

# BRIDGEND COUNTY BOROUGH COUNCIL

## REPORT TO CABINET

19 JUNE 2018

### REPORT OF THE CORPORATE DIRECTOR COMMUNITIES

#### BRIDGEND MARKET- IMPROVEMENT PLAN

##### 1. Purpose of Report

- 1.1 The purpose of this report is to recommend to Cabinet the approval and implementation of a management improvement plan for Bridgend Market.

##### 2. Connection to Corporate Improvement Objectives/Other Corporate Priorities

- 2.1 This report assists in the achievement of the following corporate priority/priorities:
1. **Supporting a successful economy** – taking steps to make the county a good place to do business, for people to live, work, study and visit, and to ensure that our schools are focused on raising the skills, qualifications and ambitions of all people in the county.
  2. **Smarter use of resources** – ensuring that all its resources (financial, physical, human and technological) are used as effectively and efficiently as possible and support the development of resources throughout the community that can help deliver the Council's priorities.

##### 3. Background

- 3.1 The Council own a leasehold interest in Bridgend Indoor Market, part of the Rhiw Shopping Centre, by way of a 99 year term from 19<sup>th</sup> June 1972.
- 3.2 The lease provided for the rent to be reviewed at the expiration of the 21<sup>st</sup>, 35<sup>th</sup>, 49<sup>th</sup>, 63<sup>rd</sup>, 77<sup>th</sup> and 91<sup>st</sup> years. The last review was in the summer of 2007 and the next rent review therefore is in 2021. The current rent is £133,000 pa (excluding services charges, rates, etc.) payable to the Rhiw Centre owners and there are 53 years of the term remaining. The full estimated running costs based on current occupancy, service charge estimates, normal running expenses and National Non-Domestic Rates (NNDR) are set out below:

Running Expenses	94,303
Rent & Service Charge	220,145
NNDR liability	53,393
<b>Total Costs</b>	<b>367,841</b>

- 3.3 Owing to current high and increasing vacancy rates (c. 44+%), there is a widening gap between the income the Council receives and the costs of leasing and managing the market. The income gap continues to widen as significant numbers of traders continue to leave. Current traders pay a total of £174,331 in rent which

produces a forecast deficit for 2018/19 of £193,510 based on the estimated total running costs set out in the table above.

- 3.4 Many traders cite the high relative rents (as compared to both retail units in Bridgend town centre and those at other similar markets in Wales) and the resultant current high vacancy as their main reasons for leaving. These rent levels have historically been maintained and set to reflect the underlying lease which was, unfortunately, last reviewed at a high point in Bridgend retail rents before the financial downturn.

#### **4. Current Situation / Proposal**

- 4.1 Whilst over the years the Council has made significant investment in the market, including capital spend in excess of £600,000 on a new market roof, budget constraints have largely limited investment in more recent years to essential maintenance. Therefore, much of the external signage, displays and public areas do not present an attractive shopping environment, which is exacerbated by vacant stalls.
- 4.2 In recognition of the difficult trading situation, a market improvement partnership, including representatives of the major stakeholders, was established in 2017. As part of agreed measures to help revive the market, the existing traders were granted a rent rebate from December 2017 to March 2018, payable in two tranches and set at 15% of their rent levels. These have now been paid and rents are back as before.
- 4.3 Simultaneously with the rebate initiative, Watts & Morgan (W&M) were appointed as agents to market the vacant space, commencing marketing in January 2018. The asking rents were set at just over 70% of the level paid by existing stall holders as a means of attracting new business to the market. Unfortunately, W&M have subsequently had no firm offers in four months and continue to advise that rents need to be just over 50% of current levels to compare favorably with town centre retail unit rents.
- 4.4 Since the last rebate was paid in March 2018, a further four stalls have been vacated representing a further £37k (18%) of passing income and 12% of the whole floor area. No new or replacement tenants have yet been secured.
- 4.5 The status quo is therefore not considered sustainable and radical and prompt action is required on both passing and quoting rents. A permanent reduction in existing traders rents of 25%, frozen until April 2020 is proposed to avoid further terminations. It is also proposed that W&M quoting rents are dropped to a level of c.52% of current existing rents which can be justified with existing traders on the basis of the lower rentals seeking to attract and incentivise new traders and also recognising that the existing traders, in the main, occupy the prime positions in the market space. The proposal would allow a better opportunity for a refill of the market in the medium term.
- 4.6 In tandem with the above and utilising existing budgets, and some financial input from the Rhiw Shopping Centre owners, (an initial investment of £5k has been provisionally agreed), a significant programme of investment would take place to

improve the market environment and experience. These would potentially cover but not be limited to:

- New signage and marketing boards along external wall in Rhiw.
- Repositioning and display of historic market bell.
- Air curtains on access door to improve atmospheric environment, particularly in winter.
- Improved entrance doors with improved fire alarm connectivity.
- Better external signage for rear entrance.
- Creation of a central open 'Market Square' by removing some of the current empty stalls in the centre of the market space and moving one tenant to provide a play area, children's rides, seating, temporary pop-up stalls, cultural events and ad hoc events such as trade and craft fairs.
- Liaison with Traders association on regular market events such as Craft Fair on 16<sup>th</sup> June.

#### 4.7 **Rental levels**

Whilst the existing occupancy has largely migrated to the relatively 'prime' stalls along the Rhiw arcade and in the corners close to the entrances / river viewing windows, we propose to offer a permanently reduced rent for the existing tenants. Such a move will assist with the viability of their on-going operations and bridge the gap with re-structured rents quoted by W&M for small, medium and large units for new tenants.

- 4.8 Comparisons with available premises in the town centre and other comparable local markets in the South Wales area, suggest that the current rent is very high compared with the "open market". Traditionally Property Services have tried to maximise the rent in order to pay the significant costs associated with holding the long term lease. This is now recognised to be unsustainable and the rental yield will no longer cover the running costs - as shown in the table in paragraph 4.11.
- 4.9 It is proposed that rents are reduced by 25% to a figure that is more closely comparable with other markets. The aim is for an average 85% occupancy (considered to be realistic and achievable) and if this is achieved it might be possible to stabilise the position and build up future income in partnership with the traders over a longer period, particularly through utilisation of an open Market Square. Again this scenario (proposing a revised rent) is illustrated below in paragraph 4.12.
- 4.10 While it is appreciated that existing traders would pay higher rents, this would not be at a level considered to be divisive and inherently unfair, particularly as the new W&M quoting rents would be deliberately set at an 'aggressive' level to attract new business and would increase with RPI and are generally for inferior stall positions. The traders representatives on the Market Partnership have emphasized that for them to continue to trade profitably, the current situation in terms of vacancy levels must be also be addressed, so it is considered that an approach that will assist both existing and new traders is in the interest of a sustainable market and will ensure this important amenity for the town is better supported.

4.11 Current rental shortfall is shown below, following tenant exits:

Current costs	£ 367,841
Current income (incl. latest exits)	-£ 174,331
<b>Shortfall assuming no new exits/lettings</b>	<b>-£ 193,510</b>

4.12 As the reduction kicks in for existing tenants and until new tenants become aware of the new starting rents, the current predicted shortfall of £193,510 may increase for a short time as the 25% reduction will represent a drop of around £43,500 per annum in the current existing traders passing rents (c. £32,700 for 2018/19 assuming in place for 9 months from 1<sup>st</sup> July). However, as occupancy subsequently increases, it is projected that it will settle at between £130,000 and £160,000 (at 85% occupancy) in the medium term and reduce over the longer term as rents then increase.

#### 4.13 **Marketing**

It is recognised that with current internal resource constraints, the marketing of the indoor market is likely to be more effective if it can be undertaken in conjunction with the Rhiw Shopping Centre owners and the Traders. Consideration is being given to the most effective means of achieving this but a clear objective will be to improve the signage, look and environment of the Market.

4.14 In addition, assistance with marketing and positive publicity, directed at both the general public and potential new traders is to be encouraged. It is acknowledged that one hour of free parking adjacent to the market is already in place - and consideration will need to be given to realistic future opportunities to promote the town and market in this way.

#### 4.15 **Lease terms**

Some lease terms are considered to be too restrictive and need to be more flexible to reflect the “buyers’ market”. For example, current leases restrict the products that individual stall-holders can sell. The original rationale for this was to provide a variety of interest in the market, but also to prevent unhelpful competition between stall-holders, which could result in some businesses failing.

4.16 Feedback from the Market Partnership however, has suggested that traders have historically been prevented from developing their business and testing new products and services. Lifting of any restraints on trade and increasing competition (on the basis that increased footfall is good for all traders) should be positively encouraged.

4.17 It is proposed, therefore, that the market operates with no restrictions in terms of duplication, i.e. new traders can be accepted even if they sell goods that are similar to those already available in the market.

### 5. **Effect upon Policy Framework & Procedure Rules.**

5.1 None.

## **6. Equalities Impact Assessment**

- 6.1 There is no direct impact on groups or individuals with protected characteristics directly from the proposals in this report

## **7. Well-being of Future Generations (Wales) Act 2015 Implications**

- 7.1 The Well-being of Future Generations (Wales) Act 2015 Assessment has been completed. A summary of the implications from the assessment relating to the five ways of working is below:

Long Term - The proposals will provide short term financial relief to existing market traders, encourage new traders and secure market financial sustainability over the longer term through increased occupancy.

Prevention - The proposal combines financial relief for current traders to prevent more vacancy and the financial investment in market infrastructure will improve the built environment.

Integration - The economic vibrancy of the market and Bridgend's retail centre will improve and new facilities for social and cultural events.

Collaboration - The Council is working closely in partnership with the Rhiw Shopping Centre management and Bridgend Market Traders Association to deliver well-being objectives.

Involvement - The Market Traders are actively engaged in the delivery of the proposals, both financially and through direct involvement, and reflect the full diversity of businesses within the market and Bridgend retail business community.

## **8. Financial Implications**

- 8.1 A permanent reduction in existing traders rents of 25%, frozen until April 2020, will increase the rental shortfall at the market by £43,500 per annum.
- 8.2 A rental reduction for new traders is proposed to attract new traders to the market. The reduction will result in less income on an individual stall basis from current rates, but collectively this may not result in a dramatic overall fall in income if the number of stalls occupied and hence paying rent increases.
- 8.3 The proposed changes will result in a budget shortfall that will be addressed corporately, through earmarked reserves in 2018/19. However, a longer term solution will need to be developed once the earmarked reserve has been exhausted.

## **9. Recommendations**

Cabinet are asked to approve the following:

- 9.1 Introduce a permanent reduction in the Bridgend Market rent for current traders of 25%, effective as at 1<sup>st</sup> July 2018, with rents to be frozen until April 2020.

- 9.2 Reduce asking rents quoted by Watts & Morgan. The new proposed rents would be dependent on the size of the individual stall and would reflect Watts & Morgan's advice.
- 9.3 Allow new traders tenancies which offer more flexible terms of occupation. It is anticipated that these specific changes will increase the number of lettings and in turn, improve the vibrancy and occupancy of Bridgend market.
- 9.4 Embark on a programme of marketing and capital investment initiatives, within existing budgets and in partnership with the Rhiw Shopping Centre owners to improve the signage, displays, environment and utility of the Market, including a new open 'Central Market Square'
- 9.5 The Corporate Director - Communities, in consultation with the Head of Finance be authorised to action these changes.
- 9.6 Note the actions of the Bridgend Market Partnership in collaboration with interested parties in seeking to bring about long term the effective change in Bridgend Market.

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**Background documents:** None