Item 6

31st August 2022

Glasgow City Council

Finance and Audit Scrutiny Committee

Report by Director of Financial and Business Services

Contact Morag Johnston Ext: 74316

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, as at the end of Quarter 1, 30 June 2022.

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 ☐

PLEASE NOTE THE FOLLOWING:

Any Ordnance Survey mapping included within this Report is provided by Glasgow City Council under licence from the Ordnance Survey in order to fulfil its public function to make available Council-held public domain information. Persons viewing this mapping should contact Ordnance Survey Copyright for advice where they wish to licence Ordnance Survey mapping/map data for their own use. The OS web site can be found at <http://www.ordnancesurvey.co.uk> "

If accessing this Report via the Internet, please note that any mapping is for illustrative purposes only and is not true to any marked scale

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) as at end of June 2022, following the report that was submitted to Committee on 26 January 2022.

2. SUMMARY

2.1. The portfolio comprises a mixture of income from leases primarily from within the City of Glasgow boundary, however, one area of ground at Humbie Farm is located out with the city boundary.

2.2. The portfolio has a majority of retail use with the remaining 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 managing the condition of the properties and instructing as necessary any repairs and maintenance.

2.4. The portfolio is managed in line with the process set out in the Policy on Common Good approved by the Executive Committee on 5 February 2015.

2.5. The total annual rent from the portfolio as at 30 June 2022 is £244,343 (net of VAT).

2.6. The total non-recoverable costs, primarily factoring costs for the 6 month period, from January to June 2022, is £23,770.

2.7. There has been capital expenditure works undertaken in this period at a sum of £58,000.

2.8. Total arrears across the portfolio as at 31 June 2022 are £119,583, which is a reduction of £30,729 since the last report in January 2022.

2.9. Repayment plans have been agreed with five tenants which will reduce the arrears. The current total debt covered by payments plans is £101,605.

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

3.1. <u>53-67 Byres Road</u>

3.1.1. There are six shop units at this location, all of which are currently leased.

3.1.2. A rent of some £57,000 per annum is generated from this range.

3.1.3. The lease at 65/67 Byres Road is being assigned and the lease extended for a further 10 years for a proposed beverage and confectionary take away shop.

3.2. 4-6 Dowanhill Street

3.2.1. There are two shop units at this location. One is trading as a Hairdressers and the other is vacant.

3.2.2. The shop at 6 Dowanhill Street has been refurbished, there are some minor pre-marketing works to complete and then the unit will be marketed for let.

3.3. 174-182 Dumbarton Road

3.3.1. There are three shop units at this location with two generating a combined rent of £18,900 per annum.

3.3.2. The remaining unit is a pending vacancy following the dissolution of the company which held the lease. Legal Services is currently progressing with the process of obtaining vacant possession and it is anticipated that this will be completed in the coming months.

3.4. 407- 439 Great Western Road and 6 Park Road

3.4.1. Nine of the ten properties are currently leased that generate a rental income of £153,800 per annum. The vacant unit is being currently marketed by City Property's agent Graham and Sibbald.

3.5. 33-37 Riverford Road

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

3.5.2. 33 Riverford Road, was under offer as previously reported to Committee. The transaction is currently being progressed by both sides respective solicitors but it should be noted that the offer is suspensively conditional upon the tenant obtaining planning, a licence and their Board approval. A licence and Board approval have both now been obtained but planning consent was refused and the prospective tenant has now appealed the decision.

3.5.3. The prospective tenant of 37 Riverford Road failed to secure planning permission to operate as Sit-In Coffee House/Café and subsequently withdrew their offer to lease the subjects.

3.5.4. Graham and Sibbald re-marketed the subjects and are currently in the process of agreeing Heads of Terms for a proposed 10 year lease of the property which will be subject of a delegated report seeking authority to transact.

3.6. 1284 Dumbarton Road

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

3.7. 120 Woodville Street

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

3.7.2. Approval has been granted under the Glasgow City Council's (GCC) scheme of delegations for a long term lease as a secure yard and general storage. As previously reported, Legal Services confirmed that the site is alienable common good hence not requiring the court's permission before entering into any lease, however there is a requirement for consultation in terms of the Community Empowerment Act 2015.

3.7.3. Legal Services drafted a Consultation Notice, for Property & Consultancy Services (PCS) approval, under Part 8 of the Community Empowerment Act 2015, the consultation period being two months. Following on from PCSs approval the consultation period commenced on 12th July 2022, by means of the Notice being posted on the site, and this will close on 11th September 2022. Finalisation of the lease and date of entry to the site will require to be after the end of the consultation period.

4. CURRENT POSITION - NON COMMERCIAL PROPERTIES.

4.1. The portfolio has 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 remaining period of 103 years from 21st November 2007 following an assignation of the lease from the original tenant. The passing rent is peppercorn but a grassum was paid at the beginning of the lease. The tenant sub-lets the individual shops and offices to various occupiers.

4.2.3. Approval was given for Landlord's consent to vary the use from Retail to a Café for one of the ground floor units, refurbish the 1st and 3rd floor, reclad the shop fronts and extend the lease term by a period of 50 years so the lease will now expire in November 2160. As part of the tenant's on-going improvement works three further requests for Landlord's consent have been made to remove the dividing partition between units 9 & 10, change the use of these units from Retail to Financial & Professional Services and internal layout changes and

refurbishment of 2nd floor offices. These latter three requests have been approved.

4.2.4. As previously reported provisional agreement was reached with the tenant to extend the Head Lease term by 50 years in return for a premium of £50,000 plus VAT. This was approved under GCC's scheme of delegations on 18th July 2019, and the transaction has now concluded.

4.3. McLellan Galleries, 270 Sauchiehall Street

4.3.1. As reported previously heads of terms were 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).

4.3.2. GSA are progressing with its Strategic Outline Business case for the Mackintosh Building together with its wider estate and in this regard they have made enquiries about dilapidations if they were to remove from the McLellan Galleries. The GSA stressed they had made no decision on their future occupation of the McLellan Galleries and were merely seeking to cost various options as part of their review. City Property has agreed to undertake a dilapidations report for NRS.

4.3.3. NRS Property & Consultancy Services is engaging with the GSA regarding their current occupation and future proposals and will issue updated instruction to City Property in due course.

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

4.4.1. As previously reported the new 99-year lease from GCC to the Citizens Theatre Limited completed on 3rd June 2019. The rent is £1,250 per annum.

4.5. Pollok Country Park

4.5.1. There are two cottages at the subjects, one of which at 132 Dumbreck Road, which has been vacant since 2010 due to the condition.

4.5.2. NRS Property & Consultancy Services continue to work with Hutchesons Grammar School (HSG) who wish to lease the vacant dilapidated cottage at 132 Dumbreck Road. HSG propose to demolish the cottage which will improve access to and from Norwood Playing Fields.

4.5.3. GCC continue to work on the proposed masterplan for Pollok Park. This will impact Police Scotland's occupation of the car park. NRS Property & Consultancy Services are to take the lead on these discussions with City Property assisting where necessary.

4.6. Humbie Farm

4.6.1. Humbie Farm, as previously reported, is located out with the GCC boundary in East Renfrewshire. It comprises two areas of farmland held under separate leases which provide approximately 27 acres in total of grazing land.

4.6.2. The gross rent currently generated from Humbie Farm is £1,150 per annum and there are no non-recoverable costs.

4.6.3. The adjacent seasonal grazing let, which was not renewed by the previous tenant, is currently vacant and whilst City Property was attempting to secure a suitable letting, GCC identified this land as potentially suitable for an Urban Farm/Food Growing Initiative. The land is hence being retained at this time in relation to this ongoing proposal.

4.7. Cathkin Braes Country Park

4.7.1. Cathkin Braes Country Park, is let to SSE Generation Limited as a windfarm. This lease expires in 2037. There is a base rent of £3,000 per annum, with Glasgow City Council entitled to an additional equity share of income generated in terms of a Co-venture agreement between GCC and the tenant.

5. CONCLUSION

5.1. Over the next 6-month period CPGI will:

1) Complete the 10 year lease of the shop unit at Byres Road which is subject of an assignation.

2) Endeavour to secure the completion of the letting of the subjects at Woodville Street, Govan.

3) Endeavour to complete all outstanding transactions/negotiations and secure lettings of those subjects which remain vacant.

4) Continue to monitor repair and maintenance expenditure to protect asset value.

5) Continue to maximise income through increased rental by undertaking rent reviews and lease renewals where appropriate.

6) 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:	No relevant procurement issues.
Council Strategic Plan:	A Thriving Economy: A resilient, growing and diverse city economy where businesses thrive.
Equality and Socio-Economic Impacts:	
Does the proposal support the Council's Equality Outcomes 2021-25? Please specify.	No specific equality related outcomes.
What are the potential equality impacts as a result of this report?	No equality impacts identified.
Please highlight if the policy/proposal will help address socio-economic disadvantage.	The proposal has no impact on socio economic disadvantage.
Climate Impacts:	
Does the proposal support any Climate Plan actions? Please specify:	No direct support
What are the potential climate impacts as a result of this proposal?	Impact deemed as neutral
Will the proposal contribute to Glasgow's net zero carbon target?	No specific contribution
Privacy and Data Protection Impacts:	No Privacy and Data Protection impacts identified

7. Recommendation

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