

<b>MIDDLESBROUGH COUNCIL</b>	
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<b>Report of:</b>	Director of Regeneration
<b>Relevant Executive Member:</b>	Executive Member for Development
<b>Submitted to:</b>	Executive Sub-Committee for Property
<b>Date:</b>	2 April 2025
<b>Title:</b>	Part A - The disposal of land and assets at Gresham to Middlesbrough Development Corporation (MDC).
<b>Report for:</b>	Decision
<b>Status:</b>	Public
<b>Council Plan priority:</b>	A successful and ambitious town
<b>Key decision:</b>	Yes
<b>Why:</b>	Decision(s) will incur expenditure or savings above £250,000
<b>Subject to call in?:</b>	Yes
<b>Why:</b>	Non-urgent

<b>Executive summary</b>	
<p>This report outlines the proposed disposal of land and assets owned by the Council at Gresham to Middlesbrough Development Corporation, for nil consideration, to facilitate a significant mixed-use development. The land and assets would be transferred at no financial value, due to there being no potential for a commercial value to be generated from a sale of the existing area.</p> <p>Disposal of the land and assets in this manner has the potential to secure significant economic benefits for the town and would transfer the risk of any future revenue and capital cost liabilities, associated with the maintenance and remediation of The Crown, to MDC.</p> <p>The Council has the option not to dispose of the land and assets. However, in the absence of significant gap funding into the viability of the site, there is little or no development interest due to market forces. The potentially onerous cost of development in this town centre location makes it an unattractive development opportunity, without significant support from public funds. Retaining the site would not deliver economic benefits or generate council tax income, which might otherwise arise by the Council developing the area.</p>	

Due to the commercially confidential nature of some of the information referred to in this report it has been included in Part B.

## **1. Purpose**

- 1.1 To consider the transfer of land and assets owned by the Council at Gresham over to the Middlesbrough Development Corporation for nil consideration, to facilitate a significant mixed-use development proposal which will benefit the local area and town centre.

## **2. Recommendations**

### **2.1 That the Executive**

- a) notes the information contained in Part A of the report;
- b) following consideration of the commercially confidential or exempt information contained in Part B of the report, approves the transfer of land as detailed in recommendations c, d and e below, subject to receiving written assurances from the Middlesbrough Development Corporation around the mix and quality of the development being sought;
- c) subject to recommendation b, approves the transfer of 1.64ha of land bounded in red in Plan 1 to the Middlesbrough Development Corporation at nil consideration.
- d) subject to the recommendation b, approves the transfer of no. 147, 149 and 151 Linthorpe Road to the Middlesbrough Development Corporation at nil consideration; and,
- e) subject to recommendation b, approves the transfer of no. 143 Linthorpe Road (The Crown) to the Middlesbrough Development Corporation at nil consideration.

## **3. Rationale for the recommended decision(s)**

- 3.1 The land and assets would be transferred at nil consideration, as there is no potential for a commercial value to be generated within the development scheme. Transferring the land and assets to MDC for future development will likely secure significant economic benefits for the town.

## **4. Background and relevant information**

### Lease to Thirteen

- 4.1 Historically, the subject land was acquired under a Compulsory Purchase Order (CPO). Although the general authorised purpose of the CPO was stated as being for "the purpose of development, redevelopment or improvement on the land to contribute to the promotion or improvement of the economic, social and environmental well-being

of Newport ward, Middlesbrough”, it had originally been envisaged that this land would be a site for a major Student Village.

- 4.2 The Council was subsequently advised by Teesside University that the need for a major student village development would be reduced, due to the completion of the Cornell development. As a result, on the 16<sup>th</sup> February 2021 Executive approved the disposal of the land at Gresham to Thirteen Housing Group on a 999-year lease at nil consideration.
- 4.3 The disposal was to facilitate Phase 2 of housing development, following initial approval by Executive in August 2019 to lease the Phase 1 housing site to Thirteen.
- 4.4 Market research undertaken by Thirteen had identified that there was demand for high quality affordable homes close to the amenities in the town centre and proposed a mix of mews houses, apartments and bungalows, based on the needs of local residents, to create a modern housing offer for the community.
- 4.5 The Council commissioned independent chartered surveyors, Lambert Smith Hampton (LSH), to carry out a Red Book valuation of the land, based on Thirteen’s development appraisal and layout. The LSH valuation concluded that the development proposal would not generate a payment of a capital receipt to the Council as it was not viable in pure market terms.
- 4.6 Thirteen commenced work to bring a Phase 2 development forward but no viable scheme was ever presented as an option and the proposed 999-year lease was never entered into.
- 4.7 The land has remained in the Council’s ownership, with the temporary car parks on Amber and Garnet Street continuing to be operational. MDC is keen to take possession of the car parks as soon as any decision is confirmed but they do not want to operate the car parks. With this in mind, it is MDC’s preference to delay completion of the transfer until the Traffic Regulation Order has been executed and the car parks have been officially closed.

#### Linthorpe Road properties

- 4.8 The Council acquired numbers 147, 149 and 151 Linthorpe Road for demolition, in order to provide a breakthrough access from the Gresham site to Teesside University’s campus as part of the proposals to develop a Student Village.
- 4.9 In August 2019, Executive agreed the sale of part of the Gresham site (including the three Linthorpe Road properties) to the University to facilitate the Student Village Development, but the offer was subsequently withdrawn as such large-scale development was no longer required at that time.
- 4.10 The Linthorpe Road properties are currently vacant.

## The Crown

- 4.11 On 24<sup>th</sup> January 2023, the previous administration approved the acquisition of The Crown by the Council, following a prolonged period of vacancy and decay. The report also gained approval for revenue holding costs to cover insurance, security, utilities and responsive maintenance costs for each year that the asset is held.
- 4.12 A business case was due to be developed, when the building was acquired, to restore and convert the spaces to a commercially viable use, which included a diverse range of uses including public, commercial, leisure and cultural spaces, as a critical part of the transformation of Middlesbrough's town centre.
- 4.13 It was envisaged at the time that the asset could present a consolidated development opportunity, if coupled with the adjacent land in Gresham, and could form part of the collaborative works with the emerging MDC.
- 4.14 MDC commissioned a Pre-Acquisition Survey Report from Sanderson Weatherall in July 2024 to identify any defects or inherent factors prior to the transfer of the freehold interest. The report was undertaken on the assumption that the property will be re-instated and repaired to some extent in its current format and did not include for any potential re-use options.
- 4.15 The report stated that there were a significant number of issues that will require attention, and whilst the property from the initial inspection was structurally stable, extensive works would be required to bring it up to current standards and back into beneficial use.
- 4.16 The report concluded that the anticipated costs of remediating the defects and inherent factors would be in the region of £3,359,434.05 excluding VAT and professional fees.

## Middlesbrough Development Corporation (MDC)

- 4.17 MDC is a legal entity managed by Tees Valley Combined Authority and was formally established on 27 February 2023. It has a remit to fund, manage and accelerate regeneration in Middlesbrough town centre, Middlehaven and the Historic Quarter.
- 4.18 Under its powers, MDC can request a Secretary of State determination that any publicly held assets be transferred to its ownership at nil consideration. Since the intention to set up the MDC was announced by the Tees Valley Mayor, discussions around the potential transfer of Council assets have taken place.
- 4.19 The subject land and assets recommended for disposal in this report were identified in the Mayoral Development Corporation – consultation report that was endorsed by Executive on the 22 February 2023, for the delivery of a mixed-use development to regenerate Gresham.
- 4.20 The previous proposal to transfer a number of Council assets over to the MDC has been paused by the Secretary of State due to wider concerns over the governance of mayoral development corporations.

- 4.21 The most recent correspondence received from the Ministry of Housing, Communities and Local Government (MHCLG), dated 6<sup>th</sup> August 2024, stated that the decision to restart the asset transfer process will be dependent on the Deputy Prime Minister reviewing the Mayor of the Tees Valley's action plan to implement the recommendations of the Tees Valley Review. The Council has yet to be advised of the outcome of this review.
- 4.22 The Council has continued to engage with MDC regarding the proposed transfer of assets throughout this process and has incurred significant holding costs in doing so.
- 4.23 Irrespective of formal confirmation of the wider asset transfer, the Council has agreed to actively progress the voluntary transfer of the Gresham assets, on a case-by-case basis, subject to development appraisal due-diligence and the Executive approval recommended in this report.
- 4.24 To protect the long-term future of the area, the transfer of the land to the MDC would include an appropriate 'buy-back' clause in the event of little or no development taking place within an appropriate timescale.

#### MDC Development Proposal

- 4.25 MDC has submitted a development appraisal produced by CBRE of its proposed Gresham scheme, which includes the demolition of numbers 149 and 151 Linthorpe Road and the construction of:
- a) a new hotel with 201 bed spaces.
  - b) 238 build to rent apartments; and,
  - c) 459 bedspaces of purpose-built student accommodation.
- 4.26 The CBRE development appraisal illustrates that the total scheme costs exceed the gross development value and as a consequence does not generate a residual land value for the Council.
- 4.27 The appraisal does not include plots including The Crown, that are not currently part of the development proposals. Whilst it is reasonable to assume that the remainder of the site would be extrapolated to demonstrate a similar viability gap, it should be noted that the development appraisal as presented only relates to part of the land and assets that will be transferred to MDC.
- 4.28 The development appraisal is attached as Appendix 1 to Part B of this report.
- 4.29 As the Council would not be determining the planning application for the development, it is essential that assurances are sought from the MDC as to the nature and mix of the development, and the quality standards that are being sought, to ensure that the best possible impact can be achieved for the local area.

## Land and Property Values

4.30 Align Property Partners have produced Asset Valuations of the land and assets, which this report seeks approval to transfer to MDC to facilitate the proposed development. The Asset Valuation process is used to establish the net sum that is recorded on the Council's Asset Register, and reflects the value at a specific point in time – not the future holding or development costs.

4.31 The total of the individual valuations currently held on the Council's Asset Register is set out below:

Gresham land:	£476,000
Amber Street car park:	£199,000
Garnet Street car park:	£11,000
147, 149 and 151 Linthorpe Road:	£250,000
The Crown, 143 Linthorpe Road:	<u>£450,000</u>
<b>Total value:</b>	<b><u>£1,386,000</u></b>

4.32 The development appraisal produced by CBRE is predicated on the layout, scheme and cost information provided by MDC and concludes that the development proposal will not generate a residual surplus and therefore, there would be no payment of a capital receipt to the Council for the site.

4.33 A combination of fundamental appraisal factors has driven the residual value down and generated a negative land value, which has led CBRE to conclude that the scheme is not viable in pure market terms.

a) Income – the investment value that has been applied to the rent of the hotel rooms, build to rent apartments and purpose-built student accommodation is not capable of generating the level of income required to cover the cost of the development scheme.

b) Development Costs – the build costs in the development appraisal reflect the challenges and risks associated with developing a brownfield site in a town centre location.

4.34 From a valuation perspective, the proposal to dispose of the land and assets for nil consideration is therefore reasonable in consideration of the factors set out above and the proposed private treaty transaction is deemed to accord with the Council's asset disposal protocol.

4.35 The Asset Disposal Business Case (ADBC), attached as Appendix 1, confirms the proposed disposal value of the land and building assets to be £Nil. This valuation assessment reflects the significant cost quantum of bringing the mixed-use proposal forward on this previously developed but prominent brownfield town centre gateway site.

## Wider Socio-Economic Benefits

- 4.36 The absence of a capital receipt cannot be considered in isolation. The wider socio-economic benefits to the town must also be considered. The transfer of the land and assets will facilitate the redevelopment of a key gateway site and deliver economic benefits for the town.
- 4.37 MDC has submitted an Economic Case for the proposed development. The Economic Case has been developed in line with HM Treasury Green Book Business Case guidance, but the Council has not had sight of the Strategic, Commercial, Financial or Management cases required under the Green Book methodology.
- 4.38 The Economic Case provides an analysis of the following impacts associated with the development proposals over a 30-year period:
- a) Regeneration impact on existing stock value effects (£19.2m);
  - b) Wider externalities, covering:
    - Disamenity removal impacts (£2.8m);
    - Open Space benefits (£6.2m); and,
    - Crime reduction impacts (£25.5m).
- 4.39 In addition to the monetary impacts outlined above, the economic case states that the development could unlock a range of wider economic and social impacts, across Middlesbrough and the wider tees valley, including, the creation of jobs during the construction period and the attraction and retention of graduates.
- 4.40 The Economic Case is attached as Appendix 2 to Part B of this report.
- 4.41 In addition to the above, the proposed disposal of The Crown will transfer the estimated liability of £3,359,434.05 to remediate the defects to MDC.
- 4.42 The Members for Newport Ward and Central Ward have been briefed in relation to the proposed land and asset disposal.

## **5. Other potential alternative(s) and why these have not been recommended**

- 5.1 The Council has the option not to dispose of the land and assets, but the site has been subject to little or no interest due to market forces, and the potentially onerous cost of development in this town centre location makes it an unattractive development opportunity. Retaining the site would not deliver the economic benefits associated set out in the business case or to generate additional council tax income.
- 5.2 The site has been allocated for housing in the emerging Local Plan which was subject to extensive consultation. The disposal of the site will facilitate housing growth and support Middlesbrough's aspirations as a place where people want to live and ensuring that high quality housing is available to all.

## 6. Impact(s) of the recommended decision(s)

Topic	Impact																																																																																						
Financial (including procurement and Social Value)	<p>Asset valuation reports produced by Align estimate the land and assets are valued at £1,386,000. The development appraisal undertaken by CBRE, however, shows that the build costs associated with the development and investment value that has been applied to the rental income, and therefore would not generate a capital receipt for the Council.</p> <p>The potential loss of this income that would have been achieved by the Council through individual sales, needs to be considered alongside the anticipated capital costs that the Council would be required to incur to bring The Crown up to current building standards and back into beneficial use. These costs are estimated to be £3,359,434, exclusive of any professional fees associated with the works. The table below shows the net Capital impact to the Council as a result of the asset transfers.</p> <table border="1"> <thead> <tr> <th colspan="3">Potential Loss Of Capital Receipt - Based On Asset Valuation</th> </tr> <tr> <th></th> <th>Asset Value</th> <th>Valuation Date</th> </tr> </thead> <tbody> <tr> <td>Gresham Land</td> <td>476,000</td> <td>9th January 2023</td> </tr> <tr> <td>Amber Street Car Park</td> <td>199,000</td> <td>9th January 2025</td> </tr> <tr> <td>Garnet Street Car Park</td> <td>11,000</td> <td>22nd October 2024</td> </tr> <tr> <td>147, 149 &amp; 151 Linthorpe Road</td> <td>250,000</td> <td>26th October 2021</td> </tr> <tr> <td>The Crown</td> <td>450,000</td> <td>11th January 2023</td> </tr> <tr> <td><b>Total Potential Loss Of Capital Receipt</b></td> <td><b>1,386,000</b></td> <td></td> </tr> <tr> <td>Offset Through No Requirement To Remediate The Crown</td> <td>-3,359,434</td> <td></td> </tr> <tr> <td><b>Financial Capital Benefit To The Council Resulting From The Asset Transfer</b></td> <td><b>-1,973,434</b></td> <td></td> </tr> </tbody> </table> <p>Upon completion of the development, the Council will receive annual council tax income of £329,128 per annum. This is based on the development of 238 build to rent apartments with an average property band A and using 2025/26 Council Tax figures. As band A properties are assumed as the average dwelling for this type of development, this would therefore be the minimum amount of Council Tax income receivable by the Council. It may be higher if other higher banded council tax dwellings are built.</p> <p>In addition, the Council would receive business rates through the development of the hotel. The exact value will not be known until the building is brought into rating by the Valuation Office, however, using the business rates received from a similar hotel as a comparator, it is prudent to assume that the Council will receive £70,000 per annum from the hotel.</p> <p>There are other revenue considerations in respect of the transfer, the table below shows the permanent full year effect of the development, should all of the properties be built in accordance with the economic business case provided by MDC.</p> <table border="1"> <thead> <tr> <th colspan="7">Annual Permanent Revenue Impact Arising From The Transfer Of The Gresham Land</th> </tr> <tr> <th></th> <th>2025/26</th> <th>2026/27</th> <th>2027/28</th> <th>2028/29</th> <th>2029/30</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Reduced Maintenance Budget Relating To The Crown</td> <td></td> <td>-150,000</td> <td></td> <td></td> <td></td> <td>-150,000</td> </tr> <tr> <td>Loss Of Net Operating Income - Amber / Garnet St Car Parks</td> <td></td> <td>40,000</td> <td></td> <td></td> <td></td> <td>40,000</td> </tr> <tr> <td>Estimated Council Business Rates Uplift - New Hotel</td> <td></td> <td></td> <td></td> <td>-70,000</td> <td></td> <td>-70,000</td> </tr> <tr> <td>Additional Council Tax - 238 New Dwellings</td> <td></td> <td></td> <td></td> <td></td> <td>-329,128</td> <td>-329,128</td> </tr> <tr> <td>Business Rates - 147, 149 &amp; 151 Linthorpe Road</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0</td> </tr> <tr> <td><b>Total Revenue Impact</b></td> <td></td> <td><b>-110,000</b></td> <td><b>0</b></td> <td><b>-70,000</b></td> <td><b>-329,128</b></td> <td><b>-509,128</b></td> </tr> </tbody> </table>	Potential Loss Of Capital Receipt - Based On Asset Valuation				Asset Value	Valuation Date	Gresham Land	476,000	9th January 2023	Amber Street Car Park	199,000	9th January 2025	Garnet Street Car Park	11,000	22nd October 2024	147, 149 & 151 Linthorpe Road	250,000	26th October 2021	The Crown	450,000	11th January 2023	<b>Total Potential Loss Of Capital Receipt</b>	<b>1,386,000</b>		Offset Through No Requirement To Remediate The Crown	-3,359,434		<b>Financial Capital Benefit To The Council Resulting From The Asset Transfer</b>	<b>-1,973,434</b>		Annual Permanent Revenue Impact Arising From The Transfer Of The Gresham Land								2025/26	2026/27	2027/28	2028/29	2029/30	Total	Reduced Maintenance Budget Relating To The Crown		-150,000				-150,000	Loss Of Net Operating Income - Amber / Garnet St Car Parks		40,000				40,000	Estimated Council Business Rates Uplift - New Hotel				-70,000		-70,000	Additional Council Tax - 238 New Dwellings					-329,128	-329,128	Business Rates - 147, 149 & 151 Linthorpe Road						0	<b>Total Revenue Impact</b>		<b>-110,000</b>	<b>0</b>	<b>-70,000</b>	<b>-329,128</b>	<b>-509,128</b>
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	<p>The development appraisal provided by MDC does not include plots of land including The Crown. On the assumption that this land will also be developed, the Council would be in receipt of additional revenue income.</p>
<p>Legal</p>	<p><u>Middlesbrough Development Corporation</u></p> <p>At the time of writing, the compulsory powers of Middlesbrough Mayoral Corporation to acquire the land in Gresham are on hold. All the Council's governance processes and requirements of the Council's Asset Disposal Policy must therefore be observed as normal throughout the disposal process.</p> <p><u>Best Value</u></p> <p>The Council has a statutory duty to dispose of land for the best consideration that can be reasonably obtained.</p> <p>The Council must therefore justify its powers of disposal under Section 123 of the Local Government Act 1972 and the General Consent under Circular 06/03, and the transaction must be documented in accordance with required legal procedure.</p> <p><u>CPO</u></p> <p>Historically, the land was acquired under a CPO. Although the general authorised purpose of the CPO was stated as being for:</p> <p>"the purpose of development, redevelopment or improvement on the land to contribute to the promotion or improvement of the economic, social and environmental well-being of Newport ward, Middlesbrough"</p> <p>It had originally been envisaged that the land would be a site for a student village.</p> <p>In 2020, external legal advice was sought on the implications of changing the scheme after Teesside University pulled out of the student village proposal. The advice received indicated that the Council could change the scheme for a similar purpose by virtue of the wide definition (given above) for the authorised purpose given in the CPO, but opinion has not been sought on this particular scheme.</p> <p><u>General disposal options</u></p> <p><u>Freehold transfer</u></p> <p>A transfer of the legal freehold interest in the site would be a disposal of our remaining interest in the Gresham site and each of the additional properties.</p> <p><u>Virtual Freehold</u></p> <p>The transaction of Phase 1 of the Gresham redevelopment proceeded by way of a 999-year development lease with the Council retaining the freehold interest in the site. A similar arrangement would also work here.</p> <p>The benefits of retaining the Freehold interest are that the Council would keep a certain degree of control over the tenant throughout the agreed term.</p>
<p>Risk</p>	<p><u>O1-045 Housing Programme does not meet projected targets</u> The proposed development would deliver 238 build to rents apartments and reduce the risk of the target not being achieved.</p> <p><u>O1-005 Targeted investment within Middlesbrough disproportionately affected by low economic growth</u></p>

	<p>The transfer of the land and assets would facilitate a significant capital investment in the town centre and have a positive impact on the above risk.</p> <p>If the proposed disposal were not to proceed the Council would continue to be responsible for the annual revenue costs to maintain The Crown and any future capital expenditure on remediation.</p> <p><u>Development Feasibility.</u> This report only deals with the land disposal matters in Gresham. The Council will have no involvement in the funding, commercial arrangements, development finance or delivery associated with the proposal</p>
Human Rights, Public Sector Equality Duty and Community Cohesion	The attached Impact Assessment, attached as Appendix 2, has concluded that the decisions would not have any disproportionately negative impacts.
Climate Change / Environmental	<p>The proposed development will adhere to all current Planning and Building Control requirements.</p> <p>Whilst this proposal concerns the development of a brownfield site, any subsequent planning application would be required to mitigate the impacts of development and improve an area's ability to host biodiversity</p>
Children and Young People Cared for by the Authority and Care Leavers	The attached Impact Assessment, attached as Appendix 2, has concluded that the decisions would not have any disproportionately negative impacts.
Data Protection	Not Applicable

### Actions to be taken to implement the recommended decision(s)

Action	Responsible Officer	Deadline
Assurances to be sought from the MDC regarding the overall mix and quality of development.	Director of Regeneration	April 2025
Subject to Executive approval, the Council will commence the preparation of legal documents to facilitate transfer of the identified land and building assets to MDC.	Valuation and Estates Manager	May 2025

### Appendices

1	Asset Disposal Business Case
2	Impact Assessment.

## Background papers

Body	Report title	Date
Executive	Gresham Housing Phase 2 – Long Term Lease	16 <sup>th</sup> February 2021
Executive	Town Centre Property Purchase	23 <sup>rd</sup> January 2023
Executive	Mayoral Development Corporation – Consultation	22 February 2023

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