

Alterations and Extension to Lease, Sandport Industrial Estate, 10-20 Dock Street, Leith

Finance and Resources Committee

25 September 2012

1 Purpose of report

- 1.1 The report seeks approval to amend and extend the current ground lease agreement with ALDI Stored Ltd to assist with the proposed redevelopment of Sandport Industrial Estate, 10-20 Dock Street, Leith.

2 Main report

- 2.1 Sandport Industrial Estate currently provides a total of 1,835 sq.m (19,759 sq.ft) of industrial workshops in a terrace of six units as shown hatched on the attached plan. The buildings are of typical steel portal frame construction and provide a reasonable standard of accommodation.
- 2.2 The Estate is leased from the Council by way of a long ground lease from 11 November 1979 until 11 November 2014 and the workshops were constructed by the previous tenants. The current tenant, ALDI Stores Ltd, acquired the tenant's interest from Cromwell Properties Ltd for a premium of £2.5 million in December 2006 with a view to undertaking a redevelopment of the site. It was originally planned to undertake a part retail/part residential development however the downturn in the property market rendered such a scheme unviable.
- 2.3 The ground rent due is based on 13% of the rental of the industrial units, with rent reviews on an upwards only basis at 5 yearly intervals. The current rent of £16,300 per annum, was set in 2006 and was due to be reviewed in November 2011. The downturn in market conditions over the past 4 years has however lead to a reduction in the rental value of the units and in fact, apart from a short-term let during the Festival period, none of the units are currently occupied and the rent review due in November 2011 has not been pursued.
- 2.4 Aldi Stores Limited have now approached the Council as they are seeking to proceed with an amended proposal for the redevelopment of the site, subject to obtaining the necessary planning permission. They are seeking to demolish the existing industrial accommodation and develop an Aldi retail store at ground

floor level with a hotel on the upper floors. The proposed store will extend to 1,214 sq m (13,067 sq ft) and the hotel will provide 70-80 bedrooms.

2.5 To allow the development to proceed, Aldi Stores Limited have sought alterations to the existing lease agreement and, following various discussions, it has been provisionally agreed to amend the lease on the following basis:-

- The date of expiry will be 11 November 2137 (effectively extending the lease by 33 years)
- The current rent will be increased to £18,000 per annum effective from date of amendment
- The rent to be reviewed at 5 yearly intervals effective from the date of alteration. The reviews to be undertaken on an upwards only basis on the following terms:-
 - (a) Years 5, 10, 15, and 20 – rent increased in line with RPI capped at a maximum 3% per annum and collared at a minimum of 1% per annum
 - (b) Year 25 - the higher of the rent passing at the time or 5% of the market rental value of the proposed development (retail store & hotel)
 - (c) Years 30, 35, 40 and 45 - rent increased in line with RPI capped at a maximum of 3% per annum and collared at a minimum of 1% per annum
 - (d) Year 50 - the higher of the rent passing at the time or 5% of the market rental value of the proposed development
 - (e) Years 55, 60, 65 and 70 - rent increased in line with RPI capped at 3% per annum and collared at a minimum 1% per annum
 - (f) The reviews over the remainder of the lease to expiry will be on a similar rotating pattern as above.
- The Use Clause be amended to allow any use within Class1 (retail), Class 3 (food & drink), Class 4 (business), Class 7 (hotels & hostels), Class 8 (residential institutions) or any such other use as may be agreed between the parties in writing with landlord's consent not to be unreasonably withheld. The current clause allows industrial use only.
- The tenant has agreed to pay all of the Council's reasonably incurred legal and surveyors costs.

2.6 The amended review clause will provide a positive increase on the rent. For example, in 10 years time, based on the proposed rent review structure and assuming growth of 2% per annum, the rent will be £21,941 per annum. Under the existing lease terms the rent is unlikely to have increased from £16,300 per annum. Even allowing for the lowest annual growth of 1% per annum, the rent will increase to £19,883 per annum.

2.7 The review to Open Market Rent every 25 years also protects the Council from increasing land values in the area over and above the fixed rental increases allowed for by the 5 year reviews in between.

3 Financial Implications

- 3.1 The Council will benefit from an immediate increase in rental of £1,700 p.a. and guaranteed rental growth at 5 yearly intervals throughout the term of the lease due to the proposed amendment to the rent review clause.
- 3.2 Should a future decision be taken to dispose of the landlord's interest, the proposed lease alterations, in particular the provisions for guaranteed rental growth would be more attractive to the investment market which would result in a higher price being achieved in comparison to the existing terms.

4 Equalities Impact

- 4.1 There is no equalities impact arising from the recommendations contained within this report.

5 Environmental Impact

- 5.1 There are no significant adverse environmental impacts arising from the recommendations contained within this report. A positive environmental impact will be the redevelopment of a blank frontage to Commercial Street into a more active commercial streetscape.

6 Recommendations

- 6.1 It is recommended that the Committee approves the amendment of the lease to Aldi Stores Limited as per the terms set out in paragraph 2.6 above and on any other terms and conditions to be agreed by the Directors of Services for Communities and Corporate Governance.

Mark Turley
Director of Services for Communities

Appendices	1. Location plan
Contact/tel/Email	Graeme McGartland - Estates Surveyor Tel: 529 5956 email graeme.mcgartland@edinburgh.gov.uk
Wards affected	13, Leith

Single Outcome Agreement	Outcome 1 - Edinburgh's economy delivers increased investment, jobs, and opportunities for all. Outcome 4 - Edinburgh's communities are safer and have improved physical and social fabric.
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Background Papers	None *
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