
Property Investment Strategy

Committee considering report:	Council
Date of Committee:	9 May 2017
Portfolio Member:	Councillor Dominic Boeck
Date Portfolio Member agreed report:	21 March 2017
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1. Purpose of the Report

- 1.1 To provide a formal policy for the acquisition of commercial investment properties that will provide a balanced investment portfolio from which WBC can derive a long term, sustainable revenue stream.
- 1.2 To convey the key elements and seek approval to the implementation of a Property Investment Strategy.
- 1.3 To seek approval to the formal governance arrangements for the acquisition and disposal of commercial investment property and ongoing management of the investment portfolio.
- 1.4 To agree the acquisition and disposal of building assets up to a value of £10M by way of Delegated Authority.

2. Recommendations

- 2.1 The Council resolves:
 - (1) To approve the Property Investment Strategy (set out in appendix C) as an addendum to the Council's Investment and Borrowing Strategy 2017/2018.
 - (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 £10 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 £10 million per transaction.
 - (4) To delegate to the Head of Finance and Property in consultation with the Portfolio Holder for Property, authority to appoint suitable consultants in accordance with the Contract Rules of Procedure (Part 11 of the Constitution).

3. Implications

3.1 **Financial:** An increased level of borrowing to increase the capital programme by £50m allowing the purchase of commercial investment property.

Within the cost modelling there is expected to be allowance for the appointment of external property agents.

The strategy will be an addendum to the Treasury Management Strategy for the new financial year (2017/2018) and is in accordance with the Local Government Act 2003 and CIPFA's Prudential Code and Code of Practice for Treasury Management.

3.2 **Policy:** Introduction of a new formal Strategy.

3.3 **Personnel:** Property Services is to lead on both the acquisition of property and ongoing management of the portfolio. Although it is proposed to structure it such that the appointed external property consultants take on significant duties, there remains the potential for future impact on workload and resource for the Property Services team.

The acquisition process and ongoing management of the property portfolio will involve both Legal Services and Finance staff members.

3.4 **Legal:** In relation to the legal powers and implications please refer to the detailed legal implications within Appendix A – Supporting Information.

3.5 **Risk Management:** The Strategy document considers risks associated with property investment which include, non payment of rent, non renewal of lease resulting in void periods, unplanned capital cost, market forces influenced by wider economic impact.

3.6 **Property:** This strategy will significantly add to the investment property portfolio. The Property Services team will manage both the acquisition process and the ongoing management of the portfolio, making use of external consultant agents.

3.7 **Other:** None identified.

4. Other options considered

4.1 A 'do nothing' option brings no improvement in income generation and revenue streams and does not contribute to improved financial certainty for WBC.

5. Executive Summary

- 5.1 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 means that West Berkshire Council needs to consider the potential opportunities available to it to generate new revenue income streams through property investment.
- 5.2 This report proposes the introduction of a formal Property Investment Strategy to agree the framework within which WBC will acquire commercial investment property.
- 5.3 The return on investment expected from the acquisition of commercial property is based on Public Works Loan Board 50 year maturity certainty rates at 2.53%, showing a surplus income of £954,280 (1.91%) on £50m invested from a yield of 6% (fully invested). See appendix E for data on Return on Investment.
- 5.4 The acquisition of investment properties is intended to be made directly by West Berkshire Council, which offers financial benefit in terms of:
- (1) The property acquired is the Transfer Of a Going Concern (TOGC) and thus no VAT arises for the purchase. There may be cases where the Seller elects that VAT applies in which case the Council will recoup the VAT.
 - (2) No capital gains tax is payable on the capital increase in value;
 - (3) No corporation tax is payable.

The acquisition will be subject to Stamp Duty Land Tax (SDLT) and fees associated with the consultants acting for WBC in the acquisition process.

- 5.5 Jones Lang LaSalle (JLL) property consultant has been appointed by WBC to offer detailed proposals for the content and form of the Property Investment Strategy. The formal strategy proposed by JLL is attached as appendix C to this report. Supporting JLL report is in appendix D of this report.
- 5.6 The Business Case for investment in commercial property for the purposes of income generation is:
- (1) Powers within legislation affording local authorities the opportunity to borrow and invest for the prudent management of the Council's financial affairs and in this context acquisition of property for investment purposes;
 - (2) Performance of property investments set against the level of borrowing WBC benefits from expected that the investment return will be in excess of the opportunity cost of capital and thus profitable.
 - (3) Expected and proven performance of commercial real estate over time to produce strong returns with consistent income returns.

- 5.7 The Property Investment Strategy conveys the investment criteria to be used in the acquisition of individual commercial properties.

Key elements of these criteria include balancing the proportion of asset types, sectors (eg – retail, office, warehouse, etc.), lot size and location.

Other investment attributes considered are the terms of existing leases, rent review allowances and building condition.

- 5.8 It is expected that up to £50m be fully invested subject to availability of properties in approximately 12 to 18 months from commencement.
- 5.9 To ensure a swift decision making process, critical in property acquisition, the process for acquisition of an individual property is based on the Delegated Authority of the Head of Legal Services having first consulted and received the approval of a Property Investment Board.
- 5.10 The Property Investment Board (PIB) is to act as the formal governance for the acquisition, disposal and ongoing management of the investment portfolio.
The PIB will be an Officer and Member forum which will receive recommendations from Officers on individual acquisitions and disposals as well as quarterly reports including an annual review of the investment portfolio.
- 5.11 In circumstances where a property does not comply with the selection criteria or is beyond the budget scope, but the recommendation is to progress with the sale, a recommendation will be brought to the Property Investment Board and if approved to proceed, will be brought to the Executive to consider the purchase.
- 5.12 By its very nature property investment whilst offering reward also carries inherent economic and market risks. Risks can include void periods created by non renewal of leases, non payment of rent, unplanned capital costs and market conditions impacted by the wider economy.
- 5.13 The Client Side duties will be conducted for WBC through its Property Services Team, acting as an 'informed client', using in house knowledge to oversee both the acquisition and estate management, strongly supplemented by external property consultant expertise for elements beyond the skills and knowledge of WBC.
- 5.14 Duties of the Property Services Team will include:
- (1) Recording and maintaining property data;
 - (2) Appointing and performance managing external consultants;
 - (3) Preparing written reports for the Property Investment Board;
 - (4) Attending Property Investment Board meetings;
 - (5) Liaising with WBC colleagues within Finance and Legal Services.
- 5.15 Duties of the external consultant will include:
- (1) *Investment advisor (acquisitions)*
sourcing properties, market intelligence, analysis of compliance with strategy, due diligence.
 - (2) *Investment Advisor (Manager)*
Attend WBC Property Investment Board meetings, produce quarterly and annual reports, provide market research, interface with property manager, liaise with valuers.
 - (3) *Property Manager*
Rent and service charge collection, site inspections, statutory compliance, tenant liaison.
- 5.16 WBC Property Services team will take overall responsibility for the management of the processes associated with the Property Investment Strategy and for the appointment and performance management of external consultants.

- 5.17 The portfolio will be subject to review annually to consider performance of each asset, any change in risk profile, market update, re-assessment of the selection criteria and consideration of the holding period for properties.

6. Conclusion

- 6.1 It is proposed, subject to increased borrowing, to invest in a minimum of £25m and up to £50m of commercial property assets in accordance with the requirements of the Property Investment Strategy prepared by Jones Lang LaSalle (JLL), estimated to achieve full investment in approximately twelve to eighteen months.

7. Appendices

- 7.1 Appendix A - Supporting Information
- 7.2 Appendix B – Equalities Impact Assessment
- 7.3 Appendix C – Property Investment Strategy (JLL document)
- 7.4 Appendix D – Property Investment report (JLL document)
- 7.5 Appendix E – Property Investment – Estimated rate of return
- 7.6 Appendix F - Property Investment – Acquisition process flow chart