1 George Square Glasgow G2 1AL DX GW67 or LP 33 Glasgow-6 Tel +44 (0)330 222 0050 Fax +44 (0)330 222 0053 Web: www.rnms.co.uk

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Malcolm McMillan Scottish Law Commission 140 Causewayside Edinburgh EH9 1PR

10 June 2014

Dear Mr McMillan

Preparation of the Commission's Ninth Programme of Law Reform Consultation on possible Law Reform Projects

I acknowledge with thanks your letter of 22 May.

As a Commercial Property Lawyer, there are two matters which strike me as worthy of consideration, if not already dealt with previously in some shape or form or already within the "pipeline".

First, there is the unsatisfactory situation in regard to subleases in Scotland. Although reforms were carried out following the *Dorchester Studios* case, it still remains the case that sub-tenants are at risk of losing their sublease in the event of the termination (by reason of insolvency or otherwise) of any superior lease. The profession, adaptable as ever, has sought to address this by seeking "Irritancy Protection Agreements", in terms of which the superior landlords grant an undertaking direct to the subtenants that they will re-grant the sublease direct for the balance of the term in the event that the intermediate lease or leases disappear. This, however, is a cumbersome mechanism and one which, in my experience and those of other practitioners, is very rarely agreed to by the superior landlords. They simply will not want to commit to what they may want to do in the scenario envisaged by granting any form of undertaking to the subtenants. Certainly in the case of a sublease of a shop unit within a shopping centre, there are in my experience no circumstances in which the owner of the shopping centre will commit to renew a sublease of a single unit in the shopping centre in the event that a head lease of the entire shopping centre is terminated.

This situation with sublease protection, or lack of it, can have a potentially adverse effect on investment in property in Scotland, as one explains to clients the risk that they run, absent an Irritancy Protection Agreement.

On a related matter, there has been some doubt for years as to whether a sublease survives the surrender (as distinct from termination) of the head lease and, related to that, the circumstances in which the principle of confusio applies in relation to the acquisition of more than one interest in a property.

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It may be that these matters would be appropriate as the subject of some larger study of leases in Scotland in which they could be included. Fifty years ago the emphasis was on heritable conveyancing, with the grant of leases a mere subsidiary element, the lease itself often a page or two long. With the advent of the 60+page institutional investment lease, and the millions of pounds invested in Scotland on the strength of such leases, there may need to be a general appraisal of a Scots legal system which still largely regards leases as just another contract — and hence terminating if the subject of the lease is destroyed (rei interitus) — rather than a much more fundamental interest in land.

I hope this is helpful.

Yours sincerely

Iain G Macniven

Partner

For Maclay Murray & Spens LLP