

CABINET 26TH July 2016

**SOLICITOR TO THE COUNCIL
REPORT NO. LEG1609**

COMMERCIAL PROPERTY ACQUISITIONS

PURPOSE

The purpose of this report is to update Cabinet on the progress being made on investing in commercial property assets, using capital resources, in order to generate revenue income.

BACKGROUND

Making better use of property and assets is point 4 of the Council's 8 Point Plan which is a strategy to ensure financial and service sustainability, by reducing net revenue spend over the medium to long term.

This particular project has 3 separate strands:-

- Making better use of our existing property estate to drive an increased revenue stream
- Reviewing the community assets within our estate to reduce cost
- Acquiring new commercial property assets to increase revenue.

This report concerns the progress being made with acquiring new commercial assets.

PROJECT UPDATE

As part of this project, officers are looking to produce a property investment and an asset management strategy. The draft Asset Management Strategy, when completed will be discussed by officers and brought to cabinet for approval. This strategy has been delayed due to the pressure of work

Nonetheless, officers have begun to identify commercial property opportunities where acquiring such assets will enable the council to make a better return from using its capital than current interest rates achieved from having capital in the bank. The Council's Medium Term Financial Strategy has approved a move towards borrowing over time, and for this reason the current Public Loan Board 50 year long-term borrowing rate of 2.74% has been used in determining the loss of interest to the council in using its capital for such acquisitions. The offer rate is currently 2.74% but the Council qualifies for a 0.2% "certainty rate" reduction having completed the required Government document submissions in a continued and timely basis. It is anticipated that the PWLB rate may drop further in the coming weeks.

PROPERTIES

The confidential appendix details the properties that have been considered for acquisition.

Successful bids

Currently we have made 4 successful bids, two of which are in the borough:-

Unit 20 on the Blackwater Valley Way Industrial Estate



This acquisition has been completed with a tenant relocating from the Canna industrial estate in Guildford. This will start to generate an income after the 9 month rent free incentive period expires.

Wellesley House in Eelmoor Road, Farnborough

Completion of this acquisition is imminent with a programme of refurbishment being planned for October. A tenant is being sought for the vacant space, with the other tenant remaining in situ.



Optrex Business Park in Rotherwick Hook.

This is a small rural industrial estate 9,595sqft, in units from 300sqft to 2,000sqft, fully let to a range of small tenants on “easy in easy out” terms



169 High Street, Guildford.



This is a 7330sqft retail premises operating as Steamer Trading with a café at first floor level. To the rear of the premises are 4 small office units totalling 4,191sqft. The acquisition is therefore 63% retail based on floor space and 37% offices. In terms of rent it is 72% retail to 28% office.

Financial Implications of successful bids

The revenue generated from rent from the above 4 properties for 2016/2017 will be £186,000. The full years effect in the future should be £382,000. This is set out in more detail in the confidential appendix

Properties under offer

The confidential appendix gives details of the 4 properties that the council is currently bidding for. Generally, a success rate of 1 in 10 is reasonable but it is difficult to gauge the effect on the market of the Brexit decision. Two of these offers have been made below asking price to ensure that an IRR of 6% would be achieved were we to be successful.

Financial Implications of properties under offer

The confidential appendix set out the full year effect in terms of revenue that could be generated from rental income for each of these properties were the bid/s to be successful together with the IRR. The Council's acquisition of these properties will require significant use of cash resources. The Head of Finance is currently preparing a plan to determine the methods to be employed to raise cash funds taking due regard of interest cost minimisation and assurance of adequate ongoing liquidity.

All of these property acquisitions will be listed on the Council's balance sheet as additional investment properties. The acquisitions result in a change in the structure mix of all investments held. This new structure needs to be managed and contained for a period of time and careful consideration will need to be given to progressing with further acquisitions with a view being taken on the then market conditions as a result of the Brexit decision.

Properties considered but not proceeding

The confidential appendix lists other properties which have been considered for acquisition but are not proceeding. The Co-op in Addlestone and Speedfields Park in Fareham were both unsuccessful bids. Others have been dismissed for reasons such as struggling retail centres, location, lack of strength of covenant or where we were unable to bid within the timescales set by selling agents.

CONCLUSIONS

The Legal and Estates team working closely with Financial Services have had some good success in recent months in acquiring commercial properties in the retail, office and industrial sectors. The development of our Asset Management Strategy will look to ensure that we have a spread of acquisitions across all sectors to spread the risk. In particular, no acquisitions have yet been successful in the leisure sector.

RECOMMENDATION

That Cabinet notes the good progress made with this 8 Point Plan project and the effect on the Council's revenue position as set out in the confidential appendix.