
Property Investment Strategy

Committee considering report:	Council on 1 March 2018
Portfolio Member:	Councillor Dominic Boeck
Date Portfolio Member agreed report:	21 February 2018
Report Author:	Richard Turner
Forward Plan Ref:	C3401

1. Purpose of the Report

- 1.1 The Property Investment Strategy for the acquisition of commercial property for investment purposes was adopted by the Council on 9th May 2017.
- 1.2 The Strategy contains within it provision for the periodic review (at least on an annual basis) of the Property Investment Strategy to ensure its compatibility with market conditions and the Council's investment objectives.
- 1.3 A revised Property Investment Strategy (West Berkshire Council – Property Investment Strategy (revised), January 2018) has been prepared to build upon the adopted JLL document should the Council resolve to adopt the recommended amendments within this document.
- 1.4 The Council resolved in May 2017 to agree the acquisition and disposal of building assets up to a value of £10M by way of Delegated Authority. The recommendations within the revised Strategy include increasing the acquisition value to £15M and it is recommended to increase the Delegated Authority threshold to this revised level.

2. Recommendations

- 2.1 The Council resolves to:
 - (1) Adopt the revised Property Investment Strategy (West Berkshire Council – Property Investment Strategy (revised), January 2018).
 - (2) To delegate to the Head of Legal Services in consultation with and having received agreement from the Property Investment Board to purchase investment property in accordance with the above Strategy up to a maximum of £15 million per transaction.
 - (3) To delegate to the Head of Legal Services in consultation with and having received agreement from the Property Investment Board to dispose of property in accordance with the above Strategy up to a maximum of £15 million per transaction.

3. Implications

- 3.1 **Financial:** The revised strategy will contribute to the suitable and timely acquisition of commercial property to achieve the planned revenue income targets from financial year 18/19.
- 3.2 **Policy:** The proposal will supersede the Strategy previously adopted on 9th May 2017.
- 3.3 **Personnel:** This proposal does not introduce any impact on staffing.
- 3.4 **Legal:** The business case presented in the report to Council on 9th May 2017 conveyed the legal basis for the Property Investment Strategy. This business case stands and is not impacted by the proposals in the revised Strategy.
- 3.5 **Risk Management:** By acting on the proposals to revise the Strategy, it is expected that this will positively impact the progression with property acquisition and ownership.
- 3.6 **Property:** The Property Services Team continue to lead on the acquisition of and management of commercial property, with the appointment of Montagu Evans as commercial advisers.
- 3.7 **Other:** None identified

4. Other options considered

- 4.1 The 'Do nothing' option is available to retain the Property Investment Strategy in its current form. This is not recommended as this does not react to a changing market. WBC will be best placed to succeed in its property investment through structured periodic revision of the strategy.

Executive Summary

5. Introduction / Background

- 5.1 As a result of the financial headwinds facing local government, West Berkshire Council, resolved to create a UK wide Commercial Property Investment Portfolio in order to generate a new revenue income stream through direct commercial property investment.
- 5.2 Intrinsic within the adopted strategy is a mechanism for a regular review of the Strategy, on a day-to-day basis utilised by the Councils Property Investment Board (PIB), to ensure its compatibility with market conditions and the Councils Investment Objectives.

6. Proposal

- 6.1 The recommended amendments to the Investment Guidelines help ensure the attainability of the portfolio's target 6% net yield whilst providing the Property Investment Board (PIB) with enhanced agility to deploy the funds resources and realise a sustainable income stream sooner.
- 6.2 Asset Categorisation - It is recommended that an appropriate alternative categorisation which suitably reflects the council's objectives be introduced, this being 'Prime' and 'Good Secondary' as set out below:

Prime	Net yield of 6% or lower, established location, very strong tenant covenant, unexpired lease term of 9 years or more
Good Secondary	Net yield of higher than 6%, good location, strong tenant covenant, unexpired lease term commensurate with prevailing market conditions

- 6.3 Geographical Weighting – Allowing greater flexibility to invest more heavily in stronger, more robust areas will provide tangible benefit for the portfolio. In particular this is the case for London and the South East where a defensive portfolio would naturally carry greater weight. A narrower split of regions and some flexibility on the maximum allocation as set out below:

Region	Max weighting
South East	Up to 60% (£30m)
South West & Midlands	Up to 35% (£17.5m)
North	Up to 35% (£17.5)
Scotland & Wales	Up to 35% (£17.5m)

- 6.4 Sector Weighting – the current investment strategy categorises six sectors. To comply with this allocation in a relatively small fund is challenging. Simplifying the sectors provides flexibility whilst maintaining the principles of balance and diversification, such as suggested below:

Sector	Max weighting	Examples
Industrial / Warehouse	Up to 40% (£20m)	Logistics hubs, light industrial, trade parks
Retail	Up to 40% (£20m)	Small supermarkets, restaurants, retail warehouses
Offices, Alternatives and Other	Up to 35% (17.5m)	Offices, business parks, hotels, cinemas, petrol stations, wind farms

- 6.5 Lot Size – the current strategy puts a cap on any single lot of 20% of the portfolio value (£10m) with a minimum lot size of £3m. It is proposed to amend this to offer a lot size without a minimum and up to a maximum of £15m.
- 6.6 Income Risk – income risk is currently managed through a 10% cap of total income to be accounted for in any one tenant, once fully invested. Assuming a portfolio running yield of 6.00% and a portfolio value of £50m, this cap is equivalent to £300,000 per annum, per tenant. It is recommended that the cap is increased to £750,000 per annum, per tenant.

7. Conclusion

- 7.1 Conclusion – the Property Investment Strategy in its current form represents a very solid base from which to build. The Councils experience in the market since May 2017 emerging market trends and the stock availability, have provided the basis for amending the Investment Guidelines in the strategy in order to provide flexibility in terms of lot size, weighting and income spread. Doing so will expose the fund to a broader range of potential investments which will better enable it to deploy its funds efficiently and defensively to deliver the fund's overall target return of 6%.

8. Appendices

- 8.1 Appendix A – Equalities Impact Assessment
- 8.2 Appendix B – Supporting Information
- 8.3 Appendix C – West Berkshire Council – Property Investment Strategy (revised), January 2018

Equality Impact Assessment - Stage One

We need to ensure that our strategies, policies, functions and services, current and proposed have given due regard to equality and diversity as set out in the Public Sector Equality Duty (Section 149 of the Equality Act), which states:

- “(1) A public authority must, in the exercise of its functions, have due regard to the need to:**
- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;**
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; this includes the need to:**
 - (i) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;**
 - (ii) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;**
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it, with due regard, in particular, to the need to be aware that compliance with the duties in this section may involve treating some persons more favourably than others.**
- (2) The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.**
- (3) Compliance with the duties in this section may involve treating some persons more favourably than others.”**

The following list of questions may help to establish whether the decision is relevant to equality:

- Does the decision affect service users, employees or the wider community?
- (The relevance of a decision to equality depends not just on the number of those affected but on the significance of the impact on them)
- Is it likely to affect people with particular protected characteristics differently?
- Is it a major policy, or a major change to an existing policy, significantly affecting how functions are delivered?
- Will the decision have a significant impact on how other organisations operate in terms of equality?
- Does the decision relate to functions that engagement has identified as being important to people with particular protected characteristics?
- Does the decision relate to an area with known inequalities?
- Does the decision relate to any equality objectives that have been set by the council?

Please complete the following questions to determine whether a full Stage Two, Equality Impact Assessment is required.

What is the proposed decision that you are asking the Executive to make:	To adopt the revised Property Investment Strategy (2018)
Summary of relevant legislation:	Local Government Act 1972 Local Government Act 2003 Localism Act 2011
Does the proposed decision conflict with any of the Council's key strategy priorities?	No
Name of assessor:	Richard Turner
Date of assessment:	8 th January 2018

Is this a:		Is this:	
Policy	Yes/No	New or proposed	Yes/No
Strategy	Yes/No	Already exists and is being reviewed	Yes/No
Function	Yes/No	Is changing	Yes/No
Service	Yes/No		

1 What are the main aims, objectives and intended outcomes of the proposed decision and who is likely to benefit from it?	
Aims:	To benefit from long term revenue income streams.
Objectives:	To acquire commercial property.
Outcomes:	Ownership of commercial property with total capital value of £50m
Benefits:	Long term income stream to benefit services in West Berkshire.

<p>2 Note which groups may be affected by the proposed decision. Consider how they may be affected, whether it is positively or negatively and what sources of information have been used to determine this.</p> <p>(Please demonstrate consideration of all strands – Age, Disability, Gender Reassignment, Marriage and Civil Partnership, Pregnancy and Maternity, Race, Religion or Belief, Sex and Sexual Orientation.)</p>

Group Affected	What might be the effect?	Information to support this
Age	No effect	
Disability	No effect	
Gender Reassignment	No effect	
Marriage and Civil Partnership	No effect	
Pregnancy and Maternity	No effect	
Race	No effect	
Religion or Belief	No effect	
Sex	No effect	
Sexual Orientation	No effect	
Further Comments relating to the item:		

3 Result	
Are there any aspects of the proposed decision, including how it is delivered or accessed, that could contribute to inequality?	Yes/No
Please provide an explanation for your answer:	
Will the proposed decision have an adverse impact upon the lives of people, including employees and service users?	Yes/No
Please provide an explanation for your answer:	

If your answers to question 2 have identified potential adverse impacts and you have answered ‘yes’ to either of the sections at question 3, or you are unsure about the impact, then you should carry out a Stage Two Equality Impact Assessment.

If a Stage Two Equality Impact Assessment is required, before proceeding you should discuss the scope of the Assessment with service managers in your area. You will also need to refer to the [Equality Impact Assessment guidance and Stage Two template](#).

4 Identify next steps as appropriate:	
Stage Two required	No
Owner of Stage Two assessment:	n/a

Timescale for Stage Two assessment:	n/a
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Name:

Date:

Please now forward this completed form to Rachel Craggs, Principal Policy Officer (Equality and Diversity) (rachel.craggs@westberks.gov.uk), for publication on the WBC website.