

**Classification:** Public

**Key Decision:** No

## Gravesham Borough Council

**Report to:** Cabinet

**Date:** 30<sup>th</sup> September 2024

**Reporting officer:** Jamie Izzard, Director of Communities & Inclusive Growth

**Subject:** St George's Centre

### Purpose and summary of report:

To update Cabinet on work to increase revenue, reduce landlord liabilities and introduce a range of new uses and activation activity at the St George's Centre in Gravesend town centre.

### Recommendations:

1. Note the progress being made to increase revenue, reduce landlord liabilities and introduce a range of new uses at the St George's Centre.

<b>Key Implications:</b>	
<b>Item</b>	<b>Implications</b>
<b>Legal</b>	Section 1 details the current legal interest
<b>Finance and Value for Money</b>	The report covers the history to date of St George's Centre and considers opportunities and future liabilities
<b>Corporate Plan</b>	#One Borough Progressive place: vibrant Gravesham, revitalised towns #One Community Strong community: Progressive landlord, Cultural hub #One Council Enterprising authority: climate action, continuous improvement, customer excellence Ethical governance: trusted authority, robust standards
<b>Climate Change</b>	The St Georges Shopping Centre forms part of the council's property portfolio and will therefore be subject to requirements for Energy Performance Certificates for business premises. The centre obtains its energy supply through a 100% renewable electricity tariff.

## **1. Background**

- 1.1 The St George's Centre comprises a two-storey open Shopping Centre which extends to about 145,000 sq. ft and was built circa 1983. The centre provides over 35 units of retail space and is supported with a multi-level car park to the rear of the site, a service deck and management offices on the first floor.
- 1.2 In 2004, the Council entered into an agreement with Edinburgh House Estates Limited to redevelop the former Heritage Quarter which was to include the St George's Centre, the area north of the Shopping Centre and the area north of Gravesend Market. In 2017 Edinburgh House decided to market their interest in the development opportunity, consisting of the purchase of the long-term lease for the St George's Shopping Centre, properties within the Edinburgh House Group (including the old Blockbuster building) plus the rights to the development agreement in place with the council.
- 1.3 In June 2018 the council entered into legal agreements with Reef Estates Limited and Aviva Investors relating to the St George's Shopping Centre. At the same time the council entered into an Exclusivity Agreement with Reef Estates Limited to bring forward residential and commercial development proposals for land formerly known as the Eastern and Western Quarters of Gravesend Town Centre.
- 1.4 Works to refurbish the Centre commenced in March 2019 and further proposals had included the development of a specific leisure area at the rear of the centre. As a result of the Coronavirus pandemic and its effects on retail and redevelopment plans for other parts of Gravesend Town Centre, the leisure development within the shopping centre has not come forward. This was further affected by the previous Government's rejection of our Levelling Up Fund bids to support the project.
- 1.5 The rise in online shopping coupled with lockdown restrictions from the Covid-19 pandemic and the more recent cost of living crisis have significantly changed shopping habits and thus, the Council's ability to grow rental income. In the last five years, large retailers have rationalised their property portfolios in response to the changing shopping habits whilst others have experienced severe economic challenges leading to insolvency leaving landlord with surplus space and mounting void costs. This economic shift has created a crisis on the high street across the UK.
- 1.6 Despite this crisis, Gravesend town centre and the St George's Centre continues to buck the national retail vacancy rate and this report sets out steps to further increase revenue generation, reduce our landlord liabilities and revitalise the Centre by bringing in a range of new uses and activation.

## **2. Revitalising St George's**

- 2.1 A new Centre Manager is now in place and has supported several activations within the Centre over the last year. This included a popular pop-up beach over the summer, an indoor skateboarding space and a children's book festival. These activations have directly led to increased footfall, with over 700 additional visitors to the centre over the first weekend of the skate pop-up and over 1,000 children enjoying the free beach fun. A number of further activations are planned over the coming months.
- 2.2 A revised approach to consumer-facing marketing is now in place, with Colliers appointing a new in-house lead for 'place activation' across their portfolio and appointing a new marketing agency to deliver future campaigns. This activity will

be widened from social media to encompass proactive PR, community partnerships, brand activation and an events programme.

- 2.3 A recent extension to the parking hours and the introduction of more evening activities within the centre are starting to have an impact on early evening footfall, and work is underway to animate communal areas with additional seating and pop-up activity. However, the diversification of uses will be key to the future success of the centre with a number of specific initiatives underway, as detailed below.

### ***Tech Hub***

- 2.4 Contracts are in the process of being finalised with a workspace operator to deliver a 'tech hub' at the Centre. This new, high quality, flexible workspace will provide much-needed accommodation to enable the growth of business and third sector organisations, as part of a wider vision for revitalising Gravesend Town Centre. The Hub would be a focal point for modern, connected and design-led workspace that provides a blend of membership-style co-working options and flexible small offices, that does not currently exist in Gravesend and is limiting growth and development of the local and regional economy in north Kent.
- 2.5 It will not be limited to 'tech businesses' but based on market research, this sector is expected to be well-represented among the initial take-up and research shows an emerging cluster. It will also match aspirations around boosting digital adoption and cyber security skills training. The focus on 'tech-related' tenants, creates the opportunity for a visible and accessible 'shop front' for digital and cyber security services, in the high footfall, high business concentration town centre.
- 2.6 This focus will support the Council's ambition to grow the 'knowledge economy' within the borough, which would not only involve the attraction of academic institutions and companies engaging in research and development (R&D), but also programmers developing software and search engines for data, and the production of digital data to improve health outcomes.
- 2.7 The units earmarked for this project are 24 (currently housing Shine Foods), 25 (currently housing the artist studio pop-up) and 26-27 (previously housing YMCA). Whilst this space would deliver 8,300 sq ft of workspace, there is the potential to add a second floor by repurposing part of the service deck above, works which are currently being investigated by Reef Group. This could form a second phase of the project that utilises LUF funding.

### ***SME Test Hub***

- 2.8 As part of the Creative Estuary Study undertaken in 2023, proposals were put forward for an SME test hub at the undercroft. This would better utilise the space, which is currently dominated by children's coin-op machines and a small play area, which could potentially be relocated.
- 2.9 A first phase of this project is being taken forward on a cost neutral basis, with a further phase planned if LUF3 funding made available. The first phase will see a number of 'pods' installed in the centre, which will be available to small businesses and community groups at affordable and flexible rates.

### ***Artist Studios***

- 2.10 The current 'Art Is For All' (AIFA) pop-up has helped demonstrate demand and viability for additional artist studio space within the Centre. The current model for AIFA is for the project to move to different units as space becomes available

(thereby also reducing business rates liabilities). However, there is a longer-term ambition to identify a permanent space either at mall or service deck level. This would be on a commercial basis, albeit remaining affordable, and several delivery models are being explored.

### ***Other Community Uses***

- 2.11 A number of funding options are being explored that could support space for community uses such as studio space, NHS services, children's activities, youth facilities and shared kitchens. Whilst these proposals would need to be economically viable, they have the potential to support the centre's role as a community hub as well as an economic one.
- 2.12 Options are also being explored to maximise impact from current and planned uses. For example, the proposed Tech Hub will also provide space for community uses, business support and the provision of skills and employment support across a range of sectors and cohorts.

### ***Capital works***

- 2.13 Given the age of the Centre, a number of essential works have been identified which pose a direct risk to the rental income. As a progressive landlord and in compliance with the new Building Safety Act 2022, we will be seeking funding to access capital reserves to carry out essential works in the short to medium term. This includes addressing repairs to the mall flooring, replacement of defective roof overlays and upgrades to the car park, service deck and ramp.

## **3. Revenue Generation**

### ***Drive up revenue from existing uses***

- 3.1 Significant progress is being made towards getting the centre to full occupancy, with all remaining vacant units either under offer or with legals as listed below:
  - 3.1.1 Unit 3 – currently being marketed; interest from existing tenant
  - 3.1.2 Units 14-15 – currently being marketed
  - 3.1.3 Unit 18 – under offer to a local business
  - 3.1.4 Units 24, 26-27 – allocated to proposed 'Tech Hub'
  - 3.1.5 Unit 25 – proposed Tech Hub; currently occupied by Art Is For All artists cooperative
  - 3.1.6 Kiosk 1A – under offer to existing tenant
- 3.2 Without the pressure of significant under-occupancy, we are now in a better position to address some of the units that have been let at below market rent or on a service charge only arrangement. Based on Reef's projection (to be revised to current market conditions), if open market rent was to be achieved on all currently let units, a total of £527,135 additional income could be secured and the current £438,006 contribution by GBC towards services charges and business rates would be picked up directly by the tenants. Whilst this full amount could not be achieved in the medium term, narrowing the gap between contract rent and ERV is now being prioritised for delivery over the longer term.

- 3.3 Under the existing tenancies, there are rent review provisions which the Council will seek to enforce to improve revenue streams year on year.
- 3.4 Whilst historic rent arrears remain high (£114,458), arrears are now being managed much more proactively, with clear trigger-points for escalation to the landlord, and more proactive recovery efforts by agents. This has seen a reduction in total arrears of nearly £40,000 over the last two years. However, further progress is required to address a small number of large debts.

#### ***The case for diversification***

- 3.5 In 2023, GBC partnered with Creative Estuary to commission a report to explore better utilisation of GBC assets across Gravesend Town Centre in order to grow the cultural and creative sectors. This report resulted in a number of potentially financially advantageous proposals to revitalise St George's and introduce new uses such as community, youth and co-working space. The report outlined the risk of downward pressure on retail rents if current over-provision continued, making the financial case for such alternative uses.
- 3.6 Under a 'do nothing' scenario, the report predicted that voids would persist and potentially spiral, leaving the Council with increased annual costs year on year. The repurposing of existing and future vacant space could encourage more creative and cultural businesses however, the cultural sector is often reliant upon financial support. There is potential to secure circa £45,000 additional income per annum however, this is not without risk. The proposed Tech Hub detailed below will be the first of these alternative models to be delivered.

#### ***Reducing landlord liabilities***

- 3.7 GBC as landlord is required to fund any shortfall in service charge income, as well as business rates and insurance on vacant units. These landlord liabilities currently stand at £438,006 per year. This is down by nearly £84,000 from a peak of £527,110.32 in September 2023. This reduction is due in part to a reduction in vacant units but also because of a moratorium on permanent service charge discounts. Historically, existing or new tenants could negotiate a reduced or capped service charge rate which may have helped attract/retain tenants but has left the landlord with an ongoing liability to top-up any shortfall in service charges.
- 3.8 Business rates mitigation measures have also been progressed, including the use of vacant units for pop-up activity, which provides a subsequent 3-month 100% rates relief.

#### ***Reducing overheads and operating costs***

- 3.9 The council currently has a management contract in place for the Centre with Reef Group. At the end of the contract period the council will be required to undertake a full procurement exercise for management services, and it is anticipated that further savings could be made from this.

#### ***Maximising underutilised space***

- 3.10 The current design of the Centre does not fully optimise the total space as there are several underused and difficult areas in the mall level and the service deck. Overall density is very low for a town centre site and opportunities to create additional revenue from these spaces remains a core part of the short-medium term strategy for the Centre.

3.11 Communal areas at mall level provide an opportunity to create additional revenue streams. Despite a specific agent having been commissioned to look at these spaces, the only current income generating activity are children's ride-on machines, a photobooth and parcel lockers. Combined annual revenue is c£25,000 but work is underway to re-gear these arrangements and remove many of the less profitable coin-op machines. Alternate plans for the 'undercroft' area are being developed that could provide additional income (see 'test space' below) as well as better use of space within walkways for pop-up retail or other income generating uses. With effect from June 2024, Reef have commissioned a new marketing partner who is actively looking at incoming generating opportunities within St George's Centre and a revitalised approach to marketing and activation.

3.12 In addition to mall-level opportunities, several developable spaces have been identified within the service deck and work is now underway to understand load capacities for possible new structures. This could create additional space for co-working space, commercial kitchen space and artist studios. Any capital works to create additional units would need to be supported by LUF funding and/or other grant funding sources.

#### **4. Appendices**

4.1 None

#### **5. Background Documents**

5.1.1 None

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<b>Secondary Implications</b>	
<b>Risk Assessment</b>	No risk identified with this proposal
<b>Data Protection Impact Assessment</b>	<i>A data protection impact assessment (DPIA) should be carried out at the start of any major project involving the use of personal data or if you are making a significant change to an existing process.</i>
	<p>a. Does the project/change being recommended through this paper involve the processing of <a href="#">personal data</a> or <a href="#">special category data</a> or <a href="#">criminal offence data</a>? A definition of each type of data can be found on the Information Commissioner's Office website via the above links.</p> <p>No</p>
	<p>b. If yes to question a, have you completed and attached a DPIA including Data Protection Officer advice?</p> <p>N/A</p>
	<p>c. If no to question b, please seek advice from your nominated DPIA assessor or the Information Governance Team at <a href="mailto:gdpr@medway.gov.uk">gdpr@medway.gov.uk</a>.</p> <p>N/A</p>
<b>Equality Impact Assessment</b>	<p>a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community? If yes, please explain answer.</p> <p>N/A</p>
	<p>b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? If yes, please explain answer.</p> <p>N/A</p>
	<i>In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above</i>
<b>Crime and Disorder</b>	The proposals to repurpose the Centre could positively impact anti-social behaviour in St George's and the Town Centre
<b>Digital and website implications</b>	The information contained within this report has no specific digital and website implications.
<b>Safeguarding children and vulnerable adults</b>	The information contained within this report has no specific safeguarding implications.