



**Basingstoke
and Deane**

**ANNUAL PROPERTY PLAN
REPORT FOR QUARTER 3 2020/21
(PROPERTY INVESTMENT STRATEGY)**

Cllr J Izett, Cabinet Member for Regeneration and Property

Report to	Audit and Accounts Committee
Date:	29 March 2021
Ward(s):	All
Key Decision:	No
Appendix:	Appendix 1 – Table of Acquisitions under the Property Investment Strategy
Papers relied on:	Property Investment Strategy approved by full Council in February 2017 Property Investment Strategy – Property Annual Plan 2020/21 approved by Cabinet February 2020

Foreword by Portfolio Holder Cllr John Izett:

Following successful investment of the additional capital allocated through the Property Investment Strategy, it is very encouraging to see the progress now being made by officers in relation to ensuring that existing assets are being actively managed and assessed in terms of future strategy.

As a council we are continuing to assist our commercial tenants where possible to help them overcome the impact on their businesses of the pandemic. It is pleasing to note that despite the massive effects of Covid-19, Basingstoke continues to be an attractive place to invest whether it be for new industrial and warehouse development or shop units at the Malls.

I look forward to hearing the committee's views and comments.

Recommendation to Committee

That Audit and Accounts Committee notes the Property Investment Strategy Q3 Report 2020/21. This report does not require a decision but is to be noted in accordance with the governance arrangements included in the council's agreed Property Investment Strategy Annual Property Plan 2020/21 as approved by Cabinet in February 2020.

1 Background, corporate objectives and priorities

- 1.1 This report outlines activity within the council's Property Services Team in implementing the approved Property Investment Strategy (Annual Property Plan) for the investment portfolio, for the period between 1st October and 31st December 2020. Hereafter known as the Annual Property Plan.
- 1.2 Monitoring of implementation of the Annual Property Plan falls within the framework of the council's wider Treasury Management function. This report contains information required for Members to discharge their responsibilities for the monitoring of the Property Investment Strategy.
- 1.3 This report accords with the Council's Budget and Policy Framework and supports the development of an effective and efficient council.

2 Executive Summary

- 2.1 The Property Investment Strategy of 2017-18 has been implemented in full which was expected to deliver additional contracted income of £1.7M per annum by the end of 2020-2021 as reported to Audit and Accounts Committee in June 2020 (see Appendix 1 for the Table of Acquisitions).
- 2.2 As per the remit of the Annual Property Plan 2020/21, Property Services continue to focus on pro- active asset management of the existing portfolio and reviewing opportunities within its investment portfolio. The Team will continue to monitor the market for potential opportunities. 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. In this latter location terms were agreed with a third party developer (subject to planning) to substantially redevelop the c.11 acre site of the former Motorola campus for continued employment use.

- 2.3 At the other end of the portfolio scale, demand for the council's smaller / start up 'direct let' business and industrial units within the town remained positive in Q3, despite the ongoing impact and difficulties arising from COVID-19 which concluded with the third Lockdown taking effect at the end of the quarter. Property transactions have also continued to occur within the ground leased portfolio, each of which necessitates our consent as superior landlord. This has included an increased number of transactions at Festival Place where retailers have been renegotiating their leases with their landlord due to the ongoing trading difficulties (50% more transactions in one quarter of 2020/21 than the entire 2019/20 year).
- 2.4 Disposals within our portfolio 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.
- 2.5 The council's Property Consultancy Advisors, Jones Lang LaSalle (JLL) (appointed just prior to Q3 and reporting separately to Committee on this meeting agenda) commenced work on a number of initial tasks including a competitive positioning report assessment and an asset strategy management plan for the Jays Close Estate on Viables.
- 2.6 As previously reported JLL are specifically advising the Council on possible options to consider and adopt in a future property strategy as well as developing individual asset management plans. They have also complemented the Property Team as a resource for general property advice when needed, so far on assets including The Malls, Daneshill Industrial Estate and at Basing View. In addition, they will be providing advice on the council's regeneration projects which will involve some of the council's key property assets including the town centre and also inputting into disposals. In the future the Committee will receive data on how the property portfolio is performing against a wider UK property index.
- 2.7 The ongoing COVID-19 pandemic continues to cause difficulties for some tenants in paying rent. The Property Team continue to work closely with the Finance Team and the Economic Recovery Team with agreed approaches to providing support and pro-active engagement with those affected.
- 2.8 Following the deferred rent programme of support for eligible tenants during Q1, trading conditions were again facing restrictions by the end of Q3 whilst those in the leisure and hospitality sector have continued to face the toughest restrictions, ongoing reduced demand and associated trading difficulties. All further applications made for support are being considered

on a case by case basis, in accordance with the original support criteria that was applied to rents of over £50kpa. It should be noted that the moratorium imposed by the government for taking legal action to recover arrears is currently extended to April. A risk analysis of all tenants is ongoing to assess the most vulnerable tenants and highlight potential exposure to defaults. This matter is reviewed regularly.

- 2.9 It should be noted that occupancy levels at the Malls (comprising 29 units in total) were relatively positive compared to other retail centres. There was one unit vacant during Q3 representing 4.39% of total floor area, only two units serving break notices during Q3, whilst one new letting and 2 lease renewals were agreed in this same period in continued very difficult and uncertain times for retail, which will remain a significant challenge into 2021 as a result the latest lockdown.

3 Allocation of Funds

- 3.1 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 £1.7M per annum by the end of 2020/21. Once all of the investment asset acquisitions are completed (the final asset acquisition at Basing View was still in build) this additional income target will be exceeded by £0.61M.
- 3.2 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.

To recap, a summary of the investments made is shown in Appendix 1.

4 Corporate Implications

Legal implications

- 4.1 There are no specific legal implications arising in the context of this report.
- 4.2 Consideration is given to the relevant legal issues arising from property specific work at the time and is addressed accordingly.

Financial implications

- 4.3 The council's approved budget for 2020/21 includes £1.91M of Property Investment Strategy income from the recent property investment acquisitions. There is currently no forecast variance from budget.
- 4.4 Commercial Rental income was forecast at Q3 to be an annual shortfall of £0.32M (£0.28M after allowing for changes in assumptions in vacant units). In the main, the impact of Covid 19 is likely to be a cashflow issue however, it is anticipated that some rental income will not be received if some tenants are unable to meet their financial obligations or are forced into administration as a result of the period of lockdown and the subsequent economic

recession. The council's property portfolio has been reviewed and assumptions made as to the most vulnerable companies that may default on payments and those with leases ending shortly that may choose not to renew and result in properties becoming vacant and therefore a loss of rental income.

The council's investment portfolio is currently most weighted towards industrial holdings, as can be seen from the table below, and this sector has in general been least impacted by the Covid 19 pandemic of all the sectors of investment property we hold.

Portfolio Income by Rental Value

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

Risk management

- 4.5 A risk assessment was completed as part of the proposals for the Property Investment Strategy, in accordance with the council's risk management process.

Equalities implications

- 4.6 An Equalities Assessment was carried out at the time of the preparation of 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). This concluded that the strategy had no differential impacts on any groups.
- 4.7 There has been no identified change in this conclusion during the review period and existing investment properties and new investment acquisitions are assessed to ensure that relevant accessibility legislation is met.

HR implications

- 4.8 The Property Investment Strategy highlighted the need for the council to ensure appropriate resourcing to ensure delivery of the strategy.
- 4.9 Outsourcing of agency services for lettings & sales to specialist consultants and outsourcing of legal services for more complicated transactions have been progressed through appropriate tendering.

- 4.10 The level of resourcing and use of external specialist consultants has needed to be kept under review and managed appropriately and promptly in order that implementation of the strategy is not adversely affected, whilst also acknowledging ongoing budget pressures now arising from the COVID-19 pandemic.

Climate Emergency

- 4.11 This Property Investment 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.

Consultation and communication

- 4.12 There is no requirement for consultation.

5 Conclusions and summary

- 5.1 The report provides an update as approved in the Property Investment Strategy Annual Property Report in February 2020.
- 5.2 The Corporate Property Strategy is being developed with support and advice from the newly appointed advisers JLL.
- 5.3 The strategy will be implemented 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.

6 Options considered and rejected

- 6.1 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 2021/22.

Date: 29 March 2021

To Note – No Decision Required: Audit and Accounts Committee

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Confidentiality	It is considered that 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.