ABERDEEN CITY COUNCIL

COMMITTEE	City Growth and Resources
DATE	19 June 2018
REPORT TITLE	City Centre Living
REPORT NUMBER	RES/18/027
DIRECTOR	Steve Whyte
CHIEF OFFICER	Stephen Booth
REPORT AUTHOR	Scott Davidson
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

1.1 Committee to receive the City Centre Living Strategy and instruct the Director of Resources to consolidate officer response.

2. RECOMMENDATION(S)

That the Committee:

2.1 Note the City Centre Living Strategy;

2.2 Instruct the Chief Officer – Corporate Landlord to consult with the local business community, developers and other key stakeholders on the City Centre Living Strategy; and

2.3 Instruct the Director of Resources to report back to the 18 September 2018 meeting of this committee on the result of the consultation in conjunction with the current market engagement with landowners in Aberdeen in relation to proposals for the construction of Council housing as agreed by the Strategic Commissioning Committee on 30 April 2018.

3. BACKGROUND AND MAIN ISSUES

3.1 In considering the Strategic Infrastructure Plan at its meeting on 7 December 2016, Finance, Policy and Resources Committee resolved to approve expenditure of up to £30,000 to award a contract to consultants to prepare a City Centre Living Strategy and report progress back to Finance, Policy and Resources Committee.

3.2 The Brief

3.2.1 The scope of the Strategy was to review the potential for city centre living in Aberdeen and provide an assessment of the scale, scope, programme and actions to achieve this. Four key workstreams were identified to consider this:

- Workstream 1 - Quantifying the existing Aberdeen city centre residential market including evaluation of the residential market in the city centre. This is presented in the Strategy at Appendix 1.

- Workstream 2 – Key opportunities and constraints with consideration of which areas in the city centre would be most viable for residential expansion and constraints likely to affect city centre residential development. This is presented in the Strategy at Appendix 2.

- Workstream 3 - Good practice elsewhere, including a comparative analysis. This is presented in the Strategy at Appendix 3.

- Workstream 4 - Policy issues, financial mechanisms and trends informed by an exploration of future housing trends leading to recommendations. This is presented in the Strategy's report and recommendations.

3.2.2 Savills were appointed to undertake the commission, and their report is provided in Appendix A.

3.3 **The Strategy**

3.3.1 The Strategy establishes the potential for city centre living in Aberdeen. It explores the demand drivers and market segmentation and the potential for various areas of the city centre to cater for different markets. It draws on experience from other cities in the UK.

3.3.2 The Strategy considers what could be constraining increased city living in Aberdeen city centre and quantifies the challenge. It sets out the scene in terms of the existing context for the city centre (including the existing market, stock quality, current activity, market risk for developers and a lack of representation by national investors/developers) and the historic focus by house builders on suburban greenfield sites. Key issues/barriers are highlighted (including the untested nature of the city centre market, increasing supply in second hand properties, culture/process, conservation requirements, perceptions over parking, viability issues and a lack of sites).

3.3.3 Initiatives in other cities to encourage city living are reviewed with conclusions emphasising an *open for business* culture, the importance of leadership, a nuanced approach to parking and the need for direct public sector interventions (such as joint ventures, funding support and application of available powers). Key lessons emerge as follows:

- Direct public sector intervention is required.
- Viability can be a challenge.
- Viability review through the planning process is cumbersome and leads to uncertainty.
- There is a need for a commercial approach.

3.3.4 The Strategy concludes that demand for urban living is increasing and that there is a clear opportunity to support and promote city centre living in Aberdeen; if the challenges identified can be overcome. The recommendations seek to address these issues and barriers. It also notes that the city centre is going through a period of significant transformation under the City Centre Masterplan (CCMP), with the potential to make the case for city living is “more compelling”.

3.3.5 A full copy of the Strategy is provided in Appendix A. Key elements include:

3.4 Demographic Analysis

3.4.1 There are 8,521 households[1] within the city centre (8% of households in Aberdeen). There are considerably higher shares of residents aged between 20 and 29 in the city centre than Aberdeen as a whole, similar levels of those aged 30 to 44 and it is only from age 45 onwards that the city centre accounts for a significantly smaller share.

3.4.2 Across Aberdeen owner occupation accounts for most households (57%) and the private rented sector a further 17%. Within the city centre owner occupation and private rented households account for 36% and 37% respectively. Notably, owner occupied households are primarily on the periphery of the city centre and rented households within the core.

3.4.3 Household growth is primarily going to come from one-person households. The number of one-person households in Aberdeen is set to increase from 43,558 to 58,991 by 2036 – 15,433 more households (a 35% increase).

3.5 Residential Market Analysis

3.5.1 In general, the residential transaction market within the city centre has been consistent and stable with an average of 500 transactions per year at an average value of £152,714 over the past ten years. However, the market has changed over the past two years[2]. In line with wider trends, transactions have fallen by 30%. The average transaction value has fallen by 4% below the long-term average.

3.5.3 The number of rental properties within Aberdeen has increased by 6,000 since 2011, with much of this growth taking place within the central area of Aberdeen.

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[1] 2011 Census
[2] As at December 2017.

3.6 Residential Development Analysis

3.6.1 The city centre saw a considerable amount of development during the 1990s. However, this reduced during the 2000s with limited activity taking place since 2011, and there are currently no active significant schemes within the city centre (other than at Triple Kirks)[3]. Consequently, although there is significant modern stock in the city centre; much of it is approaching 20 years old and many developments are beginning to feel dated. There is also limited high quality, contemporary stock currently available in the city centre.

3.7 Vacant Residential Space

3.7.1 As of March 2017, there were 742 empty residential properties in the city centre of which 141 (19%) have been vacant since 2015 or before. Identifying ways to encourage the occupation of these properties would assist in bringing more people into the city centre.

3.8 Public Survey and Workshops

3.8.1 Whilst cost, type and availability of housing was an important factor for many survey respondents and workshop participants, many of them focussed on other factors. These included improvements to amenities, access to green space, support for businesses, creation of cafes and a variety of leisure destinations, supportive planning policies, and improvements to parking, traffic and public transport. Improvements to public realm were also viewed as important. The survey findings reinforced the importance of the environment in determining where people choose to live.

3.8.2 City centre opportunities and constraints are considered in the Strategy. A property market review concluded:

3.9 Office Market

3.9.1 There is sufficient modern accommodation in the office market. The availability of new Grade A offices in the city centre, combined with increased vacancies in conventional offices, is bringing about a shift to modern facilities. This demand for high quality accommodation is reducing the attractiveness of secondary accommodation, creating potential redevelopment opportunities; particularly of some converted Victorian and Georgian houses in the West End.

3.10 Retail Market

3.10.1 Whilst there are few vacancies within the main shopping centres, there are a higher number of vacancies or occupiers on short term leases or licences on Union Street. Additionally, the Strategy indicates that some of the occupiers are not of the quality expected for a city's primary retail area. Therefore, Union Street faces several challenges that can potentially discourage residential conversion of its upper floors.

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[3] Proposals at Broadford Works are being actively promoted. Broadford Works is adjacent to the city centre.

3.11 Leisure Market

3.11.1 There have been some new leisure openings, primarily in the shopping centres and the west end of Union Street. This provides amenities and services to support city centre living.

3.11.2 Other matters considered include:

3.12 Planning Policy

3.12.1 The CCMP was adopted in June 2015 and is embedded in the recently adopted Local Development Plan. The focus is establishing Union Street as the *heart of the city.* This provides a positive basis for redevelopment of the vacant space above shops on Union Street. Further, the CCMP establishes key residential sites at Torry Waterfront and Queen's Square in addition to the redevelopment of Broadford Works.

3.12.2 The Local Development Plan also supports the principle of residential development and conversion across the city centre.

3.13 Building Regulations

3.13.1 There are a number of potential challenges when it comes to the conversion of older stock in the city centre. These include structural viability issues, fire regulations, heat loss and accessibility. However, these have successfully been overcome in many towns and cities across the UK.

3.14 Opportunities for Conversion and Development

3.14.1 Analysis showed that residential development value was often less than the perceived current value of the asset. This creates limited incentive to redevelop, particularly if the building is listed and therefore does not incur vacant rates. Listed buildings can also require higher levels of expenditure to convert.

3.14.2 Regarding comparator cities, case studies were undertaken with regard to city centre living in Edinburgh, Preston and Derby. The main outcomes from these are highlighted in the following paragraphs.

3.15 Edinburgh

3.15.1 The City of Edinburgh Council has taken an active role in encouraging residential development in the city centre through promoting development opportunities. The majority of interventions have been implemented under The 'Edinburgh 12' initiative which helps accelerate the delivery of 12 strategically important sites in Edinburgh's central area. Each site was eligible for intensive Council support such as using statutory powers to acquire land, facilitating discussions with public sector bodies, providing advice on historic buildings and forming development working groups.

3.15.2 'Edinburgh 12' is a market-based approach focusing on sites that are deliverable relatively quickly. It involves proactive marketing to increase awareness of the initiative and attract investment. The 12 sites are all now active, having unlocked significant private sector investment.

3.15.3 City of Edinburgh Council has taken a proactive approach to funding working collaboratively with the Scottish Futures Trust in adopting a Growth Accelerator Model (GAM) specifically for the 'Edinburgh St James' development. In addition, the Council are exploring models which are focused on residential projects

3.16 Preston

3.16.1 Preston's strategy focuses on private sector housing with an underlying desire to deliver more aspirational housing stock. It involves a promotional prospectus that markets areas of the city centre to different segments within the housing market. Preston City Council is committed to working with partners to create a pipeline of opportunities and adopting a more flexible approach towards developers' contributions. City Deal funding has helped deliver infrastructure within the city centre to support investment including housing.

3.17 Derby

3.17.1 A target of 1,900 new homes by 2030 has been established through the Derby City Living Initiative that includes designating the city centre as a Housing Zone[4]. This framework allows access to funding to overcome viability issues for housing proposals.

3.17.2 Derby City Centre Regeneration - identifies twelve strategic projects. A fund of £100m for enabling infrastructure and improvement of the public realm has been established. This has been carried out in partnership with key landowners and developers.

3.17.3 There is a £6.5million City Living Loan Fund that encourages the reuse of vacant and underused properties in the city centre.

3.17.4 Derby City recognises that taking a proactive approach in promoting development would improve investment opportunities and developer appetite. Therefore, an inward investment unit has been created.

3.18 Strategy Recommendations

3.18.1 The Strategy recommendations fall into four topics of:

1. Form a dedicated city living team.
2. Take a lead role in the delivery of transformational projects.
3. Identify and support quick wins.
4. Introduce a moratorium on developer obligations.

The following presents the consultant's recommendations across each topic.

[4] A £200 million fund for England aimed at supporting the development of brownfield land for housing.

3.19 Form a Dedicated City Living Team

3.19.1 A new city living team be created that reports to the CCMP Board with a focus being placed on regeneration. The team would be responsible for:

1. Leading and co-ordinating the Council's interest in relation to flagship city living projects (including managing a team of external advisors and consultants in relation to, for example site specific due diligence, land assembly strategies, design briefs, exit strategies, viability assessments, etc.).

2. Working in partnership or joint venture with private sector partners if applicable (drawing on the direct experience and lessons learned from the existing ACC JV's).

3. Working with existing ACC officers (Invest Aberdeen) and external advisors to develop and implement an inward investment strategy (consider a collaborative approach with Opportunity North East).

4. Mapping out a pipeline of development opportunities (including cross public sector opportunities) with a detailed understanding of potential site specific constraints and potential solutions. Engage with local property owners, agents and consultants.

3.19.2 In the short term this may involve the appointment of one key person who reports into the CCMP Board and is solely responsible for implementing a city living strategy. Ideally the appointed person should have direct experience of residential development and/or investment, partnership working, funding models, and have a commercial outlook with excellent communication, Interpersonal and negotiation skills.

3.20 Take a Lead Role in the Delivery of Transformational Projects

3.20.1 The Strategy recommends that ACC take a lead role in delivering as small number of large, transformational city living projects. As there will be funding and capacity issue (together with a fragile market) the Strategy advises that this be limited to three key projects as outlined in Chapter Two and illustrated in page 53 of the Strategy (i.e. Queen's Square[5], Station Gateway and Castlehill).

3.22.2 These projects should each be different in terms of target market, risk profile and delivery methods (build to rent, land assembly and sale of serviced plots to developers, etc.) to avoid concentration risk and to enable concurrent development. The projects are concentrated within the core city centre to deliver a tangible impact. The aspiration should be that the developments are of high quality and make a significant positive contribution to the wider transformation of the city centre.

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[5] Council resolved on 6 March 2018 to *instruct the Chief Officer – City Growth to bring forward an all options* business case to the Capital Programme Committee in September 2018 on how best to proceed with Queens Square as part of the next phase of the masterplan.

3.22.3 A detailed strategy for each project identified by ACC should be developed and various delivery methods explored. It may be that, for example, each project could be delivered with different funding structures, partners, etc. Alternatively, it may be logical to cluster the projects into one project with one private sector partner, one affordable housing partner and one institutional backer.

3.23 Identify and Support Quick Wins

3.23.1 The Strategy recommends that ACC engage proactively with developers. In particular, it advises that officials work and/or continue to work with the developers behind the following projects (in the context of challenging market conditions):

- Woolmanhill
- Triple Kirks
- Broadford Works

3.23.2 In addition, ACC should identify and map out a series of development opportunities and work collaboratively with the private sector to breakdown site specific barriers and influence new starts. An underlying ‘can do’ and ‘problem solving’ approach to delivery is required.

3.24 Introduce a Moratorium on Developer Obligations

3.24.1 The Strategy recommends introducing a two year moratorium on developer obligations and affordable housing requirements in respect of residential development of less than 50 units within the city centre.

3.24.2 If necessary, this temporary stimulus provision will be achieved via formal amendment to the Council’s Supplementary Guidance on Planning Obligations and Affordable Housing (subject to legal opinion/review).

3.24.3 This recommendation will demonstrate to the market that ACC is aware of the existing viability challenge and is willing to introduce a bold policy to drive activity. Imposition of a two-year time horizon will also create a sense of urgency on a ‘use it or lose it’ basis.

3.24.4 On sites of more than 50 units, the Strategy advises that a fast track viability process is agreed and ACC that should consider introducing a cap based on likely needs. The Strategy anticipates that viability will also be a constraint/factor in most projects over 50 units.

3.24.5 Justification for the recommendation is provided. For example, the Strategy asserts that it is evident that the majority of new build city centre accommodation is unlikely to be utilised by families. Obligations towards upgrade and/or replacement of education facilities are a significant constraint and usually unwarranted. Viability assessments for developments of over 50 units can consider dwelling size and type, with a sliding scale of impact upon education services.

3.24.6 The Strategy's goal would be that after the initial two-year period, viability across the market will have improved and developer obligations and affordable housing requirements can be reintroduced in-line with pre-existing contribution levels.

3.25 Conclusion and Next Steps

3.25.1 The City Centre Living Strategy has made recommendations for overcoming barriers to increasing housing development in the city centre. Further, the Strategy clearly establishes that continuing investment in the city centre's public realm is critical to securing residential investment. This represents a proposed approach for promoting city centre living in Aberdeen that will assist the Council in achieving its target of 1,500 new homes (and 3,000 new residents) in the city centre during the CCMP delivery period.

3.25.2 In considering the recommendations the Director of Resources proposes to:

1. Continue officer workshops across relevant services (e.g. CCMP, Housing, Planning, Transport Planning and City Growth) to review the recommendations and develop appropriate responses.

2. Undertake consultation, led by the Chief Officer – Corporate Landlord, with the local business community, developers and key stakeholders. This is subject to any comment the Committee may have on the attached strategy document and it is proposed that this be done in conjunction with the current market consultation around the wider Council Housing build programme (with a specific review of the opportunity to potentially convert city housing to Council Housing).

3. Co-ordinate with the Local Housing Strategy, the emerging Strategic City Centre Parking Review and the Local Development Plan.

4. Undertake a full review of all the market consultation that will take place over the coming months with the Extended Corporate Management Team and other key stakeholders including public sector partners.

3.25.2 The above approach will allow the full implications of the Strategy and its recommendations to be considered. This would allow officers to recommend appropriate implementation actions to be considered at the City Growth and Resources Committee meeting on 18 September, 2018 based on the feedback from the market consultation.

4. FINANCIAL IMPLICATIONS

4.1 There are no specific financial implications arising from this report. However, implementation of any proposed action plans for the City Living Strategy will require financial support mechanisms to be identified and put in place. The details and implications of these financial arrangements will be contained within future reports as separate business cases as opportunities are identified.

5. LEGAL IMPLICATIONS

5.1 There are no legal implications arising from this report

6. MANAGEMENT OF RISK

	Risk	Low (L), Medium (M), High (H)	Mitigation
Financial	None arising from the recommendations		
Legal	None arising from the recommendations		
Employee	None arising from the recommendations		
Customer	None arising from the recommendations		
Environment	None arising from the recommendations		
Technology	None arising from the recommendations		
Reputational	None arising from the recommendations		

7. OUTCOMES

Local Outcome Improvement Plan Themes	
	Impact of Report
Prosperous Economy	The promotion of City Centre Living will help deliver on CCMP objectives: • **Changing perceptions -** Promoting the view of Aberdeen city centre as an energetic, inclusive and fascinating place where people will want to live, work and visit. • **Made in Aberdeen -** Building on local distinctiveness and maximising local business opportunities.

	This supports inclusive economic growth.
Prosperous People	The promotion of city centre living will provide more housing choice in Aberdeen that will help people to be supported to live as independently as possible
Prosperous Place	City centre living addresses: • **A living city for everyone** - Increasing housing in Aberdeen city centre and creating a more liveable place. • **Culturally distinctive** - Ensuring Aberdeen city centre reflects its distinctive local culture so it is like no other place. This will contribute to safe and resilient communities and a people friendly city
Enabling Technology	City centre living housing can be developed that uses latest technology. This will contribute to a city centre that is: • **Technologically advanced and environmentally responsible -** Providing the capacity, quality and reliability of infrastructure required by residents and utilising resources responsibly. In particular digital connectivity and innovation will be supported.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	Not required
Privacy Impact Assessment	Not required
Children's Rights Impact Assessment/Duty of Due Regard	Not applicable

9. BACKGROUND PAPERS

Finance, Policy and Resources Committee, 7 December 2016, ***Strategic Infrastructure Plan*** (CG/16/149)
Council on 24 June 2015 ***Aberdeen City Centre Masterplan and Delivery Programme*** (OCE/15/021)

Council 6 March 2018 General Fund Revenue Budget 2018/19 to 2022/23 and General Fund Capital Programme 2018/19 to 2022/23 - CG/18/032

10. APPENDICES

Appendix A – Aberdeen City Centre Living Strategy

11. REPORT AUTHOR CONTACT DETAILS

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