

Appendix A - Strategy for Property Investment

The Council, via the Property Investment Board, is required to set down the selection parameters for the acquisition of property for investment purposes.

Following research and experience emanating from a period of active bidding for on-market opportunities at the end of 2017, the process of evaluation and approval has been established.

1. Established Parameters

The subject of property investment was taken to P&R Committee on 21st March 2016 when the Committee's terms of reference for property purchase were established and were subsequently confirmed at Full Council on 17th May. On 6th October 2016 P&R considered a high level report about the property investment strategy. On 23rd January 2017 P&R considered a Treasury Management paper which included further elements of the property investment strategy, subsequently confirmed at Council on 21st February.

Part I and part II reports were taken to the P&R Committee on 27th February together with an appendix titled "Property Investment Strategy". The key financial factors that were established at this stage were:-

- A fund of £20m was to be made available to build up a property portfolio over a 2 to 3 year period
- The investments acquired by this fund are to have a balanced yield of approx. 5% pa.
- An implied income stream, when fully established, of £1m pa gross was thus established.

The strategy went on to establish that the portfolio should be roughly split 50/50 across residential and commercial properties. As regards the residential component, the specific market rent product was recommended and as regards commercial, reference was made to the apparent lower risk sectors such as offices, retail and industrial property.

It was also stated that a proportion of the properties acquired should be capable of disposal at relatively short notice (ie: liquid investments), there should be a willingness to invest outside the Council's boundaries, and that no single property asset should be valued at more than 25% of the portfolio without specific approval. The strategy recognised that acquisitions would be opportunity driven and that would drive the final composition of the portfolio.

Ultimately the strategy proposed that the commercial property element of the portfolio should contain approximately:-

- 30% retail
- 30% office

- 30% industrial
- 10% specialist (leisure, social, energy, environmental)

The strategy states the key considerations for when an opportunity is being assessed:

- Covenant Strength
- Length of tenants lease
- Rate of return and risk balance
- Growth potential
- Building age/condition and specification
- Location

A further report was taken to P&R Committee on 20th March which clarified certain governance issues and promoted an approval flow chart. Specifically it established the various approval levels:-

- Acquisition value up to £5m – to be approved by the PIB Chair in consultation with the Lead Member for Resources
- Acquisition value between £5m and £10m - to be approved by the PIB Chair in consultation with the Lead Member for Resources and Group Leaders
- Acquisition value over £10m – to be approved at P&R Committee.

The same committee confirmed the following statements of investment principles which this strategy now follows:

- The average financial return is to be 5% NET;
- The criteria for acquisition set out in previous reports will be followed;
- There will be a priority for development within the Three Rivers area or within 15 miles of its border;
- The preferred development will be those schemes according with the aims of the TRDC Strategic Plan, which support the community of Three Rivers;
- No single property asset should be worth at acquisition more than 25% of the total property portfolio;
- The portfolio is to comprise not less than 50% and up to 80% residential and not less than 20% and up to 50% non-residential;
- Decisions on acquisitions worth £0-5m will be in consultation with Group Leaders and the Lead Member for Resources (Shared Services);
- Decisions on acquisitions worth above £5m will be considered only by P&R Committee;
- The Scrutiny Panel will consist of 3 Members of the Administration and one Member of the Conservative Group and one Member of the Labour Group.

2. Existing Property Asset Holding

In reviewing the Council's existing land & property asset list, it is necessary to strip out the operational elements to determine what could be regarded as TRDC's existing investment portfolio. This holding is valued at about £28.6m but is currently the subject of annual review to; in particular, further reflect the changes arising from the South Oxhey regeneration project.

Analysis of this portfolio, on current values, suggests that it consists primarily of:-

- 28.4% Garages
- 25% Offices (mainly TRH, with only a proportion actually revenue generating)
- 21.3% Theatre (Watersmeet)
- All other categories being less than 10% each

As part of the property strategy, consideration is given to the condition, cost of holding and management of the assets and potential disposal receipts of the investment assets. Any receipts from disposal of investment assets should be reinvested into better yielding or less management intensive assets.

3. Identification and Selection Process

Following engagement with Commercial Agents there have been a number of acquisition opportunities for the Council to consider. It is likely that as soon as the Council is seen to be actually investing, more potential acquisitions will come forward. Current working arrangements adopt a three stage selection and approval process for a prospective acquisition below £10m as follows:-

- Stage 1. Having established from the sales information that the opportunity has a broad fit with TRDC criteria the details are measured in the appraisal matrix as attached. Provided the property meets the selection threshold scoring, and is below £5m, the known facts are shared with the Property Investment Board (PIB) Members and Lead Member for Resources. If the opportunity is likely to be between £5m and £10m in value, Group Leaders will also be included in that circulation. That report will seek preliminary support to bid for the opportunity.
- Stage 2. Assuming support, officers then instruct high level due diligence (DD) to include at least:-
 - Legal review of title and tenant lease terms,
 - Assessment of tenant covenant strength (utilising a D&B credit rating),
 - Local market research to establish comparable values
 - A viewing of the property and immediate area by Council property officers.

At this point enough will be known about the opportunity to assess a value range, any potential legal issues and any other conditionality that should be included in a bid. On the basis that bids are being sought on an informal basis, a report on the above, and a suggested offer range with any recommended conditionality will be made. Circulation will be as at Stage 1. Responses are directed to the Chair of PIB.

During this time, the Agent will have made soundings as to interest in the market place for the opportunity and possibly determined the vendor's expectations. With continued support, and taking any response from the consultees into account, a bid will be instructed to be made at the consensus level.

- Stage 3. On the basis that the Council's bid is indicated as being the preferred offer, a period of time (normally short) will be given to conduct definitive investigations, satisfy any conditionality and formalise matters to exchange of contracts. Specifically that due diligence will cover:-
 - Detailed description of the property, a market commentary and analysis of comparable evidence
 - Full review of title, tenant lease terms and any restrictive covenants
 - Description of the tenants and their business, D&B report on the company and intelligence on the business activity
 - Business plan to include income projections, risk analysis, asset management possibilities and potential capital expenditure
 - Specialist advice on the building as may be required, including condition, dilapidation issues, environmental, planning and energy performance reports
 - Proposed Heads of Terms
 - VAT and SDLT treatment to maximise tax-efficiency.
 - Formal Valuation where required.

In the event that the Council's bid is apparently only shortlisted, and full and final bids are called for, stage 2 will be repeated, taking into account any new information and market intelligence.

