Finance and Resources Committee

10.00am, Thursday, 9 December 2021

Units 1 and 2 Assembly Rooms, George Street, Edinburgh – Proposed Lease Restructure and New Lease

Executive/routine	**Routine**
Wards	**Ward 11 – City Centre**
Council Commitments	2

1. Recommendations

1.1 It is recommended that Finance and Resources Committee approve a new five-year lease of Unit 2 and a restructure of the lease of Unit 1 Assembly Rooms, George Street, Edinburgh, both to Rox (UK) Limited, on the terms outlined in this report and on other terms and conditions to be agreed by the Executive Director of Place.

Paul Lawrence

Executive Director of Place

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THE CITY OF EDINBURGH COUNCIL

Report

Units 1 and 2 Assembly Rooms, George Street, Edinburgh – Proposed Lease Restructure and New Lease

2. Executive Summary

2.1 Rox (UK) Limited are tenant of Unit 1 at the Assembly Rooms, George Street, Edinburgh on a lease expiring in 2027. Unit 2 is vacant following the surrender of the lease by L'Oreal (UK) Limited in June 2021.

2.2 This report seeks approval to grant a new five-year lease of Unit 2 and restructure the existing lease of Unit 1, both to Rox (UK) Limited, on the terms and conditions outlined in this report.

3. Background

3.1 The Assembly Rooms benefitted from a major refurbishment in 2012, which created three commercial units comprising a restaurant and two retail units that were made available for lease.

3.2 Unit 1 is occupied by Rox (UK) Limited on a lease expiring 2 September 2027, at a passing rent of £240,000 per annum set at a rent review in September 2017. The unit is shown outlined red on the plan at Appendix 1 and extends to 218.31 sq m (2,350 sq ft) or thereby.

3.3 Currently vacant, Unit 2 was leased to L'Oreal (UK) Limited, with an expiry date of June 2022 with the final passing rent at £111,250 per annum. As L'Oreal were seeking to exit the unit, an early surrender was agreed in June 2021 at £120,000, which covered all rent up to the expiry date and some additional expenses. Unit 2 is also shown outlined red on the plan at Appendix 1 and extends to 108.41 sq m (1,167 sq ft) or thereby.

3.4 George Street, as a retailing location, has suffered from the impact of the restrictions and lockdowns of the Covid pandemic. There are now numerous empty units and new lettings are at rents significantly below pre-pandemic levels. The opening of the new Edinburgh St James Quarter has further compounded the challenges faced by George Street landlords.

3.5 Discussions have taken place with Rox (UK) Limited with a view to restructuring the existing lease of Unit 1 in exchange for them taking a new lease of Unit 2. It is proposed that the new lease for unit 2 will be in the name of Rox (UK) Limited, however, it will trade as a watch and jewellery boutique under the Gucci brand. The signage and shop fit will be Gucci, which will be the first such boutique in Edinburgh.

4. Main report

4.1 The following terms have been provisionally agreed for Unit 1 (all other terms are as per the existing lease):

4.1.1 Rent: £175,000 per annum (reduced from £240,000);

4.1.2 Effective Date: 1 April 2022;

4.1.3 Term: current expiry date of 3 September 2027 pushed out to 3 September 2031 (four-year extension); and

4.1.4 Rent Review: the current expiry date of 3 September 2027 will now become a rent review to open market value but capped at £200,000 per annum.

4.2 The following terms have been provisionally agreed for Unit 2:

4.2.1 Tenant: Rox (UK) Limited;

4.2.2 Term: Five years from date of entry (1 April 2022);

4.2.3 Break Options: Tenant option on second anniversary (six months' notice);

4.2.4 Rent: £56,000 per annum;

4.2.5 Incentives: 12-month rent free equated to half rent payable (£28,000 per annum) payable for first two years; and

4.2.6 Costs: both parties meet their own cost across entire transaction (tenant responsible for LBBT and Registration Dues)

4.3 The current rent received is £240,000 from one unit with just under six years remaining on the lease. The current market rental value for this unit is significantly less. The other unit is non-income producing. Letting prospects for the vacant unit are not good with an extensive void period likely during which the Council would be liable for holding costs.

5. Next Steps

5.1 Following Committee approval, Legal Services will be instructed to progress the preparation of all legal documents.

6. Financial impact

6.1 The proposals will produce a rental of £231,000 pa, after expiry of the incentives on unit 2, against a current income of £240,000. However, in the longer term, the lease extension on Unit 1 will guarantee a further £700,000 (four years at £175,000 per annum).

6.2 The letting of Unit 2 will produce an income stream on a vacant property, and remove the Council's liability for holding costs, which, if the property was marketed could be required to cover a void period in excess of 24-months.

6.3 While there is a considerable overall drop in rental income from previous lets on the subject units, those rents were set in 2017 and were market value at that time. The revised rents are current market rental values and are reflective of the prevailing market conditions.

7. Stakeholder/Community Impact

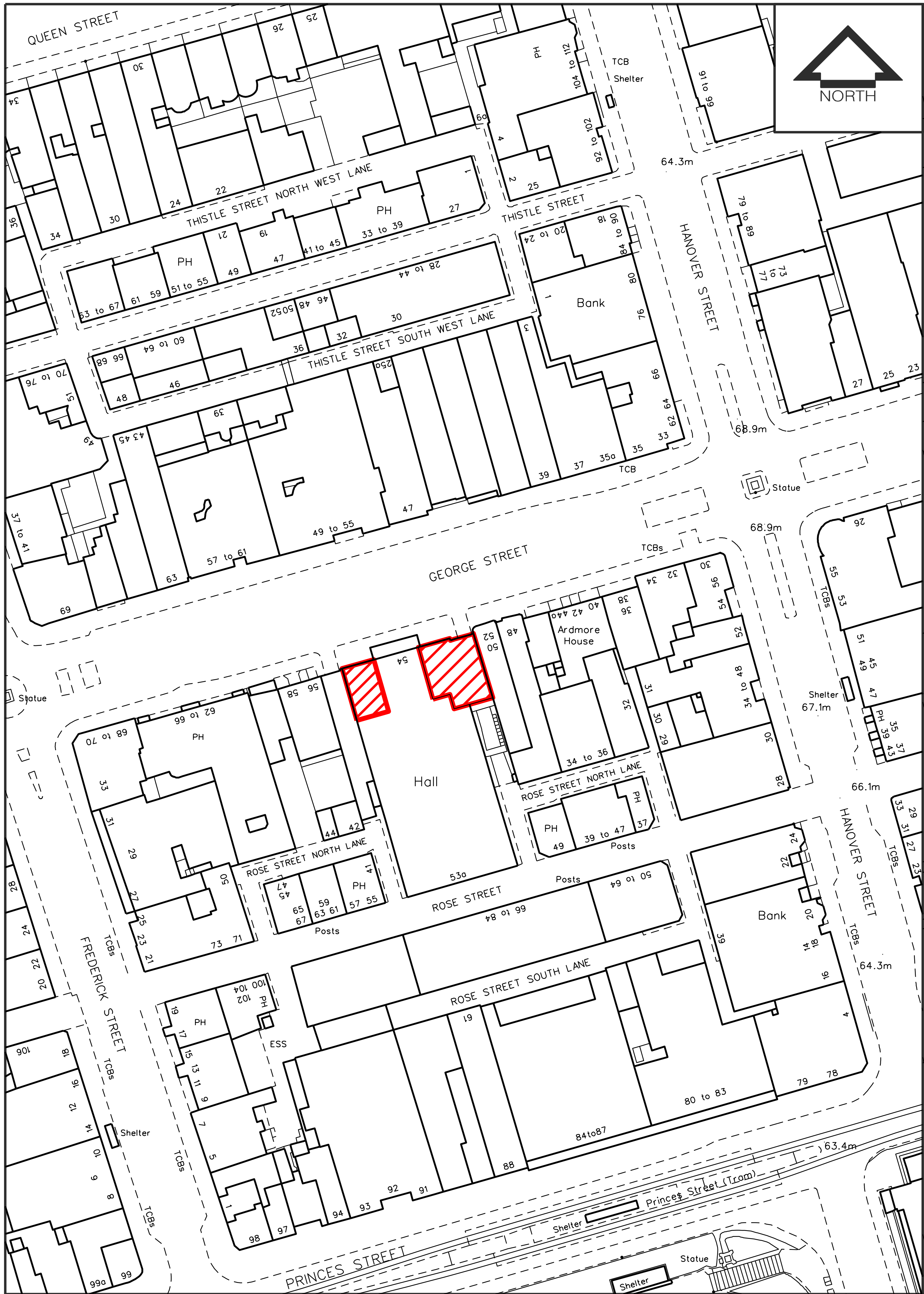
7.1 Ward members have been made aware of the recommendations of the report.

8. Background reading/external references

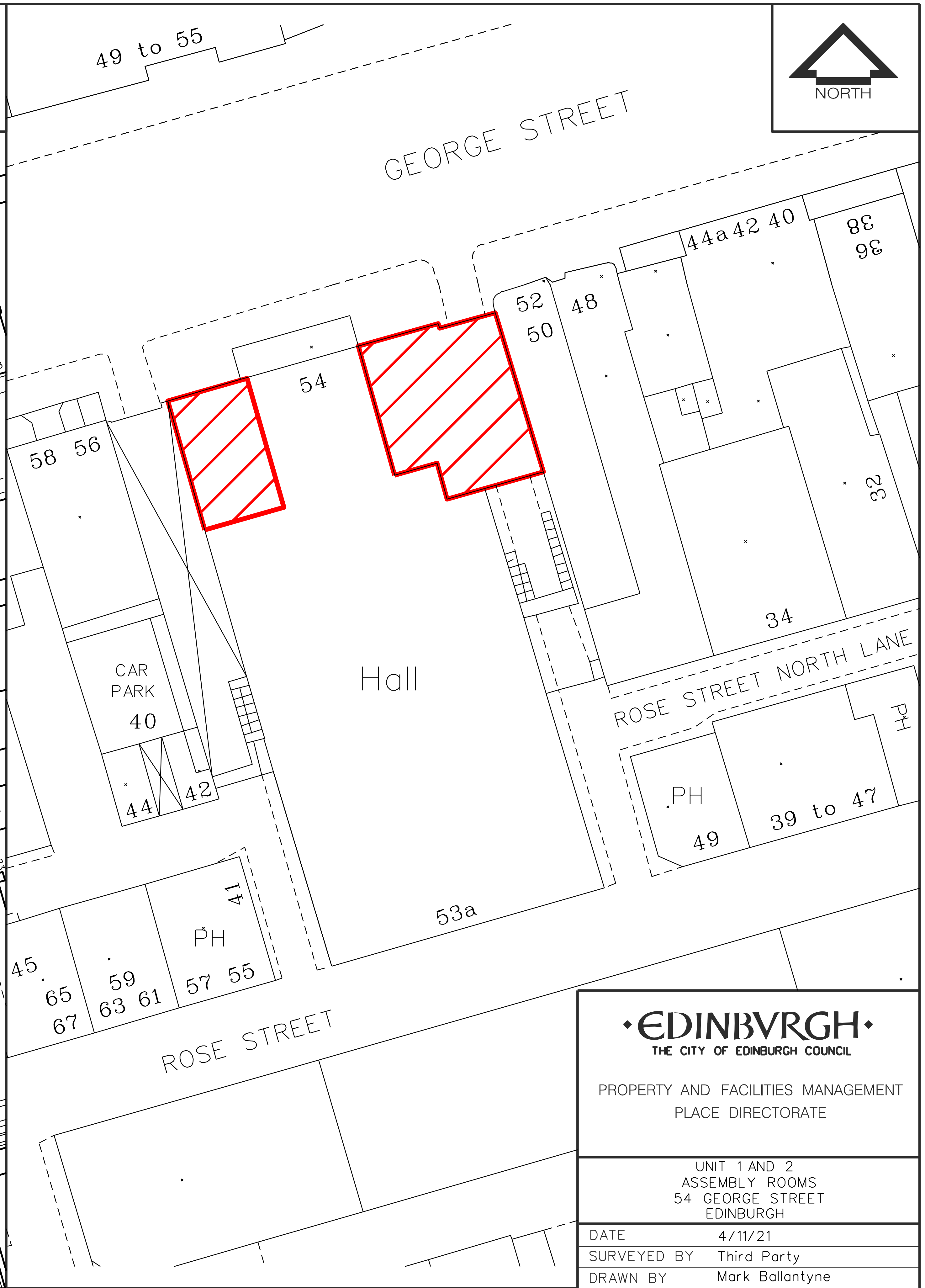
8.1 None.

9. Appendices

9.1 Appendix 1 – Location Plan.



LOCATION PLAN SCALE 1:1250



SITE PLAN SCALE 1:500

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PROPERTY AND FACILITIES MANAGEMENT
PLACE DIRECTORATE

UNIT 1 AND 2
ASSEMBLY ROOMS
54 GEORGE STREET
EDINBURGH

DATE	4/11/21
SURVEYED BY	Third Party
DRAWN BY	Mark Ballantyne
SCALE	1:500 @ A3 SIZE
NEG. NO.	A3/1155b