

To: Economy and Regeneration Policy Board

On: 7 November 2023

Report by: Chief Executive

Heading: Paisley Centre redevelopment - update

1. Summary

1.1 The purpose of this report is to provide an update on the proposed redevelopment of the Paisley Shopping Centre since grant of planning permission in principle in March 2022. The report highlights aspects such as deliverability, cost and funding of the proposals and overall commercial viability challenges that have been assessed to deliver the scheme.

1.2 The currently proposed development by Beyond Retail is not considered viable for 100% private sector funding, therefore the suggested approach is for a detailed business case to be prepared by the shopping centre owner which would highlight any potential role for the public sector in supporting a viable proposal.

2. Recommendations

2.1 It is recommended that the Board:

- i. Notes the content of this report;
 - ii. Agrees that the Council will continue to work in conjunction with Beyond Retail to further develop a full business case for the proposed redevelopment of the Paisley Centre site;
 - iii. Notes that regular update reports will be brought back to board as the business case is progressed.; and
 - iv. Notes that in due course Beyond Retail's business case will be brought to board for consideration;
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3. Background

- 3.1 The Paisley Centre was opened in 1992 and became the second principal shopping mall in Paisley Town Centre, after the Piazza Centre at Gauze Street. Like all shopping malls it has gone through periods of transition as shopping habits and formats have changed. In recent years as footfall has moved away from town centre to other locations and to online purchasing, the Centre has seen significantly reduced demand for its available units.
- 3.2 Currently the Centre runs with approximately 50% vacancy, with the former Co-op Department Store occupied on a temporary basis by both Outspoken Arts (Big Art Show) and PACE Youth Theatre.
- 3.3 In 2020, Beyond Retail purchased the shopping centre with the purpose of exploring repurposing and redevelopment options. They engaged early with Council officers in pre-application discussions which led to the submission of a “masterplan application” in November 2021. This application for a mixed-use redevelopment, including residential, hotel, health centre, offices, retail and leisure was approved by the Council’s Planning Board in March 2022.

4. What has happened since March 2022

- 4.1. Over the last 18 months Beyond Retail have further developed their plans and involved the Council in various discussions about how the proposal (both collectively and for the various individual elements) may be funded. Both parties agree that a comprehensive approach to the redevelopment of the space will result in more positive outcomes for the town centre than that delivered via an incremental approach which looked at parts of the site in isolation.
- 4.2 During discussions and following supplementary research undertaken by both the Council and Beyond Retail, it has become clear that the proposals suffer from “market failure” and would not support a viable commercially led development approach. This is not an uncommon challenge in town centre contexts where the costs of delivering the development proposed is significantly higher than the commercial value that would be placed on the resulting product rendering the development proposal commercially unviable to deliver. This presents a set of circumstances where deliverability of the development will not take place without some form of public sector intervention to support deliverability and wider regeneration objectives.

Hotel proposal

- 4.3 Beyond Retail are seeking to refurbish part of the Paisley Centre (building fronting New Street) for a 129-bed hotel which would be operated by a national hotel brand. This would include refurbishing the existing property as well as adding a storey to the top of the building. The existing restaurant unit at New Street (currently Barga) would be retained as would the pend vehicle access into the centre of the development (currently service yard access).
- 4.4 Both Beyond Retail and the Council have commissioned financial appraisals from specialist sectoral consultants of the viability for the proposed hotel.

Both appraisals independently conclude that although strong demand for a quality hotel offering within central Paisley is achievable, it is not sufficiently attractive to achieve commercially investable status that would attract a private sector led development and would require public intervention to be deliverable.

- 4.5 Council led intervention in similar non-commercially investable hotel developments have been undertaken across the UK. Although not exclusively, typically, this has involved an approach generally known as an “income strip” funding model. This involves the Council agreeing to a long lease of the completed hotel with ownership transferring (to the Council) at the end of a typically a 35-year lease period, with an operator running the hotel on behalf of the Council. During the lease period the Council would be liable to pay the annual lease costs to an investor with the year 1 lease cost typically set at 50% of projected stabilised income levels and adjusted annually for inflation throughout the life of the lease. The annual lease payments would be funded from the operating profits of the hotel facility which would flow to the Council with any excess being retainable by the Council to establish a fund to manage the commercial and financial risk over the long-term period of the lease. A strong business case would be expected to provide a significant lease coverage ratio to demonstrate confidence that throughout the life of the development the income streams to the Council would materially exceed the lease costs, would provide acceptable outcomes within sensitivity scenarios and provide the opportunity to establish a long term fund to protect against commercial and financial risk given the long term nature of the project.

Residential & Retail proposal

- 4.6 The proposal emerging from Beyond Retail is to construct 80 high quality residential apartments in the centre of the current shopping mall site, extending from High Street to the existing service yard. This would also involve demolishing the former M&S unit, which is also owned currently by Beyond Retail.
- 4.7 Normally, on a cleared site, the development of this number of residential units would be economically viable for either sale or as is increasingly being witnessed across the UK as part of a long term private rental portfolio. However, in this instance the estimated demolition and site preparation costs are acting as a major commercial inhibitor which undermines the commercial viability of a residential development of this nature. Due to this, Beyond Retail have approached the Council to explore opportunities for a form of public sector led residential development that could support a range of range of potential mix of tenures, including potentially social rented (through housing association) and or a privately rented model.
- 4.8 In order to fully understand the market context and potential demand for the proposed uses, Council officers commissioned a residential development expert to advise on the viability and likely demand for such properties in this location for rent.

This report confirmed that although market analysis would indicate an expectation of strong demand for 80 quality flats within a private rented model, the level of sustainable long term rental income within the context of the Paisley private rental market would generate an associated commercial value which would be significantly less than the cost to deliver the residential development.

- 4.9 This reflects the high costs associated with the demolition, site assembly and associated public realm in addition to the core construction costs as set against the level of rents within the Paisley area. This work confirmed that if residential development was to be deliverable as part of an overall development it would, like the hotel proposal, require some form of Council led public sector involvement and or intervention utilising for example an income strip style of model.
- 4.10 The proposed development also consists of a significant floorspace for retail, leisure and food & drink units (circa 3,000 sqm), primarily at ground floor across the residential development, including at Paisley High Street. This is considered preferable from a planning and design perspective as it will keep ground floor frontages active throughout the day and evening. No specifics are determined yet for these aspects, but the developer's preference would be to introduce an element of convenience (food) shopping to this mix and would be targeting a pre-let ahead of construction delivery. It would be expected that the retail element would potentially form part of any income strip model developed albeit financially this would be on a much smaller scale than either the hotel or residential elements of the development.
- 4.11 Another aspect discussed with the developer has been the introduction of an open plaza / square to the rear of the existing Paisley Arts Centre as part of the public realm space and the costs to deliver this would require to be underpinned across each element of the overall masterplan development.

Health Centre proposal

- 4.12 Circumstances surrounding the health centre proposal remain unchanged from 2022. Beyond Retail held initial discussions with NHS Greater Glasgow and Clyde in 2021 about the potential for a new health centre investment in Paisley Town Centre. The outcome of these has been that the NHS are still undertaking reviews of current service provision and are not yet able to reach a decision on the Paisley context.
- 4.13 The health centre proposal is planned to front the St Mirren Brae / Causeyside Street aspect of the development site. The footprint would essentially cover the former Co-op Department Store. This remains within Beyond Retail's current plans but will be monitored and reviewed as required going forward.

5. Business Case Development

- 5.1. During exploratory high-level discussions to date with Beyond Retail and work progressed by officers, it has been established that the site exhibits strong market failure characteristics.

This reflects the specific complexities and high anticipated costs associated with redeveloping this site coupled with the inherent ceilings of market values deliverable within Paisley's commercial and housing sectors. As such, successfully delivering a commercially led redevelopment is unlikely to be achievable and it is highly probable that some form of public sector intervention would be required to create circumstances that would support a deliverable masterplan.

- 5.2 The proposed models suggested by Beyond Retail that could underpin a potential partnership approach to redevelop the site have been utilised in other similar redevelopment projects within the UK, including within Scotland. Notwithstanding the precedent of such models being utilised elsewhere, a detailed and robust business case would require to be developed to support a more complete assessment of the option(s) specifically deliverable within the context of the Paisley Centre and allow the Council to consider and undertake appropriate due diligence on the benefits and risks of potentially moving forward with a partnership approach to progress delivery.
- 5.3 In this context, Beyond Retail are seeking a commitment from the Council to work in conjunction with them to support the development of a full and comprehensive business case that would allow the Council to assess, undertake appropriate due diligence to inform a decision on whether to move forward to deliver through a joint arrangement a redevelopment masterplan project. The costs to develop and deliver the full business case proposal would be borne by Beyond Retail and are anticipated to represent a significant at-risk investment. The Council would incur expenditure securing appropriate external sectoral commercial expertise to support the Council to ensure appropriate independent oversight, challenge and influence was applied to the business case development process.
- 5.4 High level objectives from the Council's perspective would be to deliver a full business case that: -
- Supports a robustly assessed, technically deliverable and market fundable development project,
 - requires no capital funding or investment directly by the Council,
 - is projected to be fully self-financing over the life of the project requiring no anticipated annual financial support,
 - is projected to generate strong financial coverage ratios throughout the life of the project to provide confidence on the financial capacity and resilience of the project to self-manage financial and commercial risks and the impact of uncertainties over the life of the project without requiring any direct Council support,
 - provides additional and appropriate commercial / financial protections and or guarantees of substance to further mitigate the Council from financial risk.

- 5.5 It is also recognised that there are several fundamental and challenging issues that the business case process will be required to address that specifically arise from the complex characteristics of this redevelopment proposal. These include but would not be restricted to:

Technical challenges and complexity of the proposed scheme

- 5.6 There are many buildings occupying the existing Paisley Centre site. The site has also been developed over multiple levels (5 storeys) and has relationships with several surrounding buildings in prominent town centre locations. The demolition process would consequently be complex, and a business case will require a substantial level of developed technical understanding and due diligence of the approach to be taken and the costs associated with the demolition and site assembly process and how existing users will continue to operate during and after this process.

How to achieve the desired development quality withing a site of this nature

- 5.7 Given the type of development proposed and the indicated occupiers of the space (retail, hotel, leisure and residential) the physical product and surrounding spaces / vicinity and linkages with the town centre would necessarily require to be of a high quality, at least on par with the best alternative areas within Paisley town centre.
- 5.8 The Council recognise the characteristics of this specific site will present added challenges and complexities to achieve this and some key questions that need to be considered will be:
- a. The residential aspects and amenity from all floors of each residential block;
 - b. The public spaces and public realm in and around the hotel and through the development i.e. feel, quality, degree of natural lighting etc;
 - c. The pedestrian transition from Arts Centre to High Street;
 - d. How the hotel and residences would be serviced and accessed;
 - e. How will this relate to any retention of the former Co-op Dept Store building.

The cost of delivering the completed scheme

- 5.9 Given the site complexities, both for the demolition, site assembly and construction process, estimating the cost to deliver the development, within a challenging and volatile economic period, will require a significant and careful degree of development and will require significant input from suitable sectoral expertise. The Beyond Retail business case process will be required to demonstrate confidence in the predicted build cost for all aspects of the development which are inextricably linked to the overall viability of the proposal.

6. Next steps

- 6.1 It is recommended that Council officers are instructed to continue to work in conjunction with Beyond Retail to develop a detailed business case proposal to support the redevelopment of the site and officers be delegated approval to engage the required commercial sectoral expertise to be funded from existing town centre regeneration resources to ensure the Council is appropriately supported in this process.
- 6.2 Reports will be brought back to the board as the business case process progresses and, once completed, a full report be brought back to board for detailed consideration and decision on whether to move forward to deliver the regeneration ambition.

Implications of the Report

1. **Financial** – At this point there is no formal financial commitment required from the Council beyond up to an estimated £0.1 million funding from existing regeneration resources to support the commissioning of relevant expertise and advice for the Council. However, the developer is committing to funding significant consultancy, design, and development costs with an expectation that the Council is committing to full and appropriate consideration of the completed business case and a decision to progress with a delivery phase should the business case satisfy the Council's requirements and assessment in full.
2. **HR & Organisational Development** – None.
3. **Community/Council Planning** –
Jobs and the Economy - the scheme has the potential to secure additional income for Renfrewshire based businesses, which in turn could support more investment and jobs within the local economy.
4. **Legal** – None at present. Any changes to this would be the subject of subsequent reports to Board.
5. **Property/Assets** – None at present. Any changes to this would be the subject of subsequent reports to Board.
6. **Information Technology** - None.
7. **Equality & Human Rights**
 - (a) The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report.
8. **Health & Safety** – None.
9. **Procurement** – None.

10. **Risk** – None.
11. **Privacy Impact** – None.
12. **COSLA Policy Position** – Not applicable.
13. **Climate Risk** – Not applicable.

List of Background Papers

None.

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