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# Property Investment Strategy – Supporting Information

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## 1. Introduction/Background

- 1.1 Agenda item for the Overview and Scrutiny Management Commission meeting on 14<sup>th</sup> January 2020 is to *Report to the Commission the effectiveness of the Council's Property Investment Strategy so far and influence its review. The OSMC will scrutinise what has happened so far and the risks and returns.*
- 1.2 The proposal for West Berkshire District Council (WBDC) to invest in commercial property for the purposes of deriving revenue return was explored through a Corporate Programme project during 2016, resulting in formal proposal being approved by full Council on 9<sup>th</sup> May 2017 as part of the Council's investment and borrowing strategy 2017/18.
- 1.3 With an initial capital budget of £50m agreed in May 2017, which increased to a total of £100m with Council approval on 3 July 2018, the council has invested a total of £62.624m to date in commercial property.

## 2. Supporting Information

- 2.1 Traditionally local authority property acquisition has been for the direct purpose of operational delivery of services. However increasing financial pressures combined with significantly reduced resources meant that West Berkshire Council needed to consider the potential opportunities available to it to generate new revenue income streams through property investment.
- 2.2 In preparing a proposal for approval WBDC Legal Services Team was consulted with a business case to back the proposal, based on the council's powers to invest under legislation relevant to the investment in commercial property.
- 2.3 On 9<sup>th</sup> May 2017, the Council approved the additional capital budget of £50m (increased to £100m at Council on 3 July 2018), and to delegate authority to the Head of Legal Services to acquire and dispose of property up to the value of £15m per transaction (having consulted the Property Investment Board).
- 2.4 WBDC commissioned property agents Jones Lang LaSalle (JLL) to help create a formal Property Investment Strategy on which to base its investment decisions.
- 2.5 The 2017 Property Investment Strategy was refreshed in March 2018 (see appendix D) which is the current version, and includes the following core principles:
  - (1) Direct property investment;
  - (2) UK wide target market;
  - (3) Freehold (100 year+ leasehold considered);

- (4) Institutional grade covenants (Dun & Bradstreet 3A1 – 5A1 rating)
- (5) Target 6% yield (fully invested portfolio)

2.6 The Property Investment Strategy 2018 has the following guideline criteria for investment (see appendix D):

- (1) Asset category as ‘Prime’ 60% and ‘Good Secondary’ 40%;
- (2) Sector weighting (up to): Ind/warehouse 40%, Retail 40%, Office/Alternative 35%;
- (3) Lot price maximum £15m;
- (4) Maximum £750,000 income from a single tenant;
- (5) Location (up to): South East 60%, South West/Midlands 35%, North 35%, Scotland/Wales 35%

2.7 Formal governance exists to oversee acquisitions and disposals, through a Property Investment Board (PIB), and all proposed acquisitions are presented to PIB prior to progressing with any bid. Having received agreement from PIB any successful bid is followed by full legal and property due diligence prior to exchange of contracts and then completion.

2.8 In circumstances where a property proposed for acquisition falls outside the criteria within the Property Investment Strategy, having received agreement to progress from PIB, the proposal is taken to the Executive for approval.

2.9 Following the commencement of the Property Investment Strategy in May 2017, and increased budget in July 2018, WBDC has spent a total of £62,624,000 and has acquired the following properties:

Acquired	Property	Tenant	Price #	Rent
25/10/17	Terminus Rd, Eastbourne	Lloyds Bank	£2.900m	£3,696,437*
20/3/18	High St, Lincoln	Ernest Jones	£5.665m	
31/3/18	Cleveland Gate, Guisborough	Aldi/Iceland	£6.048m	
27/4/18	3 The Sector, Newbury	Cirrus/Edward Sc'	£9.759m	
27/4/18	4 The Sector	VACANT	£8.000m	
13/7/18	Dudley Port, Tipton	Rontec	£3.510m	
24/7/18	Bath Rd, Chippenham	Wincanton	£9.200m	
13/12/18	Discovery Hs, Nottingham	Computerland	£6.545m	
04/3/19	High St, North Allerton	Sainsbury's	£7.050m	

\* 4 The Sector - The vendor is paying WBDC in lieu of rent for the vacant building until 31 March 2020 via an Escrow payment, drawn down quarterly. From April 2020 cost liabilities are with WBDC.

# NOTE – The ‘Price’ shown for property acquisitions in the table above shows the net price excluding stamp duty, fees, surveys and other acquisition costs.

- 2.10 Following a procurement exercise WBDC appointed Montagu Evans as its professional property agent. Montagu Evans acts for WBDC for new acquisitions, strategic management of the portfolio, and the day to day property management of the portfolio.
- 2.11 The most recent purchase was 4<sup>th</sup> March 2019, with no suitable property being brought forward to PIB since then.

This both linked to the economic uncertainty which exists within the commercial property sector, associated with low levels of commitment from tenants to moving or expanding and taking on new lease commitment, and also the need for us to remain within the criteria required by the WBDC Property Investment Strategy.

- 2.12 This lack of further acquisitions, and particularly having none within the 2019/20 financial year has impacted the revenue income anticipated from the portfolio for 2019/20 and 2020/21.
- 2.13 Based on no further acquisitions and assuming that 4 The Sector remains vacant during financial years 2020/21 and 2021/22, projected income is summarised as follows:

	19/20	20/21	21/22
Original Budgeted income (£100m fully invested by 2020/21)	£1,500,000	£2,000,000	£2,000,000
Gross income:	£3,696,437	£3,032,145	£3,038,600
<b>Net income (less interest, MRP, fees, risk fund):</b>	<b>£1,152,625</b>	<b>£454,763</b>	<b>£444,878</b>

- 2.14 Any income from 4 The Sector in 2020/21 and 2021/22 will significantly improve the above income projection.
- 2.15 A number of changes within the last year has created circumstance where WBDC is reviewing the commercial Property Investment Strategy within the wider investment context:
- (1) The rate of borrowing from the Public Works Loan Board was increased in October 2019 by 1% taking the rate at that time from around 1.5% to over 3% at present;
  - (2) The difficulty in identifying suitable properties which align with the current Strategy;
  - (3) New guidance released in November 2019 from The Chartered Institute of Public Finance & Accountancy (CIPFA), ‘Prudential Property Investment’, which provides clarity on investing in advance of need around some of the elements of the Prudential Code (that governs local authority capital investment)

- (4) With the declaration of a Climate Emergency by West Berkshire Council in July 2019 and ongoing pressures within the housing sector for affordable housing, investment priorities may be re-aligned with the council's emerging Environmental Strategy and its refreshed Housing Strategy, both of which are currently in draft form and subject to consultation and formal approval by the Council.

### 3. Options for Consideration

- 3.1 The Council is currently reviewing its wider approach to investment, and any decision regarding the Property Investment Strategy will be formed within that investment context.
- 3.2 With regard to the Property Investment Strategy, options include:
  - (1) Continue with the strategy in its current form retaining the £100m capital budget. This is unlikely to be seen as an available option given recent revised guidance from CIPFA and unlikely to receive the support of the council's 151 Officer;
  - (2) Continue with the strategy amended to reflect both the CIPFA Guidance and current market, retaining the £100m capital budget;
  - (3) Cease further investment, and retain and manage the current £62.4m property portfolio and associated income;
  - (4) Withdraw entirely from the commercial property investment sector, disposing of the nine assets currently owned by WBDC, freeing up capital released to alternative investment models.

### 4. Proposals

- 4.1 The decision on how best to progress and the preferred option will be guided by the final advice on the CIPFA 2019 guidance, and the decisions around the Council's wider approach to investment.

### 5. Conclusion

- 5.1 WBDC having spent £62.6m on commercial property investment is deriving a revenue income. With a single property from the nine acquired currently vacant, this has impacted the income over the period this asset remains vacant. Once fully let, the income will be in line with that anticipated from this level of investment, but not at the level planned for a full investment of the £100m budget.
- 5.2 The Council is currently reviewing its wider approach to investment and the commercial property investment will sit within that wider investment context.

### 6. Consultation and Engagement

- 6.1 None

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#### Background Papers:

Property Investment Strategy 2018

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**Subject to Call-In:**

Yes:  No:

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The item is due to be referred to Council for final approval	<input type="checkbox"/>
Delays in implementation could have serious financial implications for the Council	<input type="checkbox"/>
Delays in implementation could compromise the Council's position	<input type="checkbox"/>
Considered or reviewed by Overview and Scrutiny Management Commission or associated Task Groups within preceding six months	<input checked="" type="checkbox"/>
Item is Urgent Key Decision	<input type="checkbox"/>
Report is to note only	<input checked="" type="checkbox"/>

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**Wards affected:** None

**Strategic Priorities Supported:**

The proposals contained in this report will help to achieve the following Council Strategy priorities:

- GP2: Maintain a green district**
- SIT1: Ensure sustainable services through innovation and partnerships**

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## **Property Investment Strategy 2018**

attached