EASTERHOUSE TOWN CENTRE ACTION PLAN(ETCAP)
OUTCOME OF NEGOTIATIONS BETWEEN CITY PROPERTY (GLASGOW) LLP AND HERCULES UNIT TRUST(HUT) IN CONNECTION WITH THE FORT SHOPPING CENTRE AND SHANDWICK SQUARE SHOPPING CENTRE

Purpose of Report:
To advise Committee of the outcome of negotiations between City Property (Glasgow) LLP, as agents for the Council, and Hercules Unit Trust as Head Tenant of Glasgow Fort and Shandwick Square Shopping Centre to amend the Existing Development Framework for Easterhouse Town Centre.

Recommendations:
That Committee authorises City Property (Glasgow) LLP to conclude this transaction subject to the terms and conditions as outlined in this report.

Ward No(s): 21
Local member(s) advised: No Yes
Consulted: Yes No

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1. INTRODUCTION

1.1 Shandwick Shopping Centre is held on a long ground lease from 30th November 2005 until 18th April 2087 granted by Glasgow City Council to Hercules Unit Trust (HUT) who also developed and operate the Fort Shopping Centre which is held on a ground lease which is now within City Property Glasgow (Investments) LLP’s portfolio.

1.2 As part of the disposal of the commercial property portfolio by the Council to City Property Glasgow (Investments) LLP which concluded in March 2010 City Property is entitled to receive the rent received from HUT for Shandwick Square Shopping Centre which comprises a base rent of £20,000 per annum plus an additional 15% of gross turnover.

2. BACKGROUND

2.1 In 2007/2008 the City Council entered negotiations with HUT to bring forward a Development Framework in response to its submission of two Planning Applications for retail development in Easterhouse Town Centre. HUT had made it clear its continued aspiration to build on its success by extending the retail space within the Fort and had accepted that a Development Framework based on the Easterhouse Town Centre Action Plan (ETCAP) was the mechanism through which this aspiration could best be delivered.

2.2 On 27th June 2008 the Executive Committee of Glasgow City Council approved plans for a development framework to deliver ETCAP.

There were a number of components to the Development Framework as follows:
• the Phase 2 expansion of the Fort;
• the managed decline of the Shandwick Square Shopping Centre including its demolition and clearance; and
• the proposed relocation site at Westerhouse Road to accommodate approx some 57,000 square feet of local retail, office and space for a crèche.

2.3 The following terms and conditions were therefore provisionally agreed between the Council and HUT:

• A premium of £10 million pounds would be paid by HUT to the Council as a contribution towards the regeneration of Easterhouse Town Centre. These monies had to be spent within the ETCAP area and would be the subject of a Section 75 Agreement between the parties.

• The payment of the premium was subject to the undernoted main conditions:
  o Granting of the planning permission for the Phase 2 retail proposals at Glasgow Fort, application no. 07/ 02933 / DC, validated on 12 September 2007.
  o Granting of the planning permission for the proposed Westerhouse Road retail, office and crèche development, application no. 08/ 00665 / DC, validated 28 April 2008.
  o The Council approving the demolition of Shandwick Square Shopping Centre.

2.4 The Development Framework and associated binding legal agreements aimed to provide a regeneration package which would aid implementation of the ETCAP and ensure that all of the projects included could be completed satisfactorily. This was required to comply with the provisions of national and local retail planning policy.

3. CURRENT POSITION

3.1 The current economic climate has meant a delay to this development of the Fort extension and consequently the other elements have not progressed.

3.2 The future of Shandwick Shopping Centre therefore remained to be considered. However, very recently City Property (Glasgow) LLP, as agents for the Council, was approached by Montagu Evans acting on behalf of HUT wishing to discuss this transaction with a view to making certain changes to reflect the challenging market conditions.
3.3 Negotiations commenced and terms and conditions have now been provisionally agreed subject to completion of the planning process.

4. REVISED TERMS

4.1 The following terms and conditions have been provisionally agreed between City Property (Glasgow) LLP, HUT and their agents Montagu Evans:

4.1.1 A premium of £6 million pounds excl VAT will be paid by HUT to the Council as a contribution towards the regeneration of Easterhouse Town Centre. These monies must be spent within the TCAP area and will be the subject of a Section 75 Agreement between the parties.

4.1.2 HUT would renounce their lease of Shandwick Square thereby transferring the right to obtain net rental income of approximately £602,768 per annum to the Council less any Stamp Duty Land Tax, if applicable, payable for the renunciation of the lease.

City Property has prepared a valuation of the shopping centre which included a comprehensive survey of the condition which has resulted in an estimated capital value of £4,000,000.

There will be no lease of the Council owned site at Westerhouse Road to HUT which results in a surplus site which can be sold at some point in the future thus generating a capital receipt for the Council.

4.1.3 The reduction of the premium payable to the Council is reflective of the current challenging economic climate, the fact that HUT are surrendering their lease of Shandwick Shopping Centre to the Council and, that as a result of the new retail development on the site at Westerhouse Road not proceeding, the junction improvements at this location are no longer required.

4.1.4 It is confirmed that at the commencement of construction works on site HUT will contract to make a planning payment of £1M to the Council and renounce the lease of Shandwick Square. A second planning payment of £5M will be payable at practical completion of the Phase 2 works to the Council in approximately October 2013 or on the opening of Marks & Spencer for trade if earlier.

4.1.5 HUT will make over to the Council the plans and supporting information in relation to the retail planning permission obtained at Westerhouse Road.

4.1.6 The transaction will be suspensive upon the following:
• Formal issue of the planning permission for the Phase 2 Project which was approved by the Planning Applications Committee at the meeting on 23rd October 2012 and expiry of the Judicial Review period.

• All necessary additional consents including road construction consents and building control approvals.

• Completion of a pre-letting agreement with Marks & Spencer in relation to Block 9 comprising ground floor retail of 40,000 sqft (3,716 sqm) and first floor retail of 40,000 sqft (3,716 sqm). Pre-letting Block 10 comprising 30,000 sqft (2,787 sqm) of ground floor retail and first floor retail of 30,000 sqft (2,787 sqm).

• British Land Board Approval.

• HUT receiving all statutory and Local Authority approvals for the development.

4.1.7 The benefit of all Capital Allowances will pass to HUT on completion of the development of Phase 2 Glasgow Fort.

4.1.8 The proposed variations to the original Development Agreement as approved by the Planning Committee which require to be executed by the parties.

4.1.9 HUT shall be responsible for meeting the Council’s reasonable legal costs etc involved in the transaction along with City Property (Glasgow) LLP’s administration fee of £750.

4.1.10 The transaction will be subject to other terms and conditions deemed necessary by the Managing Director of City Property (Glasgow) LLP and the Council’s Legal services.

5. COUNCIL STRATEGIC PLAN IMPLICATIONS

Economic: Glasgow Fort has helped regenerate Easterhouse by bringing business and 1500 job opportunities to the area. Significant success has been generated in local employment, after-care and training as well as improved health and well being and a better social economy, stimulated by increased community involvement. The extension of the Fort Shopping Centre will have both direct and indirect employment impacts. The proposal will create 33 FTE jobs at local and regional level at the construction stage. It is also estimated that a further 17 FTE jobs will be utilised in the development through the use of local suppliers and trades.
At the operational phase it is anticipated that 450 new jobs will be created with the final number and the balance between full time and part time being determined when recruitment starts. This will have a significant impact on the local economy of Easterhouse and the wider East End.

**Sustainability:**

The extension to the Fort will create not only additional retail space but also a recycling facility, landscaping and public transport facilities.

Implementation of the TCAP will see an overall improvement of the urban landscape and environment in Easterhouse.

**Financial:**

The Council will receive a capital sum of £6 million pounds, subject to the conditions detailed in the report being satisfied.

The extension of the centre to include up to 16,258 sq m (175,000 sq ft) of retail floor space including a department store will result in a significant increase in income to the Council generated from Non Domestic Rates.

The Council will receive rental of approximately £602,768 per annum from Shandwick Shopping Centre and it is anticipated that this together with income from Non Domestic Rates will increase as the focus going forward will be to attract new tenants to the Centre.

**Legal:**

The Development Framework that addresses all the issues will require to be amended between the parties.

**Personnel:**

None

**Sustainable Procurement and Article 19:** Not Applicable.

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6. **RECOMMENDATION**

It is recommended that Committee authorises City Property (Glasgow) LLP to conclude this transaction subject to the terms and conditions as outlined in this report.