable of being delivered, potentially in phases, over a realistic long-term timescale.

1.2. Our agreed role was originally set out in bullet point form, with our tasks directed towards a number of suggested inputs and deliverables which, when we first defined and agreed our role in early 2010, we had expected would be of greatest value to the City Council. This was based in part on our experience in concluding previous instructions of this type. The main elements were summarised at that time as follows:-

Masterplanning

- To work as part of a masterplan team, liaising with the Council’s strategic projects team and other consultants appointed by the Council to identify an agreed list of ‘big ideas’ during Stage 1.
- To advise on the location, arrangement and scale of the principal office, retail and residential elements which are likely to be commercially deliverable in mixed use developments across the 54 ha MDQ area, while having regard to the floor space figures noted in the ‘key development targets’.
- To consider the suitability and appropriate location of other ancillary uses such as hotels, health facilities, and leisure.
- To provide advice to the Highways Consultant on market requirements, options and future trends relating to car parking, and to liaise with other members of the consultant team as necessary.
- To advise on current occupier and investor requirements for sustainable buildings and business locations.

- To advise on outline development viability and deliverability for the Masterplan as a whole; and specifically to assess the different scenarios which require to be assessed in Stage 2.
- To provide value inputs generally throughout the instruction relating to rent and investment advice.
- To contribute to the overall strategy and written output from the David Lock Associates team.

Market Overview

Provide supply, take-up and demand analysis in support of the masterplanning exercise as follows:-

- Identify the key competing opportunities on a local and regional basis.
- Analyse existing supply in terms of Grade (A New, A and B), quoting rents, lease terms and incentive packages available.
- Analyse development pipeline and deliverability in terms of attracting pre-let opportunities.
- Identify supply by size range in each of these locations.
- Consider take-up trends by:-
 - Grade (A new, A & B)
 - Size Range
 - Tenure
 - Speculative/land sale/pre-let
- Provide matrix of rents for both prime and secondary accommodation in identified competing locations, to include rents for pre-let opportunities.

[Source – Strutt & Parker Proposal Document – January 2010)

- 1.3 We subsequently agreed that in addition it would be appropriate for us to provide advice during Stage Two of the Masterplan study – and that in particular it would be realistic to incorporate outline advice on the likely viability and deliverability of the Masterplan as a whole, together with other related advice on specific issues and areas within the proposed Masterplan area.
- 1.4 During October 2010, following on from the final conclusion of the Stage One report, the City Council, David Lock Associates and Strutt & Parker established an agreed foundation for the Stage Two viability and delivery work. This confirmed that the main emphasis of our work going forward would be on both defining the main strands of the development strategy and potential

viability for the principal projects such as the Station Quarter and City Industrial Park; and on clarifying the options and the preferred strategy for implementation in each case, rather than on conducting the series of 12 viability appraisals which were suggested in the original (January 2010) client brief.

1.5 It was agreed that, if possible, we would undertake some broad assessments of viability, but only to the extent that details on costs and other relevant information could be made available to us. Later in this Stage Two report we will therefore present advice which will help to move the Masterplan forward, by reviewing the area development options, defined in the original Stage One report. In any event, we agreed that Strutt & Parker's input would help refine the options for a number of the City Centre's strategic sites.

1.6 We agreed that this report would therefore comprise (or take into account where appropriate):-

- A "business plan" approach for each area.
- The identification of the main costs and key value drivers.
- An assessment of what else is needed to help shape financial viability and determine which projects can move forward.
- A review of whether phasing or timing of individual projects is critical to their potential viability (e.g. what are the reasonable prerequisites for the delivery of a longer term project) as well as advising on how viability can be maximised by careful timing.
- A review of the possible scale and mix of development in each of the 7 defined areas,
- As well as advice on what we think the optimum development mix might be, given current market knowledge etc.
- Advice on the possible sequence and the most effective programme of development across the MDQ area.

1.7 Once we have built up the key components of the delivery strategy, in the final sections of this Stage Two report we will also give our commercial conclusions, with further clarification of the options and the recommended strategy for implementation. The outputs from this which will be of particular value to the City Council will be:-

- Advice on potential 'early wins' and on related marketing and promotion strategies.
- Definition of the most likely initial main projects.
- An outline of the medium to long term developments.
- Advice on next steps to be taken with existing site owners, partly having regard to discussions with some of these parties during the Stage Two process.

- Commentary on overall programme and the prospective future roles of the City Council (as land owner, as scheme promoter and as planning authority) – plus the role of other key advisors, owners and stakeholders.

1.8 Throughout this Stage Two report we have had due regard to the commercial market circumstances prevailing in 2010 as well as those expected to be relevant to the timescale over which this Masterplan will be implemented. In other words, our emphasis has been on ensuring that this ‘delivery’ advice is based firmly on what is most likely to be commercially realistic and achievable – rather than on ‘standard solutions’ or approaches which have been used in other circumstances elsewhere in the past. In our view, it is particularly important to tailor the proposals for ‘delivery’ to the ‘market realities’, thus ensuring that theoretical approaches or processes are avoided.

1.9 This report therefore sets out our input and advice in moving towards an emerging implementation strategy and delivery plan. It contains guidance on likely phasing and the parties who will deliver the main development projects, including the role of the City Council and other agencies involved in procurement, funding and delivery. It concludes the principal part of our input to creating this ‘development and investment plan’ for Southampton City Centre; through the next stages of consultation of the DLA Masterplan, it should be possible to take forward this strategy and then implement a wide range of delivery initiatives and secure a series of significant step-changes which will transform much of Southampton City Centre through a varied mix of projects over the next two decades and beyond.

Section 2 - Key Foundations for a Successful Delivery Strategy

- 2.1 The underlying purpose of this report is to help set the strategy for delivering new growth and expansion in Southampton City Centre. The 'vision' and concept underpinning this new City Centre Masterplan is set out in DLA's Stage 2 Report (Section 3) but is not repeated here. Its focus is the MDQ and on securing transformational change across the Masterplan area as a whole, rather than on individual sites. The aim is to establish some principles for the subsequent implementation of a broad series of new developments across the City Centre. Southampton has already seen good progress with a range of new developments and emerging proposals, not least in the Cultural Quarter with the QE2 mile and proposals at Royal Pier and Town Depot helping to set an 'agenda for change'.
- 2.2 There will be an extensive set of infrastructure needs which will require to be funded if the City Centre is to witness 'transformational change'. This means there needs to be a clear strategy and programme put in place for infrastructure provision, which will be needed so as to foster both a high quality and an enhanced scale of new development. This in turn will be essential in order to alter the image and external perceptions of Southampton City Centre. This outline delivery strategy therefore needs to address, at least in broad terms, how the new infrastructure needed to support the City Centre's realistic growth targets might be funded.
- 2.3 It is important to point out that, at the time of drafting this report (late 2010), we are entering a period of uncertainty following the announcements contained in the Comprehensive Spending Review, and the publication of the Local Growth White Paper. The full implications of these changes will take time to resolve and it is currently uncertain as to how several of the new funding and grant regimes, which may be of relevance to Southampton, will operate.
- 2.4 Others are no doubt well placed to advise the City Council of the key implications arising from these important economic and policy changes, but we consider that the following messages may be particularly relevant:-
 - Although there are substantial reductions in Central Government grant support for both revenue and capital spending, there are also a limited number of areas where there might be potential increased spending (e.g. the New Homes Bonus) and/or biddable grant funding – e.g. Regional Growth Fund.
 - Support for expenditure on infrastructure is likely to continue (at the reduced level previously announced) and there may well be a continued emphasis on 'hard infrastructure' rather than social infrastructure spending.
 - The City Council may have greater flexibility in relation to the (reduced) spending levels – and this also means flexibility to use its own assets and to bid imaginatively for new grant funding sources. This may mean that joint ventures and local partnerships will therefore become increasingly important. This may also emphasise the importance of putting in place

appropriate delivery arrangements that can form such partnerships and work with others to successfully bid for funds.

- It will take time for the details for the Government's 'local growth' agenda to be fully clarified. In the longer term there may be greater support for those authorities which wish to promote an economic growth agenda – and this could be highly relevant to Southampton City Centre.

2.5 Overall, we consider that the short term public sector context is more uncertain than at any time in the last decade. Indeed, this context may only become clearer over the next 2-3 years. Nevertheless, the Masterplan is being devised so as to provide the foundation for City Centre expansion over a 15–20 year period, so the principles need to be sound, even though much of the planned redevelopment may not be feasible or viable until the latter part of this period.

Business Drivers

2.6 In helping the City Council to determine via this Masterplan how it should drive its City Centre forward, David Lock Associates and Strutt & Parker have confirmed that there are 5 key features which characterise city centres. These now need to be regarded as elements which must underpin the development strategy for Southampton's future. It will be recalled that these 5 principles suggest that Southampton will become consistently successful if it:-

1. Attracts significant and diverse employment back into the City Centre.
2. Consistently renews its 'consumer services offer', in terms of shopping, culture, entertainment and leisure uses.
3. Enables a regenerated residential population to grow, together with other elements of a balanced community.
4. Is easy to get to and also to move around.
5. Creates and maintains a lasting heritage and an outstanding environment.

2.7 All these features are important as they underpin our Stage 2 advice. Also, we have assumed that the City Council will 'sign up to' the strategy which delivers these, as well as commits its own financial and other resources; and also seeks to secure the necessary funding and commitment from others so as to 'kick-start' the required level of 'transformational' change. This all plays a vital part in creating an attractive City Centre which will help to build a new and growing business community over the long term. However, only if these principles are put in place and maintained will Southampton be seen as more attractive than other competing locations.

2.8 There are however a number of key challenges and other issues which need to be fully taken into account in ongoing work – both during Stage Two of the Masterplan study and subsequently. Those which appear to be particularly significant to us include:-

- The possible impact of the economic downturn (and hence the reduced scale of occupier demand in the short/medium term).
- The absence (currently) of a recognisable compelling property market 'product' which might be termed Southampton's Regional Office Quarter; and
- An inward investment strategy which is clear and consistently focused on securing and sustaining growth.

2.9 In our view, there is also little doubt that the underlying property market trends (e.g. for new offices and other City Centre development) will initially see only limited and incremental change. Some may feel it could be easier to pursue established policies and preferred locations and development rather than seeking a more active role for the City Council in directing new development and 'place shaping'. Such a response would not, in our view, provide a new stimulus to business. Without such action, key market characteristics and indicators (such as take up and delivery rates) could be expected to remain much as they were before the recent economic downturn.

2.10 A much more positive climate for business growth can, in contrast, be fostered by consistently working towards the 5 key opportunities or themes which were listed in paragraph 5.20 of the Stage One Report:-

1. The development of a new CBD (i.e. the Regional Office Quarter).
2. Upgrading the City's secondary stock and creating small business developments.
3. Expanding the City Centre as one preferred location for the University, especially for R&D and innovation centres.
4. Creating the environment for inward investment.
5. Developing a range of supporting and related business infrastructures.

2.11 A key element for the City Council in delivering sustainable city centre growth and expansion will be its plan for the implementation of essential new infrastructure. Others are advising on the possible cost and programming implications of this but we consider that there are several important elements which will need to be explored soon in more detail, including:-

- Transport – Highways Costs – e.g. alterations to the road network, particularly in the area south of Central station.
- Transport – Public Transport improvements (various)
- Utilities infrastructure – possible costs of moving each of the sub-stations; and hence likelihood of any such works ever being financially viable;
- Estimated costs of alterations to (or relocation of) Geothermal Power station.
- Flood mitigation works.
- Education – e.g. new schools.
- Health facilities – other improved facilities for new City Centre population.

- Community facilities.
- Other infrastructure needed in City Centre – e.g. ‘green’ infrastructure.

The Delivery Environment

- 2.12 An appropriate delivery environment for the Masterplan has to be put in place, taking account of what can realistically be achieved in the short, medium and longer term. This also needs to consider whether firm targets for specific outputs need to be put in place, as well as exploring the options as to those delivery arrangements e.g. working collaboratively with the Solent Local Enterprise Partnership and others which are most likely to be successful in facilitating the implementation phase. Finally an outline of how funding for the various projects might be achieved also needs to be made clear.
- 2.13 In assessing what can realistically be achieved in Southampton City Centre, it is important to recognise that expansion at the rate identified in the ‘PUSH’ targets will only be achievable if there is a sustained period of enhanced market demand, for a scale of new development consistently far greater than that which has been achieved in Southampton City Centre at any time in the last 30 years. There is an expectation that nationally it may take 3-5 years for property market activity to return to pre-recession levels. The ‘PUSH’ targets (for office and retail floorspace growth in South Hampshire) may help to shift development more towards city centre locations, and away from out of centre business parks, but initially this will be a gradual process. The potential benefits to Southampton City Centre will be huge and our Stage One report therefore recognised that a process of ‘scenario testing’ and option evaluation (both for the MDQ as a whole and for other individual sites) will need to continue well beyond the production timetable for this DLA-led City Centre Masterplan.
- 2.14 What is also essential however is for the City Council to take a whole series of positive steps to secure new high quality City Centre development in the context of an agreed masterplan. We expect this to lead to the City Centre Action Plan being devised so as to continue to foster both a range of new smaller scale developments and improvements in established areas, as well as promoting new initiatives such as the Regional Office Quarter. Together these elements will be key components of meeting the potential ‘PUSH’ targets, while recognising that initially there will be more limited outputs and that more of a ‘market driven’ strategy may have to be accepted as being realistic for say the first 3-5 years, principally due to the effects of the economic downturn on investor, developer and (especially) occupier demand.

Delivery Agencies

- 2.15 Southampton City Council is likely to be (or play an instrumental part in) the leading agency which is at the forefront of securing new investment in the City Centre, prompted in part by this City Centre Masterplan. As it takes forward the Masterplan, Southampton City Council is seen as being potentially comparable in some respects to (say) Manchester City Council or Birmingham City Council – both of which have largely directed the growth of their cities in

recent times, with high profile political and executive leadership, as well as by adopting a heavily publicised City Centre strategy or masterplan. In these (and other) regional cities, especially in the north of England, there has also been a significant level of involvement from the RDAs, often bringing together other agencies (from both public and private sectors) so as to maximise the profile and outputs which can be achieved. This will also ultimately be to the benefit of the particular city's economic growth and future prosperity.

- 2.16 Southampton now potentially needs to consider and agree what options it should explore for future 'partnership' working, with other private and public sector stakeholders, so as to secure maximum benefits from the strategy and initiatives outlined in this Masterplan. In relation to many of the individual City Centre sites within the Masterplan area there will be both the opportunity (and the need) to proceed with individual discussions with the main landowners, much as the City Council has done in the past. Ongoing discussions with the likes of Hammerson, Network Rail, ABP and Aviva – all of whom we have also met during this masterplan process in order to discuss the emerging outputs – will remain a vital ingredient of the successful delivery strategy, as it should ensure their respective participation on an appropriate basis. However, the scale of change envisaged for some of these City Centre areas - in particular the Station Quarter and the Western Gateway Quarter – means that new forms of delivery and partnership arrangements may be required. This in part may be necessary in order to help secure adequate infrastructure funding (including elements of public sector funding which will in some cases be required to kick start or underpin substantial private sector investment). The precise mechanisms and form of delivery agency needed may well only become clearer once some of the implications of the Coalition Government's local growth agenda are better understood.
- 2.17 At this stage we anticipate that the options which will need to be explored further may well include TIFs (tax increment financing schemes) – or derivatives of the TIF principle. Consultation by the government on possible approaches to such funding regimes is only likely in early 2011 and therefore it is too early to assess the potential arising from such initiatives for Southampton City Centre. We anticipate that there will be a number of different funding models which might be applicable and which could be agreed and adopted in Southampton. What we can say is that there may be other options (yet to be fully tested) which could be highly applicable to the planned growth in Southampton City Centre. For example, if a 'Business Increase Bonus' (similar in concept to the New Homes Bonus but based on additional business rates), were to be put in place, then there may be mechanisms which would enable Southampton to fund future infrastructure, based in part on a borrowing arrangement related to additional business rates.
- 2.18 Over the next few years, these and other funding and delivery mechanisms need to be evaluated carefully by the City Council and the public and private sector stakeholders who become the main partners in implementing the City Centre Masterplan. Together these parties will have the opportunity to build on the successful foundation established by this DLA

Masterplan, and also to test and exploit commercial opportunities for a wide range of uses across the City Centre as a whole. In the remainder of this Stage Two report we now move on to test the ways in which the delivery strategy will be applied for the main uses and sectors, before examining the likely viability and deliverability of the main areas of change.

Section 3 – Exploiting the Commercial Opportunities in the City Centre: Next Steps

3.1 The Stage One Masterplan report draws out a number of important themes and issues, not least those relating to how potential new office and retail development can be secured in the City Centre. For a city of Southampton's size and importance, our earlier analysis has shown that, whilst it undoubtedly 'punches above its weight' in terms of its draw and relative status in the regional retail hierarchy, it remains a relatively weak centre in office employment terms. As explained in the Stage One Report, and as then summarised in paragraph 2.10 above, Southampton City Centre can achieve significant revitalisation and growth over the next 20 years, particularly so as to meet its aspirations for commercial office expansion, if certain key steps are taken. We now describe a number of the key steps which need to be taken during that period, in order to achieve the goal of transforming each of the main City Centre property sectors.

The Steps toward Southampton achieving its Office Goals

3.2 Southampton competes for new office growth with other Regional Cities such as Bristol and Exeter and with some out of centre business locations across the wider South Hampshire area. As a result, if it is to attract a high proportion of occupiers, but especially those seeking large floor plate, headquarters type space, it will need to place a very strong emphasis on creating high quality and highly accessible opportunities for expansion. These will be initially around the Station Quarter (described below), at Royal Pier and, in the longer term, in the Western Gateway Quarter.

3.3 City centres in the UK which have achieved a dramatic uplift in their attractiveness to office employment in recent years are limited in number. Only those few that have successfully combined the best of 'old and new', in terms of their attractions and urban fabric, whilst creating large sites that can be exploited by occupiers, developers and investors alike, can look back with some pride at what has been (or is currently being) achieved. In the UK, Manchester (around Spinningfields and also the improved Piccadilly Station) and Cardiff (particularly in Cardiff Bay) are two of the most striking examples. Potentially Southampton can gain much from examining in detail the strategies pursued in these two cases, and also from assessing carefully how lessons can be applied from other smaller cities (more comparable in some respects to Southampton) such as Bristol – e.g. around Temple Meads and elsewhere in Bristol City Centre, and from centres such as Reading, Belfast, Plymouth and Newcastle/Gateshead.

3.4 There are also other examples, both in the UK and Europe, which will be useful in relation to the specific opportunities which are coming forward in Southampton. These opportunities must be viewed and treated collectively and individually as part of a city-wide marketing strategy. Within this, the Station Quarter in Southampton offers the opportunity to create a first and distinctive 'point of difference'. This approach needs to be tested thoroughly by

introducing the Station Quarter site (and the City Council's aspirations for it) to a number of potential development partners, so that 'in principle' discussions can take place before any formal site marketing campaigns are initiated. In relation to the area around the station, discussions are already underway with Network Rail (and to some extent with other key landowners), but we consider that Network Rail and the Council now need to work together on promoting an 'indicative development opportunity' at the Station Quarter, to build towards an informal joint marketing process targeted at selected companies during mid-late 2011.

- 3.5 Further evaluation of the Station Quarter and the development options there also needs to be pursued in some detail so as to take into account examples of 'best practice' in creating quality large scale office environments close to a national or regional rail or hub. Examples from abroad include Berlin, whereas in the UK Bristol Temple Meads, Manchester Piccadilly, London Paddington and Kings Cross might all provide elements of important and useful potential guidance. Elsewhere, other important regional centres will potentially see major office expansion on sites close to a rail hub; and in most cases these are planned to be directly linked to an improved (or redeveloped) rail station – e.g. in Reading, Nottingham, East Croydon and Birmingham.
- 3.6 All of these potential developments ideally need to be analysed fully, so as to understand better in each case:-
 - a) The likely scale of new development planned near to the station (office content, other uses etc.)
 - b) The anticipated programme/timetable and expected lead - in period, prior to a start on site.
 - c) The potential infrastructure costs (e.g. alterations to Highway Networks or rail related improvements).
 - d) The sources of funding identified and secured – especially for c) above.
 - e) The role of the private sector and of other delivery agencies (and the nature/extent of funding which is being provided by the private sector and by other parties).
- 3.7 For major city centre office developments to be successful on a 'transformational' scale, it also requires there to be active participation of one or more masterplan developers – and for a long term strategy to have been put in place by the relevant local authority. This has been seen to be successful in the past with the likes of Allied London and Spinningfields in Manchester; and with Argent at London Kings Cross, for example. Not all of the projects referred to in this section have however been successful in financial terms, even those developed during a much more favourable economic climate. Birmingham City

Council/Network Rail's proposal for New Street Station redevelopment has recently been scaled back; while in Bristol the Castlemore Securities scheme was successfully developed but the company went into administration in 2009. Several other major office projects, both in London and other cities, are currently 'on hold' either while new funding arrangements are put in place or whilst scheme redesign is undertaken, so as to improve the prospects of a financially viable scheme being secured.

- 3.8 Put simply, many major office led schemes in regional cities are on hold – and are likely to remain that way for some months, if not well into 2012-2013. Southampton's planned office schemes are no exception; it currently has four or five individual office redevelopment projects which are on ice and awaiting an upturn in the economy, with developers also hoping for increased levels of occupier demand (and therefore potentially increases in rental levels payable). Later in this report we highlight where we consider that office led redevelopments are more – and also less - likely to be achievable in Southampton City Centre, particularly within the first 5-10 years of the Masterplan period. Among the more promising opportunities for some early office development would appear to be The Royal Pier opportunity, which we consider could form an important first phase of new development activity, along with new offices in the proposed 'CBD' in part of the Station Quarter. We return to these issues later.

The Steps towards Southampton achieving further new retail schemes

- 3.9 In identifying new opportunities for retail led regeneration which need to be exploited, the Stage One report focused on four themes:-
- Redeveloping the Core;
 - Extending the Retail Circuit;
 - Developing specialist retail opportunities; and
 - (Improving) convenience retail.
- 3.10 Section 6 (especially 6.12) of the Stage One report explains more about these and also provides a commentary on the key retail issues which we and DLA have identified. Some of the above themes could eventually lead to further financially viable projects being brought forward in the medium term. But in our view it is much more realistic to see several of these as possible future projects, which will take place perhaps after Watermark WestQuay has been implemented. This scheme, which Hammerson have recently indicated will be the subject of a fresh planning application in late 2011, is likely to be implemented from 2012 onwards, only once pre-lettings and other requirements have been fulfilled. In other words, even for Southampton's most imminent retail project, it will probably be 2-4 years before it is completed and fully trading.

- 3.11 For the four themes listed above the timescale for implementation is likely to be primarily at least 5-10 years hence. Taking each of these in turn – firstly, although redevelopment of the ‘core’ of Above Bar Street may be desirable, there will be relatively few opportunities where it is realistic to assemble viable sites, suitable for redevelopment, in this area. It is often particularly challenging to achieve comprehensive retail led redevelopment of sites in ‘secondary’ areas with limited depth (constrained as they are here by the parks). The feasibility and viability of alternative options will therefore need to be tested further in this area, once site-specific demand and other factors can be properly assessed. Further studies will need to review the cost of land assembly in putting together sufficient frontage and other properties on Above Bar. For it to be successful it will be necessary to create a site large enough to draw retailers to a new ‘competing’ location – i.e. one which would offer a measure of competition to West Quay and other established retail locations.
- 3.12 We believe that there may therefore be some scope to adopt other solutions first – particularly to refurbish/extend the Marlands (formerly known as The Mall). In the medium term it may also be desirable to look for an alternative location for the Asda Superstore, thus potentially creating another ‘step’ towards the site assembly which may be required to create a new link from Above Bar towards the railway station. Likewise, the City Council should explore a further range of opportunities, jointly with the other site owners of the Mountbatten Retail Park and Toys R Us to see if there could be a viable retail/office mixed use project created in this area over the next 5-10 years. Potentially this could be a much higher density development than the existing range and mix of uses. For a number of reasons, not least of which is the value of the existing retail interests in the Asda and Toys R Us stores (among others) we do not consider however that there is currently or likely to be within the next 5 years, a redevelopment of all of this area. Even more distant (in terms of timescale) would be any redevelopment of the main West Quay Retail Park. We explain further the rationale behind these comments in Section 4 of this report.
- 3.13 In order to maintain and enhance the City Centre’s status as a strongly performing retail centre, and one which responds positively to retailer and shopping needs, it would be highly desirable to secure other more ‘deliverable’ changes in the short to medium term to Southampton’s retail offer. This is especially important from an inward investment viewpoint in terms of demonstrating that proactive steps are being taken. These could, in our view, include not only those projects which are focused on developing ‘specialist retail’, close to new attractions – possibly as part of the scheme for Royal Pier or elsewhere in the Waterfront area and as part of later phases for the Cultural Quarter – but also a range of enhancements to the City Centre’s convenience retailing offer.
- 3.14 The development of new food stores in Southampton City Centre is a key opportunity, especially as this remains one of the most buoyant sub-sectors in the retail property market – and should continue to see further growth for years to come. We therefore believe that there is every chance that over the next 5 years and beyond, new supermarkets (both large and

small) will be attracted to and will be developed in Southampton City Centre. The operators will in part be prompted by the improvements to the City Centre environment which are already underway (and also planned); they will also be keen to be located in close proximity to the improving housing areas; and, for some, there will be a more substantial opportunity to exploit – i.e. to create a new city centre superstore more fully matching their current and future trading needs; and also serving customers who are residents, as well as the office employees/other city centre workers.

- 3.15 Retailing in Southampton City Centre will go through several phases of change during the period of City Centre Action Plan. New foodstores and additional specialist shopping can potentially be secured first, but in the medium to long term an even greater impact on the City Centre’s retail draw could be achieved by upgrading and modernising the main retail park provision (i.e. the West Quay Retail Park). This main element will probably not be redeveloped or extended for at least 10 - 15 years due to the pattern of existing leases and the current inherent investment value, but other more peripheral areas (such as Mountbatten Retail Park and the Asda Store) may become viable for redevelopment at a much earlier date, provided that suitable relocation sites can be found for the main stores. It is therefore in these areas that the main initial focus is required, in terms of new retail-led projects which can transform Southampton’s draw.
- 3.16 In the longer term (perhaps some 15–20 years hence) the trend could potentially be towards a much higher density redevelopment of more areas of the City Centre, including the established West Quay retail park. Indeed it is only with a higher density redevelopment, combining a mix of much higher value retail uses being returned to the site along with other uses at upper levels, that it might be possible to create a viable solution for the replacement of the existing West Quay Retail Park. This is a matter which we return to in Section 4 below.

Securing Other Key Elements of Change – a) Hotels and Visitor Facilities

- 3.17 The Stage One report also highlighted that the leisure, culture and visitor industries provide further opportunities for change and growth in the City Centre. In our view the City Centre’s assets in these sectors are particularly important – not least in that they are a very significant element which helps shape the image and influence the relative attractiveness of the City Centre, compared with other major cities. Whilst the City has made significant progress in the cultural sector (and also has seen the addition of around 1,000 extra hotel rooms in the City Centre in the last 5 years) the new hotel space has been mostly in the budget and mid-range market.
- 3.18 Overall, Southampton’s hotel sector has seen reasonably buoyant and positive trading in recent years – and further hotels are planned. In many respects though, Southampton is still to satisfy its full potential, in that there are few if any ‘boutique and high end’ hotels in the City, of the type more often associated with major regional cities and with principal business

destinations. The opportunities for improvement in the City Centre do include several further developments in the commercial leisure sector (Watermark WestQuay plus possibly Bargate and in parts of Above Bar), but with the continuing strong growth in the cruise market (and the growth in passenger numbers using Southampton as a port for embarkation), there is a much wider potential to be exploited in the decades ahead. Leisure is also seen as essential for the attractiveness of the retail offer.

- 3.19 More significant perhaps is the opportunity for the City to secure a higher proportion of the business tourism market in the UK. It currently lags behind other locations – and in part this is caused by the absence of a major exhibition/conference centre and/or arena. There would be considerable positive spin off for the City as a whole if major new facilities of this type were to be developed, particularly in a Waterfront location. This opportunity needs to be exploited to the full, as it is one of the developments which could generate a ‘step change’ in external perceptions about the City in general – and Southampton City Centre in particular.
- 3.20 These conclusions serve to reinforce the significance of the City Centre Waterfront as probably being the key location which will shape and influence Southampton’s future. Royal Pier Waterfront is particularly important – and the decisions made by the Council and the other adjoining land owners for this project will therefore assume even greater significance than normal, as this decision will potentially set the tone for further projects and also influence the mix of uses which can potentially be attracted to adjacent sites elsewhere nearby, either along the Waterfront or in the medium term elsewhere.

b) Housing and Other Uses

- 3.21 As with many of the UK’s regional cities, Southampton has already seen significant increases in City Centre resident population over the last 10 years and several key schemes have added to its potential future attraction as a ‘place to live’. The Stage One report identified (and we do not repeat here) a number of major opportunities, both for improving the existing housing stock (e.g. the Holyrood Estate) as well as in other several prominent locations where new homes can be created – especially on the Itchen Waterfront. Whilst it has been clear for many years (following lengthy discussions with ABP) that residential development needs to avoid conflict with port operations, there should be every incentive for all key landowners to put in place strategies which will maintain and enhance the full regeneration potential of the City Centre, as well as the long term growth of the port. This should then ensure that the maximum land value which can be derived from the more attractive waterfront locations will be exploited by both the City Council and other key parties.

Section 4 – The Areas of Major Change

- 4.1 In this section we consider in some detail the Areas of Major Change within the City Centre Masterplan area. In Section 5 of the Stage Two Report produced by David Lock Associates, 13 Urban quarters or city-districts are defined and the proposals for each area are described. In most of these little change is envisaged, so our advice is focussed instead on the 5 ‘Areas of Major Change’. In Appendix 2, however, we summarise in note form the changes proposed in each of the 13 areas, along with comments as to the relevant delivery agencies from the public and/or private sectors which are likely to be involved. The City Centre Masterplan Boundary and the Quarters Plan are contained in Appendix 3. It may also be useful to refer to the Phasing Plans in Appendix 4 and the Building Blocks and Indicative Floorspace Schedule, contained in Appendix 5, when reading the remaining sections of the report.
- 4.2 The 5 Areas of Major Change which are identified by DLA and described more fully in their Stage Two Report are as follows:-
- Station Quarter
 - Western Gateway Quarter
 - Heart of the City Quarter
 - Itchen Riverside Quarter (including Town Depot)
 - (Royal Pier) Waterfront Quarter

Station Quarter

- 4.3 DLA’s analysis of the potential for the Station Quarter provides a clear illustration that this area could ultimately accommodate up to 120,000 sq m of new offices, plus much higher density (e.g. 2 storey) retail and a substantial area of public car parking in a new Central Business District. The main issues associated with its development are considered in more detail below but, at the outset, the road network (and the costs of creating the developable area by diverting the existing road) have to be assessed carefully.
- 4.4 The suggested scale of development in the Station Quarter offers an exciting prospect and may be realistic and feasible in the medium to long term. While the project is refined and especially in the first 5-10 years it is important to establish more ‘deliverable’ packages or ‘early wins’ in this area. This will help to secure further realistic options which can be pursued in a logical sequence, in conjunction with Network Rail and other owners. Based on the analysis so far it would appear that the blocks immediately to the south of the station might be developed as a first phase, provided that it is realistic to divert Mountbatten Way/Western Esplanade in order to create these new enlarged office sites. This could create a first phase for the CBD of around 35,000 sq m offices in 4 blocks, to the north of the proposed new road. The other key factor to weigh in the balance is the land value which is capable of being generated by an office-led project. Our commercial judgement is that, under current market circumstances an office project of 9290 sq m (100,000 sq ft) could generate a notional land value of [REDACTED] provided that the City Council and other owners are able to meet the

infrastructure costs to put in place a serviced site, assembled and ready for development. There is however a risk that the realignment of Western Esplanade will not be viable, so it will be necessary to consider a fall back position as part of the detailed feasibility assessment.

- 4.5 The cost and feasibility of service diversions in this area also needs to be established so that there is a better basis for testing more detailed options jointly with Network Rail and other landowners. Further consideration also needs to be given to whether the two Novotel/Ibis hotels (owned by Land Securities in a hotels portfolio) should be included in an early phase of redevelopment or whether it would be better to defer this part of the Station Quarter area for consideration at a later date.
- 4.6 The later phases of development in the Station Quarter to the South of the realigned road could include the western end of the West Quay Retail Park. For the foreseeable future however, there are very limited prospects of securing a financially viable redevelopment for all of this area, not least due to the land assembly costs associated with the West Quay Retail Park itself. It is significant that Aviva currently receive a net rental income of well over [REDACTED] [REDACTED] from the main West Quay Retail Park, and in addition the Council receives a ground rent of [REDACTED] [REDACTED]. The total land assembly cost, combined with the reasonable estimate of infrastructure costs which would be associated with redevelopment could therefore potentially be not far short of [REDACTED] [REDACTED]. This exceptionally high burden (which would have to be carried as a cost by any viability appraisal) means that comprehensive redevelopment is not going to be feasible, even for a major mixed use or high density scheme.
- 4.7 We have already highlighted in Section 3 (especially 3.4/3.5) how the City Council can potentially work with Network Rail to secure potential development partners, at least for a first phase of the new CBD in the Station Quarter. It will also be important to involve Aviva (as owners of the Mountbatten Retail Park), plus the owners of the Toys R Us store in a second stage of discussions, once some basic 'delivery' principles have been agreed with Network Rail. It will also be necessary to have clarity at a very early stage as to the likely cost, programme and responsibility for diverting Mountbatten Way/Western Esplanade.
- 4.8 The delivery and procurement strategy for the Station Quarter will therefore be refined by the City Council taking a lead and working in conjunction with Network Rail and other key landowners over the next 12 months, with a view to starting to secure (over this period) a master-developer who will be responsible both for a detailed commercial masterplan for the Station Quarter area and for bringing forward the initial critical phase of the project, to the south of the Station. The procurement process to sector a development partner will need to be refined and agreed with Network Rail in particular. We also anticipate that the City Council and Network Rail will both want to understand the cost and overall feasibility of diverting the road (and relevant services) before commencing this procurement process. The parties may also then decide that they want to put in place a development agreement with a

market conditions, due to the land assembly and infrastructure costs which would be needed in each part of the site.

- 4.13 In our view, the development options and possible phasing for the Western Gateway Quarter therefore need to be tested further. It is particularly important to achieve a significant positive impact (in terms of new offices and other investment secured). There will be a better overall prospect of delivering a project once 'notional land value generated' is greater than existing land assembly costs. Further work also needs to be done in regard to when and how existing uses will potentially be relocated, including the John Lewis warehouse, possibly Leisure World, and the other uses along West Quay Road.
- 4.14 Our initial view is that some office development may in time become achievable to the south of this area, in the vicinity of Royal Pier, along with a mix of relocated leisure, new or relocated hotels and catering/retail uses. There is also possibly scope for a large new large foodstore at the northern edge of the Western Gateway area. However, a dominant foodstore (on a scale sufficiently large to attract one of the 'big four' companies and/or to secure a store relocation from elsewhere in the City Centre) will potentially require an extensive land take, because of the substantial surface and other levels of car parking needed so as to successfully secure a new 'conforming' city centre superstore.
- 4.15 At a total of over 100,000 sq m, the scale of office development allocated to the sites within the Western Gateway Quarter means that this area alone could account for much of the office expansion required in Southampton in the longer term. Indeed, on the basis of the more recent take up rates for offices (around 5,000 sq m per annum) that would equate to a capacity equivalent to over 20 years supply in this area alone. However, it should be more realistic to assume that, although some demand might more naturally be focused in the Station Quarter or around Bedford Place and in other established City Centre office locations, there could eventually be a more rapid pace of new office development here, in the context of striving to meet the 'PUSH' targets. (If the take up was say 20,000 sq m per annum, this would equate to around 5 years supply, if new offices were then being developed within this area alone). Overall, perhaps the most realistic approach is to assume that the comprehensive redevelopment of the Western Gateway Quarter will take place mostly from around 2020 onwards, perhaps over a 15 year period, with a strategy designed to bring forward new offices broadly at the faster take-up rate of 20,000 sq m per annum from that date (or possibly a little earlier). This may be achievable and viable provided that infrastructure has been completed in advance so that serviced sites are then readily available for development here.
- 4.16 The delivery strategy for the Western Gateway will require considerable input from the Council, via the City Development Unit and others. Working with ABP and other owners, the City Council should be well placed to take the lead and promote discussions initially over the next 5 years with many of the key occupiers in the area, to work towards a position where the main landowners can promote the Western Gateway opportunity, perhaps towards the end of

this period, as a major redevelopment project. By that time it should also be clear what flood prevention measures and other infrastructure works will be needed (and at what cost etc), so that the process of attracting potential joint venture partners can be handled carefully, with a 'fully-informed' marketing process in place.

Heart of the City Quarter

- 4.17 DLA have illustrated in the Masterplan how the 'Heart of the City Quarter' might see a series of substantial mixed use retail-led redevelopment schemes. Potentially these can be expected to include Watermark WestQuay (which will possibly be built in 2 phases), the redevelopment/refurbishment of the Bargate and East Street Shopping Centres and, in the longer term, perhaps some further new mixed use projects along Above Bar. Mostly, the Above Bar initiatives would be retail led mixed use projects, but in each case there would be other important issues of practicality and phasing to be resolved before delivery could be assumed to be a realistic proposition. There are a significant number of major retailers located in the areas shown, particularly along the eastern side of Above Bar. Redevelopment will therefore not be easy to achieve, not least given the various relocation issues which will need to be addressed.
- 4.18 The DLA block plans show the Heart of the City coming forward for mixed use, but largely retail-led, redevelopment. The floorspace schedule, also contained in Appendix 4 indicates that a total of over 400,000 sq m of floorspace could be accommodated in the long term. This area is shown as part of Phase 3 (15-20 years hence) and any redevelopment projects which do occur will in part replace existing buildings, so net additional floorspace for retail and other uses will be much less than the 'headline' figure. All of the projects will need to be considered carefully in terms of the phases or elements which individually, or when taken together, could be deliverable. Clearly the Above Bar projects will not be implemented over a short term timescale. Nor in our view will there be a short lead-in time prior to the first phase of the Above Bar projects getting underway, partly because the Watermark WestQuay, Bargate and East Street centre projects are likely to come forward (and be viable) first.
- 4.19 The City Council already has on-going redevelopment discussions for parts of East Street (with Centros) and/or Bargate (with Parkridge). Parts of The Marlands and the adjoining area could also be redeveloped or improved at a relatively early date (and the owners there are beginning to consider this currently). Much of this area however would in our view be more likely to be viable on the basis of part refurbishment/part extension rather than full redevelopment.
- 4.20 We consider that, potentially say post 2021, there could be scope for a greater number of financially viable projects within the Above Bar area. Before these can be implemented, a number of important steps will be necessary. It will be necessary to analyse the key issues affecting each site in the Above Bar area in more detail, including an assessment of potentially

realistic mixes of development in each case. Among the other issues which will need to be addressed are:-

- A detailed analysis of ground lease terms plus estimates of existing capital value and marriage value potential, along the length of Above Bar, so as to judge land assembly costs more fully.
- The impact of any schemes on the parks (and the careful consideration of whether any areas of open space can be included, built over and replaced nearby).
- Calculations of net additional floor space which might be achieved in each of the main.
- Evaluation of the most appropriate timing for seeking to attract new development activity in the City Centre residential market – especially for flats overlooking Palmerston Park and Houndwell Park. (Our current view is that most of the residential development here will only come forward post 2021 or post 2026, again due to the weak market conditions expected for the next five years and the poor prospect of securing a financially viable mixed use scheme on each individual area in the interim).

4.21 Overall, following on from the implementation of Watermark WestQuay and the other ‘shorter term’ retail-led projects in the Heart of the City Centre, we think that it is more likely to be a moderate level of intervention in the Above Bar area, with a series of individual or linked redevelopment projects, carried out on a block-by-block basis. A comprehensive or single – phase scheme is not going to be justifiable or deliverable, not least due to the viability constraints including the land assembly costs and complexity, potentially with a wide range of different investors and occupiers holding significant property interests along Above Bar.

4.22 There are other major retail-led projects which may be brought forward over the medium term, including The Marlands, which could be part-redevelopment/part-refurbished and extended, possibly so as to include links to other sites nearby, including Asda. For the reasons described in 4.6 we consider that the West Quay Retail Park is unlikely to be brought forward for comprehensive change or a higher density scheme in the short to medium term, but discussions with Aviva (or other owners) will need to be continued so as to test further options, which can perhaps be progressed in 10-15 years time, when lease renewals may be imminent and the existing building fabric has become outdated and in need of replacement by a higher density retail scheme.

4.23 In terms of the delivery strategy for this area, the City Council is again going to be the principal party which will be required to take the lead. As with those other areas in the Masterplan area where there are already major owners or headlessees in place as the Council’s partners, there will be scheme-specific JVs or other wider initiatives put in place. In many cases, project-specific development agreements combined with lease extensions/restructuring (of existing ground leases) will be the key mechanism. Possibly in the longer term there will be some retail – led projects offered by way of a competitive process, but in most cases in the ‘Heart of the

City' the delivery of the Masterplan will be brought forward by the City Council and other established owners, working together.

Itchen Riverside Quarter (Including Town Depot)

- 4.24 The work which DLA have done (and we endorse) suggests that northern part of this area (the Itchen Waterfront) would be primarily a series of five storey residential developments. This potentially generates a substantial number of new residential units, over the next 15-20 years, across various sites. Some leisure use is also suggested as potentially feasible, possibly on land close to the Town Depot site. The main issues here relate to the relocation of existing uses so as to provide developable sites for housing. This will only be feasible if the relocations are undertaken on a comprehensive basis due to the nature of the current uses (industrial/gravel/cement transfer etc). The Council is well placed to continue the dialogue which it has started with Cemex and other owners/operators nearby (including ABP, as they are also likely to be involved in any relocation strategy). The timing of redevelopment projects for the Itchen Waterfront will also be influenced by the cost and timing of potential relocations, as well as being dependent on the return of a more buoyant residential development market.
- 4.25 In our view the broad mix of uses planned is reasonable and realistic, but the scale of residential development shown will need to be delivered in phases. In this area there may also be some scope for limited 'local' convenience retail floor space (for the likes of Tesco Express or a small Sainsbury or Co-Op Store) plus some fast food/catering uses, possibly taking advantage of the views across the river. The proximity of St Mary's Stadium is also relevant. Looking at the proposed residential content however, and taking account of the scale of new development identified elsewhere in the City, we consider that justification may initially exist for say 25% of the total number of residential units, during the first few years after all relocations have taken place. The programme for the residential development as a whole will need to be considered further and in our view it is more realistic to expect that the Itchen Waterfront area will be developed out for residential use mostly in the period post 2021 and in part post 2026.
- 4.26 The Town Depot site (including a waste transfer depot and industrial units) has recently been marketed by the City Council and the redevelopment proposed by the chosen developer includes leisure/retail uses and new housing. The relocation of the existing depot is already underway and will be complete by end of 2011. DLA have assumed that the scheme would either be leisure-led or a residential development would be created on Town Depot. As with the Itchen Waterfront, the principal issues to be factored into an evaluation model here are those relating to the relocation of the existing depot and the potential timing and cost of developing this site, for the range of uses proposed – or for any alternative range of leisure uses. It is particularly important to have due regard to proven levels of demand, and the options for this site will therefore need to be regularly reviewed.

- 4.27 In our view, it seems probable that the majority of the Town Depot development will happen before 2020, partly as a developer is already in place and the Council is progressing the project. However, there may be other residential sites which are in a more central location and potentially more attractive to residential developers.
- 4.28 DLA have assessed that, taking the Itchen Waterfront and Town Depot sites together, the two areas combined create the potential for over 1,400 new residential units in the Quarter in the medium – long term. Overall this should provide a major uplift for the city’s residential stock but a cautious approach has to be adopted initially. It must be uncertain whether site relocation issues can be resolved rapidly and for there then to be demand from residential developers (as well as tenants/purchasers) to enable construction to start on more than say 20 – 25% of this number of new flats over the next 5-7 years. It also has to be recognised that both the City Council and others have prioritised other residential sites; and a pragmatic viewpoint therefore has to be taken in devising the delivery strategy here, having regard to new apartments planned and under construction across the City Centre as a whole. We consider that Town Depot and (particularly) the Itchen Waterfront may therefore be seen by the property market as being ‘further down the pecking order’ and more likely to be delivered in phases, with most developments in the pipeline from say 2016 or 2021 onwards.
- 4.29 The City Council will initially be the principal delivery agency in this Quarter, particularly in securing an appropriate form and programme for development on its Town Depot site, which has recently been marketed. Success with this disposal (duly completed) and then new development underway at Town Depot will prove an important stimulus to generate spin off benefits for the rest of the Itchen Riverside Quarter. This will be important in bringing into play other owners whose aggregate wharves are likely to come forward for later phases of development.

(Royal Pier) Waterfront Quarter

- 4.30 At the present time there are 3 competing schemes shortlisted by the City Council and the developers proposals are currently being evaluated by Council officers and their consultants, Drivers Jonas Deloitte. S&P have discussed with SCC officers the common uses and themes, associated with all three competing projects, and we are aware that there are 3 good quality schemes with varying levels of retail/catering, hotels and other leisure uses, along with residential, marina and related facilities. Offices are proposed, to different levels, and there are various other ‘common themes’, including much greater use of the waterfront environment, improvements to the park and the proposed relocation of the Red Funnel ferry terminal.
- 4.31 In this unique Waterfront location, it is vital that no single use should dominate, although the emphasis should be on ensuring the delivery of those uses (such as leisure) which attract all groups and enable them to enjoy the Waterside environment. It is important that the

Waterfront Quarter is not focussed largely on offices or private residential units and instead should accommodate restaurants, leisure, an arena etc. DLA's illustrative material shows a mix of development for the Royal Pier Waterfront area including an initial phase of over 25,000 sq m offices, plus a substantial amount of new residential on the waterfront, some speciality retailing together with substantial leisure uses, hotel/exhibition/conference space, marina etc. The precise mix and phasing of development here will need to emerge, following more detailed discussions with the chosen developers. Overall, it is acknowledged that there needs to be a critical mass of development at the waterfront to create a destination and try to make the scheme viable.

- 4.32 There are some important decisions to be taken shortly, by the City Council and the other owners (ABP and the Crown Estate) in relation to this area. It is perhaps crucial to strike the right balance between capturing the city's imagination with the chosen scheme – and setting out a dramatic image for the future strategy on the one hand; while on the other ensuring that the selected proposals do not seek to divert all forms of positive investment to a single location. The City Centre will need to benefit from a range of high quality projects, in several locations, as a result of this Masterplan, and the strategy (on which we also comment in Section 5) must facilitate this.
- 4.33 The delivery strategy initiated already by the City Council, working with ABP and the Crown Estate, needs to be taken through to a successful conclusion with care. The City Council and its development partner for Royal Pier (once chosen) will need to put the right emphasis on the scale and mix of uses expected to be constructed in the first 5-10 years and in particular on what is likely to be realistic and deliverable (viable) at Royal Pier in the short term. This project has the prominence to be seen as part of the Council's 'place-making' agenda and the potential to be a cornerstone of the City's future marketing initiatives – demonstrating that Southampton City Centre is changing in many important respects by attracting new uses and a series of realistic and viable projects.

Conclusion on Areas of Major Change

- 4.34 The City Council will be the main agency to take forward all the key projects identified through this City Centre Masterplan. The Council will also need to set clear priorities so that proposed new investments are not competing against one another, at a time when levels of occupier demand (e.g. for major new offices) are continuing at a relatively low ebb.
- 4.35 In Section 5 we provide further advice on these issues. With Council financial and other new resources at a more limited level in the future, it is vital that decisions (e.g. on where to invest public funds in new infrastructure to aid or bring forward particular projects) are made in the light of sound knowledge about scheme viability, from developers who have fully tested site specific projects. Once a 'deliverable' mix has been agreed for each area where an 'early win' can be secured, these initial projects can also be used as part of a 'City

Centre marketing initiative', designed to attract a further 'wave' of investment. It is vitally important in the current development climate to celebrate (and continue to use) new development commitments to the full, so that Southampton perhaps becomes regularly associated with a 'chain of success' or (say) a 'golden triangle of new projects', which is seen as effective right across the Areas of Major Change. To an extent, this has already started with the Cultural Quarter and should continue soon, when Watermark WestQuay and other short term projects get underway. The crucial factor is then to build on – and exploit fully – this foundation for future success.

Section 5 – Phasing and Priorities – The Overall Programme for Action and the Emerging Delivery Strategy

5.1 The successful delivery of the component parts of the DLA Masterplan for Southampton City Centre will be highly dependent on the prevailing financial climate in both the public and private sectors. There is little doubt that the pace of change in the City Centre will initially be slow, but the new coalition government will be keen to support ‘local’ solutions and delivery actions.

City Council Actions

5.2 The City Council is well placed to take responsibility for a range of actions in both the short and medium term and these are described below. The conclusions which have already emerged from this Stage 2 report show that the Council will have several distinct but important roles to play in securing action. In the broadest sense, this will include a range of marketing, promotion and political action, but it will also potentially see an effective strategy put in place by the City Council, acting as landowner and local planning authority, as well as simply as ‘promoter’ of new development in the wider sense.

5.3 More specifically, there will be key roles for the City Council to play in delivering the City Centre strategy through refining its asset management and development strategy - which is given added strength via the extensive range of its City Centre ownerships. Secondly, its role as promoter of development activity will be increasingly significant. The City Council will need to be responsible for a range of actions including:-

- a) Updating the day to day recommendations of this City Centre Masterplan.
- b) Monitoring and updating all aspects of the delivery programme, including a communication strategy designed so that internal and external benefits are maximised.
- c) Coordinating the actions of partner agencies and regularly pursuing all other key relationships with parties involved.
- d) Marketing and promotion of Southampton at both a local and sub-regional level.
- e) Preparing submission of bids for biddable funds (regional growth fund etc) and on going reviews of all emerging funding opportunities.

5.4 One of the tasks of the City Council will be in relation to the promotion of the City Centre’s potential to become a ‘transformed’ regional office destination. The analysis of the 5 Areas of Major Change, contained earlier in this report, shows that proposals for the Station Quarter should be explored further, with a view to devising, and then promoting, in conjunction with Network Rail, a series of development opportunities which have the potential to become deliverable and viable packages. This will relate to areas both to the north and south of the station, but initially the focus will be on the south, provided that clarity can be put in place in relation to changes and improvements to the road network.

5.5 The City Council will also be keen to put in place a series of asset management and investment strategies – in its position as a key city centre landowner. The City Council is a major landowner in all 5 of the identified main development areas, but it has direct ownership and complete control of relatively few properties in each area. Instead, most of the City Council’s interests are in the form of ground leases, which considerably limits the potential for it to promote (alone) new opportunities – and instead it will need to pursue these in conjunction with other key owners (and headlessees). As described in section 4 above, most of the areas will also require several years’ preparatory work by the main landowners working together, before viable development can be secured.

5.6 One of the agreed tasks for Strutt & Parker in Stage 2 has been to give an indication of the likely outline residual land values for development. This analysis is confidential to the City Council as landowner [REDACTED]

5.7 In deciding on other steps it should take, the City Council should also explore whether it can utilise its ‘Prudential Borrowing’ powers possibly to fund the acquisition of additional property interests – e.g. within the City Industrial Park (or other parts of the Western Gateway Quarter along West Quay Road) or along Above Bar. The benefit of this is that it will maximise income payable to the Council in the short to medium term and enhance the level of control which the Council has over the most likely redevelopment areas, and potentially help to create a more viable and deliverable project in these areas in the medium term.

5.8 Another step which the City Council as land owner should consider, following on from the completion of the Stage 2 report, is to put in place a formal ‘office promotion strategy’ comprising elements such as:-

- The targeting of specific parties who might be most likely to take significant additional space over the next 20 years – i.e. existing occupiers in South Hampshire as well as initial review of possible government relocations.
- Detailed investigation of government relocations likely during the next 5-10 years (expansion of Governetz work).
- Assessment of the market positioning of Southampton’s City Centre office market within South Hampshire (“in town versus out of town” and actions which can be taken in the light of latest SWOT analysis etc).

- Additional detailed analysis of the existing office stock in Southampton City Centre to establish where this can be exploited as part of the potential strategy.

5.9 The City Council will also wish to ensure that its Delivery Strategy for the Masterplan reflects and is regularly updated in the light of the current position on the Council's LDF. It will be important to demonstrate a clear relationship with the Core Strategy, which was adopted on the 20th January 2010; in particular the next steps, relating to the connections between the Core Strategy, the DLA Masterplan and the City Centre Action Plan, must be incorporated, to assist public and private sector stakeholders alike.

Securing Delivery – Other Key Steps

5.10 The City Council will also need to consider what other steps it needs to take both to secure delivery of the main projects and the overall strategy identified in this Masterplan. The City Council will undoubtedly be the main player – with a lead role – for all the reasons identified earlier in this report. However, working with the Local Enterprise Partnership and many other partners it will achieve far more than it can be working alone. It will be especially important for the City Council to ensure that the LEP 'buys into' the principal conclusions and recommendations arising from the Masterplan, particularly where there is a need for the LEP's support in seeking city centre funding from the Regional Growth Fund or other sources, for infrastructure etc.

5.11 New sources of funding will undoubtedly emerge over the next 5 years (and possibly even over the next 12 months) and the City Council and its partners will need to be ready to move swiftly to put itself (or particular projects, which meet relevant criteria) into a strong position to take advantage of emerging new initiatives. Elsewhere, via other channels of work, the City Council will want to explore in more detail what it can do (and what it cannot) using a wide range of possible initiatives and funding routes, generated from mechanisms such as:

- Accelerated Development Zones (ADZ)
- Tax Increment Financing (TIF)
- Community Infrastructure Levy (CIL)
- Business Improvement Districts (BID)
- Other private sector funding streams e.g. from port users
- New 'public sector' funding options such as Regional Growth Fund, Local Transport Sustainability Fund, New Homes Bonus and EU Funding

5.12 It is important (not least for its own financial planning reasons) for the City Council to retain and exercise control over its principal property assets in the City Centre while taking forward the Masterplan. In some places, there has been interest in considering the merits of 'Asset Backed Vehicles' but in our view these can be unduly problematic mechanisms, where there is also a need to maintain or enhance levels of (and control over) property income, from a varied range of assets in a council investment portfolio, as is the case in Southampton. Asset backed vehicles are also of limited use where a council is seeking to secure development from many different types of developer and investor partner across different market sectors – and against

long term timescales. Asset backed vehicles can be more useful where (as recently progressed in Bournemouth) the council has been seeking a series of developments on (principally) surface car parks, and where implementation can be steadily phased over time.

- 5.13 In taking forward this delivery strategy it will also be important for the City Council to consider what else it can do (or set up) in order to promote and secure the strategy and the key projects identified in this Masterplan. These may include new mechanisms or ideas which emerge from the recent Localism Bill, taking due account of the ‘general power of competence’ which enables local authorities to take such action as they consider appropriate (provided of course these actions are legal).
- 5.14 It is particularly crucial that the City Council retains maximum control over its property assets in implementing this Masterplan. The Council here is better placed in this respect than most local authorities, due to its extensive and diverse ownerships across the whole City Centre. These are supplemented further by (we understand) a whole series of other controls (such as the restrictive covenants) which limit what can be done in development terms – e.g. within or adjacent to the City Parks. All of this should build towards a new Asset Management Strategy for the Council, which takes on board and utilises the initiatives set out in the Masterplan, for the long term benefit of the City Council as a property owner and investor. There are certainly considerable advantages for the City Council in linking these Masterplan proposals with this Asset Management Strategy – as well as from reviewing the linkages on a regular basis over the coming years.

The Emerging Phasing Plans

- 5.15 In the DLA Stage 2 report three phasing plans are included, showing graphically in a series of overlapping time-lines the range and mix of developments and activities which are likely to be implemented in each of the following periods:
- a) Within the next 5 years (immediate) – Phase 1 on DLA plans
 - b) Within the next 10 years (early projects) – Phase 1 on DLA plans
 - c) Within the next 15 years (mid-term projects) – Phase 2 on DLA plans
 - d) Within the next 20 years (longer term projects) – Phase 3 on DLA plans
- 5.16 These phasing plans are also attached as Appendix 4 to this report, to enable this document to be read separately.

Immediate Results 2011 – 2015

- 5.17 During 2011-2012 and onwards in the period continuing up until around 2015, it is important to recognise that the results ‘on the ground’, arising both from this City Centre Masterplan and from initiatives which were already underway maybe fairly limited – i.e. those which are visible will be few its both scale and number.

5.18 However, there is a good prospect that there will be significant progress, even during this first 5 years, on developments such as Watermark WestQuay and Tyrrell and Green (SNAC), which we refer to the following paragraph, as well as in a number of other important respects:-

- 1) Selection of preferred development partner for Royal Pier Waterfront and progression of scheme proposals.
- 2) Review of options with ABP and Crown Estate (and others?) for possible wider range of development initiatives to the east of Royal Pier Waterfront
- 3) Establish realistic/deliverable highway options for the Station Quarter, which can form the basis for agreement in principle with Network Rail over the potential land take for the development of Station Square South; followed by the selection of a feasibility study team to test options for an office led mixed use scheme at Station Square South; as well as subsequent phases of development.
- 4) Full review of City Council - led assessment of options for City Industrial Park and other Council ownerships in Western Gateway Quarter – including acquisition strategy, using Prudential Borrowing arrangements and/or other mechanisms.
- 5) Full review of options by City Council for potential redevelopment of Above Bar properties, again taking account of Prudential Borrowing and lease restructuring options.
- 6) Other short term actions, such as preparation of bids to Regional Growth Fund etc; Assessment of 'TIF' options (potential for utilising Tax Increment Financing Schemes etc).

5.19 In terms of those new developments which could commence construction during this immediate (0-5 year) period, the projects which are most likely to move forward on site include those at:-

- Sea City
- East Street Centre (subject to supermarket decision)
- Tyrrell and Green (SNAC)
- Watermark WestQuay
- The Fruit and Vegetable Market
- Ocean Village
- West Quay Site B phase 2 (offices)
- Bargate (subject to supermarket decision)
- Royal Pier Waterfront

5.20 Many of the sites listed in 5.19 could potentially see further phases of development underway later in Phase 1, in the period from 2016-2021. Some additional projects in parts of the 'Heart of the City' Quarter, the Old Town and the Station Quarter may also commence in this period.

Subsequent Phases of Development in Key Property Market Sectors from 2016

- 5.21 From 2016 onwards, it is highly likely that the initial phases of several new City Centre development schemes will be on site. Looking at this from the viewpoint of each sector in turn, we consider that there could be residential development under construction or imminent in the following locations within the City Centre Masterplan area, Town Depot, Royal Pier Waterfront, Fruit and vegetable market; and possible also at Itchen Waterfront.
- 5.22 In the retail sector there is a relatively positive immediate outlook, but it is slightly more challenging (especially in the current market conditions) to look beyond the projects which will be progressing further in the period prior to 2016 – such as Watermark WestQuay. Watermark WestQuay will certainly play its part in helping to establish a new positive identity for Southampton City Centre’s shopping. Likewise, in the period running up to (or soon after) 2016, there will be a good prospect of some additional speciality (or festival) retailing being implemented at Royal Pier and possibly in other locations. It remains to be seen what further retail content will be viable in the short to medium term elsewhere – e.g. at East Street and Bargate but in our view there is a good prospect that one or both of these projects will also be underway (if not complete) by 2016. It is also quite possible that at The Marlands the refurbishment/redevelopment may be progressing or imminent and this could also mean that the relocation strategy for the City Centre’s main food superstore will then be underway. In this event, one new foodstore could be imminent at the northern end of the City Industrial Park and other new supermarkets could well be in hand elsewhere in the City Centre (e.g. at East Street).
- 5.23 Finally, in the office sector, by 2016 there is a fair prospect that some development could be underway both in Station Quarter South and also at Royal Pier or nearby. Beyond this, in 5 years’ time most of the new office development proposed for the Western Gateway Quarter may still be in the early planning phases, but there will be a real momentum potentially beginning to build for a major new city centre office proposition – which in the longer term Western Gateway Station Quarter and Royal Pier are all capable of satisfying, provided that the land assembly and development strategy for each one can be moved forward in the interim, on a step by step basis.
- 5.24 In the mid-term and longer term (up to 15 – 20 years hence as defined in 5.15) the extent of the new City Centre projects then underway will be dependent on a vast range of national and local factors (including economic, social and property market considerations). For the purposes of this outline delivery strategy we have assumed that it will be reasonable to expect to see the balance of most of the other development areas (Areas of Major Change) moving forward during these later phases. The precise timescales, mix and sequence of projects cannot be predicted now, with a high degree of accuracy. Nevertheless we are confident that this DLA Masterplan will have provided a sound initial foundation for projects in the remaining areas to be tested further, and then implemented, as and when market conditions allow.

- 5.25 We would be happy to clarify or expand upon any aspect of the advice contained within this report or to assist the City Council with any related aspect of its delivery strategy over the coming months.