

# Gloucester City Council

<b>Meeting:</b>	<b>Cabinet</b>	<b>Date:</b>	<b>12 November 2014</b>
<b>Subject:</b>	<b>The Future of the Eastgate Indoor Market</b>		
<b>Report Of:</b>	<b>Cabinet Member for Regeneration and Culture</b>		
<b>Wards Affected:</b>	<b>Westgate</b>		
<b>Key Decision:</b>	<b>Yes</b>	<b>Budget/Policy Framework:</b>	<b>No</b>
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<b>Appendices:</b>	<b>1. First Floor indicative layout for new indoor market</b>		

## FOR GENERAL RELEASE

### 1.0 Purpose of Report

- 1.1 To update Cabinet Members on options for the regeneration of the Indoor Market Hall at the Eastgate Shopping Centre and to seek approval to progress negotiations.

### 2.0 Recommendations

- 2.1 Cabinet is asked to **RESOLVE** that:

- (1) the City Council continue negotiations with their headlease holder, Rockspring Investors, to create a new indoor market either on the first floor or split between the ground and first floors of the Eastgate Shopping Centre subject to:
  - a) acceptable arrangements for layout and rental levels being agreed with a focus on attracting new food and other retailers and subject to all existing market traders being offered an opportunity for a new stall if they so wish.
  - b) final agreement as to costs with Rockspring Investors and a proper return being achieved for the City Council's leasehold investment.
  - c) acceptable lease terms being agreed to ensure longevity and flexibility for both the new first floor and the existing ground floor premises.
  - d) satisfactory Consultant's report to demonstrate best value.
- (2) only essential repairs are undertaken to the existing market hall for the very short term with a view to closing the building once the new market is fully operational. Negotiations with Rockspring to take place to minimise any essential repairs following service of their dilapidations notice. The cost of these essential repairs could form part of the service charge recovery in accordance with normal practice until the market moves to the new location.
- (3) officers negotiate with Rockspring Investors regarding the future of the existing market hall site and how this asset maybe used for the benefit of the Council,

the Eastgate Shopping Centre and the city centre generally, and report back to Cabinet in due course.

### **3.0 Introduction**

- 3.1 This report has been prepared to update Cabinet Briefing following two meetings of the all-party indoor market working group on the 30<sup>th</sup> July and 2<sup>nd</sup> October and continuing discussions with Rockspring as head leaseholders of the Eastgate Centre.

### **4.0 Brief Background**

- 4.1 The City Council are the freeholder of the Eastgate Shopping Centre with Rockspring Investors holding a significant long leasehold interest of the whole centre expiring 31<sup>st</sup> March 2191. The Council have a long lease back of the Indoor Market Hall at a peppercorn rent expiring 31<sup>st</sup> March 2092. Further details of the term and lease were set out in the Report to Cabinet briefing on 16<sup>th</sup> July 2014. This report set out a full options appraisal to move the market to various alternative locations but concluded that the preferred option was to continue negotiations to modernise and move the market to the Eastgate first floor.
- 4.2 Negotiations with Rockspring Investors have continued to investigate ways in which the indoor market could be modernised and become more attractive thereby creating a destination for a wider cross section of consumers.
- 4.3 The existing building, which is now approaching 50 years old, suffers from under investment and is in a poor state of repair. Many elements of the fabric and services are now reaching the end of their useful life with mechanical and electrical systems especially exceeding their typical life expectancy. The previous report to Cabinet Briefing highlighted and summarised the planned maintenance survey and costs identified for the next five years which were summarised as circa £850,000.
- 4.4 Various alternative locations were considered in some detail with advantages and disadvantages previously reported. The majority were discounted either on economic grounds or less than ideal buildings. The only feasible options were either the first floor of the Eastgate Centre or remain in the existing building, albeit probably only short term.
- 4.5 A subsequent survey of the existing market traders identified that the majority did not wish to move to the first floor and an undertaking was given that they will not be moved against their will in the short term.
- 4.6 Further options are being investigated of either (1) to split the market between a ground floor presence in the vacant units opposite Marks & Spencer and a smaller area initially on the first floor. Rockspring have confirmed that they are willing to consider this but rents for a ground floor unit would be considerably higher than a first floor unit; or (2) close down the existing market hall, completely repair and refurbish the building and then reopen possibly with an enlarged modern market. This would mean a gap in trade of around a year and would entail a major capital investment for the Council.

## 5.0 Current Progress

- 5.1 A review of the feasible options results in the most economically advantageous scheme with the least disturbance to the market traders, being a new market on the presently vacant first floor or split between the two floors. This scheme is also deliverable in a short time frame with the new market being constructed by Rockspring Investors with minimal procurement risk to the City Council. This will allow a new market concentrating on a wide food offer to be created in completely refurbished premises and with the existing market continuing to trade undisturbed until the new premises are available.
- 5.3 The vertical circulation within the shopping centre has been enhanced by Rockspring with the installation of two new lifts (a net addition of one). This improves access from the rooftop car park and to the public toilets located on the first floor providing immediate footfall and visibility for a modern and accessible market. Clear and prominent signage would be provided at ground level within the main malls to attract interest and direct footfall.
- 5.3 Many of the existing market traders have stated in a survey that they will not move to a first floor location, due to concerns about visibility and footfall, it is proposed that the new market would be professionally managed under contract to the City Council and would be committed to extensively promoting and advertising the market thereby attracting a wider customer base.
- 5.4 Earlier this year Rockspring Investors carried out a survey of the market hall building and their solicitors have just served a formal repairs notice dated 17<sup>th</sup> October 2014 on the City Council under the terms of our lease. A period of three months has been stated by which time we must commence the works and proceed diligently to completion. The repair works have been costed at £722,372 and in the event that the City Council do not proceed diligently with the works, the notice states that the Landlord may enter and carry out the works recovering the cost as a debt due. In this event a further £72,237 will be claimed for supervision and administration.
- 5.5 This latest repairs notice may have been initiated as a result of Rockspring's intention to sell the Eastgate Centre as highlighted in item 10.3 hereunder. If the repairs were to be undertaken this could have a catastrophic effect on the existing market traders who would experience greatly increased service charges to pay for the additional cost, but still with an old building, high utility bills and a poor environment with potentially fewer customers than would otherwise be the case for a new market. The increases could be approximately 160% on the present total stallholder costs which assumes no changes to the rent, rates or utilities. Otherwise the repair costs would fall on the City Council and these are entirely unbudgeted and unaffordable.
- 5.6 Rockspring Investors have confirmed verbally that the offer of a new market is "still on the table" notwithstanding the repairs notice and are prepared to negotiate a settlement.
- 5.7 Our Markets team continue to liaise with the existing traders who are themselves seeking extensive repairs and improvements to the existing market hall. The most recent meeting took place on Wednesday 29<sup>th</sup> October to appraise the traders of the effect of the latest repairs notice. A further meeting is proposed with the traders

and their representatives to include the National Association of British Market Authorities.

5.8 Discussions are underway with local groups on ideas to provide crafts and entertainment to attract increased footfall. An article is to be published in City Life and further adverts placed on Twitter and Facebook to help fill the few vacant units in the lead up to Christmas.

5.9 As outlined in the report to Cabinet Briefing on 16<sup>th</sup> July 2014 we have a draft Market Strategy on which we are presently consulting. In addition to help further inform this draft strategy we have been undertaking a survey about Markets in the City. These are both very much works in progress and their outcome will be reported on once consultation has been completed. In addition the all party Task and Finish Group is looking at the Eastgate Indoor Market. This group will report to Cabinet on completion of the review.

## **6.0 Reasons for Recommendations**

6.1 To achieve an attractive and well used indoor market with greater footfall both for the Eastgate Centre and the City Centre generally. The market stall holders would have the opportunity to trade from a new environment and in a modern format appealing to a wider cross section of customers. Their overheads would be under strict control without the uncertainty of paying for the maintenance of an old and expensive building.

6.2 The long term vision for the Gloucester Indoor Market should be to create a vibrant and relevant retail destination as an antidote to bland supermarket environments and cheap competition from e-commerce.

6.3 By entering into a Partnership with Rockspring Investors and investing in a lease for a new indoor market, the City Council would make a bold statement and commitment to retail regeneration in Gloucester. This may provide confidence to retailers wishing to expand in the City Centre and assist other schemes, such as Kings Quarter and both Eastgate and Kings Walk shopping centres.

6.4 Additionally the existing traders would be encouraged to modernise and invest in their business thereby creating a larger and more sustainable market. Many towns and cities support markets in excess of 60 stalls.

## **7.0 Future Work and Conclusions**

7.1 Following confirmation of the recommendations, negotiations will be resumed with Rockspring Investors for a lease acquisition of the first floor and consideration of the ground floor premises. Further discussions will take place with the market traders with full costing provided for the short term repairs. A further report will be provided to Cabinet Briefing in due course.

7.2 An independent Consultants report will be commissioned to assess the proposed business case for the new market and to provide reassurance that Best Value for money is being achieved.

## **8.0 Financial Implications**

- 8.1 The latest heads of terms for a City Council 35 year lease of the first floor envisages a rent of £150,000 pa and a service charge of £50,000, now with no capital contribution (previously circa £850,000) for the new 15,000 sq ft market. Rockspring Investors have proposed a fixed uplift to the rent to reflect the absence of any capital payment and this remains to be negotiated. A professional management contract should be competitively tendered, but ideally Rockspring Investors or their successors should be responsible for operating and promoting the market as that could save significant costs due to economies of scale as part of the shopping centre service charge. Total costs for running the new market, including rent, rates and services maybe in the order of £330,000pa, with income increasing by 10% to £400,000. However in the first year letting concessions to new traders may reduce the profit element. The City Council would additionally benefit by circa £20,000 pa from an enhanced head rent from the first floor lease once the Eastgate Centre was fully let at market rents and the base rent for the Centre of £515,000 pa achieved.
- 8.2 The City Council could retain the existing market hall lease thereby enabling a further redevelopment or refurbishment to take place when the new Linden Homes residential scheme matures. The market hall building could then be completely refurbished and considerably enlarged by incorporating other adjoining City Council owned land, thereby enabling lettings to national retailers for rents to the City Council possibly in excess of £200,000 pa. As part of the negotiations with Rockspring Investors, flexibility in the market hall lease must be recognised to resolve uncertainty concerning future redevelopment of this building and to avoid unnecessary short term repair costs.
- 8.3 The essential short term repairs and redecoration of the existing market hall could incur planned maintenance of about £200,000 within the next year prior to the new first floor market being operational. Whilst these costs can in theory be recovered from the market traders by way of their service charge, the subsequent increase of around 50% may result in some traders leaving and difficulty in recruiting new temporary stall holders. Hence a significant risk of a substantial shortfall in recovery exists unless Rockspring Investors can be persuaded to withdraw all requirements for repairs.

*(Financial Services have been consulted in the preparation this report.)*

## **9.0 Legal Implications**

- 9.1 A new lease and modifications to the existing market hall lease will be required to effect the recommendations, if approved by Cabinet.
- 9.2 It is intended to instruct our internal legal department to effect this document.

*(Legal Services have been consulted in the preparation this report.)*

## **10.0 Risk & Opportunity Management Implications**

- 10.1 The existing long lease of the market hall places all risk, and conversely reward, on the City Council for this building for a further 78 years. The maintenance and repair of the existing market building carries the risk of significant financial shortfall to the

City Council in the event that stall holders are unable to meet a possible 50% increase in their charges next year. This in turn will reduce the rental income due to increasing voids but operational costs are unlikely to significantly reduce in the short term.

- 10.2 The risk of the market being unsuccessful on the first floor remains with the City Council who will be responsible for the rent and service charge payments for the length of the lease term. Promotion, marketing and professional management will reduce this risk and encourage full occupancy and increased profit. It is also essential to ensure flexibility in the lease terms especially relating to the future use of the space.
- 10.3 The Rockspring Investors' lease for the Eastgate Centre is presently being offered for sale with six other retail investments in a single package (offers are sought in the region of £250m). Clearly if a sale proceeds the new owners could be a city financial investment house with lower priorities than Rockspring Investors for retail improvements in Gloucester. Hence there is a risk that the new owners will not be prepared to invest circa £2m to create a new market and may be less enthusiastic about markets generally. In which case, they may seek to enforce repairing covenants for full repair of our market hall building in isolation.

#### **11.0 People Impact Assessment (PIA):**

- 11.1 The PIA screening stage is being completed.

#### **12.0 Other Corporate Implications**

##### Community Safety

- 12.1 Safety of the public will be managed during the construction stage by Rockspring Investors.

##### Sustainability

- 12.2 None, although sustainability will be considered when specifying products, and in construction methods.

##### Staffing & Trade Union

- 12.3 None.

**Background Documents:** None