



Basingstoke
and Deane

Property Investment Strategy Annual Property Plan 2021-22

Cllr Izett, Cabinet Member for Regeneration and Property

Report to:	Cabinet
Date:	9 February 2021
Ward(s):	All
Key Decision:	No
Appendices:	Appendix 1 - Table of acquisitions completed under the Property Investment Strategy Appendix 2 – Audit and Accounts Committee comments and recommendations
Papers relied on:	Property Investment Strategy – approved by full Council on 23 February 2017

Foreword - Cllr Izett, Cabinet Member for Regeneration and Property

Good progress is being made in the further development of our overall property strategy as a council. This is important because of the significant contribution the income from our property assets makes to our ability as a council to continue to provide a wide range of good quality services to our residents. In 2020 our property revenues represented 12.39% of our overall income as a borough.

A wider Property Plan is being developed which will encompass not only the existing successful Property Investment Strategy but the wider objectives for the better management of the existing property portfolio. More active management of existing assets including costs and maintenance is now a major focus of the property team with the objectives of ensuring that a well-balanced, defensive portfolio evolves which is less management intensive and offers good rent and capital growth. Separately buildings held for community purposes will be asset managed in line with council community priorities.

The environmental impact of the use of our buildings will form an important part of the new Property Plan in response to council climate change policies. Our aims will be to reduce carbon emissions, increase energy generation and reduce energy usage.

The benefits of appointing JLL, the leading property consultancy, as our corporate advisers should become evident this year and help us in both asset management and strategy. JLL will also contribute to benchmarking the performance of the portfolio including relative to other councils and a UK property index.

Finally, both the property and finance teams will continue to seek to minimise the impact of the pandemic including assisting business tenants of the council where appropriate and on debt management as well as assisting the Economic Development team in its important work in enabling the borough to bounce back from Covid-19.

Recommendation:

- **That Cabinet agrees the Property Investment Strategy Annual Property Plan 2021-22.**

Background, corporate objectives and priorities

This report accords with the council's Policy and Budget Framework in that it sets out the overall Property Investment Strategy – Annual Property Plan.

Main considerations

1 Executive summary

- 1.1 A Property Investment Strategy (objectives and principles) for the council's property investment portfolio was approved by full Council in February 2017.
- 1.2 The approved objective of the Strategy is to ensure a stable long term source of income from a balanced property investment portfolio and to contribute to the generation of additional income to meet the council's Medium Term Financial Strategy in support of the council plan and financial requirements. Rental income from the property investment portfolio significantly assists the funding of council facilities and services, without which service provision to residents and businesses in the borough would be adversely affected unless a replacement source of income were available.
- 1.3 The value of the investment portfolio at the last valuation in March 2020 was £272M from which an annual rental income of approximately £15.54M per annum is derived plus an additional rental income of £1.91M per annum in 20/21 from the 6 property investment acquisitions as detailed in 1.5 below and Table 1 in section 8 of this report.
- 1.4 As previously reported, through acquisitions (for which total Treasury Management funds of £32.49M were made available) and asset management a target was set of generating an additional net income of £1.70M per annum by the end of 2020/21 to directly link with and support the council's Medium Term Financial Strategy.
- 1.5 The Property Investment Strategy was a key strand in achieving the council's additional income targets and has been successfully implemented. Once all of the investment asset acquisitions are completed (the final asset acquisition at Basing View is expected to be completed by during the year) the original net additional income target will be exceeded by £0.61M with an additional rental income of £2.31M being provided from 6 property investment acquisitions as detailed in Table 1 in section 8.
- 1.6 The agreed Strategy objectives provide for ongoing governance arrangements including Cabinet approval of an Annual Property Plan at the start of each year with on-going monitoring and scrutiny of the strategy and plan via quarterly reporting to the Audit & Accounts Committee.
- 1.7 The 2021/22 Annual Property Plan builds on the work of previous years and the focus has moved from property acquisitions to more active asset management of the portfolio with particular regard to continuing to meet challenges posed by the Covid19 pandemic on the property portfolio since March 2020 and ongoing. It has been previously reported that JLL were appointed during quarter 2 2020/21 as the council's property advisers to

provide further expertise and additional strategic resource to the team required in implementing this Annual Property Plan and preserving and enhancing the council's significant property portfolio and also supporting the council's regeneration objectives.

2 The proposal

- 2.1 This report sets out the proposed 2021/22 Annual Property Plan for the council's property investment portfolio in pursuance of its agreed Property Investment Strategy objectives, in support of the council's Medium Term Financial Strategy.

3 Background

- 3.1 The council owns a commercial investment property portfolio principally comprising industrial, retail and office property investments leased on commercial terms to third party tenants. The portfolio is located within the borough with the majority of the assets situated in or around the town.

- 3.2 The sector breakdown of the portfolio can be summarised as follows:

Portfolio Income by Rental Value

Industrial	55%
Retail	25%
Offices	14%
Leisure	2%
Hotel	2%
Other	2%

- 3.3 It is primarily held to provide the council with a source of annual income to support financing the delivery of services across the borough. For 2020/21 the income is expected to be £16.3M. This income directly assists the provision of facilities and services for residents and businesses in the borough, and without which such services would be adversely affected unless a replacement source of income were available.
- 3.4 Some investment properties are held in support of wider council initiatives and/or to provide a larger land ownership for longer term redevelopment opportunities or to bring forward other socio-economic benefits.
- 3.5 A key facet the Property Investment Strategy that will compete in 2020/2, saw the successful acquisition of new investment properties through a £30M allocation of Treasury Management funds, enhanced asset management of the portfolio and a pro- active approach to day to day management. Through acquisitions and asset management a target of generating an additional net income of £1.7M per annum by the end of 2020/21 through increased rental income was set, to directly link with and support the council's Medium Term Financial Strategy.
- 3.6 It was agreed in March 2019 by Council that up to a further £5M would be made available over the £30M previously agreed for investments with the requirement that this was returned to general funds through the initial

disposal programme which will progress through 2020/21.

- 3.7 Amended governance arrangements were provided for in the strategy report to council, including Cabinet approval of an Annual Property Plan at the start of each year, on-going monitoring and scrutiny of the strategy via quarterly reporting to the Audit & Accounts Committee, and a Property Investment Panel with delegated authority held by the Executive Director of Corporate Services (S151 Officer) to progress investment acquisitions, sales and lease re-structures, subject to Portfolio Holder consultation or approval and subject to a financial limit on any one transaction.
- 3.8 Preparation of the Annual Property Plan directly supports the council's Medium Term Financial Strategy. With total new investments of £32.49M, the current ongoing workstream remains the wider Property Strategy Review under which the investment strategy will sit, in order to bring specific focus on key outputs from operational property, community assets and investment with proposed amendments to be brought forward for formal consideration under a new Property Strategy during 2021/22. It is also an immediate priority in the short term remains managing and mitigating the impacts of the Covid 19 pandemic on the property portfolio.
- 3.9 As part of the review of the Medium Term Financial Strategy no further investment has been made in property from additional Treasury management funds.
- 3.10 It is expected that further investment will occur through the asset management of the portfolio, disposing of assets that no longer meet the Council's requirements and seeking to use funds generated from disposals to reinvest in new strategic investment assets. Opportunities available across the borough will continue be monitored and considered and would be subject to Council approval as part of the Council's Capital Programme.

4 Annual Property Plan 2021/22

- 4.1 The proposed Annual Property Plan 2021/22 will seek to deliver a wider corporate property strategy to cover all aspects of the portfolio to bring best value through improved asset management (investment portfolio), cost management (corporate portfolio) and supporting the organisation in ensuring assets support the wider community objectives of the Council where appropriate.
- 4.2 The strategy will be developed to support a reduction in the carbon footprint of the portfolio. The property team will continue to review the managed portfolio to understand where there are opportunities to reduce carbon emissions in line with the Council's commitment. This will include a review of energy consumption and to reduce this through the maintenance programmes replacing, for example, lighting with low energy alternatives as well as energy generation via solar panels. Repairs and maintenance are to be carried out using the most appropriate materials and contractors following the Council's climate emergency declaration.

4.3 The strategy will cover and provide clear strategic direction for the portfolio. For the investment portfolio this will include:

4.3.1 Re-balancing the Investment Portfolio

- With the team now working closely with JLL focus will continue to be on on pro-active asset management of the existing portfolio and reviewing opportunities within the investment portfolio. The Team will also continue to monitor the market for potential opportunities.
- In line with the Medium Term Financial Strategy any future acquisitions are likely to be funded from the disposal of existing assets with the proceeds reinvested to provide enhanced returns, other than acquisitions determined to be of a strategic nature and value and subject to Council approval.
- A number of ground lease restructurings of existing investment property assets are in various stages of progress and completion at locations including Basing View, Daneshill, Houndmills and Jays Close, Viables. This important restructuring workstream will continue to be progressed across the portfolio;
- Disposals are being assessed on the performance of those assets which are either underperforming, generate a windfall return, produce low or no income or have high management costs in terms of future maintenance, fees and time;
- Focus will be on the asset management of the portfolio and opportunities to improve the value and income of the current portfolio and in the immediate future continue manage risk in particular with the challenges to income posed by the covid 19 pandemic and the pressures many of the council's commercial tenants have faced;
- Focus on achieving (appropriate to the current economic circumstances now prevailing) a re-balance between leasing types, sector types, lease lengths, asset income & value, yield, location and quality of assets; and
- Continuing to evolve to a more efficient & less management intensive portfolio.

4.3.2 Enhanced asset management

JLL were appointed as the council's property advisors during 2020/21 and are specifically advising on possible options to consider and adopt in a future property strategy as well as developing individual asset management plans for which work is in progress in locations such as Viables and Basing View which brings in close working with the Regeneration team . The advisors will also complement the in-house Property Team as a resource for general property advice when needed. In addition, they will be providing advice on the council's regeneration projects which will involve some of the council's key property assets. Collaborative working arrangements will include the following:

- Review of Asset Plans for individual assets to inform investment decisions;

- Focus on opportunities & options to improve individual asset performance;
- Benchmarking and performing indices of the property portfolio which will be more granular and is likely to include the following data:
 - Property Net Yield
 - Property Equivalent Yield
 - Rental Growth against rent review/lease renewal settlements
 - All Property Void Rate - Sector Void Rate
 - Rents demanded v Rents received
 - Capital Expenditure v Budget
 - Break Options exercise
- The most appropriate property performance index suitable to our portfolio mix is also being considered with our Property Advisors to measure the portfolio's performance. A performance dashboard will be developed. JLL are due to present further to Cabinet and Audit and Accounts in the near future.

Other ongoing asset management by the in-house team will see further:

- Monitoring of tenant compliance with lease obligations; and
- On-going reviews of tenant covenant strength, particularly for new tenants.

4.3.3 Income management with particular weight of resource prioritised during the Covid 19 pandemic

- The present COVID-19 crisis led to ongoing difficulties for some tenants in paying rent. The Property Team continue to work closely with the Finance Team and the Economic Recovery Group with agreed approaches to providing support;
- Increased debt management focus ensuring arrears of rent & other payments are kept to a minimum, payment plans are adhered to and regular communications maintained;
- Pro-active focus on managing forthcoming lease events to maximise income security and considering lease restructurings with existing tenants;
- Focus on measures to re-let vacant accommodation and minimise void costs; and
- Detailed risk management with Finance and Legal and regular reporting to inform future decisions and income risk to the organisation.

4.3.4 Investment sales

- Assessment of core and non-core investments;
- Disposal of under-performing or non-core investments; and
- Sale proceeds re-invested into further property investment opportunities

5 Governance and Reporting Arrangements

5.1 The following governance and reporting procedures are in place:

- Cabinet approval of an Annual Property Plan;
- Half-year report to Cabinet on investment strategy progress;
- Monitoring and scrutiny of the strategy implementation by the Audit and Accounts Committee via quarterly reporting;
- Bringing forward recommendations for approval of governance arrangements for the sale of existing investments which no longer meet retention criteria, within investment strategy parameters and the annual plan;
- The government is now recommending that benchmarking is undertaken for commercial investments against other councils and other types of investment. The council does not currently carry out benchmarking for these specific investments however, officers are working with JLL to develop this additional benchmarking data as enhanced asset management as mentioned in 4.3.2 above.
- The governance arrangements for these investments are that the council has a specific strategy that was approved by Council and it has an asset management plan. The strategy sets out criteria and limits on this type of investment and officers are required to operate within these criteria and limits. Decisions on commercial investments are made by the Head of Property and Assets, after consultation and approval of Executive Director of Finance and the Portfolio Holder for Regeneration and Property, within limits and criteria approved in the strategy. Property and most other commercial investments are also capital expenditure and therefore will also be approved as part of the capital programme. Quarterly monitoring reports on property investment activity under the strategy are presented to the Audit and Accounts Committee and half yearly to Cabinet.

6 Property Board

6.1 It should also be note that a property advisory board remains in place with the remit to:

- Improve and support decision-making and improve communication on key cases relating to the Council's property portfolio;
- To review and approve the draft Property Strategy (prior to formal approvals required);
- To provide direction and -make recommendations, within the bounds of the current governance and constitution, on property matters;

- To review investment and operational proposals and provide feedback/decisions to proceed as part of the overall governance process (i.e. proceed to Council decision etc);
- To provide corporate direction on cases where there the cost:benefit needs to be balanced between Corporate Objectives e.g. benefits of regeneration and the potential cost in investment income/undervalue; and
- For property services to provide a brief update on key projects/programmes, cases and the overall position in relation to the Improvement programme and the Business Plan.

Corporate implications

7 Legal implications

- 7.1 Section 120 of the Local Government Act 1972 gives councils the power to acquire property by agreement for the purpose of any of its functions or for the benefit, improvement or development of the area.
- 7.2 Section 1 of the Localism Act 2011, known as the general power of competence, enables a local authority to do anything that an individual generally may do (subject to prohibitions, restrictions, and limitations in existing statute which are not applicable in the circumstances set out in the report). Further, that power enables the authority to do it anywhere in the United Kingdom or elsewhere, for a commercial purpose or otherwise for a charge, or without charge, and to do it for, or otherwise than for, the benefit of the authority, its area or persons resident or present in its area.
- 7.3 The council also has the power to invest for the purpose of the prudent management of its financial affairs under section 12 of the Local Government Act 2003.
The Localism Act 2011 provides the council with the statutory power to acquire property investments outside the borough.
- 7.4 The Governance Structure established by council in 2017 will continue with reporting to Audit & Accounts Committee and to Cabinet.

8 Financial implications

- 8.1 The Property Investment Strategy was a key strand in achieving the council's additional income targets. Its objective was to generate additional net income of £1.70M per annum by the end of 2020/21. Once all of the investment asset acquisitions are completed (the final asset acquisition at Basing View due to complete build early Q4 2020/21) this additional income target will be exceeded by £0.61M.
- 8.2 Funding totalling of £32.49M has been completed or committed and £2.49M of this will be funded from future capital receipts as property disposals are achieved.

Table 1 below gives a summary of the investments made.

Table 1 – Investment Summary

	Total Investment made	Additional rental income	IRR	20/21 Working Budget as at 30/06/2020	Estimated Income For Year (to 31/03/2021)
Completed*					
1-4 Armstrong Road	£4.55M	£0.44M	9.40%	£0.44M	£0.44M
1&2 Stroudley Road	£4.99M	£0.30M	7.90%	£0.30M	£0.30M
Units 1&2 Winchester Road	£6.01M	£0.32M	7.80%	£0.32M	£0.32M
Veolia Site, Bell Road, Daneshill	£0.47M	£0.08M	13.50%	£0.08M	£0.08M
B&Q Lister Road	£7.57M	£0.61M	6.51%	£0.61M	£0.61M
Sub-total	£23.59M	£1.75M		£1.75M	£1.75M
Future agreed **					
ELI Lilly	£8.90M	£0.56M	5.60%	£0.16M	£0.16M
Total	£32.49M	£2.31M		£1.91M	£1.91M

* A total of five investment acquisitions were completed as at the end of Q3 2019/20 at a cost of £23.59M (including stamp duty land tax and fees). They produce total ongoing rental income of £1.75M per annum with Internal Rates of Return ranging from 5.6% to 13.5% and net yield, as detailed in Appendix 1, ranging from 5.2% to 16.8%.

** The council agreed one further transaction, a scheme for the new office building on Basing View to be let to Eli Lilly. This committed a further £8.9M of the Property Investment Strategy funds and will generate additional rental income of £0.56M per year. It should be noted that there is only a part year receipt in 2020/21.

The focus will now change to re-balancing of the portfolio where required. This will involve disposals of current assets where they no longer meet the requirements of the portfolio seeking further acquisitions through the re-investment of funds raised through disposal of investment assets.

9 Risk management

- 9.1 A risk assessment has been carried out in accordance with the council's risk management policy and was included in the Property Investment Strategy.
- 9.2 Property is a riskier asset class than some investments due to its physical characteristics which makes the asset less liquid. Consistent with all investment types (cash, shares, bonds, etc.) the expected return on

investment increases with the level of inherent risk. In the context of property markets rental and capital values can also fluctuate upwards or downwards over time according to the market and wider economic circumstances. Due to these risks, property is a long term investment and only suitable for strategic investment funds with an expected duration of 5 to 10 years or more.

9.3 The main risks are reputational concerning the failure to progress transactions, financial relating to fluctuations in property capital & rental values due to market or wider economic circumstances including the impacts of the Covid 19 pandemic, financial failure of tenants, a lack of suitable investments for acquisition and property vacancies following lease expiry.

9.4 These risks will be managed at portfolio and asset levels through focussed asset management and can be further moderated by ensuring a balanced portfolio.

10 Climate Emergency

10.1 This strategy will aim to have a positive carbon impact. This is because of the new, specific focus of reducing the carbon footprint of our property portfolio as part of the maintenance and repair plans for properties and action that will be taken as a result.

11 Equalities implications

11.1 An Equalities Assessment was been carried out as part of the proposals for the Property Investment Strategy to consider the impact of the proposed strategy on the protected characteristics groups, and the implications for the public sector equality duty (Equality Act 2010).

11.2 This concluded that the strategy has no differential impacts on any groups. The strategy aims to ensure a stable and growing long term source of rental income from the investment portfolio to support the council's financial needs and provision of services to businesses and residents across the borough. Properties forming part of the investment portfolio and for which the council has direct responsibility will be assessed to ensure that relevant accessibility legislation is met. This conclusion remains valid for the 2021/22 Annual Property Plan.

12 Consultation and communication

12.1 The proposed Annual Property Plan 2021/22 was considered by the Audit and Accounts Committee at its meeting on 25th January 2021. The comments and recommendations are attached as Appendix 2.

12.2 Communication of the agreed Annual Property Plan has previously been undertaken to local and national commercial property agents, and other key stakeholders, in conjunction with the council's property advisor JLL.

13 HR implications

- 13.1 The need for changes to resourcing arrangements, whether internally and/or through external advisers, will need to be kept under review and managed promptly in order that the ongoing implementation of the Annual Property Plan is not adversely affected. Ongoing permanent recruitment of certain roles in the team which are currently occupied by interims is in progress.

Conclusion

14 Summary and reasons for the decision

- 14.1 Following approval of the Property Investment Strategy in February 2017 approval of the 2021/22 Annual Property Plan is recommended, as set out in this report.
- 14.2 It should be noted that an overarching corporate property strategy will be developed with the Annual Property Plan forming part of this in future years. Explain please what is proposed here?
- 14.3 Implementation of the Plan will build on the work commenced in 2017/18 to increase the council's rental income and to work towards ensuring a more balanced & efficient property investment portfolio, providing a stable long term source of income which will contribute to the generation of additional income to meet the council's Medium Term Financial Strategy.

15 The options considered and rejected

- 15.1 The alternative options considered are to either discontinue or to amend the Property Investment Strategy approved in February 2017. This report forms part of the requirements of the strategy however it should be acknowledged that, with the completion of the fund, a new corporate format for corporate property and investment will be delivered during 2021.

Date: 9th February 2021
Decision taken by: Cabinet

Lead officer	Sue Cuerden - Executive Director of Corporate Services (S151 Officer)
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Confidentiality

It is considered that information contained within this report (and appendices) do not contain exempt information under the meaning of Schedule 12A of the Local Government Act 1972, as amended, and therefore can be made public.