

Finance and Resources Committee

10.00am, Thursday, 3 November 2016

Proposed new leases (x3) at Peffermill Industrial Estate, King's Haugh, Edinburgh

Item number	8.3
Report number	
Executive/routine	Routine
Wards	17 – Portobello/Craigmillar

Executive Summary

Peffermill Industrial Estate is one of the largest industrial estates within central Edinburgh and has 34 units, ranging from 139.4 sq m (1,500 sq ft) to circa 1,858 sq m (20,000 sq ft). The Estate has a wide variety of occupiers, ranging from small local businesses to international corporations.

This report seeks approval to grant three new leases to the Co-op Funeralcare Group (x2) and Laurence Mackintosh Ltd (x1) on the terms and conditions outlined in the report.

These proposed new lettings are interconnected and have therefore been summarised within this single report.

Links

Coalition Pledges	P15 , P28
Council Priorities	CP5 , CP8 , CP9 , CP12
Single Outcome Agreement	SO1

Proposed new leases (x3) at Peffermill Industrial Estate, King's Haugh, Edinburgh

1. Recommendations

1.1 That Committee:

- 1.1.1 approves a 15 year lease to Laurence Mackintosh Ltd of the industrial premises at Block 10b, Peffermill Industrial Estate, on the terms outlined in this report and on other terms and conditions to be agreed by the Acting Executive Director of Resources;
- 1.1.2 approves a 20 year lease to Co-op Funeralcare of the industrial premises at Block 1, Peffermill Industrial Estate, on the terms outlined in this report and on other terms and conditions to be agreed by the Acting Executive Director of Resources; and
- 1.1.3 approves a 20 year lease to Co-op Funeralcare of the industrial premises at Block 9, Peffermill Industrial Estate, on the terms outlined in this report and on other terms and conditions to be agreed by the Acting Executive Director of Resources.

2. Background

- 2.1 Block 1, Peffermill Industrial Estate extends to 924 sq m (9,946 sq ft), and is currently let to Laurence Mackintosh Ltd at a rental of £38,000 pa. The lease is due to expire in May 2020, although it could be terminated by the occupier at any time (on serving six months written notice). Laurence Mackintosh Ltd are a local firm of joiners and have outgrown their current premises. They are seeking to relocate into the larger, vacant premises at Block 10b, Peffermill Industrial Estate.
- 2.2 Block 10b extends to 1,779 sq m (19,149 sq ft) and has been vacant since May 2015. It has been subject to fire damage and vandalism and an insurance claim was settled to make good all damage.
- 2.3 Block 9 extends to 950 sq m (10,226 sq ft) and is currently let to Spotless Office Cleaning Ltd at a rental of £48,000 pa. The lease is due to expire in December 2023, although it can be terminated by the tenant in December 2018 (on serving six months written notice). The existing occupiers are seeking to downsize and have

been actively marketing their lease interest. Provisional terms were agreed between Spotless Office Cleaning Ltd and Co-op Funeralcare.

- 2.4 However, as Co-op are seeking to extend the remaining lease term as additional security prior to investing in the property, the Council have been requested that a new lease be granted.
- 2.5 Terms and conditions have also been provisionally agreed for the Co-op to take the lease of Block 1, following the relocation of Lawrence Mackintosh Ltd to Block 10b. Their intention is to use the unit as a mortuary, which will require planning consent.
- 2.6 Co-op Funeralcare Ltd applied to take over a lease at 86-88 Niddrie Mains Road, and the report was continued by committee in August and is the subject of an additional report on the agenda. Co-op would withdraw their interest in Niddrie Mains Road if successful with the proposed Peffermill lettings. This would enable 86-88 Niddrie Mains Road to be used for alternative purposes.

3. Main report

- 3.1 It is proposed to renounce the existing lease to Laurence Mackintosh Ltd of Block 1, subject to both; new lease terms being agreed on Block 10b, and terms also being agreed with Co-op Funeralcare to take a new lease on Block 1, thus ensuring no void period.
- 3.2 This proposed transaction will allow the rental of Block 1 to be increased by £19,000 pa to £57,000 pa. The existing lease does not allow for the rental level to be reviewed until May 2020, thus generating an immediate increase in rental income.
- 3.3 In respect of Block 9, the proposed transaction and method of documentation will allow the rental to be increased by £10,500 pa to £58,500 pa. The existing lease does not allow for the rental level to be reviewed until December 2018, again generating an immediate increase in rental income.
- 3.4 In addition, Spotless Office Cleaning Ltd will be granted a new lease at Block 4, Peffermill Industrial Estate. This element of the transaction falls within delegated authority limits but will result in a vacant unit being re-let, at a rental of £25,500 pa, for a five year lease term.
- 3.5 To summarise, the following lease terms have been provisionally agreed:
 - 3.5.1 Block 10b, Peffermill Industrial Estate
 - Tenant: Laurence Mackintosh Ltd;
 - Lease term: 15 years from date of entry with tenant break option on 10th anniversary on six months notice;
 - Rent: £89,600 pa; (previously vacant);
 - Rent Reviews: Reviewed on fifth and 10th anniversary of the term to open market value;

- Use: Manufacturing of bespoke joinery and hand-made furniture, with ancillary office accommodation;
- Repairs: Full repairing and maintaining obligation;
- Other terms: As contained in a standard commercial lease; and
- Note: As part of this new letting, the tenant will be allowed to renounce their lease interest in Block 1, Peffermill Industrial Estate (subject to terms being agreed with Co-op Funeralcare).

3.5.2 Block 1, Peffermill Industrial Estate

- Tenant: Co-op Funeralcare Ltd;
- Lease term: 20 years from date of entry with tenant break option on fifth, 10th and 15th anniversary on six months notice;
- Rent: £57,000 pa; (existing rental is £38,000 p.a);
- Rent Reviews: Reviewed on fifth and 10th anniversary of the term to open market value;
- Use: Mortuary and ancillary uses;
- Repairs: Full repairing and maintaining obligation;
- Other terms: As contained in a standard commercial lease; and
- Note: This lease is conditional on the letting of 10b King's Haugh to Laurence Mackintosh Ltd as noted above and planning consent from change of use from Class 4 to a mortuary.

3.5.3 Block 9, Peffermill Industrial Estate

- Tenant: Co-op Funeralcare Ltd;
- Lease term: 20 years from date of entry with tenant break option on fifth, 10th and 15th anniversary on six months notice;
- Rent: £58,500 pa; (existing rental is £48,000 pa);
- Rent Reviews: Reviewed on fifth and 10th anniversary of the term to open market value;
- Use: Office accommodation and storage of materials/company vehicles;
- Repairs: Full repairing and maintaining obligation;
- Other terms: As contained in a standard commercial lease; and
- Note: As part of this new letting, the existing tenant will be allowed to renounce their lease interest in Block 9 Peffermill Ind. Estate (subject to terms being agreed under Delegated Authority for the property at Block 4 Peffermill Industrial Estate).

4. Measures of success

- 4.1 Granting these new leases will retain local services, generate additional jobs in the local area (and apprenticeships with Laurence Mackintosh Ltd), generate an increased rental income and avoid vacant property costs.

5. Financial impact

- 5.1 These transactions will result in a net additional rental income of £144,600 pa to the General Property Account. If these properties were all vacant, the Council could potentially be liable for vacant property costs of in the region of £70,000 pa, together with lost rental income.

6. Risk, policy, compliance and governance impact

- 6.1 Although two of the subject properties are currently occupied under commercial leases, both have upcoming tenant break options. The remaining property (10b King's Haugh) is currently vacant. It is considered there is little or no impact on Risk, Policy, Compliance or Governance issues.
- 6.2 As part of these transactions, two existing occupiers will be relocated to alternative premises within Peffermill Industrial Estate. Although these properties have not been actively marketed by the Council, Block 9 has been openly marketed by the existing tenant, and has demonstrated little interest and difficulties in re-letting properties of this size in the local area. Alternative properties are currently available within Peffermill Industrial Estate and are being actively marketed.
- 6.3 The proposed use of Block 1 as a mortuary is subject to Change of Use. This is therefore dependant on planning consent being granted.

7. Equalities impact

- 7.1 An Equality and Rights Impact Assessment has been carried out.
- 7.2 It is considered that the main enhancement of rights is through physical security with a vacant unit that could be seen as a target for vandalism and anti social behaviour being leased out and occupied. Furthermore, the new lease at this property would continue to provide a service to the local community and enhancing the right of productive and valued activities.
- 7.3 In a commercial property letting the main infringement of rights can often be claims by parties who were not given the opportunity to lease or make an offer for the property. It is not considered to be the case in this instance as alternative properties are currently available within Peffermill Industrial Estate and prospective occupiers of industrial units of this size are limited. We are not aware of any industrial requirements for large properties of this nature at this time.

8. Sustainability impact

8.1 There are no sustainability issues arising from this report.

9. Consultation and engagement

9.1 N/A

10. Background reading/external references

10.1 N/A

Hugh Dunn

Acting Executive Director of Resources

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11. Links

Coalition Pledges	P15 – Work with public organisations, the private sector and social enterprise to promote Edinburgh to investors. P28 – Further strengthen our links with the business community by developing and implementing strategies to promote and protect the economic well being of the city.
Council Priorities	CP5 – Business growth and investment. CP8 – A vibrant, sustainable local economy. CP9 – An attractive city. CP12 – A built environment to match our ambition.
Single Outcome Agreement	SO1 – Edinburgh’s Economy delivers increased investment, jobs and opportunities for all.
Appendices	Location Plan



• EDINBURGH •
 THE CITY OF EDINBURGH COUNCIL
 SERVICES FOR COMMUNITIES
 EDINBURGH

BLOCK 1, 9 and 10b PEFFERMILL INDUSTRIAL ESTATE PEFFERMILL ROAD EDINBURGH	
DATE	4/10/16
SURVEYED BY	
DRAWN BY	Mark Ballantyne
SCALE	N.T.S.
NEG. NO.	A4/142a

SITE PLAN

PHOTOGRAPHICALLY REDUCED NOT TO SCALE

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