



Glasgow City Council

**Finance and Audit Scrutiny Committee
Committee**

Report by Director of Financial and Business Services

Contact Morag Johnston Ext: 74316

Item 2

15th January 2020

Update Report on Common Good Fund Property Portfolio

Purpose of Report:

To provide the Finance and Audit Scrutiny Committee with an update on the management of the Common Good Property Portfolio by City Property Glasgow (Investments) LLP.

Recommendations:

The Committee is asked to note the contents of the report.

Ward No(s):

Citywide: ✓

Local member(s) advised: Yes No consulted: Yes No

1. INTRODUCTION

- 1.1. The purpose of this report is to update Committee on the management of the Common Good Fund Property Portfolio by City Property Glasgow (Investments) LLP (CPGI) following the report that was submitted to Committee on 7th August 2019.

2. BACKGROUND

- 2.1. As previously advised the portfolio comprises a mixture of income from leases and servitudes primarily from within the City of Glasgow boundary, however, one property Humble Farm sits out with the city boundary.
- 2.2. The portfolio is heavily weighted to retail use with the balance split between ground lease income derived from general business, agricultural and leisure uses.
- 2.3. CPGI is responsible for maximising rental income from the portfolio and ensuring that the physical condition of the properties is protected by arranging, as appropriate, maintenance and repairs.
- 2.4. The factoring costs are recovered via service charge from the commercial tenants in the portfolio.
- 2.5. The portfolio is managed in line with the process set out in the Policy on Common Good approved by the Executive Committee on 5th February 2015.

3. CURRENT POSITION - COMMERCIAL PROPERTIES HELD FOR INCOME GENERATION.

- 3.1. The annual gross rent for the occupied premises is currently £259,644 (net of VAT).
- 3.2. Total factoring costs recoverable for the period from 1st April 2019 to 30th September 2019 via service charge amounted to £2,335.96, this being in relation to the commonly factored properties at 53-67 Byres Road, 4-6 Dowanhill Street, 174-182 Dumbarton Road and 407-439 Great Western Road. Details of commercial premises are as follows.
 - 3.3. 53-67 Byres Road
 - 3.3.1. There are six shop units at this location, four of which are currently occupied.
 - 3.3.2. CPGI's agent, Graham & Sibbald (G&S), has been instructed to market one of the vacant units. Works are currently ongoing to prepare the other vacant unit for the market.

3.3.3. A gross rent of some £35,001 per annum is currently generated from this range which represents a £2,500 increase to the rent as previously reported. The increase follows a rent review concluded since the last report.

3.4. 4-6 Dowanhill Street

3.4.1. The subjects are fully let achieving a gross rental income of some £15,150 per annum.

3.5. 174-182 Dumbarton Road

3.5.1. The subjects remain fully let generating a gross rental income of some £29,650 per annum.

3.6. 407- 439 Great Western Road and 6 Park Road

3.6.1. This range remains fully let generating a gross rental income of £171,200 per annum.

3.7. 33-37 Riverford Road

3.7.1. The subjects comprise two vacant ground floor retail units located at the junction of Riverford Road, Ashtree Street and MacDougal Street.

3.7.2. One unit, 33 Riverford Road, is under offer at a gross rent of £8,000 per annum on the basis of a 20-year lease terms. Terms are agreed, as previously reported, and the prospective tenant's solicitor is now expected to return a draft lease imminently.

3.7.3. In respect of 37 Riverford Road, this property is currently being marketed by G&S. There has been little interest shown in the property with no closing date set as yet. CPGI continues to liaise with G&S on the marketing process.

3.8. 1284 Dumbarton Road

3.8.1. As previously reported, this comprises a long term ground lease (1990 – 2050) to Victoria Park Bowling Club, generating an annual equity rent of some £3,190.

3.9. 120 Woodville Street

3.9.1. The subjects comprise a small parcel of vacant ground located 75 metres from Ibrox Underground Station. The Glasgow Underground line runs beneath the site, thus restricting its use.

3.9.2. The site remains on the market with G&S. The previous interest from a Stone Mason for use of the site as storage was withdrawn, however, there is now interest from a firm of contractors for use of the site for storage of tools. The applicant is currently consulting with Planning Services regarding the proposed use.

3.9.3. As previously reported, given its corner location and the Underground tunnel beneath it, the site has limited development potential.

4. CURRENT POSITION – NON COMMERCIAL PROPERTIES.

4.1. Out with the aforementioned “core” retail element of the portfolio are a number of sites where income is derived from ground leases, these include long term ground leases for business use, regulated agricultural tenancies and regulated residential tenancies, the details of which are as follows.

4.2. 254-290 Sauchiehall Street

4.2.1. This property, known as Breckenridge House, occupies the ground and upper floors of a rebuilt Victorian office block.

4.2.2. As advised in previous reports, the head lease for the property is currently held by Larkhill Properties Limited (the tenant) for a period of 103 years from 21st November 2007 at a peppercorn rent. The tenant sub-lets the individual shops and offices to various occupiers.

4.2.3. The tenant has made application for Landlords consent to a) vary the use of parts of the building in order to use parts of the ground floor as a café and in respect of other parts, a change of use from Class 1 (Retail) to Class 3 (Food and Drink) with the intention of combining the units for use as a restaurant; b) various internal and external works to the building, to include refurbishment of interior office spaces on the first and third floors, recladding of shop fronts on the ground floor and combining the existing café within the entrance lobby to create a larger reception/café space and c) extend the lease term by a period of 50 years so that the lease will now expire in November 2160.

4.2.4. As previously reported provisional agreement was reached with the tenant that the Head Lease term be extended by 50 years, and that this will require a premium payment of £50,000 plus VAT. This was approved under the Council's scheme of delegations on 18th July 2019, and legal instructions were issued on 12th August 2019 following conclusion of the Members consultation process.

4.3. McLellan Galleries, 270 Sauchiehall Street

4.3.1. As reported previously heads of terms are provisionally agreed and subsequently approved by the Executive Committee on 11th December 2014 in respect of the proposed long lease of the galleries to The Glasgow School of Art (GSA) were.

4.3.2. Since the previous report, where it was reported that GSA had advertised a new post for Strategic Director of Estates, we can confirm that the appointment has been made with the candidate commencing February 2020. GSA's is still keen to move forward with the legal completion of the proposed long lease.

4.4. Citizen's Theatre, 119A-123 Gorbals Street

4.4.1. The new 99-year lease from the Council to the Citizens Theatre Limited completed on 3rd June 2019. This followed the conclusion of the variation of the adjacent lease to the Citizens Theatre, in order to rectify some historic boundary encroachments and allow for access for the theatre redevelopment works. The Council was consentor and party to the Licence for Works between it and the adjacent tenant for the theatre construction works and the licence is currently being executed for final completion.

4.5. Pollok Country Park

4.5.1. As previously reported there are two cottages at the subjects, one subject to a 60 year lease, expiring in 2024 at a gross rent of £50 per annum and the other, at 132 Dumbreck Road, which has been vacant since 2010 due to the condition.

4.5.2. There is also a lease to Police Scotland at a peppercorn rent, for use of ground as a car park in connection with the dog training facility in Pollok Park, which expired on 20th April 2015. The tenant has continued to occupy this site, which extends to 1.78 acres or thereby, on tacit relocation. This is still being kept under review while the Council is considering a masterplan for the Park.

4.6. Humbie Farm

4.6.1. Humbie Farm, as previously reported, is located out with the Council boundary in East Renfrewshire. It comprises two areas of farmland held under separate leases which provide approximately 40 acres of grazing land.

4.6.2. The gross rent currently generated from Humbie Farm is £1,150 per annum.

4.6.3. The adjacent grazing let referred to in previous reports, generating a gross rent of £1,250 per annum, was not renewed by the previous tenant for this year. Negotiations for new letting at a gross rent of £746.35 per annum for this grazing let with another farmer are now complete.

4.6.4. As previously reported the agricultural agent has intimated that there may be limited scope in the foreseeable future for enhancing the income from the site, under its current use and comparable rental values.

4.7. Cathkin Braes Country Park

4.7.1. As previously reported the Council has granted a 25-year lease of two plots within Cathkin Braes Country Park, in favour of SSE Generation Limited for the purpose of a windfarm. This lease expires in 2037.

5. **CONCLUSION**

5.1. Over the next 6 month period CPGI shall endeavour to:

- 1) Progress the marketing of the two vacant units at Byres Road.

- 2) Progress the marketing of Woodville Street, Govan.
- 3) Progress the marketing of 37 Riverford Road at the earliest practicable opportunity.
- 4) Conclude the lease variation at 254-290 Sauchiehall Street.
- 5) Progress the new Lease to GSA in respect of McLellan Galleries, following instruction from the Council's Development and Regeneration Services and in consultation with Legal Services.
- 6) Continue to monitor repair and maintenance expenditure to protect asset value.
- 7) Continue to maximise income through increased rental by undertaking rent reviews and lease renewals where appropriate.
- 8) Continue with a programme of regular inspection to ensure tenant compliance with leasehold obligations.

6. Policy and Resource Implications

Resource Implications:

Financial: There are currently no financial implications from the proposals.

Legal: There are no legal implications from the proposals.

Personnel: There are no personnel implications.

Procurement: Not applicable.

Council Strategic Plan: Various transactions within the Common Good Portfolio are in accordance with the Council's Strategic Plan.

Equality and Socio-Economic Impacts:

Does the proposal support the Council's Equality Outcomes 2017-22 Not applicable

What are the potential equality No impact

impacts as a result of this report?

Please highlight if the policy/proposal will help address socio economic disadvantage.

Not applicable

Sustainability Impacts:

Environmental:

Not applicable

Social, including Opportunities under Article 20 of the European Public Procurement Directive

Economic:

Privacy and Data Protection impacts:

No data protection impacts have been identified

7. Recommendation

The Committee is asked to note the contents of the report.