

Redevelopment of Oxford Place, Leeds

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Resolutions	See end of paper.
Background Context	MC/17/87, Exploration of connexional property developments by the Property Development Committee (PDC): The Council encouraged the Property Development Committee to continue exploring potential developments for the North Bank Estate and Oxford Place, Leeds. [Minute 17.3.15]

Introduction

- 1.1 The Council has previously encouraged the Property Development Committee to explore the potential redevelopment of Oxford Place, Leeds. A planning application has now successfully been made for converting the building into a 70 bedroom hotel with 2 meeting rooms. The planning permission was not granted on the basis of any onerous obligation or financial implications for the owner of the property.

Background

- 1.2 Oxford Place Centre is in the 'Civic Quarter' of the city on the corner of Oxford Place and Westgate, between the Combined Courts Centre and Leeds Town Hall. This is considered a prime site, within a short walking distance of many law firms, financial services, hospitals and main retail areas.
- 1.3 Built in 1834/5, the property is Grade II listed and has a beautiful, iconic façade which will have limited alterations. The building was re-ordered internally in the 1970s and therefore very few aspects need to be preserved within the building. The property itself is formed of two main parts: the original worship area re-configured in the 1970s into a smaller worship space, a café and several ancillary rooms, with a functional basement and unused space in the roof; and the 'Oxford Chambers' which is a suite of offices currently leased by several charities and businesses. All tenants will however have left the property by the end of September 2018 with appropriate notice having been given.
- 1.4 The Oxford Place property was, until 31 August 2017, under the managing trusteeship of the Leeds District Policy Committee (DPC), at which point it passed to the new Yorkshire West DPC. During the last meeting of its synod the Leeds District voted that planning consent would be sought for the entire property to be redeveloped as a hotel to be leased to MIC Ltd and managed under The Wesley brand. The Leeds Synod established a Building Development Group to oversee its ongoing management and a City Centre Mission Group to assess the needs and opportunities for the future mission.
- 1.5 The work of the 'Leeds City Centre Mission' from Oxford Place building in Leeds City Centre is supported by a deacon and the intention is that some of the income generated by the hotel would be used to fund that work, but without it necessarily being based within the Oxford Place building. Sunday worship in the chapel ceased at the end of October 2017. The intention from the outset has been that the Synod would pass managing trusteeship for the building to the Methodist Council upon planning permission being obtained with a lease being granted of the hotel to the Wesley Hotel. The intention being that the District would

receive an annual grant from the Council to enable them to further the city centre mission in Leeds whilst the Methodist Church Fund benefits from the increased distributable profits gift aided to the Council from the Methodist International Centre Limited. The Methodist International Centre Limited is a trading subsidiary of the Methodist Council which runs and manages The Wesley Hotel in Euston.

- 1.6 The hope is that the proposed grant would be similar to the figure of the market rent (estimated to be £370,000 per annum) payable for the lease of the building to The Wesley. However, the final figure for the grant is yet to be proposed given that the final costings and loan repayments are still to be completed. Once the figures have all been finalised the proposed grant figure per annum will be reported to the Council. It is however proposed that the Council delegate the negotiation and decision on the final figure of the annual grant to the Strategy and Resources Committee in order to ensure clarity on this can be provided to the Synod as soon as possible.
- 1.7 The Synod passed the resolution set out below on 8 September 2018 which passes managing trusteeship for the building to the Council from 17 October 2018. In order to ensure the property is held in future as connexional property on the Model Trust, therefore ensuring the Council can fund the redevelopment and also that the use and income of the building will be for connexional purposes. It is proposed that the Council now pass a resolution to delegate the managing trustee and therefore responsibility for oversight of the redevelopment of the building to the Property Development Committee.

The district trustees for the property known as Oxford Place, Leeds [Land Registry number: WYK 921083] having noted the terms of the resolution of the former Leeds District Synod on 1 April 2017 and upon the bases that planning permission for change of use as a hotel has now been granted, and being satisfied that the purposes of the Methodist Church would be furthered by the use of the said property for connexional purposes (as defined by the Model Trusts of the Methodist Church) in connection with the Methodist Council, encouraged by the letter of comfort dated 4th September 2018 from the Secretary of Conference, hereby resolve to discontinue the use of the said property for district purposes (as so defined) as from 16 October 2018 and hereby consent to the occupation and use of the said property as from that date by the Methodist Council for Connexional purposes in connection with the said council.

Proposed Redevelopment and Business Case

- 2.1 Planning permission has been obtained for a 70 bedroom hotel, with 2 meeting rooms (one may be sub-divided) with delegate capacity of 100, and a restaurant with capacity for 70 covers. There will be an atrium into the building in order to:
- Maximise the number of guest rooms, and therefore optimise the main long-term income stream;
 - Create a garden and piazza with a restaurant with street presence; the civic location should lend itself well to capturing passing food and beverage trade;
 - Maximise views from the property - there are excellent views out of Oxford Place looking eastwards up the Headrow and these spaces lend themselves to being premium rooms;
 - Create a reasonable provision of meeting rooms (and flexible spaces) for which we already have a high number of existing clients who have expressed interest. The prestigious building should also lend itself very well for private and corporate events.
 - Require only minor alterations to the roof to create additional studio suites. The rest is internal work.

- 2.2 Leeds is the hub of a city region with a £62.5 billion economy, making it the largest city region economy outside of London. It has a combined population of three million and a workforce of 1.5 million, the fastest growing working age population in the north. Over the next ten years, the economy is forecast to grow by 25% with financial and business services set to generate over half of GVA growth over that period. In 2015 the city welcomed over 26 million visitors, a 5% increase on 2013. The visitor economy is worth an estimated £1.5 billion.
- 2.3 The city centre of Leeds has experienced very little increase in hotel room supply in recent years, and it was only in 2017 that major new hotels opened, with others in the pipeline. Our research has found that there has been increased demand for quality hotel rooms driven by the city's economic growth.
- 2.4 The sample of 4-Star hotels in the city centre has produced impressive figures:
10% increase in guest room occupancy;
32% increase in hotel guestroom rates (ADR);
50% increase in revenue per available GUEST room (RevPAR);
49% increase in total revenues.
- 2.5 It is believed that the proposed hotel at Oxford Place will complement the existing four-star hotels in the vicinity, operating under The Wesley brand, and adding its own unique proposition as the UK's first authentic ethical hotel brand. Whilst there are a range of other pipeline projects and new openings, many can be excluded as competitors due to their size, location and market positioning.

Development Assumptions

- 2.6 Based on the information available in the indicative stages, the total development budget forecast is £13,200,000. This includes provision for design and engineering fees and also sufficient FFE uplift for 4-Star.

Estimates of Earnings

- 2.7 Overall the new pipeline of hotels mentioned above is a healthy sign, and The Wesley would expect to generate a degree of supply-led demand, whilst also accommodating frustrated demand. Below is a summary of the estimates of earnings for the original proposal of 66 bedrooms hotel with meeting rooms and restaurant. These clearly need to be updated in light of planning being obtained for 70 bedrooms.

	2021 Year 1	2022 Year 2	2023 Year 3	2024 Year 4	Totals/averages
Average daily rooms available	£ 66	£ 66	£ 66	£ 66	£66
Occupancy (%)	75%	79%	79%	79%	76%
ADR (£)	£ 82	£ 85	£ 87	£ 90	£85
RevPAR (£)	£ 62	£ 67	£ 69	£ 71	£65
	'000	'000	'000	'000	'000
Room Revenue (average 53%)	1,489	1,615	1,668	1,714	7,835
Conference & Event (average 29%)	782	845	917	989	4,256
Restaurant Food (average 6%)	162	168	175	182	843
Other Revenue	362	394	414	433	
Total Revenues	2,795	3,022	3,174	3,318	14,867
Income before fixed charges	1,694	1,852	1,944	2,030	9,066
Net Operating profit (EBITDA) £	758	831	869	917	4,074

Notes:

1. Occupancy: market at 79.6% in 2016.
2. ADR: market at £80.98 in 2016.
3. RevPAR: market at £64.06 in 2016.
4. Post-Finance Cash flow model assumes funding package of 60% debt/40% equity contribution from Methodist Church resources.

Market Rental Value

- 2.8 A valuation report obtained by the District in August 2017 estimated the market rent to be £370,000 per annum on the basis of a full repairing and insuring lease, for a 25 year term and with 5 yearly upwards only index reviews to RPI.

Market Rent	
Fair Maintainable Turnover (stabilised year)	£3,022,000
FMOP/EBITDAR	£831,000
Less: A return to the tenant of cost of fit out:	
Fit out cost:	-£825,000
Two weeks working cap:	-£116,231
Sub total	-£941,231
Return @10%	-£94,123
Divisible Balance	£736,877
Tenant's Bid	50.0%
Market Rent	£368,438
Market Rent (rounded)	£370,000
Rent per key	5,582

Source: Christie & Co Analysis

Next Steps

- 3.1 The Property Development Committee has already appointed a small group to oversee and steer the project with terms of reference for this group being finalised. Reports will be made to every meeting of the Property Development Committee on the progress of the redevelopment by this small group.
- 3.2 Capsticks Solicitors have been instructed to report on the title to ensure any legal issues are raised and addressed now. Tenders have been received from project managers and interviews for the project management firm will be undertaken on 10 October 2018. A meeting will shortly be held with the small group and key personnel from The Wesley hotel to have the specification for the build agreed along with heads of terms for the lease.
- 3.3 A qualified surveyor will be instructed to advise on the feasibility of the project once final costings are known and a qualified surveyors report on the market rent for the lease obtained for the purposes of the Charities Act.
- 3.4 The establishment of a trading subsidiary company continues to be explored for all redevelopment projects being undertaken by the Property Development Committee. The Council has previously received a paper explaining the benefits of establishing a company for

such transactions and that it might also be necessary for charity law and tax purposes to have a company established to undertake such projects. Resolutions are proposed below to ensure the option of a company entering into such contracts rather than the Council is a possibility for the Oxford Place, Leeds

- 3.5 It is proposed that the redevelopment is funded from the 21st Century Fund which the Council has detailed in a separate paper.

*****RESOLUTIONS**

- 78/1. The Council receives the report.**
- 78/2. The Council resolves that, following the resolution of the Yorkshire West Synod on 8 September 2018 the property known as Oxford Place, Leeds shall henceforth be for connexional purposes (as defined by the Model Trusts of the Methodist Church) in connection with the Methodist Council.**
- 78/3. The Council resolves that, in accordance with Standing Order 904, the Connexional Trustees for Oxford Place, Leeds shall be the members of the Property Development Committee annually appointed by the Council.**
- 78/4. The Council directs the Property Development Committee to make regular reports to the Strategy and Resources Committee on the feasibility and funding of the redevelopment of Oxford Place, Leeds.**
- 78/5. The Council authorises the Strategy and Resources Committee to approve the funding arrangements for the redevelopment of Oxford Place Leeds.**
- 78/6. The Council authorises any two of the following members of the Council, the Chair of the Council, Secretary of the Council, Chair of the Strategy and Resources Committee or the Connexional Treasurers, upon the direction of the Strategy and Resources Committee, to sign any documentation relating to the funding arrangements for the redevelopment of Oxford Place, Leeds.**
- 78/7. The Council authorises any two of the following members of the Council, the Chair of the Council, Secretary of the Council, Chair of the Strategy and Resources Committee or Connexional Treasurers, upon the direction of the Strategy and Resources Committee, to sign a development agreement, agreement for lease and such other legal documentation necessary for the completion of the redevelopment and leasing of Oxford Place, Leeds upon completion.**
- 78/8. The Council accepts that the preference would be for the party entering into such legal agreements and contracts for the redevelopment to be an incorporated body and therefore authorises the Strategy and Resources Committee to exercise the authority granted in resolutions 6 and 7 to apply to contracts and agreements being entered into by a trading subsidiary company of the Methodist Council.**
- 78/9. The Council approves the principle of an annual grant to the Yorkshire West District to support the city centre mission in Leeds and authorises the Strategy and Resources Committee to agree the final figure for the grant.**