

Finance and Resources Committee

10.00am, Friday, 1 February 2019

Vega Building, Clocktower, South Gyle Crescent, Edinburgh – Proposed Lease Restructure

Item number	8.4
Report number	
Executive/routine	Routine
Wards	3 – Drum Brae/Gyle
Council Commitments	C2, C3

Executive Summary

The Vega building is a modern office property formed over three floors and extending to 1,974 sq m (21,249 sq ft), located at Clocktower, South Gyle Crescent. It is leased to KUC Properties Limited, from 13 January 2001 to 12 January 2021, at a passing rent of £417,777.75 per annum.

KUC Properties Limited has approached the Council to agree a surrender of their lease. At the same time, the Council have held discussions with Pulsant Limited who wish to occupy part of the building.

This report seeks approval to surrender the KUC Properties Limited lease due and grant a new 10 year lease of two floors to Pulsant Limited on the terms and conditions outlined in this report

Vega Building, Clocktower, South Gyle Crescent, Edinburgh – Proposed Lease Restructure

1. Recommendations

1.1 That Committee:

- 1.1.1 Approves a lease surrender with KUC Properties Limited on the Vega building, Clocktower, South Gyle Crescent, and grants a new 10 year lease to Pulsant Limited, of the first and second floors, on the terms outlined in this report and other terms and conditions to be agreed by the Executive Director of Resources.

2. Background

- 2.1 The Vega building is a modern office formed over three floors around a central core and extends to 1,974 sq m (21,249 sq ft) or thereby and is shown outlined in red on the attached plan.
- 2.2 The property is currently leased to KUC Properties Limited (KUC) on standard FRI terms from 13 January 2001 to 12 January 2021. The current passing rent is £417,777.75 per annum.
- 2.3 The property is over rented with the passing rent equating to £19.66 per sq ft, which could not be achieved in current market conditions. This has been the historic position as the rent has never been increased at rent review in 2006, 2011 and 2016 due to the passing rent already being above market value.
- 2.4 KUC has never occupied the building. They entered into a sub lease with Police Scotland that expired in February 2015 and, since that time, the building has remained vacant. KUC has now approached the Council seeking to agree terms for an early surrender of the lease.
- 2.5 In tandem with the above, Pulsant Limited, a leading secure hybrid IT and cloud hosting provider, has approached the Council seeking to lease two floors of the property from April 2019. Pulsant are existing tenants of the Council elsewhere on the Clocktower estate and are seeking to expand their business in the area.

3. Main report

- 3.1 It has been known for some time that the existing lease to KUC was over rented and part of the strategy moving forward has been to address the risks of potentially having a vacant office building in early 2021, with associated on costs, and mitigate the future budget pressure due to the reduction in rent once a new tenant was secured.
- 3.2 The current proposition is that, in return for an early surrender of their lease, KUC will pay the Council £535,000 at the agreed date (15 April 2019) being full and final settlement of all outstanding obligations under the existing lease. This includes full occupational costs (rent, rates and service charge) for the ground floor to become vacant together with the difference in rent between the KUC lease rental rate (£19.66 per sq ft) and the Pulsant lower rental rate (£14.00 per sq ft). The sum also covers a proportion of the incentive to be granted to Pulsant on their new lease.
- 3.3 In addition, KUC will undertake a full refurbishment (to an agreed specification) of the entire building at a cost of £700,000 thus discharging their dilapidations liability and facilitating the letting to Pulsant.
- 3.4 The terms that have been provisionally agreed with Pulsant are as follows:
- Subjects: First and second floors of the Vega building, Clocktower, South Gyle Crescent, Edinburgh, extending to 1,323 sq m (14,240 sq ft) or thereby;
 - Landlord: The City of Edinburgh Council;
 - Tenant: Pulsant Limited;
 - Lease Start: 15 April 2019;
 - Lease End: 14 April 2029;
 - Break Option: Tenant only break option at 15 April 2024 on providing no less than 12 months written notice;
 - Rent Review: Upwards only to open market rent at 15 April 2024;
 - Rent: £199,360 per annum exclusive based on £14.00 per sq ft;
 - Use: Office;
 - Incentive: Tenant to be granted six months rent free from date of entry (KUC Properties Limited are covering two months under the surrender premium);
 - Costs: Both parties to meet their own costs with tenant responsible for LBBT and registration dues.
- 3.5 The status quo would see KUC remain tenant until the end of the lease, with rental liability under the existing lease from 15 April 2019 until 12 January 2021. At that time, the dilapidations would be required to be completed, creating a void period,

and the Council would require find a new tenant, with the risks that entails. The proposal allows for continuous occupation with two thirds of the property let for the next ten years.

4. Measures of success

- 4.1 Granting of the surrender and new lease will allow the Council to receive all sums due under the existing lease plus guaranteed continuing rental income of £199,360 per annum until, at least, 15 April 2024.
- 4.2 The new lease will permit Pulsant to expand their business and their South Gyle campus in particular, creating additional jobs and boosting the Edinburgh economy.
- 4.3 The building has been vacant for four years so this transaction brings two thirds of the property back into commercial use, whilst protecting the level of income that would have been received from the KUC lease.

5. Financial impact

- 5.1 If the Council decided to do nothing, it would receive £417,777.75 per annum up to the expiry of the KUC Properties Limited lease at January 2021. Thereafter a large vacant building, with substantial holding costs, would require to be re let with a large dilapidations claim to be settled prior to any refurbishment taking place.
- 5.2 The proposed transaction provides the Council with a £535,000 surrender premium covering all void costs on the vacant floor and a top up on the lower rent on the let floors. It is proposed that this rental income should be ring fenced and drawn down at the appropriate times to maintain the same level of income that would have been received should the KUC lease run to expiry.
- 5.3 This transaction provides guaranteed income to the Council under the Pulsant lease at £199,360 per annum until the earlier of the tenant break option date of 15 April 2024 or the lease expiry date of 14 April 2029.
- 5.4 The Council now has the opportunity to lease out the vacant floor, which will be refurbished, generating a potential £98,000 per annum of new income.

6. Risk, policy, compliance and governance impact

- 6.1 The proposal will result in two floors of an unoccupied building being brought into use. It is considered there is little or no impact on Risk, Policy, Compliance or Governance issues.

7. Equalities impact

- 7.1 The proposal in this report is agree a surrender of an existing lease and bring part of a building, previously unoccupied into use. It is not considered that this will have

a significant additional impact on people, equalities, the economy, and the environment.

8. Sustainability impact

- 8.1 There are no sustainability issues arising from this report as it is a surrender and new lease on an existing office property.

9. Consultation and engagement

- 9.1 Ward elected members have been made aware of the recommendations of this report.

10. Background reading/external references

- 10.1 Not applicable.

Stephen S. Moir

Executive Director of Resources

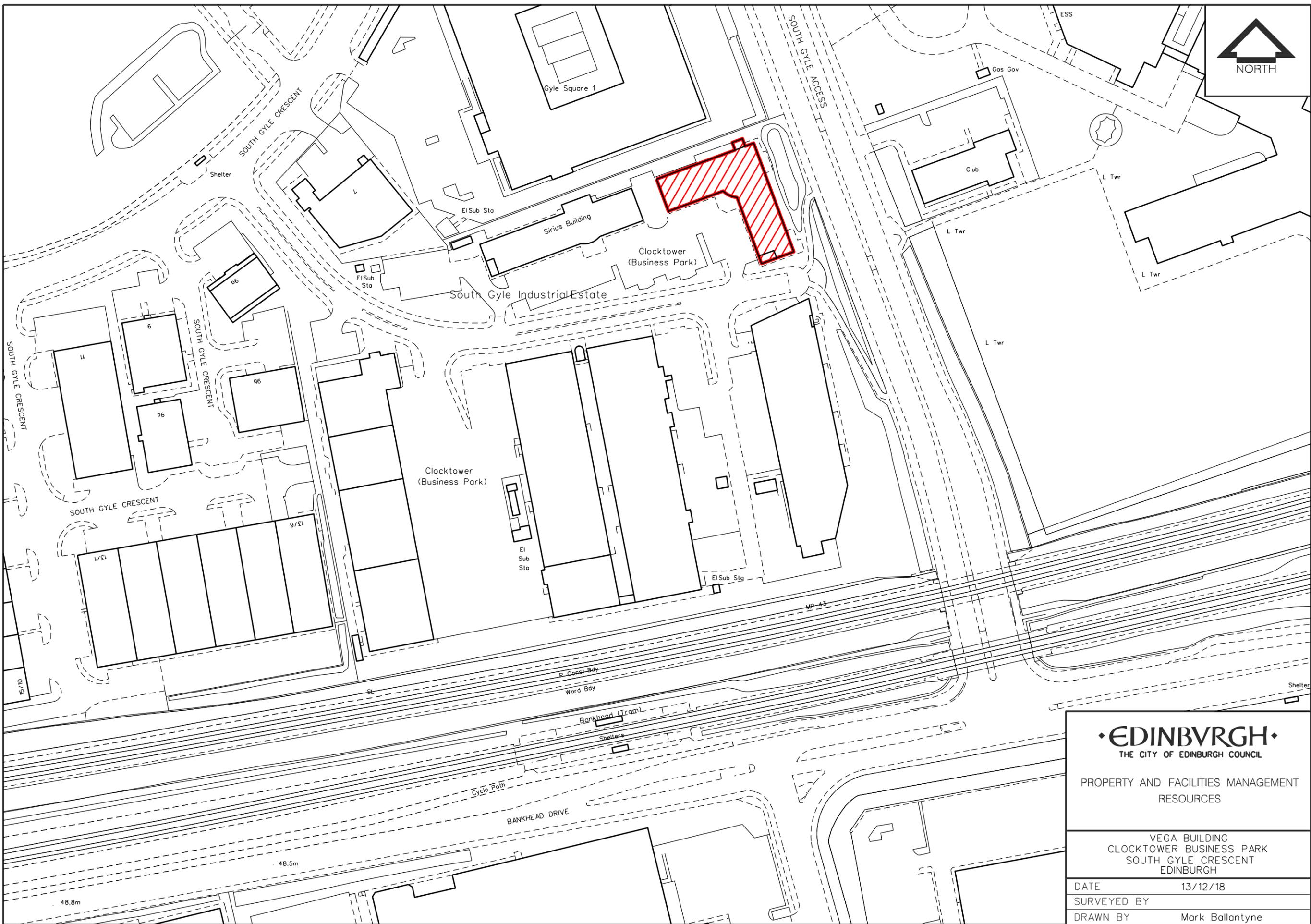
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11. Appendices

- 11.1 Appendix 1 - Location Plan.



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PROPERTY AND FACILITIES MANAGEMENT RESOURCES	
VEGA BUILDING CLOCKTOWER BUSINESS PARK SOUTH GYLE CRESCENT EDINBURGH	
DATE	13/12/18
SURVEYED BY	
DRAWN BY	Mark Ballantyne
SCALE	1:1250 @ A3 SIZE
NEG. NO.	A3/1941a

SITE PLAN

SCALE 1:1250

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