



## Agenda Item 24

**Cabinet**

**31 October 2012**

**12/1223**

### Town Mill, Mill Street, Ottery St Mary

#### Exempt Information

Para 3 Schedule 12A information relating to the finance or business affairs of any particular person

#### Summary

The historic Mill in Ottery St Mary has been unoccupied since it was closed by Eaton Ltd in the autumn of 2003. The site has been the subject of a number of redevelopment proposals all of which excluded any significant B Class employment related uses.

The owners of the site, Churchill Property Group (South West) Ltd., has indicated a willingness to collaborate with the Council on the creation of fully serviced office units within the ground floors of the original mill buildings. This report seeks to establish a framework for further more fully detailed consideration of these ideas

#### Recommendation

1. That the Council agrees to consider becoming the operator of serviced ground floor office accommodation created at the Town Mill, Mill Street, Ottery St Mary, as described in this report, subject to satisfactory terms and conditions being agreed.
2. That the Principal Estates Surveyor be authorised to conduct negotiations to this end, with Churchill Property Group (South West) Ltd, in consultation with the Economy and Finance Portfolio Holders, on the basis that the outcome is the subject of a further fully detailed report to Cabinet.

#### a) Reasons for Recommendation

To contribute to the retention of landmark buildings in Ottery St Mary, support the extension of local employment opportunity and to add to the Council's stock of commercial workspace.

#### b) Alternative Options

To play no part in the redevelopment process

#### c) Risk Considerations

Net rental income may not provide an adequate return on the capital invested

## d) Policy and Budgetary Considerations

### Positive Impact Overall

Affordable Homes.

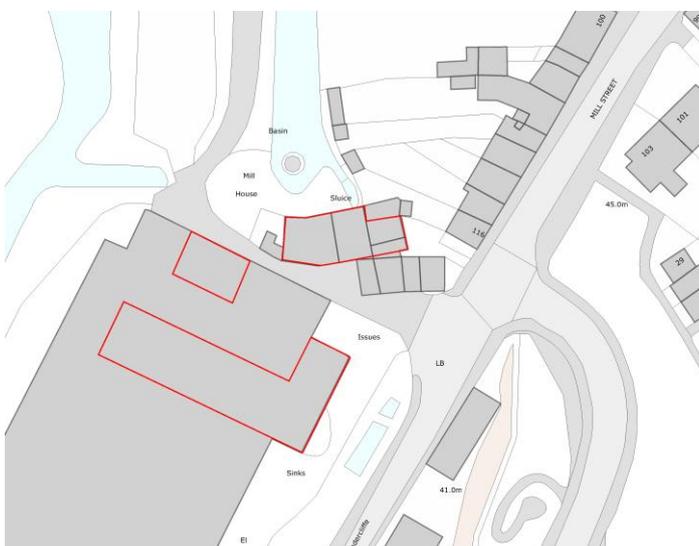
Thriving Economy.

## e) Date for Review of Decision

April 2013

### 1 Introduction

- 1.1 The Town Mill in Ottery St Mary was closed as functioning employment space by Eaton Ltd in the autumn of 2003. The closure quickly followed the transfer of their electrical switchgear manufacture and distribution business to the Midlands. At the time of the closure, 97 people were employed, Eaton Ltd., in Ottery St Mary.
- 1.2 The property which comprises an historic Georgian mill and later factory premises was purchased by the Churchill Property Group (South West) Ltd in 2004. They first sought planning permission to redevelop the site in a mixture of retail and residential uses. More recently their plans have focused on an entirely residential outcome. Their application 09/2015/MFUL was refused planning permission and the company has since expressed its willingness to work with the Council on a scheme to retain some of the space available in an employment sustaining use.
- 1.3 The site is situated close to the River Otter and the centre of Otter St Mary. To overcome some of the flood risks associated with this land it is proposed that ground levels over much of it are raised to facilitate residential redevelopment. However, this would not be appropriate in the vicinity of the historic mill buildings. Accordingly, if these are retained the ground floor accommodation cannot be used for residential occupation.
- 1.4 Through discussion with the architects acting for the owner, it has been possible to establish that the ground floor of the Town Mill, Corn Mill and Dispatch buildings is capable of yielding some 3,325 square feet of useable employment space. Since the space above would be developed as residential apartments, the ground floor will require compatible end-users. Churchill Property is willing to enter into an agreement with the Council whereby this accommodation is redeveloped for B1 Office use broadly similar to the workspace available at the East Devon Business Centre in Honiton.



## 2.0 The Case for Council Investment

- 2.1 The Mill is a prominent feature of the townscape of Ottery St Mary. The approach via the Tumbling Weir, along the Leat, is maintained by the Council as an important local amenity. Attractive public spaces are much more easily appreciated and interpreted in the context of the continuing presence of the buildings and functions that first gave rise to them. Accordingly, the retention of the listed buildings within the site is an important objective of the Council.
- 2.2 The condition of the original mill buildings and the costs of bringing them back into productive use mean it is unlikely ever to be possible to retain more than their outer shells. By expressing its willingness, at least in principle, to participate in a workable redevelopment solution, the Council would further demonstrate its commitment to the future of these land mark buildings.
- 2.3 The Council owns and operates commercial office space at the East Devon Business Centre in Honiton. The Centre is located within 5 miles of the Town Mill site. Here some 858 square metres of workspace is offered as a combination of casual hire meeting rooms and office units. These are let on licence to small businesses and other independent users.
- 2.4 The East Devon Business Centre first opened in 1998 and was later extended to provide 19 office units of varying sizes, two meeting rooms and a spacious 'public area'. After more than fourteen years in operation the Centre is now well established. It's most recent office vacancies (current occupancy 85%) have been successfully filled without resort to press or agency advertising.
- 2.5 The office space at the Centre is let at a total cost to tenants of approximately £25 per square foot. However, this includes charges to recover costs in relation to business rates, utilities (gas, water and electricity) and operating the Centre's reception facilities. If these costs are excluded, the 'headline' charge for space is £17 per square foot per annum. This appears to be broadly consistent with the rentals achieved by private office providers elsewhere in the District but is lower than the charges prevailing in Exeter.
- 2.6 The Council's experience and staff resources at the East Devon Business Centre could potentially be applied to the operation and management of B1 office space at the Mill in Ottery St Mary. Here, space totalling 3,325 square feet may be available to form up to 13 office units ranging in size from 200 to 500 square feet. Each unit would be allocated an on site parking space and further parking would be available in the nearby Land of Canaan Car Park. Fully occupied, the space at the Mill offers the potential to generate gross income of some £56,500 (at £17 per square foot). If occupancy similar to that achieved at the East Devon proved to be possible (85%), the space could generate gross income £48,000 per annum.
- 2.7 At current interest rates, this might sustain borrowing of some £350,000, repaid as a 10 year annuity from the Public Works Loans Board, at an annual cost of £38,400. Accordingly if the Council were to agree to purchase a 125 year leasehold interest in the ground floor office accommodation, a capital investment of £350,000 would be paid back within 10 years from net rental income.
- 2.8 In pre-application discussions with Churchill Property Ltd., the Central Planning team has been working to agree an overall programme (timetable) for the redevelopment of

the site. The issues here are complex not least because of the high costs associated with retaining the historic Mill buildings. Value realised from some of the other land components of the site could well be needed to deliver the redevelopment of the historic Mill. Accordingly the construction and development work within the site will probably be phased such that office space within the mill buildings may not be available for occupation earlier than the spring of 2015.

2.9 Given the overall need to phase the development of the site, if the Council were to commit to the project, it is recommended that no significant percentage of any premium for a lease is paid until such time as the accommodation is built out and ready for occupation by tenants. Further, that at this early stage, the Council makes no commitment beyond indicating a willingness to enter an option agreement for first refusal on the ability to acquire the leasehold interest.

2.10 This would provide the developer of some assurance of the Council's willingness to collaborate and its commitment to delivery of the overall regeneration of the site while allowing the time for necessary for a convincing delivery strategy to emerge.

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### **Legal Implications**

The estates team should consider the:

1. Future marketability and value of the Council's proposed leasehold interest;
2. Marketability and rental value of the proposed serviced office accommodation; and
3. Cost/availability of insurance (both buildings and contents).

The adequacy of car parking as (from the background papers) appears unresolved.

In addition, the background papers state that no market testing has been carried out to establish the viability of proposed office use in this location.

### **Financial Implications**

From this high level view the requirement to borrow £350k could be financed by the rental income (note loan rates change daily) and repaid within 10 years, thereafter providing a healthy annual revenue contribution. A more detailed cost & income analysis would be required if this project is to progress beyond this initial stage.

### **Appendices**

- Photos
- Planning Decision Document Ref. 09/2015/MFUL Committee Date: 15/4/2010
- Cost analysis

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Cabinet  
31 October 2012