

Finance and Resources Committee

10.00am, Thursday, 26 January 2023

Land at Newcraighall, Edinburgh - Proposed Lease Variation

Executive/routine Wards Council Commitments	Routine 17 – Portobello/Craigmillar
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1. Recommendations

- 1.1 It is recommended that Finance and Resources Committee approve the variation of the lease to South Yorkshire Pension Authority at Newcraighall, Edinburgh on the terms and conditions outlined in this report.

Paul Lawrence

Executive Director of Place

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Report

Land at Newcraighall, Edinburgh - Proposed Lease Variation

2. Executive Summary

- 2.1 Approval has been previously granted to lease land at Newcraighall to South Yorkshire Pensions Authority to undertake the development of industrial accommodation. Due to current economic conditions, the tenant is seeking to vary the lease terms to allow the proposed development to proceed. This report seeks approval to vary the lease to the terms and conditions outlined in the report.

3. Background

- 3.1 On [23 May 2019](#), the Finance and Resources Committee approved a 175-year ground lease of 1.90 hectares (4.69 acres) of development land at Newcraighall to South Yorkshire Pensions Authority (SYPA), as shown outlined in red on the attached plan. SYPA currently hold a long lease from the Council of the adjoining Eastern Industrial Estate, shaded blue on the plan.
- 3.2 The approval was for a ground lease for 175-years at an initial rent of £1 per annum until such time as the property is developed. When complete, the Council would receive 15% of all rents received by SYPA.
- 3.3 The contract for the lease was conditional on SYPA submitting, and achieving a consent for, a planning application for the redevelopment of the site. The application in principle was submitted on 9 November 2022 under reference [22/05666/PPP](#) for a proposed development of three industrial units totalling 6,570 sq m (70,728 sq ft).

4. Main report

- 4.1 The viability of the development, which is expected to cost circa £12m to build, has been adversely impacted by current economic conditions. Due to the recent and sustained market volatility, industrial real estate pricing and investment yields have drifted. The combination of rising costs and lower value on completion has resulted in the previously projected profit being eroded and the previously approved proposed development rendered unviable.

- 4.2 Whilst SYPA have value engineered the proposed scheme, there is still a shortfall in the required profit level in the short term. Consequently, the Council have been asked to reduce the percentage of rent receivable from the development over the first 10 years of the ground lease. As opposed to receiving 15%, the proposal is as follows:
- 4.2.1 Years 1 to 5: 10% of rents received payable to the Council;
 - 4.2.2 Year 6: 12.5% of rents received payable;
 - 4.2.3 Year 7: 13% of rents received payable;
 - 4.2.4 Year 8: 13.5% of rents received payable;
 - 4.2.5 Year 9: 14% of rents received payable; and
 - 4.2.6 Year 10 onwards: 15% of rents received payable.
- 4.3 To put the above figures in context, at the time the original committee report was approved, it was estimated that the rent receivable to the Council would be in the region of £75,000 per annum once the development was fully let.
- 4.4 SYPA are in advanced negotiations with tenants to take a prelet on each unit with an estimated total initial annual rent of circa £900,000. On that basis, over the first five year of the lease, the income to the Council would be circa £90,000 per annum, eventually rising to circa £135,000 per annum by year 10.
- 4.5 By allowing SYPA to develop the units, all construction and letting risk is passed on with the Council benefiting from a future income albeit reduced to reflect the ratio of risk/reward. Despite the proposed reduction in rent in the initial years of the lease, this position remains unchanged and agreeing to the amended percentage profile will allow the development to proceed.

5. Next Steps

- 5.1 Following approval of the terms by Committee, Legal Services will be instructed to progress with the documentation for lease variation.

6. Financial impact

- 6.1 There has been an improvement to the forecast rental income which the Council can expect to receive, despite the reduced percentage payable in the initial years of the lease, from up to £75,000 per annum to £90,000 rising to £135,000 per annum in year 10.

7. Stakeholder/Community Impact

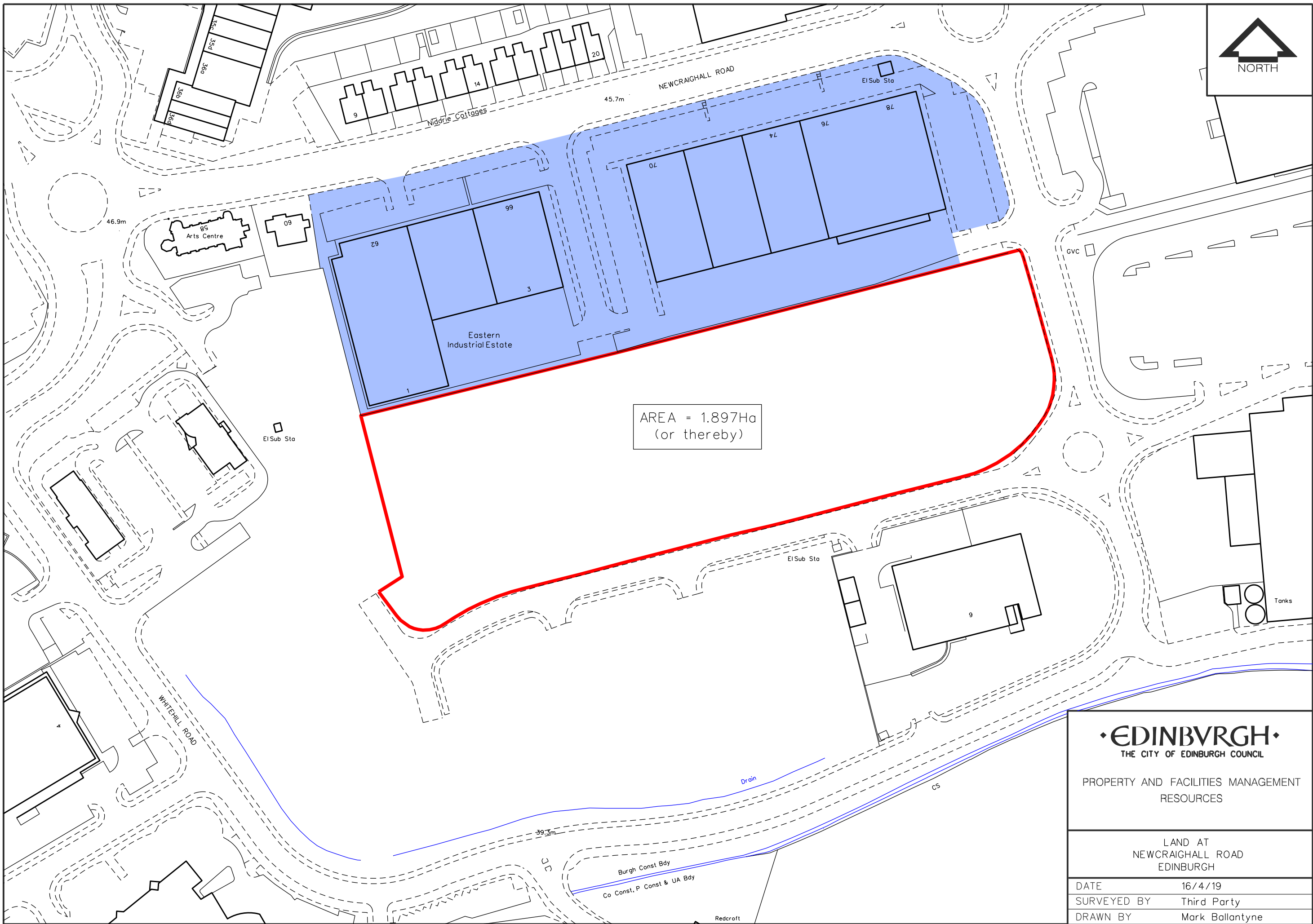
- 7.1 Ward members have been made aware of the recommendations of the report.

8. Background reading/external references

- 8.1 [Land at Newcraighall - Proposed Lease](#) - Finance and Resources Committee, 23 May 2019.

9. Appendices

- 9.1 Appendix 1 – Location Plan.



AREA = 1.897Ha
(or thereby)

• EDINBURGH •
THE CITY OF EDINBURGH COUNCIL
PROPERTY AND FACILITIES MANAGEMENT
RESOURCES

LAND AT NEWCRAIGHALL ROAD EDINBURGH	
DATE	16/4/19
SURVEYED BY	Third Party
DRAWN BY	Mark Ballantyne
SCALE	1:1250 @ A3 SIZE
NEG. NO.	A3/1818

SITE PLAN

SCALE 1:1250