

SOUTHAMPTON STATION QUARTER

Southampton City Council

Commercial Appraisal and Delivery Strategy

April 2012



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Introduction

CBRE alongside Urban Initiatives has been commissioned by Southampton City Council (SCC) to provide a feasibility and delivery strategy for the area known as Station Quarter in Southampton City Centre.

The main emphasis of the study is to identify a preferred development option and a delivery strategy for the core study area, to revitalise and ideally integrate the area better with the City centre and station. As such, the final strategy is intended to provide recommendations to the Council on how best to take forward the preferred option, with particular emphasis on its role as a landowner. Having completed the first stage market review report called Southampton Station Baseline Report in January 2012 this report provides the final conclusions for the potential delivery of the area.

BACKGROUND

SCC has been promoting an agenda for change in Station Quarter. This has principally been through the emergence of Southampton's City Centre Masterplan, with the Draft City Centre Action Plan and Core Strategy Partial Review running alongside.

The Draft City Centre Master Plan is a visionary development and investment framework for the City centre over the next 20 years – a much longer timescale than the City Centre Action Plan. It has been used to set the approach for the City Centre Action Plan. The consultation period ran from 30th January 2012 to Friday 23rd March 2012.

The masterplan was promoted at a recent event called "Southampton's City Centre Master Plan – Building a brighter future". The event was very successful with several hundred attendees including developers, investor and stakeholders. The local paper, Southampton Echo also ran a front page article promoting the masterplan launch and an artist's impression of the redeveloped Station Quarter site was the front page picture.

This masterplan identifies a series of major areas - one of these is Station Quarter. The key vision for this area is identified as follows:

"Development will create a high quality and distinctive gateway and point of arrival for the City centre"

A number of key details for the area are set out in the accompanying explanatory text. This includes:

- Development in this area to include a substantial element of new office space
- Central station enhanced
- A major new public square at the southern entrance to the station
- Realignment and/or remodelling of Western Esplanade
- Measures to reduce the visual impact of the substations on site

A key goal of policy is to promote office-led development in the area. It is recognised however that other uses such as: retail and residential can create value and diversity in order to secure delivery of a comprehensive vision for the quarter. Other uses will need to be balanced against the desire to secure office development, as well as retail policy and other planning issues.

A strategically located, large site (16.3 hectares) like Station Quarter arguably could contribute more to the City centre offer overall. In particular, the connections from the train station to the heart of the City centre are weak, and suffer from poor signposting. The area

Introduction

is also characterised by low intensity uses such as: surface car parking, scrubland, verges and single storey retail uses.

More positively, work has already begun on enhancing the southern part of the train station (following earlier works to the northern side). In particular, enhancement works are occurring to the main fascias and station square. This context provides the basis for examining further change in Station Quarter, as an acknowledged regeneration opportunity in Southampton.

To re-cap the next steps that were identified at the end of the baseline report were:

- To develop the emerging concept into three key delivery options. These options will principally focus on the area with the greatest opportunity for change, the land closest to the station itself, but set in a wider framework for the area.
- To financially assess the options to determine their viability, and therefore delivery prospects.

This will lead to a preferred option for Station Quarter and an action plan to detail the next steps, and mechanics, to take the scheme forward.

APPROACH TO STUDY

Having already reviewed the baseline design and feasibility issues within the previous report areas such as land assembly, constraints and status of the property market have already been reviewed. This report sets out the final findings including the final preferred delivery options, update on stakeholder engagement and results of soft market testing in order to prepare for the design and feasibility study for Station Quarter.

Chapter 2 - Design options re-cap and preferred option

Chapter 3 - Masterplan and preferred option synergies

Chapter 4 - Stakeholder update

Chapter 5 - Constraints update

Chapter 6 - Delivery options

Chapter 7 - Financial assumptions

Chapter 8 - Financial results

Chapter 9 - Network Rail

Chapter 10 - Soft market testing results

Chapter 11 – Strategic Marketing Advice

Chapter 12 - Next steps

Design options re-cap and preferred options

The Southampton City Centre Masterplan (Consultation draft January 2012) identifies the area to the south of Southampton Central Station as an area for major change and advocates:

‘Redevelopment of the southern side of the station to create a new Central Business District for offices, homes and new shops, cafes and bars and ancillary retail uses, centred on a major new station square and public transport interchange and drop off with improvements to the north of the station and new car parking.’

The station is an important gateway into the City however the current arrival experience, particularly to the south of the station, fails to deliver the quality of environment or experience befitting of a successful and forward thinking City. Southampton is a maritime City and yet there is no link to the City’s waterfront and connections to the City’s central shopping area and historic centre are both unclear and unattractive.

This study identifies a significant development opportunity to the south side of the station. An opportunity to deliver mixed-use development together with public realm improvements that will both transform the arrival into the City and act as a wider catalyst to further regeneration of the Station Quarter.

The Station Quarter Site

The area under consideration extends across 16.3Ha and is defined by the railway line to the north, West Quay Road to the south-west, West Quay Retail Park to the south-east and Western Esplanade to the east. The area is currently occupied by a mix of uses including:

- A number of large floor plate retail units
- A hotel complex comprised of three buildings providing a budget to mid range offer
- Two budget drive-in restaurants
- Hampshire Police Headquarters within a new building with associated parking in an adjacent structured car park
- Southampton City Centre Coach Station (National Express Coaches)
- Two major electricity sub-stations



Location Plan

The area is unstructured, dominated by surface car parking areas and provides a confusing and unwelcoming environment for pedestrians.

Design options re-cap and preferred options

Much of the site area is within Southampton City Council ownership however some sites are currently occupied under long leases. Two electricity sub-stations owned and managed by Scottish and Southern Electric (SSE) are located within the area and in the short to medium term these will remain. Land adjacent to the station, including the station car park, is owned by Network Rail. Please refer to the Baseline Report for further information on site ownerships.

It is anticipated that development of the Station Quarter area will come forward in a series of phases with the first phase being delivered adjacent to the station, this study focuses on that opportunity. Investigations into traffic flows and road network carried out by SCC Highways indicate an opportunity to downgrade Mountbatten Way and part of Western Esplanade (partly as a result of the extension of West Quay Road from Mountbatten Way to Southern Road in the 1990's). There is an opportunity to increase the land available for development adjacent to, and to the west of the station, through reconfiguration of this road space. The early development opportunity area covers an area of 3.8Ha and is indicated on the location plan.

Development of this area is seen as a catalyst to a wider change within the area.

Southampton Central Station

Southampton Central station is to the northern edge of the area. The station provides frequent services to London, the south coast, and also further afield to Birmingham and Manchester. The station itself is double fronted with an entrance onto Southbrook Road to the north and onto Western Esplanade to the south. Short stay car parking and taxi facilities are provided to the south and a shuttle bus runs from here to Town Quay. A linear station car park extends adjacent the railway line to the west. Network Rail, in partnership with the City Council and South West Trains is currently investing £2.4million on improvements to the station through the National Stations Improvement Programme with contributions from Southampton City Council and South West Trains. The works include provision of a new entrance a short distance to the east of the existing.

Planning Context

Southampton's Core Strategy includes the area to the south of the station as part of the City's 'Major Development Quarter' where there is considered to be the potential for major commercial intensification (Policy CS2).

The Southampton City Centre Masterplan (Consultation draft January 2012) describes the area further as the 'Station Quarter and Western Gateway' and identifies it as one of seven areas of major change in the City. The Masterplan promotes:

- Improvement to the arrival experience particularly at the station
- Provision of a prominent gateway station building
- Creation of a major new civic space 'Station Square' with enhanced station drop off
- Provision of active frontages around 'Station Square'
- Redevelopment of retail parks and intensification of land use in the area
- Improvement to connections including a new route towards the cruise terminal and waterfront to the south and enhanced pedestrian connectivity across the railway line
- Consideration of the relocation of the coach station (from Western Esplanade) to station area

Design options re-cap and preferred options

- Rationalisation of surface car parking

It is however recognised that the City Centre Masterplan is a long-term vision for the CCity and that change will not happen overnight. Indeed in the current economic climate some of the masterplan's ambitions will be difficult to deliver. There is for instance limited demand for new high quality office space at the current time and the values that may be generated in today's market are unlikely to be sufficient to enable this form of development to come forward at this location. However it is anticipated that re-developing a first phase of the Station Quarter area will act as a catalyst for wider change in the area, improving the arrival experience at the station, improving legibility for visitors to the City and ensuring that the Station Quarter is more attractive to further development activity in the future.

Design Concept

In planning for development around the station it is important to consider the long-term future for the area and how it may change over time. The station itself should form a focus for the area and a destination in the City that is easy to find and access. Many visitors to Southampton will arrive by train and on emerging from the station their initial impressions of the City are formed. The environment should both provide a positive experience and make it clear to visitors how they may progress to their desired destination, whether that be the City's waterfront, retail centre or civic quarter. Each of these destinations is within easy walking distance but currently routes are neither clear nor attractive. Equally many people arriving at the station will wish to continue their journey by another means of transport and interchange to a car, bus or taxi must be seamless.

Whilst people visiting Southampton by train arrive at the station many of those arriving by car, approach the City on the A33 Mountbatten Way / West Quay Road. The junction of Mountbatten Way and West Quay Road is, in many ways, the point of arrival into the City centre. A point of transition from the dock uses to the west into the City's Station Quarter. Downgrading Mountbatten Way east of its junction with West Quay Road offers potential to establish a positive gateway and a memorable experience that defines the arrival into the CCity.

The design concept for the Station Quarter area aims to achieve the following:

- To improve the arrival experience into the area both for car users approaching the City from the west and for train users arriving at Southampton Central station
- To create a network of attractive and legible pedestrian routes that link the area to other parts of the City and in particular to the waterfront (Royal Pier and Mayflower Park), central shopping area and civic centre
- To downgrade Mountbatten Way and Western Esplanade from dual carriage highways to urban streets lined with new development
- To improve the legibility of the area by establishing a clear network of streets onto which new and existing development will front
- To create a destination at the station through new development that provides an active frontage to a new Station Square
- To bring life and vitality into the area and to act as a catalyst for wider change in the future

Design options re-cap and preferred options

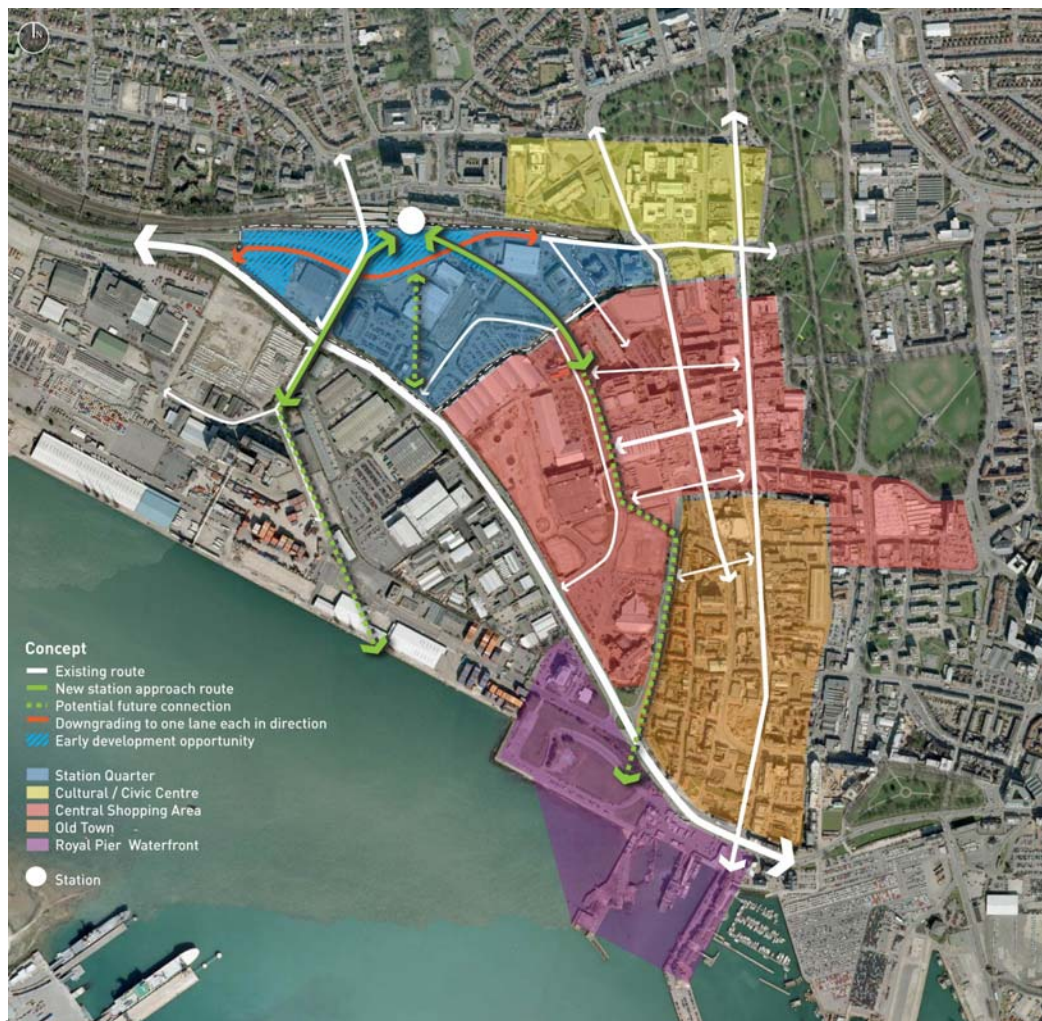


Figure: Design concept

Design Process

The consultant team worked closely with the council’s project team to prepare a number of options that tested the capacity of the opportunity site and the potential location for uses. Four options were prepared:

1. Market led (including Network Rail land adjacent the station)
2. Market led (main sites in SCC control)
3. Office led (including Network Rail land adjacent the station)
4. Office led (main sites in SCC control)

The market led options reflected a mix of uses that property market analysis indicated would be desirable. The office led options promoted a greater emphasis on delivering new office floor space (in order to reflect the aspirations for the area proposed in the draft City Centre Masterplan). The viability of each option was then assessed. The options and viability appraisal were presented to the project team.

A preferred option reflects comments made on these options and the aspiration to deliver new office development but the recognition that the market is not best placed to do this at this point in time. The preferred options works on a catalyst for change basis, it encourages

Design options re-cap and preferred options

a mixed use development as an early phase. Once this first stage change in image has been completed with the anticipated improvement in the general economy over the coming years ahead some commercial use is anticipated on some of Station Quarter as a final phase of this first overall phase of the wider Station Quarter opportunity.

The Preferred Option (Market Led)

The early development opportunity is focused around Southampton Central station and on Council owned sites immediately to the west. The overall preferred option for Station Quarter is to deliver development on both SCC and Network Rail land (Option 1) as this will provide an overall better solution for the entire area and consider the entire south entrance of the station. However, at this stage it is unknown if Network Rail will want to participate and on what basis with their land, so the consultant team has designed a scheme which can be moved to work on SCC land only (Option 2) which would be the next best solution should Network Rail not wish to participate.

It proposes the following:

- Provision of a new Station Square and public transport interchange immediately to the south of the station
- Mixed-use development providing the following overall quantum of development
 - 1,240m² GIA retail/café uses providing active frontage to Station Square. This to include a 500m² convenience retail store
 - 150 bedroom 3/4* hotel located in a highly accessible location adjacent to the station
 - 1,625m² small business floor space located in a highly accessible location adjacent to the station
 - 196 residential apartments. 132 within a landmark residential tower and mixed-use block adjacent to the station and a further 64 immediately to the west of Southern Road
 - 15,800m² commercial floor space located within a number of large floor plate office buildings to the west of the station
- Downgrading of Western Esplanade and Mountbatten Way from a dual carriage highway to an urban street and creation of a continental style compact roundabout at its junction with Southern Road. Surplus highway space is utilised for new development
- Creation of an improved pedestrian connection from Southampton Central station across the Toys 'R' Us car park towards Harbour Parade, John Lewis and West Quay Shopping Centre
- Apiration for future investment and redevelopment of the station itself

Design options re-cap and preferred options



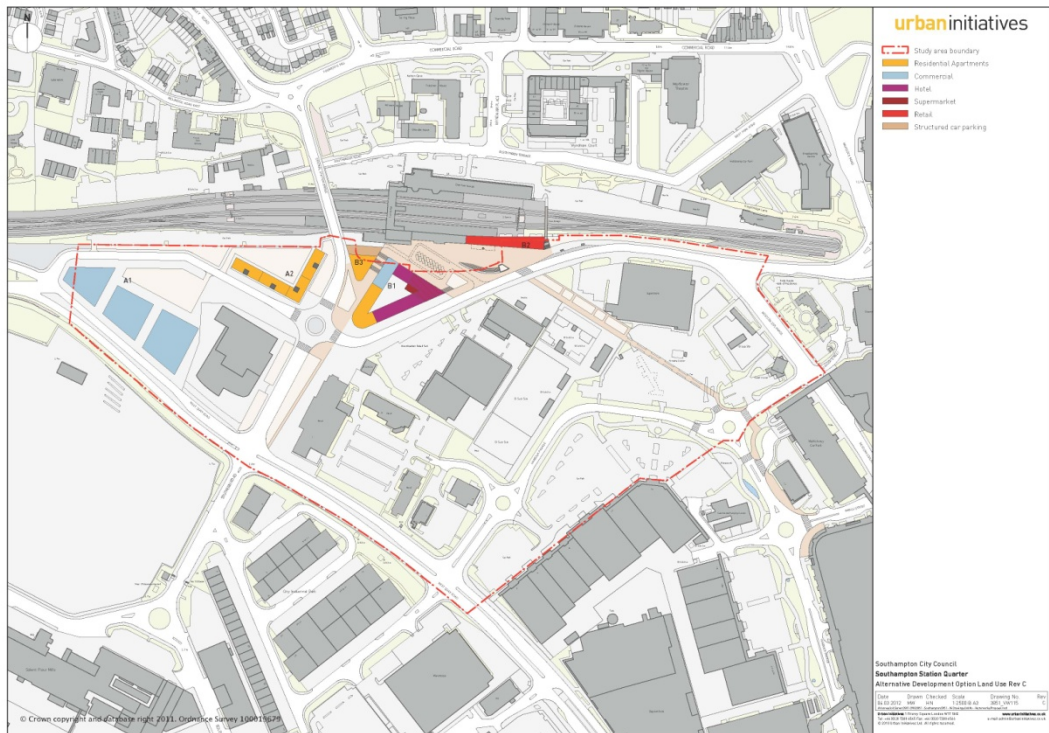
Uses

The uses within the early development opportunity proposal aim to deliver a mixed-use scheme that will provide additional vibrancy around the station. The uses proposed reflect our understanding of the current property market. The scheme is mixed use with active uses at ground floor around the proposed Station Square and with hotel, residential and employment uses also provided within the blocks adjacent the station. Retail uses include a small food store (500m² GIA) within Block B1 accessed directly from the square and serviced from the front. The main hotel entrance is on Western Esplanade however this building will be highly visible from the station.

Development sites to the west of Southern Road are created through a re-allocation of road space. The larger site to the south of the realigned Mountbatten Way and to the rear of the Hampshire Constabulary Headquarters building is identified for commercial office development within large floor plate buildings. It is anticipated that this site will come forward after the sites immediately adjacent to the station.

Below is a plan summarising the proposed mix of uses.

Design options re-cap and preferred options



Massing

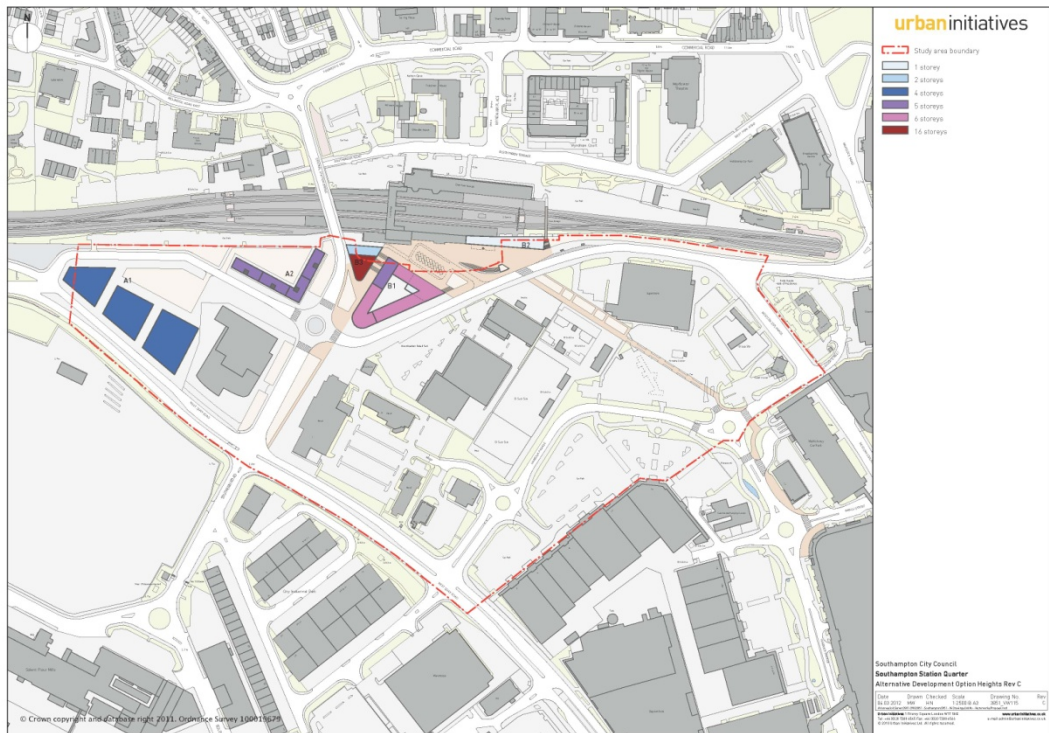
Blocks around the station are aligned in order to provide enclosure to Station Square and improve the legibility of connections to and from the station for pedestrians. Block B1 is five storeys in height with an additional set back storey above. The adjacent Block B3 provides a tall building to mark the station and create a focus at the northern end of Southern Road. This residential tower is proposed to a height of sixteen storeys. The level difference of approximately one storey from Station Square to Southern Road is accommodated through changes in level in the public realm using steps and ramps. Both buildings provide a positive relationship to surrounding streets.

To the north of Station Square a row of new shops (single storey) will help to animate the square.

West of Southern Road the site is subdivided by the realigned Mountbatten Way. A residential block (A2) rising to four storeys, with an additional set back storey above, is proposed to the north east of the area. The south-western site (A1) is identified for commercial use within three large floor plate building each of three to four storeys. These will be highly visible on the approach to Southampton by road from the west and will provide a gateway into the City.

Below is a plan showing the suggested heights of the buildings and three dimensional massing plans.

Design options re-cap and preferred options



Proposal viewed from the east

Design options re-cap and preferred options



Landmark development focused around the station



Proposal viewed from the south-west



Southern Road becomes an important route to the station

Design options re-cap and preferred options

Movement

The preferred option is predicated on the opportunity to utilise existing road space for development, following the downgrading of Mountbatten Way and Western Esplanade through the area. This is critical to the delivery of the proposals. It increases the area available for development adjacent to the station and allows for the creation of two distinct sites to the west of Southern Road. The proposals assume that from its junction with West Quay Road to that with Southern Road, Mountbatten Way is reduced from two lanes in each direction to one (i.e. the dual carriageway is reduced to an urban street). Similarly Western Esplanade is reduced to one lane in each direction from Southern Road at its western end until the junction to the east of Toys 'R' Us. Initial highway modelling has been undertaken and indicates no adverse impact on journey times.

On Western Esplanade it is assumed that the southern carriageway is retained and the northern carriageway is incorporated within the development site. For Mountbatten Way a portion of the northern carriageway (western end) and of the southern carriageway (eastern end) will be retained in order to create the most advantageous development sites.

This downgrading can be justified on the basis that:

- There is existing over capacity on Mountbatten Way and Western Esplanade due to the subsequent link with West Quay Road
- The councils micro-simulation model at morning peak shows no adverse impact on traffic movements or journey times
- The existing junctions are inefficient and capacity can be created with alternative solutions such as the proposed compact roundabout
- The transport evidence base for the Core Strategy (revised office targets) shows a marginal increase in traffic generation from the west of the City where there is minimal pressure from existing or new housing developments. With anticipated behaviour change to sustainable travel modes, the traffic volumes decrease
- Reconfiguration is crucial to create adequately sized development plots, accommodate enhanced pedestrian flows to/from City Centre and offer catalyst for longer term change

The long-term vision for the Station Quarter is to create a network of urban streets fronted by new development. The first phase of development will begin this process. New streets will be designed to carry significant traffic volumes whilst ensuring that pedestrians may easily cross them. Improved crossing facilities will be provided both at Station Square, allowing improved connection to the east and at the junction of Southern Road and Western Esplanade. Here a continental style compact roundabout is proposed which slows traffic, allows pedestrians to cross and also allows turning movements for buses so that they may approach the station from the east, turn at this junction and then utilise bus stops in an easterly direction on Western Esplanade without having to turn onto Station Square.

Car Parking

Car parking is provided as a mix of surface and structured car parking. At the station the change in levels allows structured car parking to be constructed beneath the residential tower and at the centre of block B1. To the west of Southern Road car parking can be provided at surface level. The following car parking standards are anticipated:

Design options re-cap and preferred options

- Residential apartments – 1 space per unit
- Office/business / enterprise – 1 space per 200m² GIA
- Hotel – 1 space per 3 bedrooms
- Retail – 1 space per 50m² GIA

The existing Network Rail car park adjacent the railway line is retained with a new access provided off Mountbatten Way. The Council is currently investigating the potential to provide a new multi-storey car park that may make accommodate these car parking spaces and allow the station car park to be incorporated into the development proposition possible.

Public Realm

Southern Road

This route once played a significant role in Southampton's road hierarchy but following extension of West Quay westwards it is of reduced importance. The route does however provide a very legible connection between the Western Gateway and Southampton Central station and further northwards across the railway line. The Hampshire Constabulary Headquarters building provides a significant piece of architecture at its northern end but is currently the only building that directly fronts the street. The impressive Solent Mill building terminates the view down Southern Road towards the south. The proposal aims to strengthen the role of Southern Road within the City's pedestrian and cycle network providing an alternative route towards the cruise liner terminal and waterfront and a highly legible route from West Quay Road to the station. An enhancement of the public realm to provide a tree lined avenue and improved walking and cycling facilities is proposed.

Connection to the Waterfront

The station is currently disconnected from Southampton's waterfront at Mayflower Park. Historically a route followed the alignment of Harbour Parade and connected across what is now the Toys 'R' Us car park. This was indeed the line of the City's waterfront in 1900. The proposal aims to reinstate this route through provision of an attractive legible route across the Scottish and Southern Electric (SSE) land and the Toys 'R' Us car park. This route avoids the main sub-station site but passes over the existing access route, which is within SSE ownership. Initial discussions with SSE have suggested that this will be possible, through discussion and negotiation, provided access for essential maintenance of underground cables can be provided. A design treatment unified with that at Station Square will help to assist legibility of this proposal.

Station Square

A new public square will be provided immediately to the south of the station. The space will be subdivided to provide a movement and circulation function for station users and a gathering, waiting, and arrival area for passengers and other station users. Drop off (kiss and ride) and taxi operations are indicated in the southern portion of the space with buses picking up on the edge of the square on Western Esplanade. The northern portion of the space links directly, by means of a new pedestrian crossing, to a grand new pedestrian walk that leads across the Toys 'R' Us car park towards Harbour Parade. A separate entrance to Station Square is provide between blocks B1 and B3 leading from Southern Road.

Design options re-cap and preferred options

Sculptural seating / public art could help to define the space and add to the sense of enclosure for users.

Phased Delivery

It is anticipated that the proposals will be delivered in a number of phases.

Phase 1

Initially we anticipate development coming forward immediately adjacent the station (block B1 together with Station Square). This would need to be delivered in tandem with or following downgrading of Western Esplanade and in partnership with Network Rail in order to deliver the improved public realm around the station. Downgrading of Mountbatten Way and the delivery of the compact roundabout would ideally be delivered at the same time (if funding is available) in order to make sites available for subsequent development phases.

Ideally the pedestrian connection across the Toys 'R' Us site would also be delivered as part of this phase, establishing improved connectivity towards the waterfront and central shopping area. This will require agreement with Scottish and Southern Electric.

Phase 2

In this second phase it is anticipated that the residential block A2 is delivered adjacent to Southern Road. This is delivered entirely on land in Southampton City Council ownership.

Phase 3

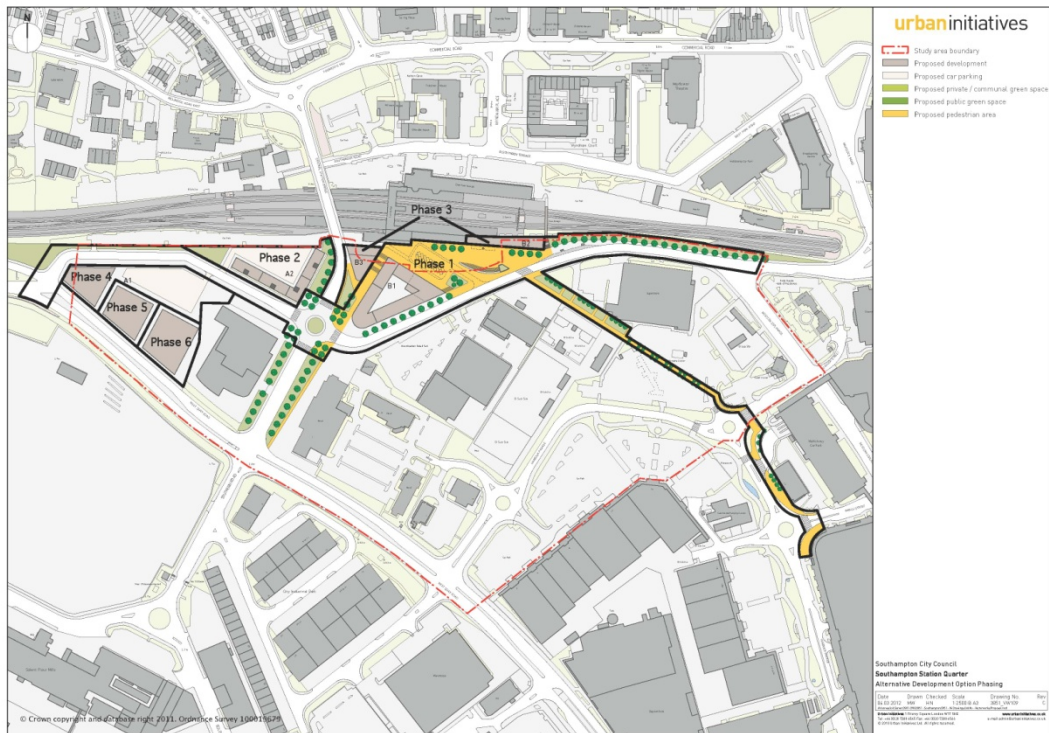
Although sites B2 and B3 can be adjusted to allow for delivery on SCC land only we recommend these to be delivered with Network Rail land to provide a better overall solution for this phase. B2 provides a single storey retail use to the north of Station Square. B3 provides a residential tower that helps to mark the station and forms a focus at the northern end of Southern Road. Ideally this tower would be delivered in parallel with wider improvements to Southern Road establishing this route as a legible connection to Southampton Central station.

Phases 4 to 6

Phases 4 to 6 progressively deliver a longer-term opportunity for commercial office development providing Grade A accommodation in a highly accessible location close to the station and on the approach into Southampton. It is recognised however that there are competing sites for such uses and there is currently limited demand. The plan aims to prepare a significant sized site in order to both provide flexibility on the end user and to allow a critical mass of development to create a viable proposition. Alternative uses could be considered provided they create a suitable response to this gateway location within the City.

Below is a plan showing the phasing of the proposed development.

Design options re-cap and preferred options



Masterplan and preferred option synergies

The Southampton City Centre Masterplan (Consultation draft January 2012) identifies the study area as the ‘Station Quarter and Western Gateway’ and identifies it as one of seven areas of major change in the City. The Masterplan promotes:

- Improvement to the arrival experience particularly at the station
- Provision of a prominent gateway station building
- Creation of a major new civic space ‘Station Square’ with enhanced station drop off;
- Provision of active frontages around ‘Station Square’
- Redevelopment of retail parks and intensification of land use in the area
- Improvement to connections including a new route towards the cruise terminal and waterfront to the south and enhanced pedestrian connectivity across the railway line
- Consideration of the relocation of the coach station (from Western Esplanade) to station area
- Rationalisation of surface car parking

The preferred option considers the potential to develop part of the area identified as ‘Station Quarter and Western Gateway’ and to create a catalyst for a wider transformation of the area. It is hoped that it will renew interest in this part of the City, improve the sense of arrival and start to deliver the wider connectivity that the City Centre Masterplan promotes.

Preferred Option Synergies

The table below indicates how the preferred option may deliver the objectives for the Station Quarter as set out in the City Masterplan (Consultation draft January 2012):

| | OBJECTIVE | RESPONSE |
|---|---|--|
| A | Improvement to the arrival experience particularly at the station | Yes. A new landmark building and public square will transform the arrival and provide improved legibility at this important location in the City. |
| B | Provision of a prominent gateway station building | A new landmark building marks the station and is sited so that is prominent both on the western approach into the City (on Mountbatten Way) and viewing northwards up Southern Road. |
| C | Creation of a major new civic space ‘Station Square’ with enhanced station drop off | A new Station Square is proposed to the south of the station. This provides an attractive arrival into the City and a place to meet or wait after arrival or before travelling. Drop off by car, taxi and bus in is accommodated and will not conflict with pedestrian movement. |
| D | Provision of active frontages around ‘Station Square’ | New retail frontage is proposed in highly accessible locations both directly in front of the station entrance (across the square) and defining the northern edge of the space on the approach to the City centre. |
| E | Redevelopment of retail parks and intensification of land use in the area | No. The early opportunity does not promote development on third party land or where long leases are in place. |
| F | Improvement to connections including a new route towards the cruise terminal and waterfront to the south and enhanced pedestrian connectivity across the railway line | Whilst the proposal focuses on the site adjacent the station it also promotes an enhanced and more legible connection towards the City Centre, West Quay Shopping Centre and Royal Pier. A new legible connection is proposed across the Scottish and Southern site |

Masterplan and preferred option synergies

| | | |
|---|---|---|
| | | <p>(avoiding the generators and utilising the existing access road only) and the Toys R' Us car park.</p> <p>Southern Road is enhanced as a legible connection towards the station.</p> <p>The City Centre Masterplan proposes a boulevard that leads directly from the station to the Cruise Terminal. This is not delivered as part of this project but could come forward at a later date through redevelopment of retail parks and hotel sites.</p> |
| G | Consideration of the relocation of the coach station (from Western Esplanade) to station area | No. The preferred option does not propose relocation of the coach station. |
| H | Rationalisation of surface car parking | No. The early opportunity does not promote development on third party land or where long leases are in place. |

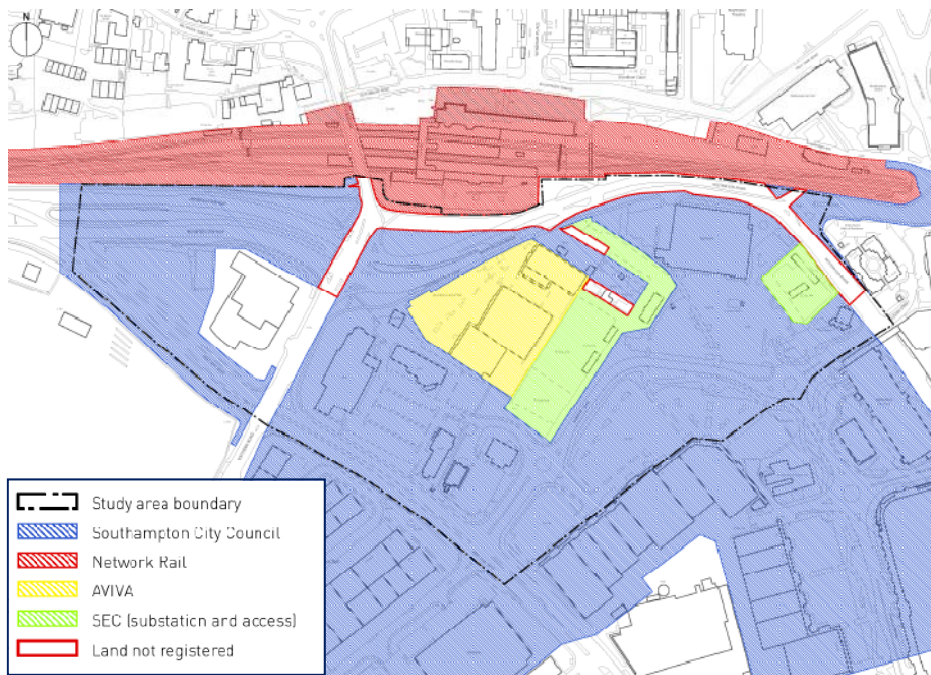
Stakeholder Consultation

KEY INTERESTS

Below is an updated summary of the key interests in the Station Quarter study area, together with the main points from landowners/leaseholders through consultation where contact has been made.

NETWORK RAIL

The Network Rail ownership is identified as red in the plan below.



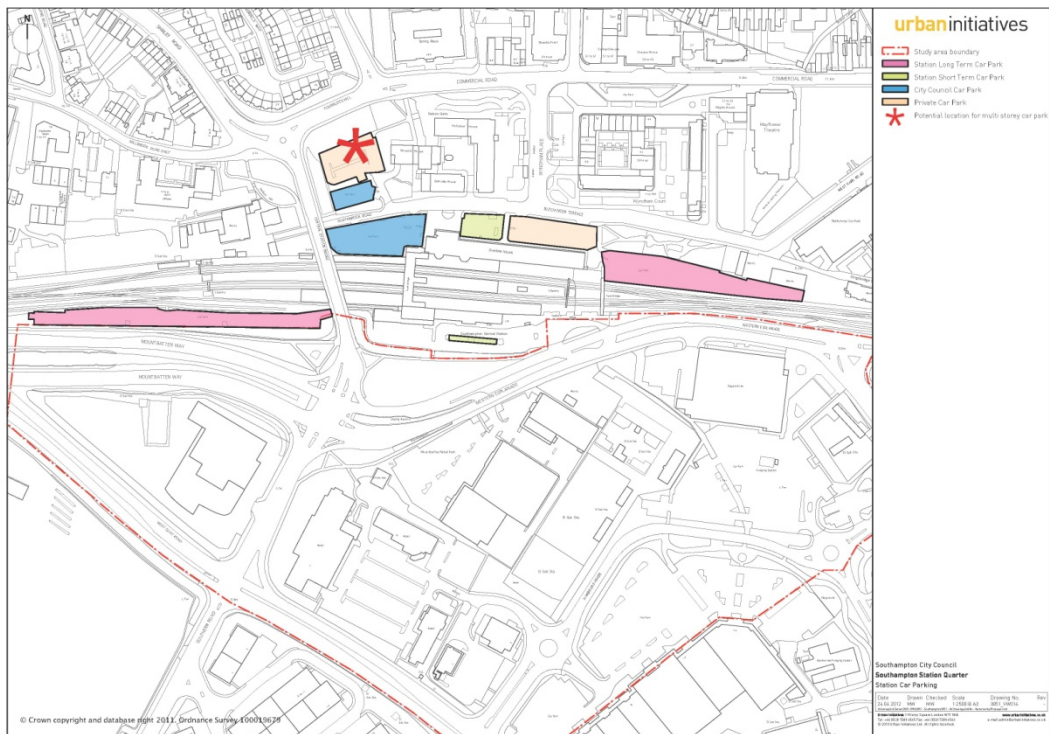
Network Rail own a strip of land used for station car parking immediately to the north of the study area boundary, as well as a further strip along the front of the train station’s southern exit point and the area immediately fronting the southern entrance to Southampton Central train station. The former Parcel Force building could also offer re-use or redevelopment potential. Network Rail (together with South West Trains and SCC) is currently investing £2.4 million into improvements to the southern exit of the railway station, this work is being undertaken under the National Station Improvement Programme (NSIP). These works will be finished in 2012.

SCC and CBRE met with Network Rail in February 2012 providing an overview of SCC’s work to date. Network Rail was positive about the work that SCC had undertaken. A high level discussion took place regarding the possible incorporation on Network Rail land close to the South station entrance. It was agreed by all that combining SCC and Network Rail land would provide a better solution for the area which was in line with both Network Rail and SCC aspirations.

Network Rail is interested in the possibility of including their existing car parks and station forecourt area to the south.. Network has stated they would require any existing no of car parking spaces lost to be re-provided. SCC has been considering accommodating Network Rail spaces within a new multi storey car park (MSCP)

Stakeholder Consultation

The proposed location of the new MSCP is show with a red star on the plan below. One car park lays to the north of the train lines and the other front the train lines to the south. A plan highlighting the car parks and MSCP are shown below;



A discussion on the possible procurement routes for the participation of Network Rail in the proposed development suggested a number of potential methods ranging from a co-operation agreement to a joint venture between Network Rail and SCC. It was agreed that more consideration on the pros and cons of both approaches would need to be considered by both parties and that Network Rail would need to review the detail of the proposed designs and input their thoughts. Network Rail would only participate were it would achieve greater value than cost.

Network Rail raised the possibility of using their established joint venture development vehicle owned 50/50 with Kier known as Solum Regeneration (Solum). This was procured in 2009 using the OJEU process therefore achieving consideration for best value at that time for Network Rail. The joint venture was provided with seven station developments in the South East but this did not include Southampton Central station.

Further, more detailed consideration of the potential incorporation of Network Rail land is considered in section 9.

SOUTH WEST TRAINS

South West Trains is the Train Operating Company (TOC) in the Southampton area. Their franchise is up for renewal in 2017. TOCs are going to become far more influential in future development proposals. Franchising and lease arrangements are changing in the next few years to provide them with longer term interests (up to 20 year franchises and 99 year FRI station leases), with ongoing dialogue needed.

Stakeholder Consultation

As discussed above, South West Trains is one of the partners investing in the southern entrance to the station which directly accesses the Station Quarter. In working up proposals they will continue to be an important stakeholder.

Should Network Rail land be incorporated within the proposed developments of Station Quarter further consultation will be required with South West Trains, particularly should the car park areas be included as these are leased to the TOC.

POLICE

The new Southampton police station headquarters, which is positioned in the parcel of land to the east of the study area, opened in March 2011. The new building provides modern, purpose-built facilities, which allowed the police to consolidate many policing services. The eight storey development is now a prominent landmark building for the City.

The new building replaces old outdated facilities at the Civic Centre with state of the art accommodation in a new, purpose built headquarters, providing modern and efficient facilities for the 21st century.

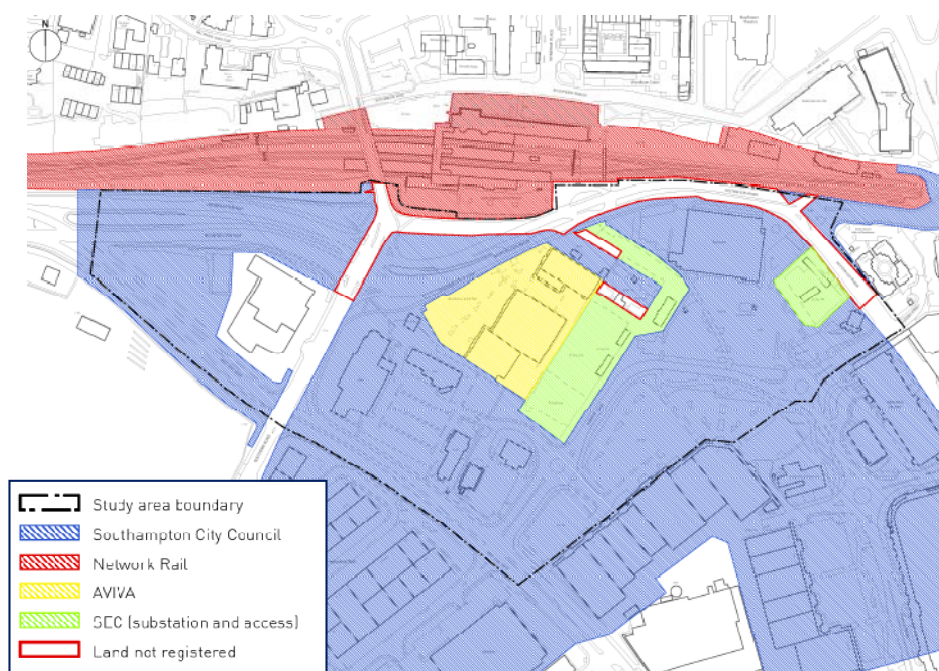
The Council met with Southampton Police Chief Superintendent Steve France-Sergeant to discuss the Station Quarter project. Mr. France-Sergeant had no particular issues regarding adjacent uses to the headquarters or downgrading of roads but made the following comments;

- The adjacent, triangular piece of land owned by SCC is accessed from Southern Road. This access currently serves all the main Police functions (cells, traffic vehicles, staff parking etc). Whilst shared use in connection with development on the triangular site was not ruled out, it is difficult to see this working in practice.
- The Police would ideally like to acquire this land initially for parking but longer term for operational uses. It was conceded however that funds are unlikely to be available in the foreseeable future and uses would be dependent on the implementation of a wider estates strategy involving the sale of other Police owned sites. This is not high on the priority list.
- They will need "blue light" access in all existing directions particularly northwards across the railway bridge. They have no preference over a signal controlled crossing or roundabout at the Mountbatten Way/Western Esplanade junction. It was recognised however that one benefit of a roundabout would be a right turn from Mountbatten Way into Southern Road (currently not available).
- It was pointed out that the Police HQ is operational 24 hours and can be particularly noisy on Friday/Saturday evenings! There are 36 cells attached to the southern side of the main block which are accessed at 1st floor level via a ramp.

Some concern was expressed about new licensed premises. The quality and management of them will be important. Further engagement is recommended with the Police during the early stage of marketing the Station Quarter project so any development or design constraints can be drafted in an advice note for potential bidders to factor into their design proposals. SCOTTISH SOUTHERN ELECTRICITY

Scottish Southern Electricity (SSE) owns the freehold of two parcels of land in Station Quarter. The larger area is in the centre of the site, immediately next to the retail warehouses owned by Aviva. The smaller parcel is to the east of the site next to the coach station. Each of these sites contains an electrical sub-station (as shown in green below).

Stakeholder Consultation



The sub-station contained at the northern end (closest to Toys R Us) is made up of 132kv units with four transformers in the corners. It is possible to condense or relocate these, but at a considerable cost. The 33kv units on the rest of the larger site are easier to consolidate, due to technology advances, thus releasing land behind the Aviva retail units.

The smaller sub-station consists of 11kv indoor units and control equipment, which is easier to relocate. However, under this site runs lots of underground cabling, restricting the development potential in the area.

CBRE and SSE have discussed the following options;

1. Relocation of the substation
2. Consolidation of the substation
3. SCC acquiring a strip of land currently used as SSE access point to use as a pedestrian link between the station and City centre

SCC commissioned a study that calculated the cost of SSE consolidating their larger site and this cost is estimated to be circa£6.9 million. To relocate the entire site would be in excess of £10 million, excluding the cost of the land for a replacement facility. Due to these significant costs it is unlikely that any redevelopment will prove viable in current market conditions as no type of replacement development will provide a surplus profit which can pay for the high cost of relocation. Therefore options 1 and 2 above, although practically possible, were ruled out as options due to the significant costs involved in relocating / consolidating verses the much lower re-development value of the land.

SCC considers Option 3 as a preference and if SCC and SSE are able to pedestrian Right of Way this would significantly improve the important link road from the station to the City centre.

The strip of land is currently secured by a fence and provides access only for SSE. The vehicle entrance and exit is used predominantly by cars but does allow for large vehicles occasionally needed for operational reasons for example the removal of a transformer.

Stakeholder Consultation

CBRE and SSE held a site meeting and discussed the possibility of opening up the access way for general pedestrian access. The points that require further consideration are:

- Ensuring a minimum of 3 metre high wall around the plant area for safety reasons
- Ensuring SSE can still fully access the substation site whenever SSE require over the opened up access – including the ability to park potentially large vehicles for maintenance work
- Ability to set up an exclusion zone for the general public when maintenance work is happening
- Ensuring access to any cables lines is retained for SSE in case of repair
- General security of the site
- Acceptable car parking provision elsewhere on the site (the area surrounding the dilapidated port-a-cabin has potential)
- Acceptable storage area elsewhere on the site (the area surrounding the dilapidated port-a-cabin has potential)
- Screening of the fence to make the wider access aesthetically pleasing
- The possibility of removal of trees and shrub (where applicable)

CBRE and SSE have agreed there are two feasible options:

- Option 1 (Narrow Option) – This area is from the access gate towards the railway lines and is the narrower option of the two. This option would allow SSE to keep the private access. The width is estimated to be 6.8 metres and total land area of 553 m².
- Option 2 (Wider Option) – This area is the wider option of the two and would open up the area currently used as the gate entrance and the parcel to the north currently vacant but sometimes used for car parking and storage. The width is estimated to be 13.85 metres and a total land area of 1330 m².

CBRE recognises the importance to the Council in obtaining rights over SSE land as it will open up the pedestrian route, providing a much clearer access point from the train station to the back of John Lewis. CBRE recommends that the Council pursues the Wider Option, however if this option is not available then the Narrow Option should still be pursued as it will still improve the existing link. This advice is also supported through the soft market testing exercise (see section 10).

TOYS R US

Toys R Us occupies a large retail unit adjacent to Western Esplanade and to the east of the railway station. Surface car parking surrounds the unit (pay and display). Servicing access is off Western Esplanade. In this highly visible location it is the first view of the City that many visitors have when exiting the station from its southern side.

Following consultation with Toys-R-Us, we understand this store is a strong performer within their portfolio. They have no immediate plans on relocating, expanding or consolidating at present. Car parking is key to their business model and at present the car park provides an adequate provision of spaces for their needs. There is also little appetite to rationalise the car parks. In principle Toys R Us welcomed the idea of improvements to the connectivity of the railway station to the retail centre, as they see this as a potential way to increase footfall. The main pedestrian route from the station to the City centre crosses the Toys R Us car park.

Stakeholder Consultation

Ongoing dialogue with the retailer will be needed to improve this walkway, although they are likely to resist any plans to reduce their car parking capacity.

CBRE recommend further engagement once SCC has secured its position on the walkway with SSE.

AVIVA

Aviva own several retail warehouses which sit directly next to SSE substation in the centre of the study area. Aviva also own the freehold of many more retail warehouses in the area including IKEA to the south of Station Quarter. Part of the Mountbatten Way Retail Park surface car parking is in the study area too. At present all are occupied or have tenancy agreements in place. Aviva uses the retail warehouses on the site to balance needs between offering a secondary location on slightly cheaper rents to the other more prime retail warehouses at Mountbatten Way.

At present, Aviva have no plans to sell their valuable investment interest. In the longer term, they are open to alternative uses for the site should it become financially beneficial as the area around the units change over time, this could include increasing density and height. In the short term, save for unwarranted intervention, these units are likely to remain in their current form.

At the last meeting with Aviva they were pleased to see the Council engaging with the viability issues and also working around what development exists at present (i.e. Aviva sheds). Aviva thought the opportunity to reconfigure the roads and produce more development area is a positive. Aviva were positive about the proposed mixed use first phase and the linkages with the town centre providing there is no detrimental impact to their existing retail units. However they are reserving formal comments until a proposal is ready to consider.

ACCOR GROUP

The Accor Group own three hotels within the Station Quarter study area: Novotel, Ibis and Etap, which sit together facing centre of the site. These hotels range from two to three star and have their own surface car parking. Next to the hotels there are two fairly modern restaurant/drive-thru outlets, which are well positioned and appear to be trading well.

At present, Accor Group has not responded to CBRE. Despite this, there is scope to develop a small plot of land to the north of the hotels. Over time the hotels will need to be refurbished or replaced, but this is unlikely in the short term.

NATIONAL EXPRESS

National Express operates from a small, tight site toward the northern corner of the study area. Access is off Western Esplanade, with just enough space for 4 or 5 coaches, a ticket office and ancillary services. While the site maybe inefficient for National Express, they have not responded to our request for discussion. For now however, it is difficult to see how this site could readily contribute to an early phase of development. Even so, a revised way for them to operate from here (and perhaps linking with the train station) is a potential starting point.

SPARSHATTS

Stakeholder Consultation

Sparshatts own the site adjoining the access road to the larger SSE substation opposite the railway station. At present Sparshatts are leasing the land to a local hand car wash company, as it is not suitable for their core business – car dealerships.

Sparshatts advised CBRE that they applied for planning consent for a multi-storey car park on the site but the application was rejected by SCC. Sparshatts indicated that they would consider selling the land at a suitable price. Failing this, they will continue to pursue planning permission for a car park on the site as they believe this is the best use for the land.

KEY LAND ASSEMBLY ISSUES - SUMMARY

As established in the Baseline Report, much of Station Quarter is let on long term leases and some owned by third parties such as Aviva and SSE but there still is scope for a generous and developable sites surrounding the train station entrance and across the western part of the site by the Police headquarters.

SCC and Network Rail need to consider further the advantages of combining their interests and consideration of the most appropriate agreement to take forward the sites. This would include consultation with South West Trains.

There is further work for SCC to undertake to secure the proposed improved pedestrian link from the station to the town centre with both SSE and Toy R Us. Below is a summary of actions remaining;

| STAKEHOLDER | INTEREST | ACTION |
|-------------------------------|-------------|---|
| Network Rail | Freeholder | Discuss Cooperation Agreement / JV / incorporating the car park and station entrance area |
| South West Trains | Franchiser | Discuss Cooperation Agreement / JV / incorporating the car park and station entrance area |
| Police | Leaseholder | No further action but keep updated |
| Toys-R-Us | Leaseholder | Discuss improving public realm link road over car park |
| Scottish Southern Electricity | Leaseholder | Discuss further options for linking station to City centre by improving public realm |
| Aviva | Freeholder | No further action but keep updated |
| Accor Group | Leaseholder | Progress meeting to discuss Accor business requirements |
| Stage Coach | Leaseholder | No further action |
| Sparshatts | Freeholder | No further action |

Constraints update

INFRASTRUCTURE

There are a number of major infrastructure constraints that need to be addressed when considering development in the Station Quarter area these include reconfiguring the current road network, impact on current utilities and the transport interchange point at the southern entrance of Southampton Central. Without addressing the infrastructure constraints it is very limited what new development can take place on SCC owned land given most SCC owned land is let on long leases. This is particularly the case for land surrounding the south train station entrance.

Balfour Beatty Report

The Council has already investigated the implications of reconfiguring the road network within Station Quarter through a micro simulation model undertaken by Balfour Beatty and a technical note by Halcrow in 2011. This reviewed the likely costs in reconfiguring the road which provides a suitable transport solution but unlocking areas of land for development



Picture of existing road

Transport evidence base on the Core Strategy (including the revised lower office targets) show a marginal increase in traffic generation from west of the City where there is minimal pressure from existing or new housing developments. With anticipated behaviour change to sustainable travel modes, traffic volumes decrease.

The results proved there were no adverse impacts on traffic movements or journey times during morning peak hours. The existing junctions are inefficient and capacity can be created with alternative solutions such as Laweiplein roundabouts. Reconfiguration is crucial to create adequately sized development plots, accommodate enhanced pedestrian flows to and from the City centre and offer the catalyst for longer term change in the area to ultimately attract new office occupiers to the site.

Infrastructure Funding Strategy

The Council is working towards refining a cost for the reconfiguration of the road network and impact on utilities. From the 2011 study this cost was in the millions, however further consideration is being given to the phasing and implementation of any reconfiguration and overlaying the expected type and location of development by Balfour Beatty.

Constraints update

The overall benefits of the proposed reconfigured road stretch beyond Station Quarter; however a proportion of funding will still be expected from the proposed Station Quarter development. However, there is likely to be a significant gap and SCC needs to consider using the council's share of proceeds generated by the development towards this overall cost. If there is still a short fall there will be a need to identify additional funding streams and agree a robust infrastructure funding strategy.

This strategy will be a critically important document for the marketing and procurement stages as it will provide potential developers with comfort that the Council has a solution to the funding. Without the ability to show potential sources for infrastructure funding the delivery of the project will be undermined.

Potential Sources of Funding

The Council is preparing an application for Major Scheme Funding which could provide a solution to some or possibility all of the infrastructure costs.

Any gap is likely to be funded through a portfolio of funding streams some of which the Council cannot apply for until a development partner is in place. These could include the following;

- LEP (Growing Places Fund)
- Regional Growth Fund (Round 3)
- DfT – Major Schemes – funding localised from 2015
- TfSH Strategic Transport Model
- Council's own resources – Local Transport Plan
- Commit SCC's share in capital from the Station Quarter site – on a revolving investment principle

Delivery Options

SCC has established that development of the area surrounding the train station and to the western part of the site is possible and could provide a catalyst for change for the area. SCC and Network Rail are still considering the implications of working together (see section 9) however SCC does have enough developable land area to progress with delivery on its own land which is a fallback position should Network Rail not wish to collaborate with SCC and look at a solution that benefits the train station.

In order to deliver development SCC has the following options;

- Direct Development
- Sell sites (either as individual phases or as one large development)
- Developer Agreement
- Establish a site joint venture

The advantages and disadvantages of each approach are considered below.

Direct Development

This method of delivery is where SCC acts as a developer. It would takes forward planning for the site and once approved the Council prepare detailed scheme drawings which will be used to tender for a contractor to deliver the development according to an agreed specification. The Council will take responsibility for funding the project, the sales and letting strategy and overall project management of the planning and development stages. The Council is fully open to the risks associated with development however it will realise the full capital receipt should the development be delivered to budget and all the sales and lettings are delivered as forecasted.

This is a complex development proposal and in light of the skills and resources that would be required to undertake direct development we think it is unlikely that the Council would consider this option. However, we set out the advantages and disadvantages below.

| ADVANTAGES | DISADVANTAGES |
|---|--|
| Retain full control of site | Full exposure to development and property risks |
| Retain full profits | Finding funding for all development costs |
| Retain full control over design an delivery | No private sector input into design, mix and type of development |
| Capture all of developer’s profit (as the council is acting as the developer) | SCC sales and letting strategy must be robust or impact on overall returns |
| Low procurement costs | Funding for upfront infrastructure still an issue |
| | Source a SCC team to manage the planning, design, build out and sale |
| | SCC still have to fund the new improved pedestrian link |

Sell Sites (either as individual phases or as one large development)

The Council could advance delivery through selling developable areas either together in a single sale or individually, targeting the specific market for that type of development i.e. residential verses the convenience store phase. SCC could either market the site with or without planning and could insert overage provisions and / or restrict the type of development allowed through a restrictive covenant on title. The Council would be limiting

Delivery Options

its risk as it would not be directly involved with the development aspects of the site however its capital receipt will reflect this complete risk transfer.

| ADVANTAGES | DISADVANTAGES |
|---|--|
| No exposure to development risk after sale | Unlikely to receive the highest value for the site as planning and delivery risk is transferred to the buyer |
| No sources of funding required other than procurement and marketing costs or creation of a ground lease | Potential loss of control over the site (overage and long stop dates and buy back clauses could be used) |
| Risk of delivery transferred to private sector | Potential for cherry picking of the best sites - will the commercial plots remain unsold? |
| | Holistic view of Station Quarter lost |
| | Funding for upfront infrastructure still an issue – the sites can only be sold off as designed at present once the road reconfiguration works are funded, if no infrastructure investment is made then the plot area of developable land is severely compromised |
| | SCC still have to fund the new improved pedestrian link |

Development Agreement

A development agreement (DA) is commonly used by local authorities where they own the site and require a developer to work up a planning application and undertake pre-application consultation and stakeholder engagement at the developer’s own cost. The content of the scheme and associated application (use type and quantum) would normally have to be agreed by the Council as landowner in the Development Agreement in advance of submission.

DAs usually also contain a series of conditions precedent that effectively protect the developer so that it is not obliged to proceed until the conditions are met. These could include:

- Obtaining planning permission for a defined scheme content
- Securing either given anchor tenants or prelet amounts
- Securing funding
- Satisfactory viability

Once planning consent is obtained and the conditions are met the developer will then be obliged to build out the proposed development or a relevant phase. The developer will normally get a priority return and there would be a sharing mechanism for any amount above this. This means that no phase will be brought forward until it is economically viable to do so and makes such a return.

By using a DA a the Council will generally have less risk exposure but as a consequence will not receive as higher value for the site as it would through direct development or a joint venture approach. Additionally, although the structure usually includes performance indicators and longstops, if not carefully drafted it can in effect provide the developer with an option as the Council would generally be more reactive than under a JV structure. To some extent, some of these issues can be addressed in legal draft and when structuring heads of terms.

Delivery Options

| ADVANTAGES | DISADVANTAGES |
|---|--|
| Limited exposure to development risk after sale | Unlikely to receive the highest value for the site as planning and delivery risk is wholly transferred to the developer |
| Lower set up costs | Only viable phases will be brought forward so the commercial phases are unlikely to be developed at present |
| Use of viability tests which can be attached to the commercial phases so the DA can be implemented at the point this becomes viable | SCC will need to allocate resources to monitor values and yields to implement phases depending on DA agreement |
| Risk of delivery transferred to private sector | Holistic view of Station Quarter lost. Although it is feasible to structure a strategic DA with phase draw-down provisions |
| | Funding for upfront infrastructure still an issue |
| | SCC still have to fund the new improved pedestrian link |
| | SCC do not have a partner on board for later unknown phases which may come forward over the medium to long term |

Establish a single site joint venture

SCC could procure a private sector partner to set up a joint venture vehicle owned by SCC and the private sector 50/50 the Council would contribute land, infrastructure investment and general support. The joint venture partner with its private sector expertise and funding would then progress planning for the site and then deliver the development. The Council would benefit from a share of the full capital receipts associated with taking a share of the development risks. The Council would also have the ability to exert greater influence over the long term as it has an equity interest alongside the private sector. Unique to this delivery method is the option to allow the joint venture control over the envisaged first parcels of development but also future opportunities over the long term elsewhere in the Station Quarter area (subject to satisfactory performance). However, it is still a fundamental requirement that the projects are viable and deliverable.

Delivery Options

| ADVANTAGES | DISADVANTAGES |
|---|---|
| Higher overall return as it includes a share of development profit | Procurement process involved – time delay |
| SCC can exert greater influence as an equity shareholder | Costs associated with establishing JV |
| Risk of delivery shared with private sector | Some risks are taken therefore SCC are exposed |
| No cherry picking by private sector | Source a SCC team to procure developer partner |
| Holistic view can be taken | Some SCC resources required to manage the JV from SCC perspective |
| SCC use the higher proceeds to re-invest in infrastructure solution | |
| Private sector partner on board allows access of other sources of infrastructure funding (e.g. RGF bids) | |
| Ability to use private sector funding streams / leverage | |
| Potential solution for all of Station Quarter and a partner in place when other opportunities come available | |
| Potential to include the infrastructure component to attract contractor/developer partners | |
| SCC will be able to capture and recycle some of the contractors profit from the infrastructure work within the JV | |
| New improved pedestrian link can form part of the development in JV | |

Summary

It is highly unlikely that SCC will want to take the full exposure and risks of delivering the first development phases of Station Quarter. Funding the development may also be a critical issue and therefore the Direct Development option is not recommended.

The primary issue with selling the sites is the loss of overall control and vision by SCC. The proposed development is fundamentally about stimulating a catalyst for change for the area to ultimately encourage commercial users to this site. It is very unlikely the private sector will develop the commercial elements of the proposed development close to the Police Headquarters due to current market conditions. These sites will therefore remain unsold or worse will be sold and mothballed by the private sector until such a time that an alternative use can be obtained for the site and therefore the opportunity is lost for SCC. Furthermore the Council will not be getting optimum value for the site as the risk of delivery etc is fully transferred.

The single site Joint Venture delivery option in principle provides the best of both worlds; it retains control for the Council, creating the necessary catalyst for change in the area and ultimately starts to enable the vision set out in the City Centre Masterplan. It also provides SCC exposure to the greater financial benefits of development but limiting this exposure by involving the private sector partner with their skills and access to finance raising. Finally it enables SCC to create a method of delivery for all of the Station Quarter area over the long term with the vision and overall objectives set in stone through the joint venture business plan and objectives. Subject to the joint venture’s performance on early phases it will be able to proactively look for further opportunities within the site and advance developments at a speedy manner when components change in the future.

However, there is also the important consideration of the Council’s risk exposure to property development and further changes in the market. The Council is likely to be exposed to market conditions for the duration of the development and pre construction period over a

Delivery Options

number of years. Should conditions like rents and yields move in a negative direction, if construction costs increase or the cost of borrowing increases this will lower the returns.

Overall the benefits of a single site joint venture both financial and non financial lead to potentially being at he preferred solution. In addition to the potential financial benefits, this solution can:

- provide SCC with a long term partner for the Station Quarter area
- provide a partner for SCC work alongside and bid for funds for the infrastructure costs, many funding streams need a delivery partner and a linked scheme in order to bid
- enable the Council to share in the returns from the contracting piece of reconfiguring the road and utilities
- potentially having a partner to assist in driving forward further phases of Station Quarter and unlocking more development

However, should the Council not wish to invest in setting up a joint venture or have the exposure of property market risks then the Development Agreement (DA) route is considered the next best solution to delivery.

Delivering Station Quarter through a DA is not likely to produce the highest financial return for the Council however; SCC's risk exposure will be limited and overall costs and resource requirement decreased.

As a potential consequence of going down the more risk adverse DA delivery route there may be less overall return to put towards the overall infrastructure requirement. Therefore this will need to be addressed in the infrastructure strategy.

It is still essential that the project is financially viable and showing a commercially acceptable rate of return to ultimately attract the private sector partner whether this is through a joint venture or DA approach.

Financial Assumptions

In January 2012 the Baseline report provided a detail property market review to establish a likely development offer for the first phases of Station Quarter. As described in Section 2 the consultant team reviewed a number different scenarios and a preferred option was selected.

A financial model was developed which analysed the preferred option on 'sell the sites now' option and through a 'single site joint venture' as the remaining option of the Council undertaking the scheme through direct development was considered very unlikely.

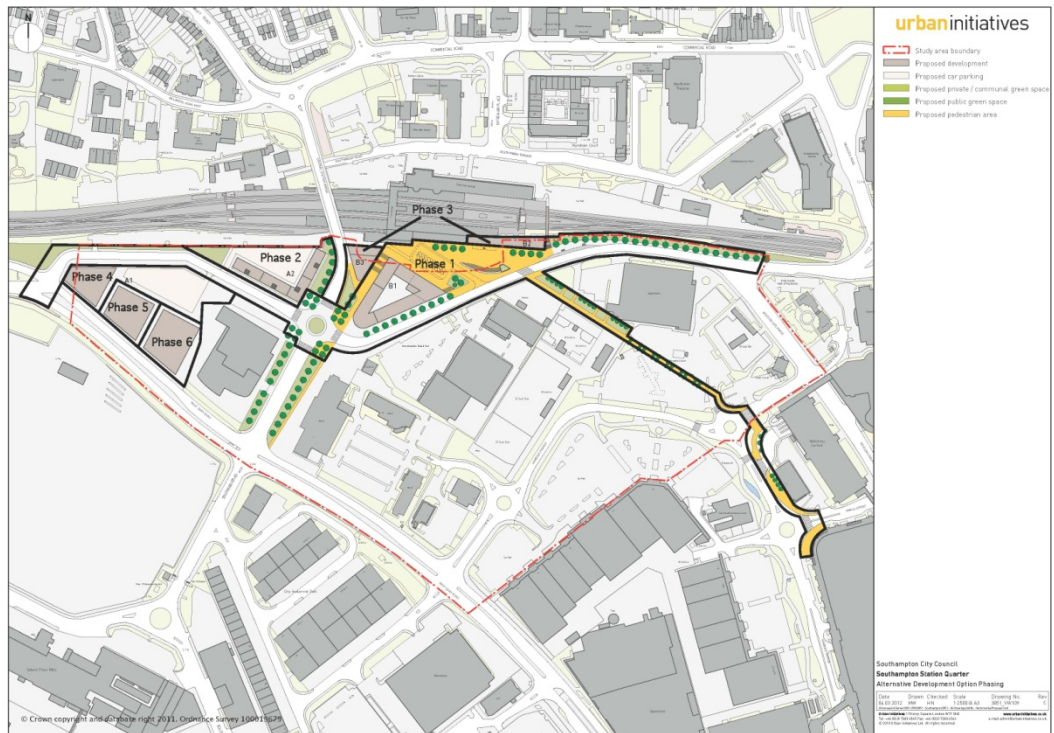
Summary of Potential Users

Through the market review exercise and through CBRE's extensive network of developers and occupiers in retail, commercial and leisure sectors the following types of users were identified as feasible for the initial first phases of development in Station Quarter.

| INTERESTED PARTIES | USE CLASSIFICATION |
|---|--------------------|
| Offices (Serviced Offices) | B1 |
| Hotel | C1 |
| Residential (including Private Rental Fund option) | C3 |
| Retail | A1/A5 |
| Convenience Retail | A1 |

Phases & Development Areas

A Financial Model (the Model) has been created to analyse the potential residual value for the Station Quarter site (the site) and forecast the financial returns if the site was to be delivered through a single site joint venture with a private sector partner.



Financial Assumptions

The plan above shows the phasing and below is a table summarising the phases and uses.

| PHASE | DEVELOPMENT USE |
|-------|--------------------------------------|
| 4 | Office |
| 5 | Office |
| 6 | Office |
| 2 | Residential |
| 2 | Residential |
| 2 | Residential |
| 2 | Residential |
| 1 | Residential/Supermarket/Hotel/Office |
| 3 | Retail |
| 3 | Residential |

The commercial developable areas were established through the market review work undertaken in the Baseline Report and using CBRE’s extensive retail contact database to advise on likely lettable space. The commercial developable areas for each site are shown in the table below:

| PHASE | COMMERCIAL USE | GROSS AREA M ² | GROSS-NET % | NET AREA M ² |
|-------|-----------------|---------------------------|-------------|-------------------------|
| 4 | Office | 4,083 | 85% | 3,471 |
| 5 | Office | 5,069 | 85% | 4,309 |
| 6 | Office | 6,669 | 85% | 5,669 |
| 1 | Supermarket | 513 | 100% | 513 |
| 1 | Hotel (150 bed) | 6,828 | 100% | 6,828 |
| 1 | Office | 1,625 | 85% | 1,381 |
| 3 | Retail | 727 | 100% | 727 |

Commercial Cost and Value

The costs are based on Building Cost Information Service (BCIS) data and the values were established through comparable evidence gathered by CBRE’s London and Southampton offices. Each commercial elements are assumed to have a twelve month build period (eighteen months for the Hotel), with six month’s rent free (except for the hotel). The cost and value data for the commercial elements are shown in the following table.

| PHASE | COMMERCIAL USE | BUILD COST £ PSM | RENT £ PSM PA | NET INITIAL YIELD |
|-------|----------------|------------------|---------------|-------------------|
| 4 | Office | 1,401 | 183 | 6.50% |
| 5 | Office | 1,401 | 183 | 6.50% |
| 6 | Office | 1,401 | 183 | 6.50% |
| 1 | Supermarket | 1,121 | 320 | 6.50% |
| 1 | Hotel | 1,300 | 121 | 5.25% |
| 1 | Office | 1,401 | 205 | 6.50% |
| 3 | Retail | 1,121 | 320 | 6.50% |

Financial Assumptions

Residential Cost and Value

The residential element is assumed to consist of apartments with a 35% affordable homes apportionment. The tenure mix of affordable homes is 65% social rented and 35% shared ownership as advised by SCC.

The overall split of residential units (both private and affordable) by each phase is shown in the table below:

Residential Split & Areas

| PHASE | TOTAL NO. OF RESI UNITS | GIA M ² | GROSS – NET % | NIA M ² |
|-------|-------------------------|--------------------|---------------|--------------------|
| 2 | 16 | 89 | 80% | 71 |
| 2 | 16 | 89 | 80% | 71 |
| 2 | 16 | 89 | 80% | 71 |
| 2 | 16 | 89 | 80% | 71 |
| 1 | 42 | 87 | 80% | 70 |
| 3 | 90 | 70 | 80% | 56 |

Residential Cost & Values

| PHASE | BUILD COST £ PSM | PRIVATE SALES VALUE £ PSM |
|-------|--------------------|---------------------------|
| 2 | 1,109 | 2,750 |
| 2 | 1,109 | 2,750 |
| 2 | 1,109 | 2,750 |
| 2 | 1,109 | 2,750 |
| 1 | 1,109 | 2,750 |
| 3 | 1,408 ¹ | 3,378 ² |

1 - The build cost is assumed to be higher as the development is assumed to be greater than 6 storeys which incur a greater development cost.

2. This is an average figure and is made up of 75 units achieving £3,300 psm and 15 units (top floor units) achieving £3,767psm. This higher sales value is reflects the views of the ocean that can be seen and the more prominent location.

Other assumptions relating to the residential element of the site are:

- Social Rented Value – 50% of private value
- Shared ownership Value – 66% of private value
- 6 months pre construction
- 12 months construction period
- 50 units per year sales rate
- £250per unit pa ground rent
 - Capitalised at 6%

Car Parking

Car parking spaces have been assumed as follows;

Financial Assumptions

| PHASE | NO. OF SPACES |
|-------|---------------|
| 4 | 21 |
| 5 | 26 |
| 6 | 35 |
| 2 | 16 |
| 2 | 16 |
| 2 | 16 |
| 2 | 16 |
| 1 | 95 |
| 3 | 12 |
| 3 | 74 |

The Model assumes these spaces are developed at a cost of £2,000 per space and are delivered over 12 months build period.

General Assumptions

A number of general assumptions have also been made in order to calculate the residual value. These are:

- £1,000,000 cost towards public realm improvements, flood costs and SSE access
- Allowance of 20% developer’s profit on cost
- 5% contingency
- 15% professional fees
- 15% letting fees / 1.5% disposal fees
- Financing cost of 2% arrangement fee and 7% pa interest rate
- 5.8% purchaser’s cost
- No growth has been applied
- No s106 or CIL has been included as the proposed financial structure is that all returns from the scheme are invested in the necessary infrastructure required to unlock the development land. This is subject to SCC approval.

Priority of Payments

The priority of payments for the joint venture is structured as follows:

1. Senior debt repayment
 - a. It is assumed that the senior debt will be provided by a third party (e.g. a bank or a developer utilise internal funding sources)
 - b. It is assumed the senior debt will charge a 1% pa commitment fee and a 7% pa interest rate.
2. 90% of the residual land value paid to council
3. 10% development management and performance fee (based on residual value) paid to developer

Financial Assumptions

- a. This is to provide an incentive for the developer to achieve planning permission
- 4. 50/50 profit share (post payments in points 1-3 described above) for the council and developer

The trigger to make the payments described above is as and when agreed phases of the scheme are sold.

Rents and Capital Value Summary

| PHASE | DEVELOPMENT USE | RENT/CAPITAL VALUE | |
|-------|-----------------|--|--|
| 4 | Office | £17 psf pa | £183 psm pa |
| 5 | Office | £17 psf pa | £183 psm pa |
| 6 | Office | £17 psf pa | £183 psm pa |
| 2 | Residential | £255 psf | £2745 psm |
| 2 | Residential | £255 psf | £2745 psm |
| 2 | Residential | £255 psf | £2745 psm |
| 2 | Residential | £255 psf | £2745 psm |
| 1 | Residential | £255 psf | £2745 psm |
| 1 | Supermarket | £30 psf pa | £323 psm pa |
| 1 | Hotel | £11.23 psf pa | £121 psm pa |
| 1 | Office | £19 psf pa | £205 psm pa |
| 3 | Retail | £30 psf pa | £323 psm pa |
| 3 | Residential | £314 psf (mix of £307psf and £350 psf for the top floor units) | £3380 psm (mix of £3305 psm and £3767 psm for the top floor units) |

Financial Analysis

All options that have been appraised rely upon the upfront infrastructure costs being fully covered by way of SCC returns from the scheme and other potential sources (see section 5) in order to unlock the development land in the first place.

The returns below do not include any returns to Network Rail because although the scheme is designed so that a small proportion of phase 1 is on Network Rail land it is possible to move the design slightly to the South therefore not requiring Network Rail. This is the fall back position. Should Network Rail wish to participate it is likely that a more dense mixed use element around the station will be considered further and an appropriate return agreed.

Sell Now Option

Based on the assumptions described in the previous section the residual values can be seen in the table below.

| Phase | Build Cost | Sales Value | Residual Value |
|-------------------|-------------------|-------------------|-------------------|
| Commercial Office | ██████████ | ██████████ | ██████████ |
| Mixed Use | ██████████ | ██████████ | ██████████ |
| Mixed Use | ██████████ | ██████████ | ██████████ |
| Mixed Use | ██████████ | ██████████ | ██████████ |
| Mixed Use | ██████████ | ██████████ | ██████████ |
| Mixed Use | ██████████ | ██████████ | ██████████ |
| Mixed Use | ██████████ | ██████████ | ██████████ |
| Total | ██████████ | ██████████ | ██████████ |

This shows that in the present market conditions the commercial offices phases are not viable. The current build cost for commercial office is ██████████ and the current sales value is ██████████ on average so once you then include fees, financing and incentives this makes the commercial offices unviable

As a consequence the commercial phases are unlikely to be sold as individual sites unless a developer buys the site and mothballs until such a time that commercial uses become viable or until an alternative use can be negotiated with SCC.

However even in today's more challenging environment the mixed use phases produce a positive return and will be able to be sold.

Sensitivities

A number of sensitivities have also been reviewed, and the following table shows how they affect the overall residual value.

| Sensitivity | Impact on Residual Value |
|-------------------|--------------------------|
| Commercial Office | ██████████ |
| Mixed Use | ██████████ |
| Mixed Use | ██████████ |
| Mixed Use | ██████████ |

Financial Analysis

[REDACTED]

[REDACTED]

Single Site Joint Venture Option (Phases 1-3)

As shown above phases 4 – 6 are unviable in the base case, so these have been excluded from the joint venture analysis. This increases the overall residual value to [REDACTED] (before development management and performance fee). The table below shows the cash return to the council and developer if the JV is chosen as the Site delivery route.

| | | |
|------------|------------|------------|
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |

Single Site Joint Venture Option (Phases 1-6)

On the basis that the joint venture develops the commercial office phases on letting assumptions of an 18 month void periods, 12 month rent frees and a staggered delivery schedule for phases 4, 5 and 6 the overall residual value reduces to [REDACTED] (before development management and performance fee). The effects on the cash return to the council and developer are as follows;

| | | |
|------------|------------|------------|
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |

The table above shows that by including all phases the council would receive less land payment (which is prioritised above profit share) than it does in delivering phases 1 – 3 only because the commercial phases 4 – 6 are commercially unviable at [REDACTED]

However, there is an overall greater amount of joint venture profit to share than the total amount for phase 1 – 3 only – [REDACTED]. Caution should be had that generally if a scheme doesn't achieve a minimum developer's profit requirement [REDACTED] the developer is unlikely to proceed even under a joint venture option. However the market may be willing to subsidise sites with lower profitability in some form of cross subsidy arrangement.

Financial Analysis

Summary

CBRE considers that there is merit in SCC looking at delivering the joint venture and identifying risks with mitigation measures ensuring that any phase of development has the required profitability from the private sector’s performance measures.

It is likely that a developer will be able to commit to developing phases 1 – 3, the catalysts for change in today’s challenging marketing and agree a basis on which phases 4 – 6 will be brought forward for commercial development when the market improves. This option fundamentally allows SCC to retain the control over how and when the site is delivered, enabling the overall vision of the masterplan to be achieved and having a partner on board to leverage their skills and borrowing and proactively search for further opportunities across station quarter as things change in the future.

Network Rail

Extent of Land

Although the consultant team has proved that SCC can develop a first phase of Station Quarter without Network Rail land it is agreed by all that the incorporation of the area of land around the south entrance and exit of Southampton Central station will be beneficial to the overall site layout and maximise the available opportunity.

As described in section 4 the stakeholder update CBRE and SCC has met with Network Rail to initially discuss the work that has been done to date by SCC and the consultant team. From this meeting we are aware that Network Rail are keen to progress discussions and look at the potential a to include land around the station as well as Network Rail car parks to the North and South of the Station. In order to release these car parks a new MSCP north side would be required by Network Rail. One option is on land to the north of the station on the site adjacent to Nelson Gate owned by the Council. This is leased to Mapeley until 2015. The car park could be provided through the JV vehicle. This is of particular interest to Network Rail and is potentially a key lever for development on the south side. The delivery of this new car park could be provided through the potential joint venture.

Procurement Options

In order to incorporate any land owned by Network Rail there a number of possible solutions;

- SCC and Network Rail agree a Co-operation Agreement and a land equalisation mechanism
- SCC and Network Rail establish a joint venture to bring forward Station Quarter and the station.

There are a number potential issue with a joint venture approach;

1. From SCC perspective the station area represents only a limited area of the overall Station Quarter development and would this over complicate the overall delivery?
2. To agree a joint venture will cause a time delay in bringing forward the other phases and the marketing for a joint venture partner for Station Quarter
3. Will Network Rail require its joint venture vehicle Solum to deliver the phases involving Network rail land?

On balance CBRE feel a Co-operation agreement would be the preferred route forward complications that a joint venture poses outlined above.

CBRE and Solum (Network Rail established joint venture with Kier) met in April to discuss the site. As described later in section 10 - Solum are potentially interested in the site as a development partner.

Of particular importance is establishing which party SCC is required to progress discussions with regarding the inclusion of the Network Rail land. At the point of writing this report this is currently not yet known. However the options are believed to be as follows;

- Solum may wish to develop the land surrounding the station and therefore Network Rail will pass their interest to Solum to progress on their behalf
 - The consequence for SCC will be discussions with Solum directly
- Solum may not have capacity or interest in developing the land around the station
 - The consequence for SCC will be progressing discussions with Network Rail

Network Rail

It should be noted that in any case South West Trains as the current TOC is likely to be a stakeholder in moving forward.

Solum had a board meeting on 26th April where members from Network Rail and Kier discuss the issue. CBRE and Solum met in early May to discuss this matter further, Solum is planning on confirming its level of interest in the site by the end of May which will then lead to a clear strategy for engaging with Network Rail and marketing the site.

The implications for SCC are that it may affect the delivery options available for the whole of Station Quarter. Below are lists of potential options and considerations that will need to be fully worked through before a delivery route can be progressed;

Option 1

- Solum (as Network Rail joint venture) wishes to become SCC joint venture partner for all of Station Quarter
 - Is SCC getting best value by selecting Solum as joint venture partner?
 - This would be normally established through an open and transparent bidding process however would other developers bid given Solum’s unique position?
 - Is Solum therefore in a special purchaser category?

Option 2

- Solum wishes only to be involved with the station forecourt area only
 - Can SCC progress with an overall developer selection process for Station Quarter and then once appointed the SCC Station Quarter joint venture will negotiate with Solum on this particular phase and then deliver the remaining elements?
 - CBRE thinks this is likely to be too complicated for other developers
 - SCC will still need to establish best value even for this phase in isolation

Option 3

- Solum does not have the capacity or desire to progress with any of Station Quarter and Network rail agree to include their land through a Co-operation Agreement
 - SCC and Network Rail need to agree the principles of a Co-operation Agreement before wider marketing for developer partner commences

The above options will need to be progressed once SCC, Network Rail and Solum have agreed the next steps.

Soft Market Testing

Following the analysis which suggested that the Station Quarter development is best delivered through a single site joint venture a number of developers were approached to test and discuss this concept along with a number of other development principles.

SCC and CBRE discussed the following topics with developers;

1. Explain the background, city centre master plan, design concept and market review work undertaken
2. Run through stakeholder feedback which has led to the first developable areas being identified around the station and next to ten police, with possibility of road downgrading
3. Catalyst for change around station area – mixed use, small super market
4. Offices around police station area
5. Linkages with town centre
6. Discuss uses types in general and their view on occupier demand / viability
7. Discuss SCC moving forward with discussions with SSE or waiting for developer input
8. Discuss with developers the single site joint venture approach.
9. Discuss the extent of the red line; around all of station q, phases 1-3 only or 1-6 only
10. Discuss the option of NR land – station forecourt and car park plus option of areas to the north
11. Discuss the road downgrade and funding options

Bouygue

CBRE meet with Shaun Adams on 14th March 2012.

Bouygue preferred red line boundary of the site “The bigger the better.” They would like the boundary to cover phases 1 – 6 and wider.

Regarding SSE strip of land; “The Council should get on with securing access and not wait around.” The linkage is key to accessing the town centre and making the most of the development.”

NR and SCC combined approach “We would encourage SCC and NR to agree to bring the site forward together. It would be an issue if NR were not on board.”

Bouygue are in principle interested in bidding to be SCC joint venture partner.

Kier

CBRE met Andrew White and George Shepherd on 21st March 2012.

Kier preferred red line boundary “All of Station Quarter would be preferred as it gives more flexibility.”

Regarding the SSE access – “Suggest Council progresses discussions and Heads of Terms now.”

Soft Market Testing

CBRE and Kier had a discussion on the likely infrastructure costs, Kier stated they would seek comfort before bidding that there was a realistic basis to bring this site forward and cover the cost.

Another comment was "Make the bidding process as short and cost effective as possible for bidders. Really look at cutting down design elements. Kier would rather agree principles, concept and strategy and then design post selection." If bid costs are too high Kier may not be able to tender.

St James Investments/ Land Securities

CBRE met with Christopher Borkowski from St James Investments on 23rd March 2012 and spoke with Chris Ward from Land Securities.

"The site is of interest due to the pragmatic approach of SCC and their advisers."

"A joint venture is the most appropriate solution for this site given its long term enough."

This is a joint venture that St James Investments would be interested in partnering with Land Securities as they have done on other town centre developments with a retail component.

St James Investment discussed the advantages if Aviva or Toy R Us would come on board and this could still happen over the long term.

Solum Regeneration

SCC and CBRE met with Simon Rutter, Director of Solum Regeneration on 9th March 2012 and 11th April 2012.

Solum is a joint venture between Network Rail and Kier set up in 2009 using the competitive dialogue process. Simon Rutter suggested there may be scope for the SCC avoiding OJEU procurement should Solum be selected as a partner. CBRE and SCC need to investigate this further.

Solum showed interest in the site and wanted to review the design detail further when it becomes available. Solum advised SCC that there could be advantages of Solum taking the developer lead with Kier fronting the construction side including any infrastructure.

Galliford Try / Linden Homes

CBRE spoke with Matt Paine from Linden Homes and David Ashworth from Galliford Try regarding the Station Quarter opportunity.

Given the residential components Galliford Try would look to bring Linden Homes on board. Linden Homes said they may be interested however there might be more desirable locations that this site for a residential development but they would review when the details come out. Linden Homes did confirm that views of the ocean from the potential tower would be desirable and potentially make a premium but this would need to be reviewed in the context of residential developments with ocean views more closer to the water at the time of development.

Strategic Marketing Advice and Recommendations

Once the Network Rail / Solum position has been established this will enable SCC to establish a clear disposal strategy.

The options are likely to be one of the following;

- Agree a deal with NR and Solum under an exclusive user route given the importance of NR's land. Solum's interest will be confirmed by June 2012 and it is likely to take between 3 and 6 months to agree a deal.
- If Solum are not interested in developing out the site then the next step is to agree a Co-operation Agreement, this is likely to take approximately 3 months.
- Once a Co-operation Agreement (or whatever form of agreement is reached) then the pre market process stage will commence. This is likely to include;
 - Finalizing the Infrastructure Funding Strategy
 - Progressing terms with SEE to purchase rights of way
 - Populate a data room with site information such as title, planning requirements, environmental information etc
 - Appoint legal advisers and agree the procurement route (OJEU, competitive dialogue or otherwise). Not it is important that a short and well managed procurement process is implemented not requiring extensive resources from the bidders' perspective.
 - Agree procurement timetable
 - Design a marketing brochure

This stage can be run in parallel with agreeing the Co-operation Agreement with NR.

Procurement Timeline

Legal advice will be needed on whether the Council needs to pursue a Competitive Dialogue process or can use a Negotiated Procedure. It is noted that the latter procedure has been used in the market on a number of circumstances recently.

However, the timetable below is a high level indication of a recommended procurement timetable post the above stages being completed:

- Stage 1 Procurement Process – MOI/PQQ (6 weeks)
- Evaluation period of PQQs and select three partners to pursue competitive dialogue (1 month)
- Stage 2 Competitive Dialogue period (2 months)
- Final Tender preparation stages and submission (1 month)
- SCC evaluation of Final Tender and selection of preferred partner (1 month)
- Legal and Financial Close (2 months)

Next Steps

There are a number of next step actions that SCC can take forward to enable the delivery of Station Quarter;

- Progress discussions with NR/Solum – establish the Solum potential interest in the site and understand fully the overall procurement implications for a development partner if appropriate. Agree the principles of the co-operation agreement or joint venture approach including future investment in Central Station if possible.
- Produce an Infrastructure Funding Strategy – this will be an essential document to provide any potential development partner with comfort that the Council has a clear, defined strategy on how it will fund the essential infrastructure works which will unlock the first phases of Station Quarter.
- Agree a right of way with SSE – although the Council could wait until a private sector partner is onboard to progress these discussions CBRE and the private sector believe this link is of great importance to the overall objectives of SCC in linking the station with the town centre. We also believe that this link will enhance commercial value in the area, providing the necessary footfall to change the image and vibrancy. By delaying discussions with SSE this could ultimately increase the expected purchase price for SCC should the links importance register with the owner. This risk increases with time.
- Agree an overall development partner procurement strategy. Establish clear deliverables / actions to be undertaken prior to marketing.