

Officer Non Key Executive Decision

Relevant Chief Officer (Decision Maker):	Alan Cavill , Director of Communications and Regeneration
Relevant Cabinet Member (for consultation purposes):	Councillor Mark Smith, Cabinet Member for Business, Enterprise and Job Creation
Report Author (Officer name and title):	Nick Gerrard, Growth and Prosperity Programme Director
Implementation Date of Decision:	3 October 2022

INVESTMENT IN BLACKPOOL TOWN CENTRE

1.0 Purpose of the report:

1.1 Unit N4 Houndshell Shopping Centre, Grant of new Agreement for Lease and Lease.

2.0 Recommendations:

2.1 To grant a new (1) Agreement for Lease; and a new (2) Lease at Unit N4 Houndshell Shopping Centre, conditional on fit out contribution being approved by the Executive meeting on 10th October 2022.

2.2 Head of Legal Services to prepare legal documentation and enter into and complete appropriate documents/contracts/agreements/leases as necessary.

3.0 Reasons for recommendations:

3.1 Like many towns and cities the departure of Debenhams from the UK high streets and shopping centres has left a major void within the Blackpool Council owned Houndshell Shopping Centre. In other towns we have seen former Debenhams stores let for health, leisure, residential and retail, and indeed, many of the former Debenhams stores remain vacant, and without significant capital contribution from landlords that situation is highly unlikely to change

3.2 For Houndshell, as the primary shopping centre in Blackpool Town Centre, it is vital to retain this store for retail use, a position confirmed by the Council's retail consultants and finding a replacement department store to anchor the Centre has been a critical part of the strategy for the shopping centre. This will not only re-anchor the Houndshell but also strengthen the wider town centre offer and will help grow occupational demand for space and rental growth within the Houndshell and wider town centre. For Blackpool residents this will provide new employment opportunities

and also provide for a wider choice of products previously not available in the locality, thus increasing the attractiveness of the town centre. It will also provide for additional reasons for residents to visit the town centre including additional and/or new visitors from out of town.

3.2a Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.2b Is the recommendation in accordance with the Council's approved budget? Yes

3.3 **Other alternative options to be considered:**

- (a) To do nothing is not an option which can be recommended, as the unit represents one third of the space within the Houndshill and would not only continue to be detrimental to the centre but would also represent a void cost of over £600,000 (Service Charge, NNDR, Insurance) per annum.
- (b) Convert the space into smaller units; this was considered, the cost is estimated to be at a broadly similar level with no guarantee that the space will be let, nor let for anchor type uses and therefore presents a greater risk.
- (c) To seek alternative retailers to take most/all of the space; the following were considered TK Maxx, B&M, Boots, Matalan, Range and Next. Some of these would create void challenges in other parts of the town, and also these would not be able to produce the turn over levels expected on a contribution cost benefit ratio.
- (d) Change the use to leisure/food hall; this was considered but not progressed as again, it would require significant re-modelling and capital contribution. However, this proposal would not support anchoring the retail and fashion element of the Houndshill and town centre and therefore less favourable. Additionally a major leisure scheme is being progressed at Blackpool Central and a works for a new food hall are under way at Abingdon St Market.

The proposed option is the best option, is deliverable, and is unequivocally recommended by Ellandi who manage the Houndshill for the Council as the best option to pursue to make the biggest positive impact on the Shopping Centre and the Town Centre. It is also the best overall financial offer than any of the alternatives.

4.0 Council Priority:

4.1 The relevant Council Priority is

- “The economy: Maximising growth and opportunity across Blackpool”

5.0 Background Information

5.1 Following the departure of the Debenhams store from Blackpool, officers engaged consultants to undertake an options appraisal for the store replacement. This included a number of uses including leisure, health, retail, including a fashion led retail scheme and a replacement department store. All of these options require a significant capital contribution to anchor the Houndshell. Indeed a capital contribution was provided by the previous Landlord to attract Debenhams at that time. This is not unusual in retail as it helps uplift the whole centre and boosts occupier demand and improves renewal at lease expiry and is also expected to increase rental levels.

5.2 The Council’s consultants inform us the Houndshell has outperformed many similar secondary centres in northern England since the credit crunch by maintaining its high-quality line up of major, national fashion tenants. This sector remains of paramount importance to Houndshell due to the size and occupational cost of the units within the scheme.

5.3 Comparison shopping remains a key driver for fashion tenants; they like to trade alongside similar brands targeting similar shoppers. A reduction in the number of quality adjacencies, and in particular the failure of a fashion anchor is a major concern for fashion brands. Were the scheme to start losing its fashion tenants a decline in occupancy levels and income for the long term is very likely, on account of the lack of alternative tenants active in the market who are capable of backfilling the space.

5.4 Unit N4 therefore needs to be re-let as soon as possible and ideally to a tenant who re-anchors the scheme’s fashion line up. The importance of this is highlighted when set alongside the forthcoming breaks and expiry events of major fashion tenants within the Houndshell

The bulk of Debenhams stores within comparable schemes in the region remain vacant. Of those that have been let, the outcome has usually meant a downgrade in tenant mix from Debenhams. Examples include:

- Carlisle, the Lanes – vacant, Leisure scheme being considered, which will mean considerable landlord costs.
- Oldham, The Spindles – vacant. First floor to become council offices. B&M and

TJ Hughes considering.

- Warrington, Golden Square – TJ Hughes under offer on part, remainder has no interest
- Workington, Washington Square – ground floor under offer to TK Maxx, uppers vacant
- Stockport, Princes Street – vacant
- Wigan, Grand Arcade – vacant
- Manchester City Centre – to be redeveloped, no deals in train currently.
- Preston, Fishergate – vacant
- Altrincham, Stamford Quarter – vacant
- Bury, The Rock – The Range
- Southport, Lord Street – vacant

5.5 Retailers who may consider the former Debenhams space as an alternative to the proposed include those outlined in section 3.3 above:

Going back to market with the space is unlikely to generate an immediate solution, particularly on account of the expectation that we will have to split the space vertically to accommodate numerous tenants to get back to full occupancy. We also need to be mindful of factors affecting the wider economy and not least the cost-of-living crisis, which is likely to reduce tenant demand generally as we move into the new year. Therefore it is proposed to agree to the terms and enter into an Agreement for Lease and Lease on the following key terms:-

Rent: Turnover only at 3%, including the service charge and insurance but exclusive of business rates. Turnover information is to be provided via audited accounts. An on-account rent of 80% of the previous year's turnover will also apply before turnover is reconciled.

Capital: A total contribution from the Council (subject to Executive approval: a condition to be satisfied before the Lease is completed) of £8,250,000 to facilitate fit-out costs and to reflect the premium paid for a retailer of this quality. It will be delivered in the following tranches:

- (a) Payment 1: 50% to be paid when the Lease is signed and access is commenced, subject to a full shop fit proposal having been formally approved by the Council (assumed to be early 2023).
- (b) Payment 2: 50% on completion of the pre-agreed fit-out and the unit opening

for trade.

The proposed Tenant has provided an indicative timescale of 8 months from completion of the Lease for fit-out. The department store will have as part of its offer, beauty and perfume counters, high end luxury designer clothing and other goods, sportswear, and high street fashion

This report is currently exempt from publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered on balance that the public interest would not be served by publishing information at this stage as this information would undermine the Council's position in future negotiations and could risk the scheme not being able to proceed.

5.6 Does the information submitted include any exempt information? Yes

List of Appendices:

Appendix 1 – 10 year cash flow
Appendix 2- Financial Considerations

Not for publication

6.0 Legal considerations:

6.1 The Head of Legal Services will be instructed to complete the necessary legal documents to progress the transaction.

7.0 Human Resources considerations:

7.1 The project will be led by the Council's Growth & Prosperity team, the Council will not be occupying the property.

8.0 Equalities considerations:

8.1 The premises is situated in Blackpool Town Centre, close to other key prominent places of interest. The premises is served well by public transport: buses, trams and trains with car parking as part of the Houndshell offer.

In the event a deal is agreed, car park access into the scheme through unit N4 can remain as is. However, if the space needed to be split access would become more problematic for customers entering via the car park, although an accessible entrance/egress will be maintained.

9.0 Financial considerations:

9.1 See Appendix 2 financial considerations

10.0 Risk management considerations:

10.1 In addition to the risk around re-marketing and securing alternative tenants, there is a greater covenant risk in pursuing a mixture of retail and leisure tenants versus a deal on the whole with the proposed Tenant.

In late July it was reported that the Tenant company saw profits increase to £366m in the year to 24th April 2022 from just £8.5m a year before, as sales rose almost 31% to £4.7bn.

The Tenant is one of the better covenants available on the high street.

11.0 Ethical considerations:

11.1 None.

12.0 Internal/ External Consultation undertaken:

12.1 Internal – Chief Executive, Director of Resources, Growth & Prosperity Programme Director, Head of Investment, Head of Legal Services, Growth and Prosperity Board.

External – Ellandi, Barker Proudlove, Lunson Mitchenall, DAC Beachcroft, CBRE

13.0 Decision of Chief Officer

13.1 To grant a new (1) Agreement for Lease; and a new (2) Lease at Unit N4 Houndshill Shopping Centre, conditional on fit out contribution being approved by the Executive meeting on 10th October 2022.

13.2 Head of Legal Services to prepare legal documentation and enter into and complete appropriate documents/contracts/agreements/leases as necessary.

14.0 Reasons for the Decision of the Chief Officer

- 14.1 Like a lot of towns and cities the departure of Debenhams from the UK high streets and shopping centres has left a void including within the Blackpool Council owned Houndshell Shopping Centre. In other towns we have seen former Debenhams stores let for health, leisure, residential and retail, indeed many of the former Debenhams stores remain vacant, and without significant capital contribution from landlords that situation is unlikely to change.
- 14.2 For Blackpool Houndshell, it is vital to retain this store for retail use, a position confirmed by the Council's consultants and finding a replacement department store has been the strategy. This will not only re-anchor the Houndshell but also strengthen the wider town centre offer and will help grow occupational demand for space within the Houndshell and wider town centre. For Blackpool residents this will provide new employment opportunities and also provide for a wider choice of products previously not available in the locality. It will provide for additional reasons for residents to visit the town centre including additional and/or new visitors from out of town.