Appendix D

Property Investment Board Terms of Reference

Release Date:	**March 2021**

1	**Background**

1. At a full meeting of West Berkshire District Council on 9th May 2017 (C3283) the Council approved the Property Investment Strategy. The Strategy is regularly reviewed and was updated at the March 2020 meeting. The Property Investment Strategy is an appendix to the Capital Strategy 2020/21 to 2022/23;

2. Delegates to the Service Director: Strategy and Governance 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 £15m per transaction where it would not be expedient for the Executive to make this decision;

3. Delegates to the Service Director: Strategy and Governance to inform the next available Executive of any disposal decision;

4. Delegates to the Service Director for Finance and Property in consultation with the Portfolio Holder with responsibility for Property, authority to appoint suitable consultants in accordance with the Contract Rules of Procedure (Part 11 of the Constitution);

5. West Berkshire Council will pause investment at the investment levels as at 31.3.2020 following the outcome of the PWLB consultation on its use.

6. West Berkshire will seek to dispose of some of the properties within the commercial property portfolio over the long term.

2	**Purpose**

The members of the Property Investment Board (PIB) or their substitutes will collectively be responsible for the recommendations made by them having received reports related to the acquisition (or disposal) of commercial property.

The PIB will play a critical role in the governance of the property investment strategy including ongoing monitoring of performance in order to make informed decisions.

3	**Terms of reference**

The PIB terms of reference are:

1. In circumstances where a report proposes the acquisition of a property known to be outside the scope of the Delegated Authority criteria, to make recommendation(s) to approve or reject the proposal to progress with the acquisition to the Executive;

2. To make recommendation(s) to approve or reject the proposal to progress with the disposal of an individual property to the Executive. Where it would not be expedient for the Executive to consider a proposal to dispose of an asset authority be delegated to the Service Director Strategy and Governance in consultation with the portfolio holder(s) with responsibilities for finance and property, having received a report from Property Services to do so;

3. To receive quarterly performance reports (including an Annual Review report) conveying information on acquisitions, costs, total capital commitment and performance of the investment.

4	**Membership**

The PIB is to be a joint Officer and Member board formed from the following:

1. Executive Director (Resources) (Chair)
2. Service Director: Strategy and Governance (or substitute)
3. Executive Portfolio Holder for Internal Governance (or alternative Executive member)
4. Executive Portfolio Holder for Finance (or alternative Executive member).
5. Service Director for Finance & Property
6. Opposition member as requested by the Leader.

Reporting Officers to the PIB will be the Property Services Manager (or substitute) and the external consultant property agent.

5	Roles and responsibilities

The members of the PIB will collectively be responsible for the recommendations made by the PIB, having given regard to the knowledge and expertise brought by individual members (such as legal, financial or political).

Strategy and Governance will:

- Produce agendas and minutes to record the meetings

The Property Services Manager will:

- Arrange meeting dates, venue;
- Produce formal reports (for individual acquisition/disposal or reviews);
- Produce formal reports for quarterly reporting/monitoring and annual reviews;
- Record and maintain property data for acquired property;
- Attending PIB meetings;
- Liaise with WBC colleagues within relevant teams sufficient to conclude proposals and the satisfactory outcome of recommendations made by the PIB.
- With the input of WBC appointed Property Investment Adviser, monitoring performance of the investment, including identifying any issues with the property portfolio.

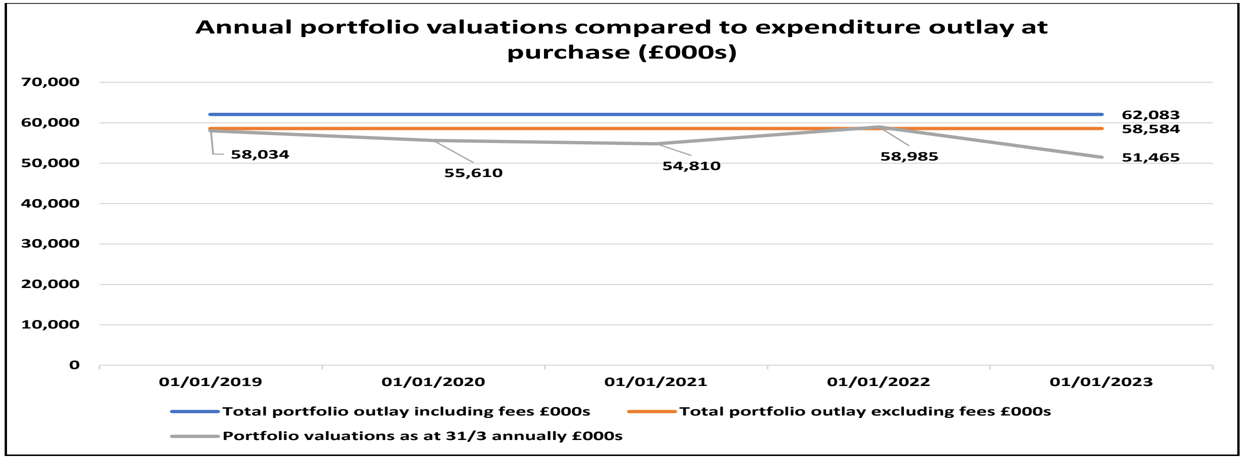
6	Meetings

Scheduled quarterly PIB meetings will be arranged to monitor the implementation of the strategy and performance of investments. Additional ad hoc meetings will be arranged when required as a property acquisition or disposal is proposed.

Property Investment Portfolio – Assets Valuations

Valuation data as supplied by the Council's appointed external valuers Avison Young. The current portfolio was fully invested from the financial year ending 31/03/2019.

Asset Name and Address	Property Type	Purchase Price Including Fees	Net Asset Cost	Valuations as at 31/3/2018	Valuations as at 31/3/2019	Valuations as at 31/3/2020	Valuations as at 31/3/2021	Valuations as at 31/3/2022	Valuations as at 31/3/2023
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Dudley Port Petrol Filling Station, Tipton	Petrol Filling Station	3,724	3,510	0	3,720	3,595	3,700	3,765	4,155
79 Bath Road, Chippenham	Retail Warehouse	9,651	9,106	0	9,648	9,200	9,500	11,775	9,250
Lloyds Bank, 104 Terminus Road, Eastbourne	Retail	3,078	2,900	1,845	2,590	2,300	1,800	1,800	1,675
Aldi/Iceland, Cleveland Gate Retail Park, Gainsborough	Retail Warehouse	6,424	6,048	3,655	5,150	5,725	5,725	6,300	5,750
303 High Street and 2 Waterside South, Lincoln	Retail	6,010	5,665	3,419	3,734	3,400	2,850	2,950	2,750
3&4 The Sector, Newbury Business Park	Office	18,802	17,760	0	18,801	17,760	17,435	18,010	14,350
Sainsbury's, High Street, North Allerton	Retail	7,463	7,050	0	7,460	7,050	7,050	7,185	6,835
Ruddington Fields Business Park, Mere Way, Nottingham	Office	6,931	6,545	0	6,931	6,580	6,750	7,200	6,700
Total Portfolio Expenditure Outlay at Purchase		**62,083**	**58,584**	**8,919**	**58,034**	**55,610**	**54,810**	**58,985**	**51,465**



Montagu Evans – Quarter One Financial Year 2023/24 Market Analysis

MARKET UPDATE

UK ECONOMIC OVERVIEW

ECONOMIC PERFORMANCE & IMPACT ON REAL ESTATE

UK GDP is estimated to have grown by 0.2% in April 2023, after a fall of 0.3% in March 2023. Looking at the broader picture, GDP grew by 0.1% in the three months to April 2023, and annual GDP output is estimated to have grown by 4.1% in 2022, following growth of 7.4% in 2021.

The UK narrowly avoided falling into a recession in 2022, which is defined as two three-month periods of GDP shrinking in a row. Although the economy is in a better position than forecasters expected, families and businesses continue to feel the pressure of rising bills.

(UK GDP. Source: ONS)

CPI rose by 8.7% in the 12 months to May 2023, unchanged from April 2023. Despite inflation remaining flat, economists had widely predicted a fall in the inflation rate to 8.5% in the year to May. It is also still four times higher than the Bank of England's 2% target. The IMF predicts that inflation will not return to the target level until mid-2025, which is later than it had forecast previously.

The Bank increased interest rates in June 2023 for the 13th time since December 2021, with rates rising by 50 bps to 5.0% following May’s disappointing inflation figures. It is forecast that rates could climb to as high as 6.0% by the end of the year.

The commercial property market witnessed mixed conditions throughout 2022, as the investment and leasing markets adjusted to the changing macro-economic backdrop. Early signs suggest that investors and occupiers still remain active, albeit the reality of the increasing cost of living and rising expenses for businesses mean that disposable incomes and margins will be negatively impacted. As a result, market activity is likely to be adversely affected as businesses look to contain costs, at least until inflationary pressures ease. This will almost certainly impact rental growth in the short term.

SECTOR SPECIFIC OVERVIEW

HIGH-STREET RETAIL

The High Street sector’s difficult set of challenges during the course of, and off the back of the pandemic were well-documented as many retailers on the high street were not able to trade during the mandatory national lockdowns, revenues dramatically decreased. Retailer's online platforms boomed throughout this period as a result of changing consumer patterns which have now settled into an established alternative to in-store retail with a broader consumer base.

Following on from the Covid era, the road to recovery has not been easy with retailers facing a combination of new challenges including the cost-of-living crisis, high wage inflation, industrial action and rapidly increasing energy bills with weaning government support. The combination of these challenges in addition to decreased consumer confidence has led to considerable volatility in the relationship between in-store and online retail.

In April 2023, UK retail footfall was 4.7% higher than the same month in 2022, according to Springboard data. Compared to April 2019, footfall was down by 12.0%. High streets saw a 4.6% increase in April footfall on an annual comparison, while shopping centres were up by 6.6% and retail parks by 2.9%. Springboard said footfall on weekdays has suffered due to hybrid working.

KEY STATISTICS

- Footfall figures witnessed an increase of 16.1% year-on-year.
- MSCI retail rental growth index grew by 0.04% in March 2023.
- Retail investment volumes totalled £6.8 billion in the year to March 2023.
- Retail capital values have rebounded in March 2023 with the MSCI index showing a rise of 0.72% month-on-month in March 2023, compared to a fall of 0.45% in February 2023. The return to growth was entirely drive by retail warehouses.

SUPERMARKETS

The food sector has retained a strong, resilient position in the past few years with sales forecasts predicted to grow 3.8% in 2023, reaching £180.6 billion (Source: Retail Economics). Retailers are reporting further shifts in shopper behaviour as consumers shy away from online (a marked change from pandemic-induced lockdown habits), preferring physical stores, including the discounters in order to find best value.

In the occupational market, the return of superstore requirements has emerged as national multiples continue to be acquisition-hungry. Stores offering omnichannel characteristics, including the ability to fulfil online orders, are increasingly important within major retailers' strategies moving forward. The increased occupier demand has translated into rental growth on food stores. This is more evident in London where pressures on land means diminished supply. Increased build costs and weakened yields further pushes rental growth as retailers increase their rental bids so that developers can achieve viability.

In the investment market, where there is long income secured to strong covenants, there is an increasing depth of investor demand, notwithstanding general market uncertainty. However, investors do remain focused on the quality of location, trading fundamentals, sustainable rents, omnichannel capability, alternative use potential covenant strength and increasingly the recent takeovers of Asda and Morrisons. The market correction, commencing in May 2022 and intensified in September 2022 as a result of the 'Mini Budget' has had a huge impact on supermarket investment yields. Prime supermarket yields (20+ years, rack rented, RPI indexation, dominant omnichannel stores) are now in the 5.25% NIY territory, compared with 3.75% 12 months ago. A 150bp yield shift at these levels represent a huge loss of value in the order of 25% - 30%.

A buy-side reason for this shift in value is investor's rising cost of capital. Although rates have settled to an extent since the Mini Budget, 10-year gilts and 5-year SWAPS are now trading at c. 3.3% and 3.5% respectively, a huge increase since the beginning of February 2022 where both were trading at around 1.3%. These huge swings in value have led to a step-change in the levels investors are willing to pay for prime supermarket assets, and clearly an appropriate discount for non-prime assets thereafter.

KEY STATISTICS

- From January-April, investment volumes hit £804.1 million.
- Aldi and Lidl have seen greater than double the year-on-year growth of any other UK grocer in May 2023.
- Large supermarkets have seen an average reduction of -15% in business rates.
- Overall profit of major supermarket brands has been affected as operators commit to shielding customers from inflation by keeping prices low.

INDUSTRIAL

The UK Industrial & Logistics Property market has weathered the challenges presented by Covid-19 well over the past 24 months, with positive sentiment and activity continuing to be driven by:

- Acceleration of Online/ E-comm operations
- Desire for overseas operators/ businesses to secure a physical presence in the UK
- Manufacturers' need to hold more inventory within the UK to mitigate any potential future delays at the UK border.

Following a strong economic rebound in 2021, 2022 proved to be a challenging year for both the occupational and investment markets with slowing economic growth, sharp increases in inflation and Bank of England Rates.

During the current market correction, the industrial sector has seen values fall the most out of the three main commercial property sectors since the June 2022 market peak. A predominant factor is the slowdown in the acquisition of Big Box units that was prevalent in 2022 and has continued into 2023 as a result of hindered activity. However, this is not a cause for major concern as the multi-let and mix box market caters for a wide range of occupiers and in many major urban markets, the stock of land available to meet demand has been in decline for a long time. At the end of March 2023, there was a 7% increase in supply compared to six months ago but 2% down on 12 months ago. This suggests the pressure on occupiers looking for good quality warehouse space will remain, which will subsequently see rents remain robust for prime stock.

Therefore, even as the economy potentially slides into a recession, supply and demand dynamics are still widely expected to underpin growth in the medium-term.

KEY STATISTICS

▪ Take-up across the UK for Grade A space over 100,000 sq ft reached circa 8 million sq ft in Q1 2023 – a 49% increase compared to the same period last year and 13% ahead of the 5-year quarterly average.

▪ The MSCI industrial rental growth index grew by 0.73% month-on-month in March 2023 compared to 0.55% in February 2023. This was the strongest rental growth from the main sectors but marks a slowdown on last summer.

▪ Investment volumes in the industrial sector reached £11 billion in the year to March 2023, down from £13.1 billion in the year to February 2023.

OFFICE

Occupiers are continuing to assess their occupational need as the widespread pandemic-driven hybrid working model transitions into the post-covid working environment. For some, this has seen a return to the office full time whereas as others have chosen to retain remote and flexible working options.

Buyers continue to favour high quality stock, with secondary assets posing significant challenges for buyers, both in terms of tenant attraction/retention, as well as capex risk owing to increasingly stringent environmental legislations imposed by the government. Grade A space accounted for 68% of take-up recorded in 2022, which was the highest proportion since 2018. As such, yield disparity between prime and secondary offices has continued to widen. Additionally, ESG credentials continue to be very high on investor and corporates agendas, whereby assets need to already deliver on these criteria, or it be part of buyers' business plans to deliver best-in-class assets. This is driving a significant polarity in pricing between prime, institutional grade assets, and secondary stock.

Over the next 6-12 months, the following trends are expected to be seen:

- Yields to begin to stabilise as inflation slows and interest rates moderate.
- Experienced cash buyers buying from forced sales at significantly discounted prices.
- UK assets more appealing to overseas buyers due to weaker Sterling.

- Continued demand for assets that deliver on the ESG agenda from both occupiers and investors – this will drive rental growth and pricing resilience in best-in-class buildings.

- Continued need for an Alternative Use Value (AUV) underpin and repurposing where required.

KEY STATISTICS

- The MSCI Market Rental Growth Index for offices increased by 0.17%, compared to a rise of 0.19% in February 2023.

- Investment volumes in the year to March 2023 totalled approximately £11.1 billion across the UK office market. This is down on the £13.4 billion invested in the year to February 2023.

- The MSCI Capital Growth Index for offices decreased by 0.86% month-on-month in March 2023, compared to the February 2023 figure of -1.11%. This marks the nineth consecutive negative monthly figure, although the rate of decline peaked in October and has slowed since.

RESIDENTIAL

Following tentative signs of improvement in April, annual house price growth softened again in May, falling by 3.4% (from -2.7% in April). However, this largely reflects base effects with prices broadly flat over the month after taking account of seasonal effects. Average prices remain 4% below their August 2022 peak.

The housing market looks set to slow in the coming quarters as pressures on household budgets intensify and labour market conditions start to soften, while mortgage rates remain well above the lows prevailing at this point last year. Over the last few weeks, the average two-year fixed residential mortgage was 6.26% and the average five-year fixed residential mortgage rate was 5.87% as of the 27th June 2023. Increased rates have added to stretched housing affordability at a time when household finances are already under pressure from high inflation.

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While activity is likely to remain subdued in the near term, Nationwide are not expecting a dramatic downturn in the housing market, given that labour market conditions remain solid and household.

Property Portfolio 2023/24 Annual Rentals as Reported at Quarter One

Extract from Montagu Evans quarterly performance report.

TOP 10 TENANTS BY RENT

The table below highlights the top 10 tenants within the portfolio which is assessed off their rental income as a percentage of the total portfolio income. The table highlights the level of rental exposure to each of the top 10 tenants and their most recent Dun & Bradstreet (D&B) rating, which comprises a risk indicator for financial covenant strength.
D&B is one of a series of business credit rating agencies and provides in depth information on business financial covenants. The standardised rating system used by D&B assesses a firm's fiscal size and overall creditworthiness, and is split into two parts:

Tenant	Asset	D&B Rating	Rent (pa)	Years to expiry	Years to break option
Wincanton Holdings	79 Bath Road, Chippenham	5A2	£554,250	4.30 years	4.30 years
Computerland UK Ltd	Ruddington Fields Business Park, Mere Way, Nottingham	4A3	£444,174	6.22 years	6.22 years
Sainsburys Supermarkets Ltd	Sainsbury's, High Street, North Allerton	5A1	£437,500	8.47 years	8.47 years
Cirrus Logic (1st)	3&4 The Sector, Newbury Business Park	5A2	£336,708	7.93 years	2.93 years
Mitsubishi HC Capital	3&4 The Sector, Newbury Business Park	5A1	£288,930	6.22 years	6.22 years
Signet t/a Ernest Jones	303 High Street and 2 Waterside South, Lincoln	5A1	£270,000	3.76 years	0.76 years
Aldi	Aldi/Iceland, Cleveland Gate Retail Park, Gainsborough	5A2	£238,956	4.49 years	2.49 years
Rontec	Dudley Port Petrol Filling Station, Tipton	5A1	£220,816	5.75 years	0.00 years
Lloyds Bank Plc	Lloyds Bank, 104 Terminus Road, Eastbourne	5A1	£175,000	3.72 years	0.72 years
Cirrus Logic (GF)	3&4 The Sector, Newbury Business Park	5A2	£160,080	8.00 years	3.00 years

Financial Strength – Based on Tangible Net Worth from a company's latest financial accounts. Financial Strength is denoted by a number and a letter i.e. 5A, 4A, 3A etc. and relates to a range of Tangible Net Worth. 5A reflects a Tangible Net Worth of >£35,000,000, 4A reflects a range between £15,000,000 and £34,999,999, and so on as the scale continues.