

Strategic Outline Case

Project Name	101 Union Street – Upper Floor Refurbishment		
Sponsoring Cluster	Corporate Landlord		
Senior Responsible Officer	Stephen Booth – Chief Officer - Corporate Landlord		
Gateway Review by Sponsoring Cluster The Sponsoring Cluster must confirm their support for the project and, crucially, have the resources necessary to deliver the project to conclusion.	Strategic Outline Case agreed	Yes <input type="checkbox"/>	No <input type="checkbox"/>
	Project scope modified – further options?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
	Pilot exercise to test assumptions	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
	Postpone or abandon	Yes <input type="checkbox"/>	No <input type="checkbox"/>

[ACC Project Management Toolkit online](#)

Contents

(F9 Function key will update contents after completion of document)

1.	Project Overview	2
2.	Business Aims, Needs, Objectives & Constraints.....	2
3.	Stakeholder Issues	4
4.	Management & Implementation.....	4
5.	Consideration of Options	5
6.	Costs, Benefits & Risks.....	7
7.	Funding & Affordability.....	11
8.	Assumptions.....	11
9.	Support Services Consulted	Error! Bookmark not defined.
10.	Decision by Capital Board	Error! Bookmark not defined.
11.	Document Revision History	12

1. Project Overview
Briefly describe the basic project concept.
<p>As part of the City Centre and Beach Masterplan 2022 which includes the delivery of the new Aberdeen Market, the Council have acquired the former site of Aberdeen Market at 8-10 Market Street, a further retail unit at 6 Market Street, 91-93 Union Street and a retail unit at 101-103 Union Street. These retail units are required to facilitate the deconstruction of the existing buildings.</p> <p>101 Union Street was acquired as there was a connecting corridor with the former market building. Whilst the unit is let this is on a short term basis. Whilst included in the lease the upper floors are currently vacant storage accommodation as is the case with a lot of upper floor accommodation in Union Street. This SOC considers the conversion of these vacant / redundant floors back into economic use; the purpose being to fully understand the costs issues and challenges with such ventures. It is intended that the project could be used as a demonstrator/ exemplar project to help promote this type of development where there is clearly market failure.</p> <p>Prior to purchase, previous owners successfully completed a planning application to convert the upper floors from storage back to residential use and the lower floors (facing The Green/Market) to commercial use, which did not progress due to lack of market demand and their plans to dispose of the site. This option along with other alternative options are considered in this SOC.</p>

2. Business Aims, Needs, Objectives & Constraints
Provide an overview of the sponsoring organisation and explain how the project is strategically placed to contribute to the delivery of organisational goals within the Local Outcome Improvement Plan (LOIP) and the Local Development Plan (LDP).
<p>Strategic Rationale</p> <p>The rationale to consider the conversion is based on the following:</p> <ol style="list-style-type: none"> 1. The Councils proposed development of a destination venue with attractive market-style floorspace and 'International style' food and drink outlets. The adjacent buildings would also benefit from the new activity, as well as improvements to the public realm. 2. Improvements to the infrastructure and streetscape of Union Street, contributing to enhanced placemaking in the City Centre and developing a more cohesive and integrated retail and leisure experience. These public realm improvements will make Union Street a destination which caters to different groups of users, provides space to support local businesses, and allows for a diverse mix of activities to take place. They will also assist with the City's green recovery by supporting new climate resilient infrastructure and opportunities for community wealth building. 3. The Council has the potential to also respond to its strategy of establishing more homes and thus more city centre living within Aberdeen as part of the urban living experience by repurposing vacant / low value upper floors on Union Street. 4. The Council could use this SOC as an exemplar/ demonstrator to show the complexities and costs associated with developing the vacant upper floors along Union Street. <p>Explain how the project supports the existing policies and strategies of the organisation and will assist in achieving the business goals, strategic aims and business plans of the organisation.</p>

Aberdeen City Council updated the Aberdeen City Centre Masterplan (2015) in 2022 and this document is now the new City Centre and Beach Masterplan. This document was approved at the August ACC Committee Meeting and is aligned with the Aberdeen Economic Policy Panel Report (November 2020) and other key strategic Council documents including the Local Outcome Improvement Plan (LOIP). These and other key strategy documents (listed below) focus on the desire to develop a holistic Aberdeen City Vision to support economic recovery and growth (post COVID) alongside a wide range of complimentary aims and objectives including re-imagining key city centre public and private sector assets, including empty office, hotel and retail property.

Policies and Strategies supporting this SOC include:

- Aberdeen Local Development Plan 2022 (ALDP)
- Strategic Develop Plan (SDP)
- Regional Transport Strategy (car free development)
- Local Outcome Improvement Plan (LOIP)
- Economic Policy Statement
- Local Development Plan 2020
- City Living Report 2017 (and its 2022 update).

This project, as part of the wider Aberdeen Market project, would help facilitate the aims of the City Centre and Beach Masterplan 2022. It is also aligned with the SMART Objectives developed for the overall programme (in particular to increase the number of people living in the City Centre).

Establish a compelling case for change based on business needs, e.g. demand for services, deficiencies in existing provision etc. Where are we now and where do we need to get to?

- Demand for low cost / affordable quality housing remains stable, especially for first time buyers and improve city centre living proposal to act as exemplar.
- There is only limited evidence of a market for good quality city centre residential accommodation. This being supply (or lack of supply) led.
- The vacant unused upper floors within the property are deteriorating in their current condition with water ingress and will only continue to do so with no intervention. This is not dissimilar to other similar properties.
- Solutions to act now to improve the condition of the roof and ensure the structure is wind and watertight which will limit further damage to the asset and ensure rental income is maintained.
- Provide quality city living options to tenants / owners to attract and retain residents in the city centre.
- Provide accommodation options close to central office locations.
- Add to the overall improvements planned for the Streetscape and Market area.

Identify any constraints, e.g., timing issues, legal requirements, professional standards, planning constraints. Any linkages and interdependencies with other programmes and projects should be explained, especially where the proposed project is intended to contribute to shared outcomes across multiple Clusters.

Constraints

- Accessibility to some levels within the building
- Cost of refurbishment to current building standards within a historic building are high
- The site sits within the conservation area.
- Mixed ownership (consideration was given to a purchase of 105 Union Street, however, this did not provide good value) could constrain building works in terms of access / noise etc.
- Retail currently trading on the Union Street elevation could be affected by any upper floor development
- Planning conditions and Listed Building Consent will ensure the quality of any development in terms of materials, however, this will therefore add to the development costs and great additional risk.
- In terms of the location, any development will be constrained by limited access to the site (especially from Union Street), proximity to the Market development, storage of materials and deliveries to site.

- Market conditions in November 2022 will be challenging.
- The council are restricted as a residential landlord to Scottish secure tenancies as such different delivery methods would require to be considered for future residential developments.
- Consideration would be required to the future needs of the existing tenant.

Interdependency

- Consider the timing of the proposed Market development and also the Union Street improvement / Streetscape works
- Requires a delivery model to enable residential development for rent / sale on the private market
- The project would link with the Conservation Area Regeneration Scheme and potentially improve the attractiveness of the retail offering with grant funding available.
- Provide additional commercial space overlooking the Green and link with the proposed Market footfall

3. Stakeholder Issues

Identify the key stakeholders and explain their involvement. Indicate their level of commitment to the project as specifically as possible. Describe any consultations held or still required. Are there any outstanding stakeholder issues?

The City Centre Masterplan Board approved the overarching City Centre and Beach Masterplan engagement strategy which suggested the undernoted steps be taken when preparing engagement plans for projects:

1. Programme confirmed
2. Engagement Objectives/Scope/Messaging/Q&A agreed
3. Systra input re any transportation issues
4. Ensure design team has undertaken any statutory/technical engagement timeously
5. Prepare engagement materials /agree wider PR with ACC comms
6. Briefing to Stakeholder Delivery Group/onboarding key stakeholders as required
7. Deliver engagement (methodology will vary)
8. Update SDG/Stakeholders
9. Wider Feedback
10. Engagement Report & Summary

Messaging			
Overarching City Centre and Beach Masterplan Messages:			
ECONOMY	INCLUSION	NET ZERO	QUALITY
To increase footfall and dwell time to the city centre & beach supporting vibrancy economic recovery for all.	Creating inclusive and accessible spaces	Prioritising people and active travel and futureproofing our city for our young people. Using local indigenous materials where possible, introducing urban greenery	Ensuring designs reflect our world class aspirations whilst respecting Aberdeen's characteristics.

4. Management & Implementation

Give a preliminary indication of the proposed project management structure and key personnel. Is any consultancy support likely to be required? Identify accommodation, staff and Trade Union issues. Describe any legal, contractual or procurement issues. Are there any important outstanding management/Implementation considerations?

The Council have engaged through hub North Scotland a team to include architectural, cost consultant and property advisor input in considering this opportunity. Aberdeen City Council are one of these public sector organisations and have been part of the hub initiative since 2011.

The dedicated hub supply chain members are working collaboratively with Aberdeen City Council to develop, design and deliver all projects within the ACC City Vision programme.

All procurement is carried out in strict compliance with the Project Delivery Method Statement with a completely open book approach to project costs which is continually benchmarked and reviewed to maximise efficiency, accountability and demonstrate continuously improving value for money. The project development plans have specific focus on community and stakeholder engagement to maximise outcomes for end users.

5. Consideration of Options

Option 1: Do Nothing / Repair as necessary

From a city centre regeneration perspective, doing nothing or completing minimal repair works does not meet the Council's aims and objectives of the City Centre and Beach Masterplan. The site lies in a strategic location on Union Street, adjacent to the major development at the former Aberdeen Market and 'doing nothing' would leave the building in poor condition with unmarketable accommodation. In addition, the Council would incur costs relating to:

1. Initial repair works – this is to ensure the building is wind and water-tight and to reduce future Deterioration (these are allowed for within the market redevelopment proposals).
2. Maintenance – there will undoubtedly be ongoing maintenance works to ensure the building does not fall into greater disrepair
3. Security costs
4. Vacant rates (if Listed Building rates relief is abolished).

2. Refurbishment Options

2.1 : Redevelopment to 'High End Apartments' and Café / Retail premises (existing planning approval)

Re-development to an alternative use would be in line with ACC's objectives under the City Centre and Beach Masterplan, however commercial viability of development projects in this location is likely to be a major challenge.

Initial plans prepared by the architects show a redesign of the existing layout of the building. The marketable space is described below:

Commercial

Level	Description	Net Internal Area sq m	Net Internal Area sq ft
1	Café entrance from The Green.	76	818
2	Café	226	2,433
3	Retail unit with access from Union Street	111	1,194

Residential

Level	Description	Gross Internal Area sq m	Gross Internal Area sq ft
4	2 bedroom apartment	149	1,603
5	1 bedroom apartment	98	1,055

5	3 bedroom apartment	155	1,668
6	1 bedroom apartment	98	1,055
6	3 bedroom apartment	155	1,668

The residential apartments are considerably larger than the market norm however due to existing layout of the building there is limited access points to provide additional development.

Based on the plans provided, external property advisors have prepared a 'development appraisal' – a test of the ability of a development project to meet its projected costs and deliver a suitable level of profit to reflect the risk profile entered by a developer.

2.2 : Redevelopment to Smaller Residential Units and Retail / Café

Following a reconsideration of the proposed design, a scheme of smaller studios and 1 bedroom apartments, which would better suit market demands and expectations has been proposed. This design amends the upper floors (Levels 4, 5 and 6) to provide the following accommodation:

Level	Description	Gross Internal Area sq m	Gross Internal Area sq ft
4	Studio	32	344
4	1 bedroom apartment	42	452
4	1 bedroom apartment	46	495
5	1 bedroom apartment	48	517
5	1 bedroom apartment	54	581
5	1 bedroom apartment	44	474
5	Studio	46	495
5	Studio	32	344
6	1 bedroom apartment	48	517
6	1 bedroom apartment	54	581
6	1 bedroom apartment	44	474
6	Studio	46	495
6	Studio	32	344

2.3 : Redevelopment to Café, Retail and Office

Similar to the above, redevelopment of any nature that would bring this property back into use would meet the Council's aims and objectives and could attract new tenants into the city centre.

Office take up across Aberdeen has improved in 2022 due to increased performance in the energy sector. However, tenants are seeking 'best in class' space that meets their Environmental, Social and Corporate Governance agenda and their drive towards net zero. This type of space can typically only be met through new build accommodation and refurbishment of older stock does not generally meet the necessary requirements. A 'two tier' market is developing where office space that does not meet these standards is attracting significantly lower rents, higher void periods and limited demand.

Unfortunately, 101 Union Street would not meet these standards however the proposed design does provide open plan accommodation in a prime location adjacent to a key city centre project (The Market) which, if completed to a reasonable specification, could meet the lower tier market demands. In addition, the floor area equates to 1,291 sq ft on Level 4, 2,501 sq ft on Level 5 and 2,637 sq ft on Level 6. Demand in the market for this size of office suite is there although price sensitive.

2.4 : Mixed Use Redevelopment to Café / Office / Residential

An additional option for mixed use has been prepared to provide a café / retail use on the lower floors, 1,292 sq ft of office accommodation on the upper floors and studio's / 1 bedroom apartments on Level 5 & 6.

The benefits / disbenefits analysis for the project has been included below:

Benefits

- Contributes to placemaking and regeneration around the proposed Market project
- Capitalises on asset appreciation due to regeneration of the Market and streetscaping improvements
- Enhances Aberdeen's urban living offer close to the proposed Market and transport hub (train and bus stations)
- Opportunity to shape the type of uses, quality of space and occupier requirements leading to the regeneration of this part of Union Street through control of physical assets and clustering of interventions around the Market building regeneration and public realm improvements – therefore the Council is leading by example and stimulating additional private sector investment in surrounding properties

Disbenefits

- Capital outlay to refurbish the upper floors / roof will be high to meet current building standards
- Liabilities relating to historic buildings within the City Centre conservation area

Costs

- Costs may be incurred which are not offset by rental / sales values if the sales are slow.
- Conversion costs listed in Section 6

Market interest

- Potential for growth in market interest linked to the proposed Market regeneration and public realm improvements
- Requirement for affordable 1 bedroom residential accommodation, particularly for first time buyers.
- Perceived difficulties in competitive mortgage product. Difficulty in obtaining mortgages of residential properties in mixed use blocks.

Programme

An indicative programme has been provided by the project team, which details the start of the design phase of the project as Q1 2023 with construction completing Q4 2024.

6. Costs, Benefits & Risks

Option 1: Do Nothing / Repair as necessary

Initial repair costs to complete minimal repair works to the subjects are included within the proposed Market cost plan to ensure the building is wind and watertight and to reduce future deterioration. For avoidance of doubt, this work would not significantly improve the interior or marketability of the space. These costs include inflation and statutory fees.

*An opportunity also exists for the space to be used as a base by the city centre contractor over the next few years.

Option 2: Refurbishment Options:

2.1 : Redevelopment to 'High End Apartments' and Café / Retail premises

In preparing this high-level development appraisal, the following inputs were adopted:

	£	Notes
Capital Receipts		
Commercial Capital Receipt (Level 1 – 3)	£500,000	This assumes that the café is let to a local business on a short 5 year Full Repairing and Insuring lease at a rent of £20,000 per annum and sold at a yield of 10%. This further assumes that the retail unit is let to a local business at a rent of £35,000 per annum and sold at a yield of 12%. Any changes to lease terms and / or the tenant will impact this either positively or negatively.
Residential Capital Receipt	£990,000	Based on an average of £140 psf. This assumes a high specification but reflects the size of the individual properties.
Total Capital Receipt (Investment Value)	£1,490,000	
Costs		
Build Costs	£3,700,000	As provided by the cost consultants, and inclusive of professional fees, developers profit, contingency and planning fees
Developer Contributions	£7,500	£1,500 per unit reflective of the property advisors experience with city centre residential developments
Letting, Sales & Marketing Fees	£40,500	Reflecting 15% letting fees and 2.5% sales and legal fees for the commercial units and 2% fees for the residential units.
Finance	c£235,000	7% interest rate over the developer period
Total	£3,983,000	

Based on the above, the project would make a **loss of approximately £2.500m.**

2.2 : Redevelopment to Smaller Residential Units and Retail / Café

In preparing this high-level development appraisal, the following assumptions were adopted:

	£	Notes
Capital Receipts		
Commercial Capital Receipt (Level 1 – 3)	£500,000	This assumes that the café is let to a local business on a short 5 year Full Repairing and Insuring lease at a rent of £20,000 per annum and sold at a yield of 10%. This further assumes that the retail unit is let to a local business at a rent of £35,000 per annum and sold at

		yield of 12%. Any changes to lease terms and / or the tenant will impact this either positively or negatively.
Residential Capital Receipt	£1,750,000	Based on an average of £293 psf. This assumes a high specification but reflects the smaller size of the properties, which are better suited to the market demand.
Total Capital Receipt	£2,250,000	
Costs		
Build Costs	£3,725,000	As provided by the cost consultants and inclusive of professional fees, developers profit, contingency and planning fees
Developer Contributions	£19,500	£1,500 per unit reflective of the property advisors experience with city centre residential developments
Letting, Sales & Marketing Fees	£56,500	Reflecting 15% letting fees and 2.5% sales and legal fees for the commercial units and 2% fees for the residential units.
Finance	£235,000	7% interest rate over the developer period
Total Costs	£4,036,000	

Based on the above, the scheme would be estimated to make a **loss of approximately £1.780m.**

2.3 : Redevelopment to Café, Retail and Office

In preparing this high-level development appraisal, the following assumptions were adopted:

	£	Notes
Capital Receipts		
Café / Retail Capital Receipt (Level 1 – 3)	£500,000	This assumes that the café/retail space is let to a local business on a short 5 year Full Repairing and Insuring lease at a rent of £20,000 per annum and sold at a yield of 10%. This further assumes that the retail unit is let to a local business at a rent of £35,000 per annum and sold at yield of 12%. Any changes to lease terms and / or the tenant will impact this either positively or negatively.
Office Capital Receipt	£1,000,000	Assuming the offices were let at £16 psf for a period of 5 years on standard market terms, the building would reasonably sell for c. £1,000,000. Lease terms would impact this.
Total	£1,500,000	
Costs		
Build Costs	£3,120,000	As provided by the cost consultants, and inclusive of professional fees, developers profit, contingency and planning fees
Letting, Sales & Marketing Fees	£62,000	Reflecting 15% letting fees and 2.5% sales and legal fees

Finance	c.£195,000	7% interest rate over the developer period
Total	£3,377,000	

While the property advisors consider that this option would be marketable, unfortunately the cost to create this space is considerable and therefore a **loss of approximately £1.88m is anticipated.**

2.4 : Mixed Use Redevelopment to Café / Office / Residential

The property advisors have prepared an appraisal adopting the inputs described above for the various uses with a Capital Receipt in the region of £1.810m. The costs provided for this option are £3.60m.

Unfortunately, this also shows a **loss of approximately £1.79m.**

It should be noted that the costs above do not take into account the cost of acquiring the building and acquisition costs / taxes. In the case of a private developer, they would also incur this cost in addition to acquisition costs and taxes. This would increase the deficit.

A SWOT analysis for the project(s) has been included below:

Strengths

- The Council are proposing a significant new development – The Market adjacent to the subject properties
- Act as a catalyst for other landlords to bring the upper floors back into economic use.
- Bring much needed affordable housing (particularly for 1st time buyers) back into the city centre and capitalise on the investment planned for the city centre
- Planning Permission already in place for the subject block for conversion to residential use

Weaknesses

- No car parking (could also be an opportunity to promote car free living and ease of access)
- Limited period features retained due to building standards around noise / fire regulations
- Financial loss for each option

Opportunities

- Prominence and ability to be a positive catalyst for change on Union Street and the surrounding area - promotes ripple effect
- Potential to benefit from rental /capital growth on the basis of the planned investment in neighbouring properties and the city centre
- Investment in upper floors will improve the condition, enhance the sustainability credentials and ensure the historic buildings are upgraded to modern living standards.

Threats

- The proposed Market development doesn't progress, pitch deteriorates further with negative impact on occupational demand
- Cost of refurbishment (material and labour availability) continue to increase make the project even more unviable
- Market for starter flats deteriorates
- Building Standards for high rise buildings require higher specification and further push up development costs.

7. Funding & Affordability

State the cost, and identify the budget, to develop the project to prepare an Outline Business Case.

Should the decision to progress the design be made at this stage, the budget to develop an Outline Business Case will be in the region of £60,000 as detailed below:

PMO Support

Stakeholder Engagement

Property Advisor Architectural support

Structural Engineer

Specialist Surveys

Construction Cost Advisor

Due to the costs of refurbishment, which the market is experiencing at present and the negative appraisal values it would be prudent to review the business case once the proposed Market and Streetscape improvements are under construction and capitalise on the positive sentiment around the proposed wider investment.

It is recommended in the short term that the minimal works (as described above) are carried out to stop further deterioration of the asset and that the business case continues to be reviewed once the city centre masterplan projects are progressed and the wider market had had time to recover from the current volatility.

8. Assumptions

Document the high-level assumptions that have been made during the development of the business case and any other unanswered questions that may be significant. Refer to the Supplementary Guidance on Optimism Bias and detail the assumptions you have made in constructing the costs and business case.

[Green Book Supplementary Guidance Optimism Bias \(gov.uk webpage\)](#) (under 'Other Guidance and Reference Documents')

Financial appraisals do not include property acquisition or hold costs or any optimism bias at this stage.

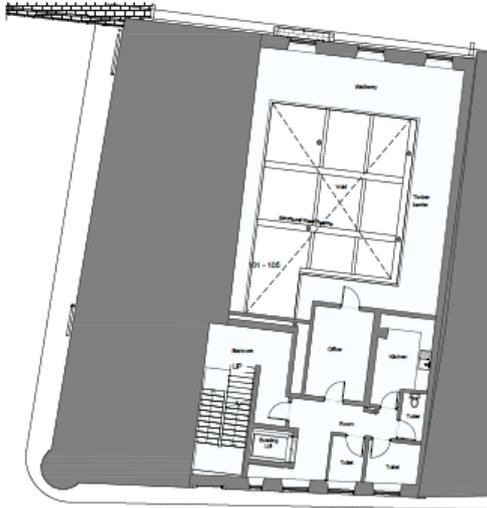
Construction costs include:

- 10% Design Development Risk
- Target of 20% Developers Profit (not shown due to negative appraisal value)
- 5% Post Contract Risk
- 5% Main Contractors Margin
- Design Team Fees
- Survey Costs
- Inflation in Construction Costs throughout project period to Q1 2025
- Allowance for preliminaries

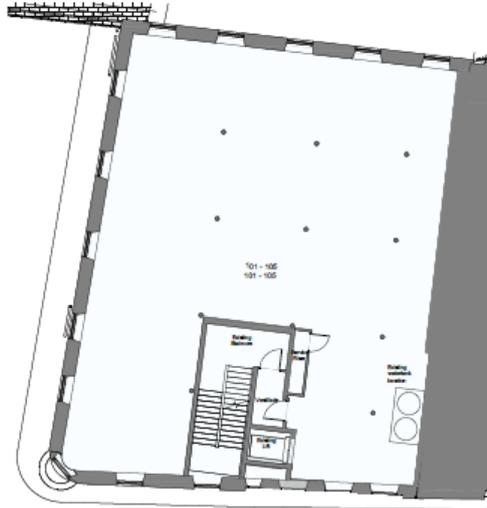
9. Document Revision History			
Version	Reason	By	Date
1.1	First Draft	SB	07/11/22
1.2	Second Draft	MW	09/11/22
1.3	Revisions	SB	15/11/22
1.4	Appendix added	MW	16/11/22

Appendix 1 – Floor Plans

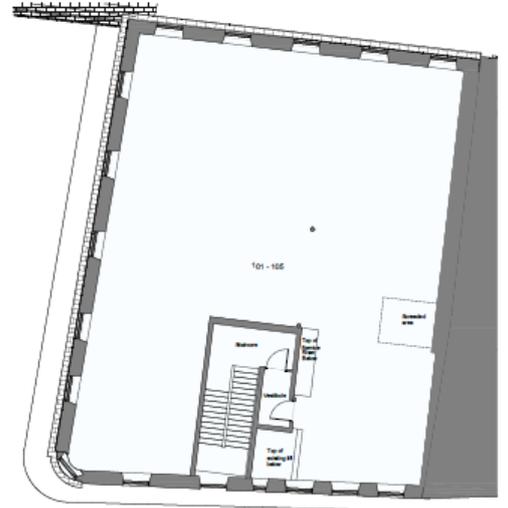
Current Layout



Level 4



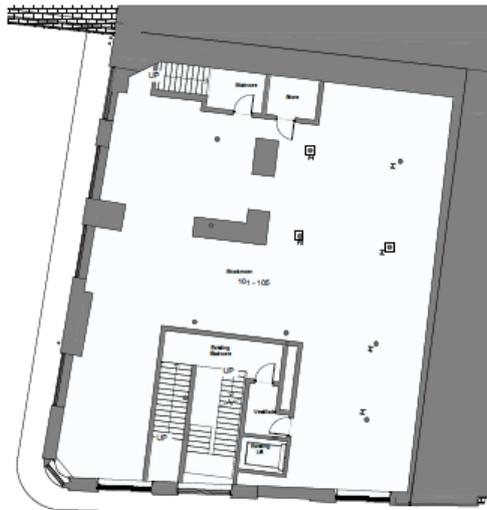
Level 5



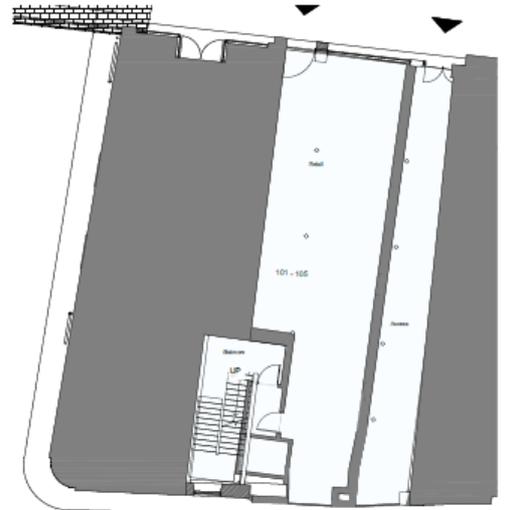
Level 6



Level 1



Level 2



Level 3

Option 2
 Redevelopment to 'High End Apartments' and Café / Retail premises



Level 4



Level 5



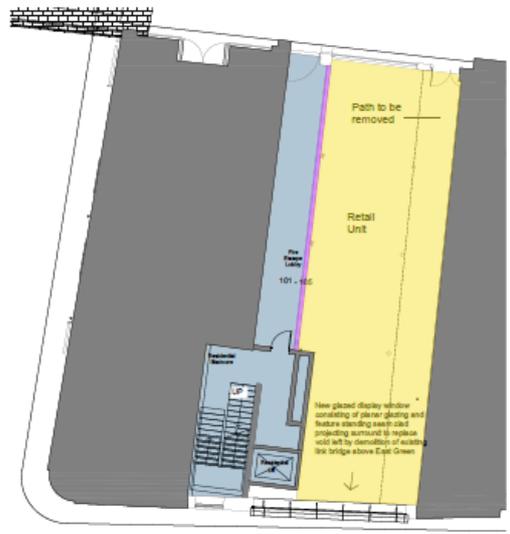
Level 6



Level 1



Level 2



Level 3

Option 3
 Redevelopment to Smaller Residential Units and Retail / Café



Level 4



Level 5



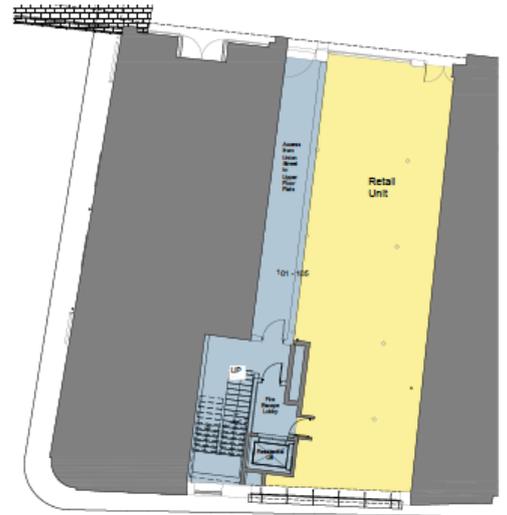
Level 6



Level 1



Level 2



Level 3

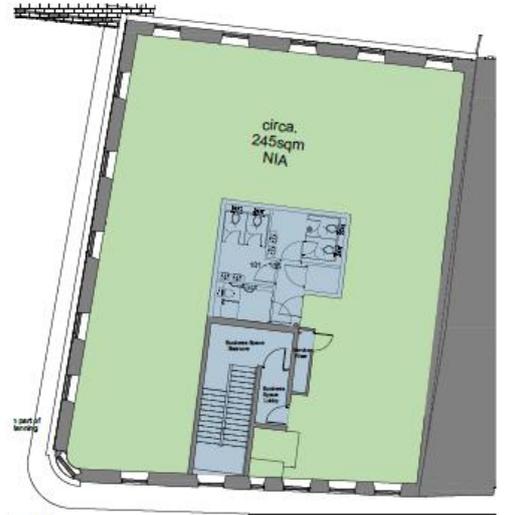
Option 4
Redevelopment to Café, Retail and Office



Level 4



Level 5



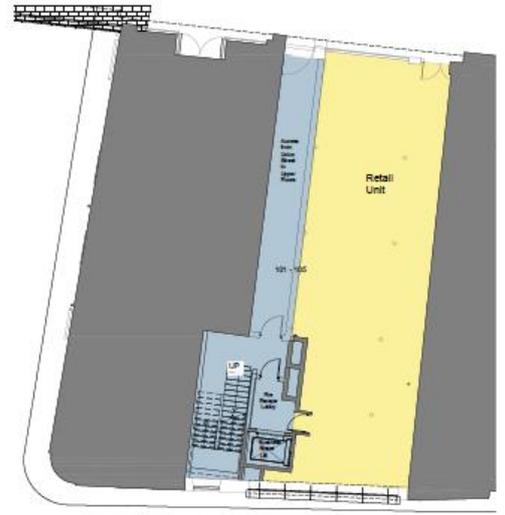
Level 6



Level 1



Level 2



Level 3

Option 5
Mixed Use Redevelopment to Café / Office / Residential

