



PROPERTY ASSET REPORT

OVERVIEW & SCRUTINY 17TH MAY 2022

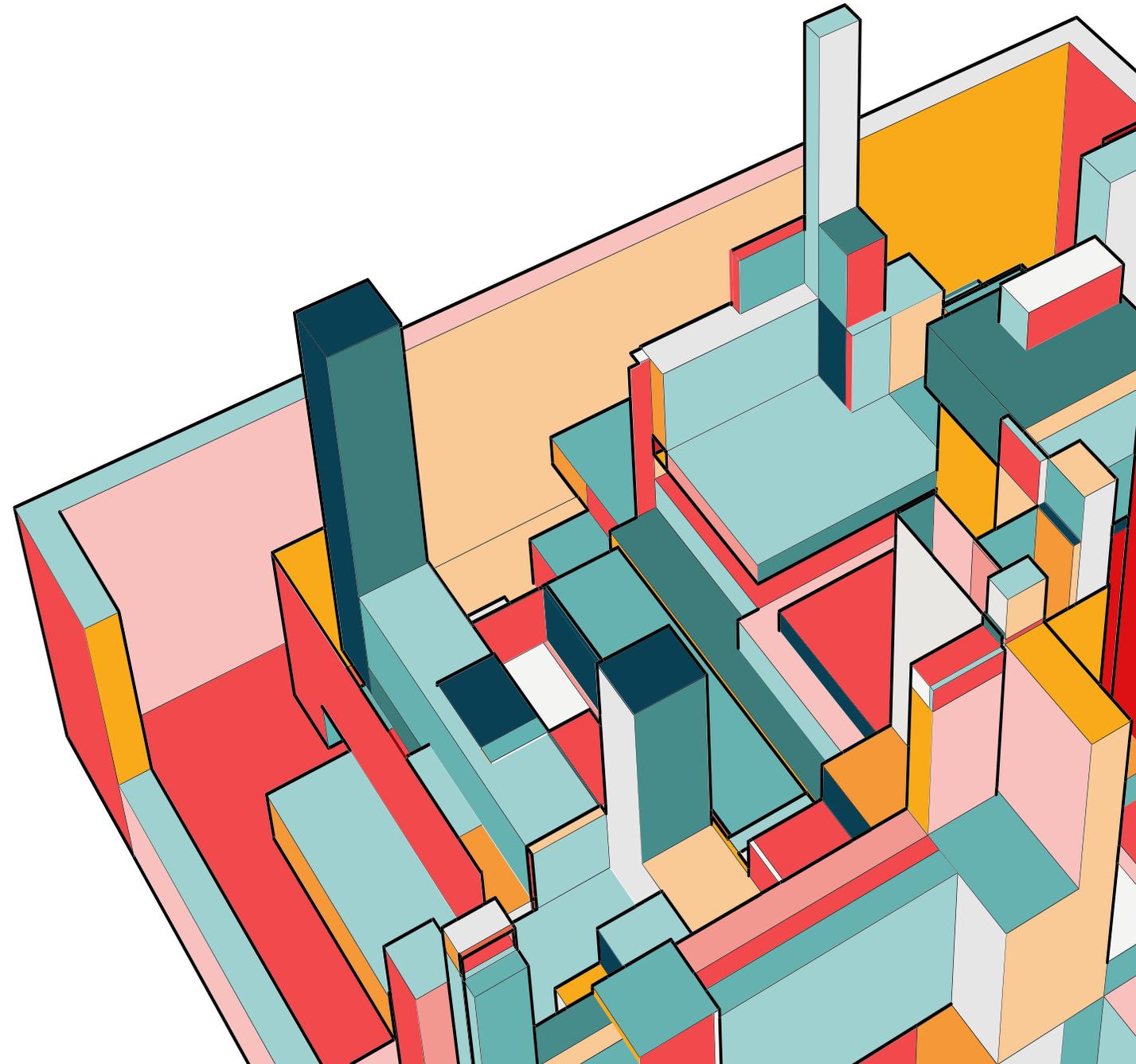
Clr Maureen Flood – Finance & Resources
Portfolio Holder

Paul Brooks – Head of Property & Asset
Management

Carl Whatley – Head of Finance &
Revenues

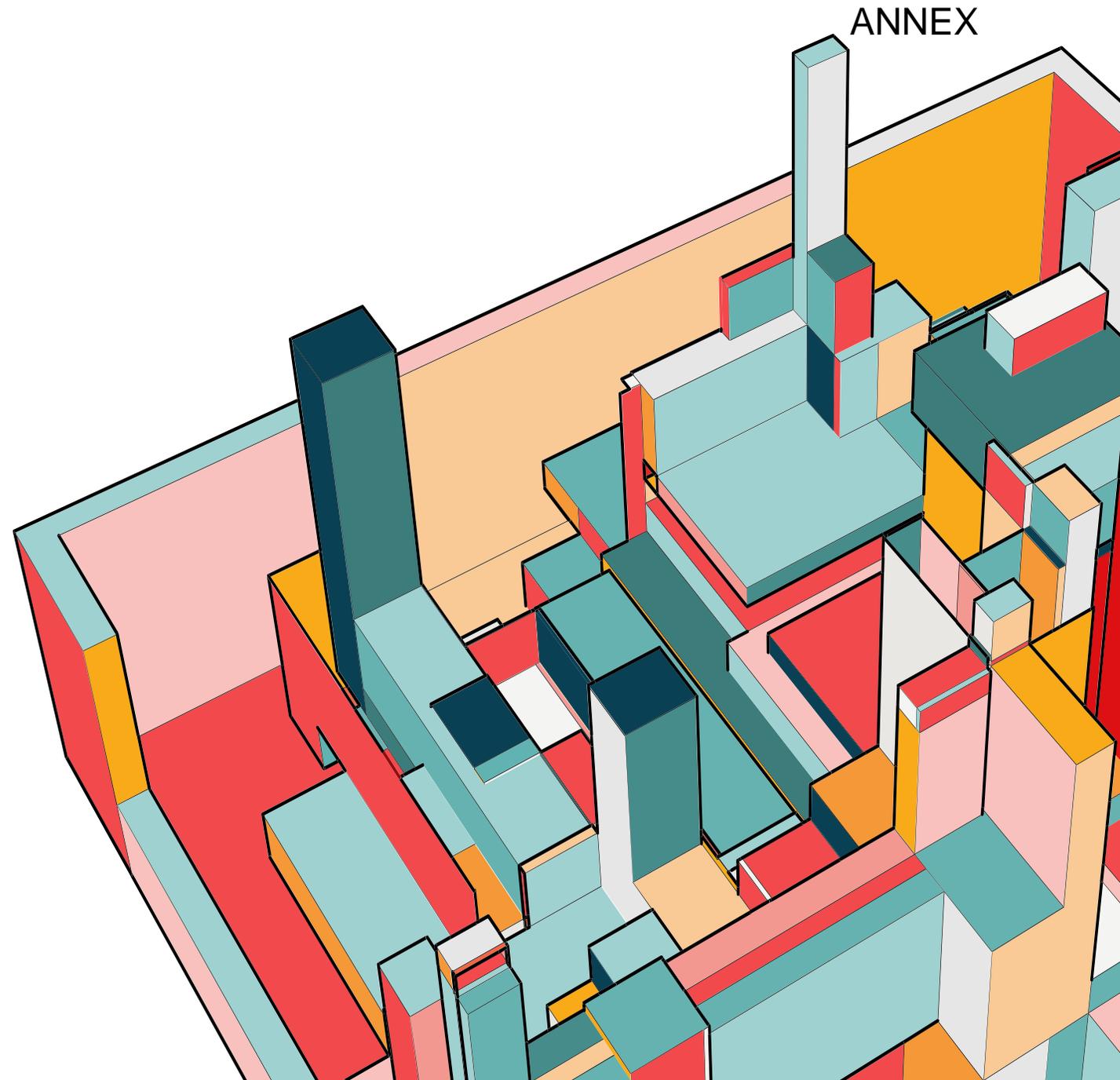
MARKET UPDATE

- **Logistics is king** – supply is running a few months ahead of demand, rents in SW quadrant from London increasing 25p psf per quarter, land values £2-5m per acre (higher than residential) investment yields historic lows .
- **Retail, except out of town and food, struggling** with rents falling, incentives rising, tenants moving from bricks to clicks. Some smaller niche centres doing well. DIY trading well, logistics buying up sites for change of use – rents cheaper or comparable. Councils buying centres to revitalise.



MARKET UPDATE 2

- **Offices in a hiatus** – many looking to residential use or conversion to residential. Serviced offices resurgent as shorter lease terms popular.
- **Alternatives of interest** with RPI/CPI uplifts, solar farms, commercial leisure, childcare and medical investments . Ground rents sought after as secure income.
- **Energy and fuel costs** turning spotlight on supply contracts, sustainable energy, running costs, electric car points, service charge caps.



THE TVBC PORTFOLIO

INDUSTRIAL

- Centered on Walworth and Portway

RETAIL

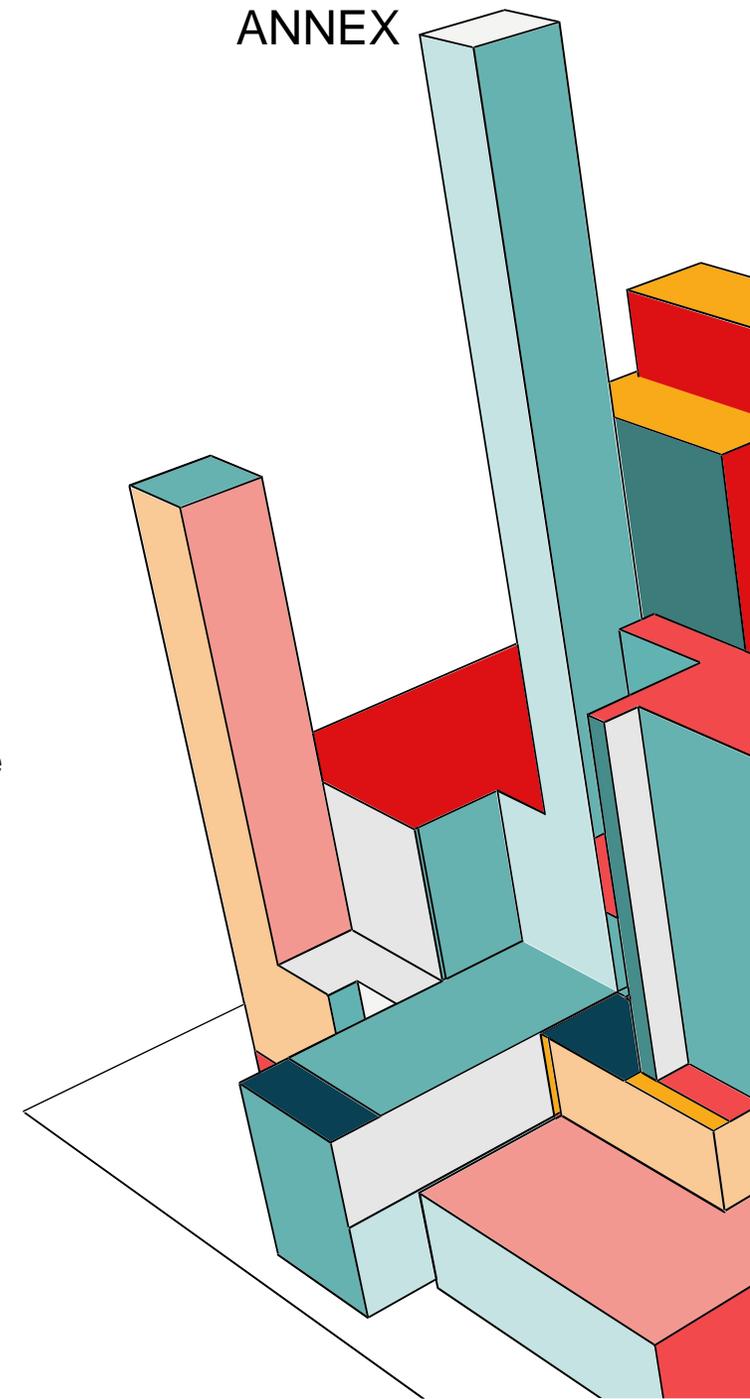
- Chantry Centre
- North Baddesley
- Viney Avenue
- McDonalds/Mole Valley
- Farmers/Electrical retailers Portway
- Bitterne

OTHER

- Ground Rents – mainly industrial
- Tesco Local

RISKS

- Lower risk on ground rents – very secure income
- Market shifts
- Local market reliance on a few industries/occupiers
- Infrastructure capacity
- Commercial/legal losses incl tenant failure
- Increased costs: lower income



ANNUAL INCOME OVERVIEW



- Chantry Centre
- Town Centre Shops
- Out of Town Retail
- Neighbourhoods Shops



- Walworth
- Portway



- Corporate
- Miscellaneous

ASSET VALUE HIGHLIGHTS

£30m

Chantry Centre

Town Centre Shops

Out of Town Retail

Neighbourhoods Shops

Odeon Cinema Andover

£125m

Walworth

Portway

Hambridge (Newbury)

£260m

Total of all assets

(Also includes other assets – mainly operational (Portway Stadium, Beech Hurst, vehicles, village facilities etc)

MANAGING THE ESTATE

IN HOUSE TEAM

Head of Service
Estates Team of 4
Buildings team of 7

KIER PROPERTIES

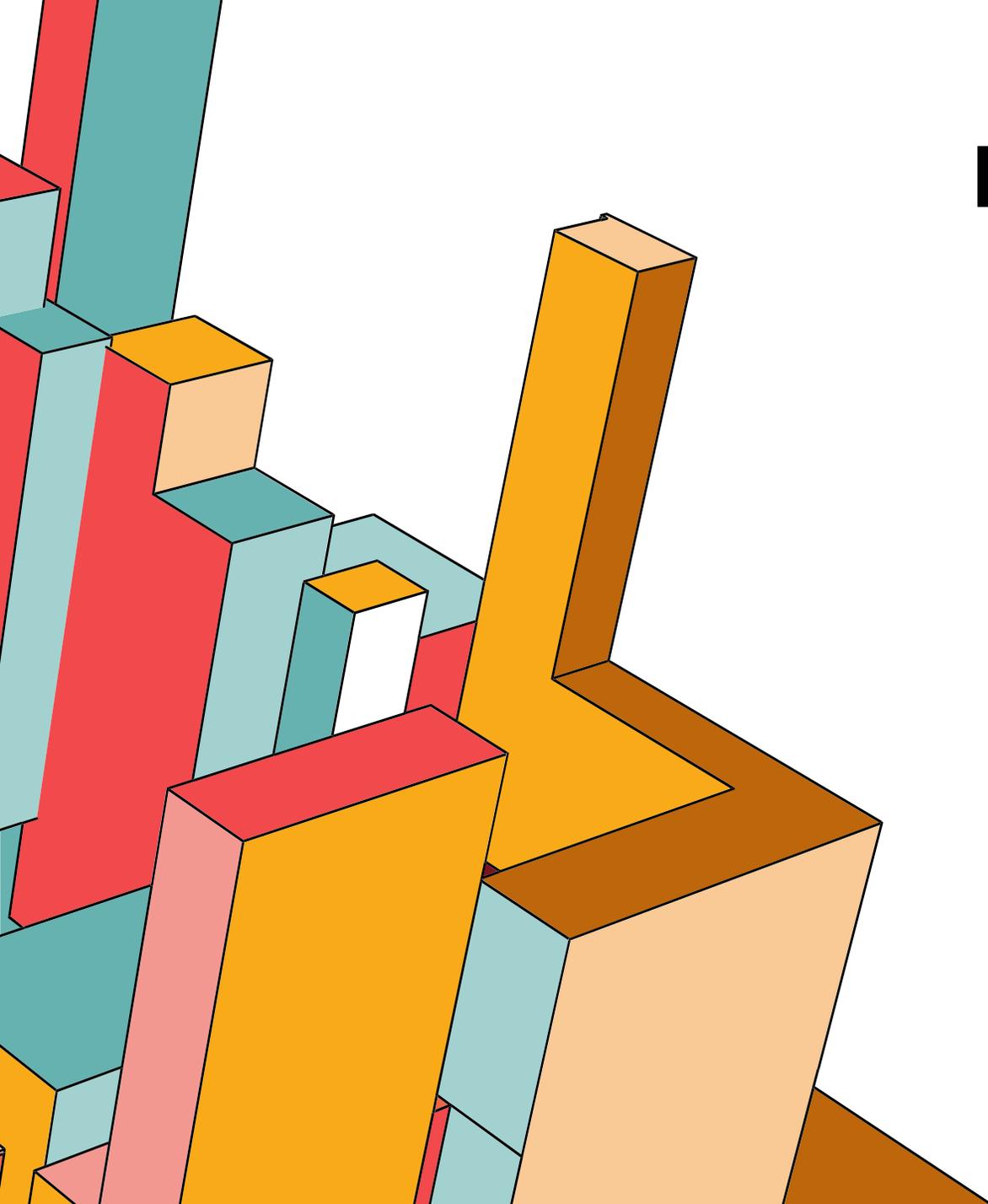
Asset Manager
2 Enterprise centre staff
Development Manger

EXTERNAL CONSULTANTS

For specialist advise

INTERIM STAFF

Short term support – e.g., during recruitment



PROJECT ENTERPRISE INVESTMENTS - 1

Introduced in 2014 as a way to increase income by utilising cash reserves.

Almost £30M spent on commercial and residential property investments in past eight years.

	£'000
Commercial investments within borough	14,271
Commercial investments outside of borough	12,395
Residential investment within borough	2,885
Renewable energy on own sites	51
Total	29,602

- All residential properties leased to the Council's arm's length housing company, Valley Housing Ltd.
- Renewable energy investment in solar panels at Portway depot.



PROJECT ENTERPRISE INVESTMENTS - 2

In addition to purchasing investment properties for rental income yield, the Council has also completed two regeneration projects on Walworth Business Park.

Completed

Plot 37 – Evolution 50

A 50,000 square foot warehouse development on a previously dilapidated site.

Plots 73/74 – Columbus Quarter

A four-unit retail development on a previously undeveloped plot on the business park.

Nearing completion

Plot 35 – Blueprint Andover

Construction of two commercial warehouse facilities with a combined area of over 60,000 square feet. Practical completion is forecast in June 2022.

One further project has been approved but not yet commenced.

Advantages of these developments

- Improved appearance of the business park – helping to sustain / improve achievable rents.
- Budget benefit from enhanced business rates collection
- Improved employment opportunities on the business park

PROJECT ENTERPRISE – BUDGET CONTEXT

Project Enterprise income has been critical to managing cuts in central government funding over the past eight years

	£'000
Total income generated 2021/22	2,070
Average Return on Investment	7.0%
Average cash investment return	<1.0%

By comparison – average income from cash investment portfolio has been below 1% since Project Enterprise inception.

Government Revenue Support Grant	
2014/15	2,445
2019/20 - present	0



GROWING THE PORTFOLIO

Investment Strategy Two-Stage Gateway for assessing new opportunities

Stage 1 Gateway – Investment Criteria

- Does the Council have the relevant powers?
- Would the investment provide balance to the overall portfolio?
- Is there sufficient reward – what is payback period?
- Is the potential return acceptable considering the associated risks?

Stage 2 Gateway – Business Case

- Is the investment in line with the Council's overall aims and objectives?
- Does the Council have the appropriate skills and experience to deliver the project?
- Does the cost / benefit analysis support the project?
- Can the Council afford it? Establish capital, revenue and cash flow implications?
- Establish whether acceptable exit strategies exist?

GROWING THE PORTFOLIO – PRACTICAL IMPLICATIONS

At the time Project Enterprise was commenced, local authorities were encouraged to be more commercial and to seek new ways of generating income.

Following a number of high-profile failings of Councils across the country, rules around commercial property investments have been tightened.

Prudential Code updated in December 2021. Access to PWLB borrowing restricted where capital expenditure for investment purposes is approved.

This has affect on wider capital programme financing and implications where borrowing may have been a preferred source of finance.

AFTER THE KIER JV

OPPORTUNITIES

- Still have some undeveloped sites
- Brings external development and asset management expertise to improve employment base - vibrant industrial/logistics market
- Affordability is the main draw for our consumers to our product compared to Basingstoke, Southampton etc.
- Embody sustainability in new contract as a requirement rather than financially assessed

CHALLENGES

- The number of opportunities are limited compared to Walworth
- Is rental and capital growth sustainable?
- Local companies may be priced out
- Sites of other owners will be promoted in competition
- Proximity to residential sites may garner objections

MEDIUM TERM FINANCIAL FORECAST

The importance of investment property income is clear.

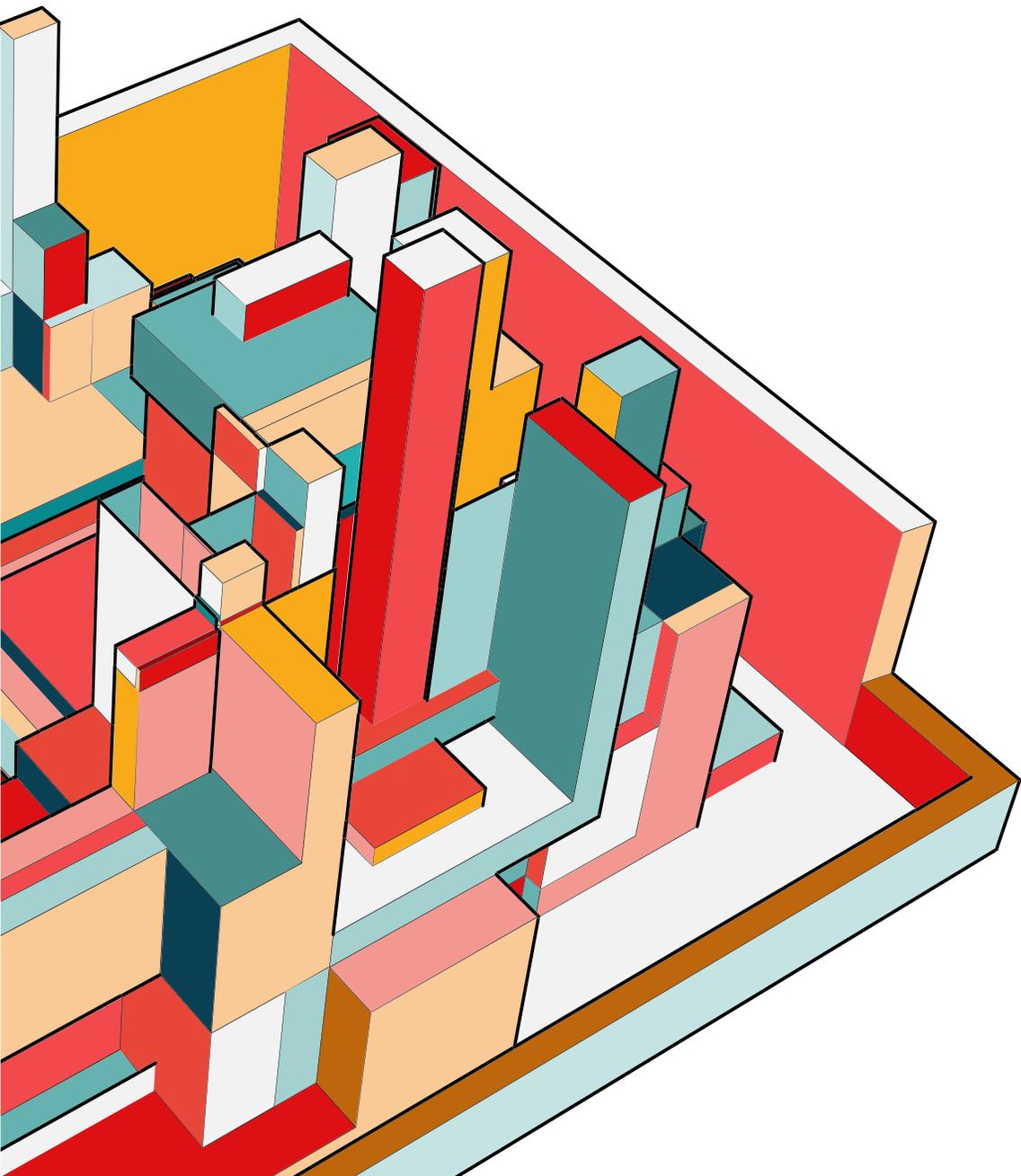
Summaries of the medium term forecast revenue and capital programme are shown below.

Medium Term Revenue Forecast

- Potential revenue budget gap of £3.6M in 2023/24.
- Ongoing need to secure sustainable sources of income to enable delivery of front-line services.
- Property market is currently very strong, reducing the potential return from new investments.
- Tighter rules on borrowing make commercial investments harder to approve.

Demand for Capital Receipts

- Capital Strategy shows capital receipts reserve fully utilised by 2026/27.
- The Council has major regeneration aspirations in both Andover and Romsey that will require capital investment.
- Capital receipts are one-off in nature, so the timing and extent of any asset disposals has to be carefully considered.



SUMMARY

1. There is significant reliance on Portway and Walworth.
2. Project Enterprise has been and continues to be successful
3. There are opportunities to engrain sustainable approaches into future projects..
4. There is a continued need to create and maintain income to support Council services, but TVBC may need to be more innovative due to PWLB lending restrictions.