

Finance and Resources Committee

10.00am, Thursday, 23 May 2019

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

Executive/routine	Routine
Wards	3 – Drum Brae/ Gyle
Council Commitments	<u>2</u>

1. Recommendations

1.1 That Committee:

- 1.1.1 Approves the surrender of the lease at the Vega building by KUC Properties Limited and the grant of a new 10-year lease to Pulsant Limited on the terms outlined in this report and on other terms and conditions to be agreed by the Executive Director of Resources.

Stephen S. Moir

Executive Director of Resources

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Property and Facilities Management Division, Resources

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Land at Newcraighall – Proposed Lease and Lease Extension

2. Executive Summary

- 2.1 On 1 February 2019, the Finance and Resources Committee approved the surrender of the lease at the Vega building by KUC Properties Limited and the grant of a new 10-year lease of part of the building to Pulsant Limited.
- 2.2 Following approval, Pulsant Limited has requested to lease the entire building resulting in revised terms and conditions.
- 2.3 This report seeks approval to lease the property, as a whole, to Pulsant Limited on the revised terms and conditions outlined in the report.

3. Background

- 3.1 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 attached at appendix 1.
- 3.2 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.
- 3.3 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.
- 3.4 KUC has never occupied the building. They sub-leased to 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.
- 3.5 In tandem with the above, Pulsant Limited, a leading secure hybrid IT and cloud hosting provider, originally approached the Council to lease part of the Vega building from July 2019. The terms and conditions were approved by the Finance

and Resources on 1 February 2019. However, since that time, Pulsant have requested lease the entire building which alters the original terms and conditions.

4. Main report

- 4.1 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 void costs, and mitigate the future budget pressure due to the reduction in rent once a new tenant was secured
- 4.2 The revised proposition is that, in return for an early surrender of their lease, KUC will pay the Council £185,000 at the agreed date (1 July 2019) being full and final settlement of all outstanding obligations under the existing lease. The reduction in the surrender premium from the previous report is due to no vacant property costs and the premium now consists 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) until the end of the original lease, 12 January 2021.
- 4.3 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.
- 4.4 The new terms provisionally agreed with Pulsant are as follows:
- Subjects: Ground, first and second floors of Vega building, Clocktower, South Gyle Crescent, Edinburgh, extending to 1,974 sq m (21,249 sq ft) or thereby;
 - Landlord: The City of Edinburgh Council;
 - Tenant: Pulsant Limited;
 - Lease Start: 1 July 2019;
 - Lease End: 30 June 2029;
 - Break Option: Tenant only break option at 1 July 2024 on providing no less than 12 months written notice;
 - Rent Review: Upwards only to open market rent at 1 July 2024;
 - Rent: £297,486 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;
 - Costs: Both parties to meet their own costs with tenant responsible for LBBT and registration dues.

- 4.5 The status quo would see KUC remain tenant until the end of the lease, with rental liability under the existing lease 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 the entire property for the next ten years.

5. Next Steps

- 5.1 Following approval of the revised terms by Finance and Resources Committee, solicitors will be instructed to conclude the documentation.

6. Financial impact

- 6.1 If the Council was 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 dilapidation claim to be settled prior to any refurbishment taking place.
- 6.2 The proposed transaction provides the Council with a £185,000 surrender premium covering a top up on the lower rent. 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.
- 6.3 This transaction provides guaranteed income to the Council under the Pulsant lease at £297,486 annum until the earlier of the tenant break option date of 1 July 2024 or the lease expiry date of 30 June 2029.

7. Stakeholder/Community Impact

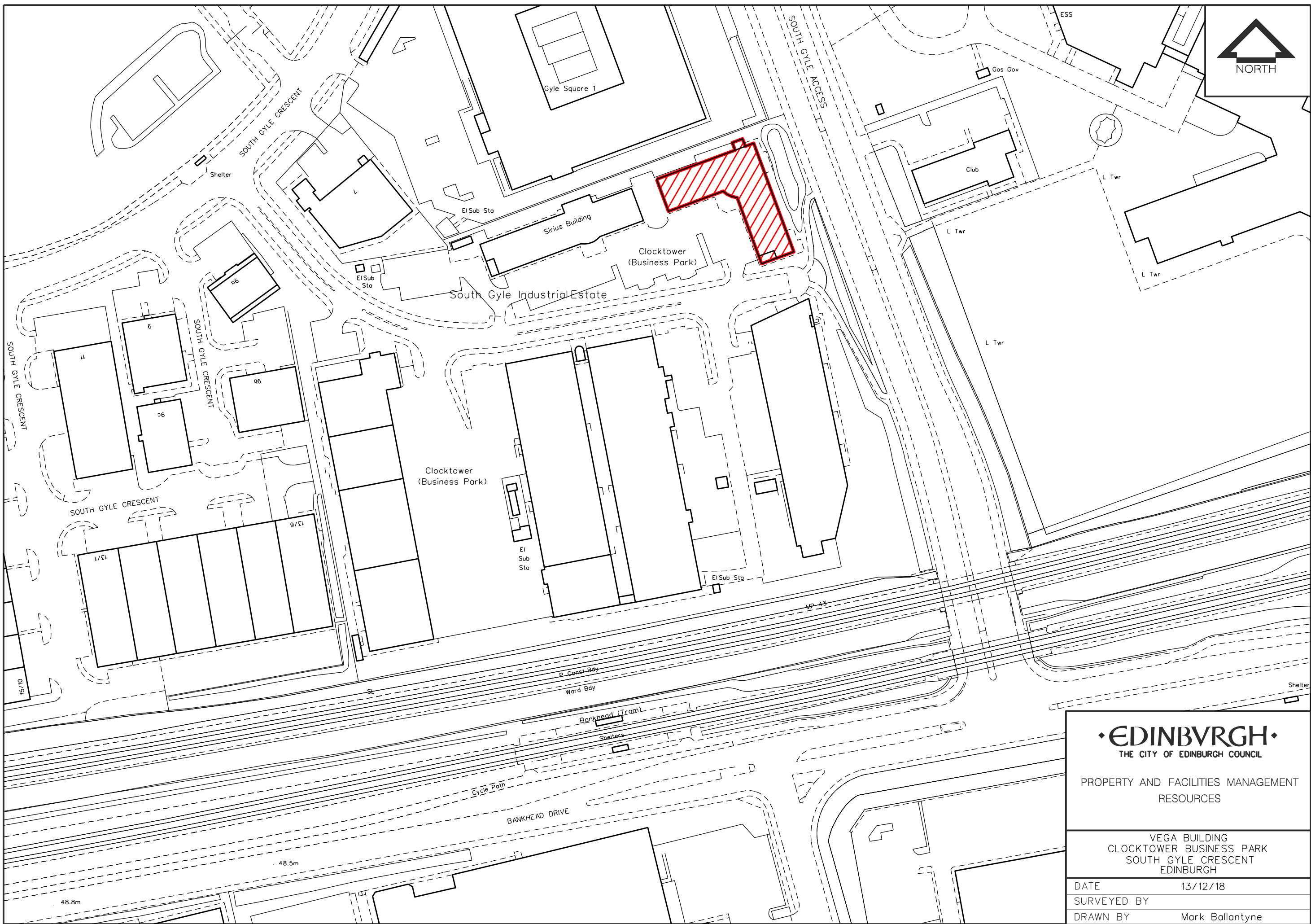
- 7.1 Ward elected members have been made aware of the recommendations of this report.

8. Background reading/external references

- 8.1 N/A.

9. Appendices

- 9.1 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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