



## Report to Economic and Environmental Wellbeing Scrutiny and Policy Development Committee 30 November 2017

**Report of:** Nalin Seneviratne, Director – City Centre Development

**Subject:** Sheffield Retail Quarter – Heart of the City Phase 2

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### Summary:

The Sheffield Retail Quarter is now on site and being delivered at pace after many years of delay. The first phase comprises a landmark office building including new retail space. The remainder of the scheme follows closely behind and is being shaped through a revision to the master plan presented in the summer of 2015 and taken to the Planning Committee in 2016.

The project is a major city centre redevelopment and at this stage, the City Council is the developer having acquired the land ownership of the site. The report provides a status update and describes the outline timescale for the remaining delivery of the scheme. The Committee are invited to review matters and provide views, comments and challenge given the nature of this project.

This scheme provides the opportunity for a transformational retail based mixed-use development that gives residents, workers and visitors a quality experience that is distinctively of Sheffield and is the hub linking the existing retail, cultural, leisure and employment offers. The first phase of this scheme is being delivered with 56,000 sq. of new retail and leisure space together with 140,000 sq.ft. of new offices with a major pre-let to HSBC. This phase is focused around high quality public realm linking the development to the redevelopment of The Moor, which is being undertaken by Aberdeen Standard Life Investments. Phase 1 of the Retail Quarter delivers further momentum to the regeneration of our city centre building on key achievements to date, including works on The Moor, St Pauls Place and the original Heart of the City.

**Type of item:** The report author should tick the appropriate box

Reviewing of existing policy	
Informing the development of new policy	
Statutory consultation	
Performance / budget monitoring report	

Cabinet request for scrutiny	
Full Council request for scrutiny	
Community Assembly request for scrutiny	
Call-in of Cabinet decision	
Briefing paper for the Scrutiny Committee	★
Other	

**The Scrutiny Committee is being asked to:**

The Committee is asked to consider the report and provide views, comments, recommendations and ask for the responsible Director to report again in the New Year when new plans will be available.

**Background Papers:**

None

**Category of Report:**      ~~OPEN/CLOSED~~      (please specify)

**Report of the Director of City Centre Development–  
Sheffield Retail Quarter - Heart of the City Phase 2**

**1. Introduction/Context**

1.1 We are creating a vibrant, exciting and sustainable new mixed-use quarter in the heart of the city to live, work, shop, and relax. Our proposals will extend the city offer, stitching together and complementing existing districts and act as a strong catalyst for the wider city to grow and flourish. The scheme will create the hub that is at the centre of the existing offers of Fargate, The Moor, and Division Street and related cultural, leisure and employment offers.

We have been taking time to review what the scheme needs allowing for changing retail and leisure markets. We are responding positively to the changing needs for office and commercial space. The genuine focus on mixed-use means we have started to call the scheme Phase 2 of Heart of the City. The change in working title reflects the evolution of the project over the last three years. While retail remains a central element, we recognise that so much more is required to create a truly sustainable new quarter in the heart of Sheffield. Industrial and commercial trends show us that city centre retail works best when it is part of a truly mixed-use offer encompassing strong leisure and cultural elements that foster and celebrate a strong and unique sense of place. This ethos chimes with the aspirations of the people of Sheffield, who have told us during the past two years of consultation and engagement that they want a dynamic and versatile city centre, but one that is rooted in the city’s unique character and offers opportunity for all sorts of activity.

- 1.2 The Sheffield Retail Quarter (Heart of the City Phase 2) is a major re-development of part of our city centre. It has a long history as most similar schemes do. However, this scheme was further delayed with the onset of the recession some ten years ago.

In 2013, the Council parted company with its then development partner, Hammerson, who were unable to take forward the development. Since then the Council has entered into contract with Queensberry Real Estate Limited to assist the Council with delivering the scheme.

In July 2016, the Cabinet decided to proceed with the first phase of the scheme given the pre-letting of office space to HSBC. The subsequent office delivery, which is now rapidly progressing on site, will deliver 56,000 sq.ft. of new retail space as part of the first phase. This retail space will comprise approximately 8 new retail units. The final configuration will respond to retailer requirements.

The Council is undertaking a property development role with development management expertise from Queensberry Real Estate Ltd. In undertaking these works, the Council is spending money on an investment basis with the aim of cost recovery.

This in turn carries property development risk. It is only right that the project from time to time is scrutinised enabling members to undertake in-depth enquiries.

This scheme involves information that is commercially sensitive as we are dealing with 3<sup>rd</sup> party commercial organisations and the writer will be happy to cover all points of questioning; however, some answers may need to be dealt with in closed session.

## 2. **Main report**

- 2.1 Creating an exciting and compelling retail offer is at the heart of the proposals. Acting as a hub for the existing and developing retail provision on Fargate, The Moor and Division Street the scheme is to deliver modern stores to attract new retailers to the city and allowing others to expand. The proposals will significantly extend and complement the city retail offer. Different streets will have different characteristics to maximise appeal and the proposals are to include the introduction of some premium brands and new brands to Sheffield. As the “retail hub”, the scheme also should draw on the retail space opportunities presented by schemes outside of the development site, e.g. The Moor and Pinstone Street so that the overall city offer is complimentary.

The role of digital infrastructure and the internet are to fully utilised creating a physical retail development “from the internet up”. This is not just an exaggeration. We have a genuine opportunity to create, through this development, a city centre wired for the 21<sup>st</sup> century.

The tenant mix will aim to optimise the spend available from the catchment population while delivering on current gaps in clothing/fashion, health& beauty and catering and closing the gap for

higher end aspirational retailing.

The scheme will cement Sheffield City centre as the Experience Retail centre of the region. This means:

- Reflecting on how shopping has and continues to evolve in more of a leisure activity.
- More about fun and entertaining experience for people of all ages.
- To be combined with other leisure/recreation activities elsewhere in the city.
- Conveniently found in one place, attractive and accessible.
- Responding to increasing consumer time pressures and demands.
- Responding to tourist needs and wants.
- Helping to make our city a destination of choice.

We have been reviewing our plans in the light of a rapidly changing retail environment.

2.2 The delivery of phase 1 is progressing well. The scheme is on time (completion in the first quarter of 2019 with tenant openings happening thereafter), within approved budgets (£89.5m see below) and being built to the quality standards required.

2.3 Budget details for phase 1

Asbestos removal	£1,108,406
Demolitions	£2,713,296
Charter Square	£7,617,221
Retail & Office Build	£78,073,278
<b>Total</b>	<b>£89,512,201</b>

2.4 The retail and office element are being undertaken as an investment with planned cost recovery through a sale of the completed building or through rental income received by retaining ownership. The exact exit route (or sale route) will be determined after considering the relative values and merits of the options available. This principle applies to the whole of the retail quarter scheme.

2.5 The remainder of the scheme has been the subject of revised master plan options since the public consultation in 2015 for the reasons stated above.

In addition, the leisure component of schemes has become more important as shopping behaviours and needs have changed. This can clearly be seen by the plans for the expansion of Meadowhall with more leisure and food and beverage offers.

The overall financial exposure is also very large for any organisation. Therefore, the master plan review is also dealing with how the project can be phased to assist with cash flow and delivery.

It is expected that the new master plan will be presented in early in 2018 with detailed planning applications for the next phases being submitted in the spring and physical delivery starting in 2019, including works to Leah's Yard on Cambridge Street.

2.6 The previous reported overall construction cost was £350m<sup>1</sup>. This is currently being reviewed as part of the master plan work.

2.7 We are also assessing how much need be delivered directly by Sheffield City Council and how much could be delivered by other developers or others in joint venture with the Council.

This is a means of not only reducing our risk, but also enabling phases to be delivered in parallel with a revised target completion date of 2022/23

2.8 Land Costs:

In July 2016 we reported on land assembly and enabling works totalling some **£61.2m**. This work has been largely completed and the land secured for development. The recovery of this money has always been at risk. However, recovery is planned through long-term ground rent income and capital receipts where some phases could be transferred to other developers for delivery.

A final reconciliation will be undertaken when the new master plan is produced.

2.9 We are now receiving interest from organisations interested in buying completed phases as an investment and we are also receiving offers from organisations interested in taking on part of the development.

In addition, interest is being received from retailers now that they can see physical progress on site.

The final delivery strategy and master plan will be presented in the new year and will lead to further decisions for the Executive to make in terms of what final phases will need to be delivered by Sheffield City Council and what could be delivered by other organisations, including the financing options and cost recovery plan.

### 3. **What does this mean for the people of Sheffield?**

As previously reported the Retail Quarter will provide a high class regional shopping and leisure facility that would be appropriate for a city of our standing, complementing The Moor, Fargate and Division Street and complementing the retail offer at Meadowhall. This would enable us to compete with other regional city centres.

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<sup>1</sup> Cabinet 20<sup>th</sup> July 2016 item 12

The scheme is already driving private sector investment in the city centre and will create a high quality mixed-use scheme consolidating the prime retail offer. The development of the Retail Quarter is enhancing the status of the city centre and should in turn stimulate further office, commercial, leisure and residential development.

The proposals will assist in the development and promotion of Sheffield's economy with investment in city centre projects that among other things lead to environmental improvements and growth in jobs, thereby assisting in the sustainable development of the economic, environmental and social well-being of the City and its inhabitants.

This also means that the scheme after many years of delay is now being delivered with phase 1 on site and further phases to be presented in the new year.

#### 4. **Recommendation**

The Committee is being asked to consider the report, provide views and comments and invite the Director of City Centre Development to appear before the committee in the New Year with the new master plan and delivery strategy.