

Report to	-	Overview and Scrutiny Committee
Date	-	11 September 2017
Report of the	-	Executive Director of Business Operations
Subject	-	Income Generation and Asset Management Plan

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**Recommendation:** It be **RESOLVED:** That the Overview and Scrutiny Committee consider the report and recommend to Cabinet that:

- 1) Parts A & B of the report be noted;
  - 2) the appointment of a development surveyor to bring forward Council-owned sites be approved;
  - 3) a proposed decision-making structure and Terms of Reference for the acquisition of investment properties be developed by Cabinet and approved by full Council and the legal position clarified;
  - 4) full Council be requested to approve an initial budget of £7m for acquisitions of investment properties; and
  - 5) full Council be requested to approve the Property Investment Strategy at Appendix 4.
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**Service Manager: Brenda Mason**

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## **Introduction**

1. The purpose of this report is to update Members on actions in support of the Asset Management Plan (AMP); and to make recommendations regarding future delivery of the AMP and the resources required to achieve the Rother 2020 savings programme income target of £600,000 minimum per annum.

## **Asset Management Plan**

2. The AMP – Preliminary Scoping Document was considered by the Scrutiny Committee and approved by Cabinet in April 2014 (Minute CB13/113 refers). This document sets out the principles by which the Council makes decisions regarding the management of its land and property assets, subject to periodic reports to Overview and Scrutiny and Cabinet. The AMP is attached as Appendix 5.
3. Since that time, delivery of the AMP has focused mainly on disposals of surplus assets, and the devolvement of car parks and allotments in accordance with recommendations put forward to Members; in addition to the ongoing management of the Council's existing property portfolio.
4. This report comprises three parts: Part A of this report updates Members on progress regarding transactions previously approved by the Council; Part B

relates to current and planned activity in relation to the Council's existing assets; and Part C makes recommendations regarding the acquisition of properties to enhance the Council's investment portfolio, as part of meeting its Rother 2020 savings target.

## **Part A – Disposals and Devolvments Update**

### Disposals

5. The rationale for disposals is to better re-align the Council's asset portfolio towards meeting its Corporate priorities, and to generate capital receipts where possible for re-investment.
6. As reported to Cabinet in September 2016 (Minute CB16/27 refers) four properties were sold at auction in May last year, generating net proceeds after fees of £250,600.
7. Since then the following disposals have also been completed:
  - Land at Sidley Surgery, Bexhill – sale of freehold to Carisbrooke Medical Centres for £6,500.
  - St Mary's Wood, Bexhill – sale of freehold to St Mary's Wood Association for £1.
  - 7 Wish Ward, Rye – sale of freehold to Rye Town Council for £12,000.
8. The following disposals are currently in solicitors' hands pending completion:
  - Rye Pre-School Playgroup – sale of freehold to Rye Town Council for £10,000.
  - Former Railway Track, nr. Ninfield Road, Bexhill – sale of freehold to the Combe Valley Community Interest Company for £1.
9. Other properties previously approved for disposal remain under negotiation. Disposals of surplus properties have proved more complex and time-consuming than first envisaged; in the majority of cases this has been due to the need to resolve legal or technical issues, and in order to ensure that disposals meet with any specific conditions set by Cabinet.

### Devolvements

10. A list of assets that have been devolved, including those scheduled for devolvement but not yet taken place is attached as Appendix 1.
11. As discussed at the Cabinet meeting in April 2016, the Council will consider alternative uses for sites where devolvement has not been progressed (Minute CB15/79 refers); these may include redevelopment or disposal, depending on the particular circumstances in each case.
12. Accordingly it is proposed now to review the options for the future use of those assets where devolvement has not progressed, with a view to bringing forward recommendations to a future Overview and Scrutiny meeting.

## **Part B – Current Land and Property Assets**

13. For the purpose of this report, assets are referred to as ‘operational’, ‘non-operational’, or ‘investments’; however it should be noted that the Council’s assets are categorised somewhat differently when reported in the Statement of Accounts.

### Operational Assets

14. Operational assets in this context include the Town Hall and other administrative buildings, parks, car parks, public conveniences, leisure centres, woodland, promenades and other amenity land and buildings that are either directly managed by the Council, or managed under contract on the Council’s behalf.
15. Officers will continue to monitor the Council’s operational properties to ensure that the management of these aligns with the Council’s operational priorities and requirements on a case-by-case basis.
16. In particular the following is worth noting:
- The Council has significantly reduced its administrative office requirement over recent years, and has let surplus space to third party occupiers; including the former offices at 14 Beeching Road (now let to Furness Controls), the ground floor at the Amherst Road office (let to the Job Centre) and third floor at Amherst Road (partially let to East Sussex County Council). The Council will continue to seek to derive a rental income from surplus space where possible.
  - The Council’s depot and maintenance workshop facilities have recently been consolidated with its existing stores at Broad Oak Park. This has freed up space at Elva Business Centre for commercial letting to a local business.
17. The Council may also wish to acquire property to meet operational priorities, such as the recently approved tenancy of residential premises in Bexhill for the provision of emergency temporary accommodation. It is possible that one or more freehold acquisitions will be recommended to meet this need in due course.

### Non-operational Assets

18. This refers to properties that are not occupied by the Council but which are held because they offer a benefit to the community, including community centres, sports pavilions etc. These also include assets which are surplus to operational requirements, but which are not being actively marketed. Whilst the Council derives a rental income from many of these properties, they are not held primarily for the purpose of generating a return but for their wider social benefit.

### Investment Assets

19. The Council recently carried out a full re-valuation of its asset portfolio in accordance with statutory accounting requirements. The total book value of the Council’s land and property assets for accounting purposes in March 2017 was approx. £36,850,000. (This figure does not include infrastructure and

other capital assets which are reported in the Statement of Accounts).

20. Out of a total of 290 separate assets valued in 2017, 48 are classed as investment assets. Investment assets are those which are held solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods, or is held for sale.
21. The total value of the investment portfolio as at 31 March 2017 was assessed at £10,447,000; generating rental income in the region of £800,000 per annum, representing an overall gross return on capital of 7.6% and net return of 6.2% (excluding central support costs). A summary of the investment assets is attached as Appendix 2. Those properties underperforming will be reviewed to establish if the return can be increased or if the asset should be disposed of to raise funding for future higher yielding investments.
22. As mentioned above, the Council also owns a number of other properties which generate rental income, but which are held primarily for their social or community benefit rather than for their commercial return (e.g. sports pavilions, community centres etc.). A number of these are situated within amenity spaces such as parks and recreation grounds. These should not therefore be treated as part of the Council's investment portfolio.
23. Officers continue to explore opportunities to improve the rental stream through routine estate management activity including lettings, rent reviews, and lease renewals; and seek opportunities to reduce overheads where possible.
24. The performance of the investment portfolio is monitored by the Senior Management Team who will continue to review options, including possible disposal, where assets are deemed to be under-performing.
25. An example of where officers are undertaking proactive portfolio management is at West Trading Estate, Bexhill (also referred to as Beeching Road estate), where officers are in negotiations with several tenants, further details of which are attached as Appendix 3.

#### Redevelopment of Council-owned Sites

26. Officers have identified a number of assets within the Council's ownership where there is potential to either wholly or partially redevelop the site.
27. These include:
  - Land at Amherst Road, Bexhill (behind the Town Hall complex)
  - Camber Central Car Park (part)
  - Sidley Car Park (part)
  - Beeching Close Car Park
  - Site of workshops at Float Lane, Udimore
  - Cemetery Lodge, Turkey Road, Bexhill
  - Cyprus Place, Rye
  - Site of workshops at The Maltings, Peasmarsh
28. These sites could follow the same delivery model as the development of Elva Business Centre, which was developed on land already owned by the Council and retained to secure a revenue stream; or be sold as sites with

development potential to generate capital receipts. Developments may be for housing or commercial use or a mixture of both, depending on the circumstances in each case. In order to make further recommendations on the viability of redevelopment in each case, detailed options appraisals and financial assessments will be required.

29. Currently there are insufficient staff resources to investigate each site independently so these will require a level of investment to take forward.
30. The Council is also in ongoing negotiations with developers, adjoining landowners and funding agencies regarding its landholding at Blackfriars, Battle which is allocated for housing development in the Local Plan.

### **Part C: Additional Income Generation through Investment in Property Assets**

31. With the removal of central Government grant funding by 2020, the priority for the Council over the next three years is to make up the shortfall in revenue income through savings or by generating additional revenue. The 'Rother 2020' Programme includes a target for increasing income by £600,000 by 2020.
32. Land and property could represent a key area where the Council can generate an enhanced income stream; through proactive management of its existing portfolio and through acquisitions of additional properties. Acquiring commercial properties also gives the Council the ability to protect the long term future of business premises thereby protecting employment in the Rother and wider area. Members however should be aware that concerns are being raised nationally regarding the level of investment Councils are making in property as a way to help plug the funding gap, particularly for out of area acquisitions. Whilst no challenges or potential changes to legislation are known of at present, clearly there is a risk that this activity could be curtailed in the future. Being clear of the legal powers to acquire property for income generation is very important, particularly where this causes the Council to require borrowing to support its overall capital programme. Legal advice is currently being secured and Members will be updated on any issues that arise.
33. Should Council support a policy of property acquisition, this section of the report makes proposals for a protocol for the acquisition of investment properties and the resources required to achieve this.

#### **Adding to the Investment Portfolio**

34. According to research by the Association for Public Service Excellence (APSE), an ever increasing number of local authorities are implementing strategies that involve acquiring property purely for investment purposes. In 2016 local authorities are estimated to have spent in the region of £1.3bn in property assets as part of a strategy to mitigate central government funding cuts.
35. Individual investment strategies vary between local authorities. One or two authorities have made very large single investments in excess of £250m however the majority are investing budgets of between £10m – £100m. If the entire £600,000 target was delivered through property investment, based on a net 5% annual return this would require a total investment of around £12m,

assuming no borrowing costs. Clearly this cannot all be done at once and more significantly, the Council could not meet such a cost entirely from its own resources as they stand. Borrowing costs would therefore have to be factored into any investment decision and based on current Public Works Loan Board (PWLb) rates is likely to reduce the net return to below 1%. Based on this level of net return, the portfolio would have to be in excess of £60m in order to generate £600,000 per annum.

36. However, the Council's capital and revenue reserves total £18.8m as at the 31 March 2017. As these funds are not all needed immediately it is possible for the Council to either part fund or internally borrow from these cash resources to fund the early investments made by the Council. The Council is seeking advice from its Treasury Investment advisors, Capita Asset Services, before any financing decisions are taken.
37. Current yields for commercial property generally range between 4.25% to 9% depending on type and location. Over the long term, the property market is expected to continue to offer good capital growth and rental yields. It is suggested that the Council adopts an initial target net return of 5% per annum for any new investment properties, taken over a 10 year period. This is slightly above the CCLA property fund rate. The CCLA is a fund the Council has invested £5m of surplus cash in as part of its treasury management activities. The total CCLA fund value is £809m and is invested in property throughout the UK and so provides a good benchmark for the level of return the Council should expect.
38. Some Councils are investing across the UK wherever properties are available that meet their target criteria; others are investing outside their authority boundary but within their local region; others are investing solely within the confines of their authority. Currently this Council does not own any property outside of Rother District; although this is due to coincidence rather than due to any express policy in this regard.
39. Property should be seen as a medium-term, medium-risk investment. There are undoubtedly risks and constraints associated with property holding as an investment strategy, including:
  - Market forces – fluctuations in demand and supply of local markets and the wider economy may see the value of individual investments and income rise and fall. As with all types of investment, it is influenced by macro-economic trends, including the perceived strength of the economy and its direction of travel and the influence of long-term drivers of change (e.g. Brexit, demographics, social change, technology etc.).
  - Liquidity – the process of buying and selling property is complex when compared to some other forms of investment and can result in transactional delay and uncertainty which brings with it risk from market shift, abortive costs and the inability to release sale capital quickly.
  - Opportunity – the availability of suitable investment opportunities that meet the Council's criteria at any one time will be limited; and the property investment market is generally far from transparent with many transactions carried out without being widely offered on the open market. Specialist agents can be employed to seek out opportunities and communicate the

Council's requirements to the market through their network of contacts.

40. As referred to above, the Council has re-invested £5m of surplus cash into property indirectly through the CCLA fund, which is currently generating a return of 4.49%. Any additional investment into bricks and mortar must exceed that rate of return in order to justify the risks that come with this type of investment and could be accepted that this approach may assist with diversifying our investments.
41. The net initial yield, which allows for the costs of purchase such as agents' fees, surveys, stamp duty and legal fees, should therefore exceed a minimum of 5%, before any costs of borrowing. Average total costs of acquisition are estimated to be in the region of 7%.

#### Draft Property Investment Strategy

42. In order to take the proposals for property investment forward it is proposed that the AMP is supported by a specific property investment strategy. A strategy has been drafted and is attached as Appendix 4. This draft strategy has been developed with input from consultants that provide property investment advice to a number of local authorities, and takes into account local market conditions and opportunities, as well as the Council's required targets in terms of net receipts and return on capital.
43. This strategy will apply only to properties that are being acquired as additions to the Council's investment portfolio. As such, these acquisitions are being made solely for the purpose of generating a sustainable income stream for the Council, and not to achieve any other Corporate objective, such as economic development or to meet operational need.
44. Members will note therefore that the draft strategy proposes that the Council's acquisitions are not limited to Rother district, but within a wider geographically defined catchment within a maximum 90 minutes driving distance. This is proposed for a number of reasons:
  - there will be limited opportunities within the district to acquire properties meeting the Council's investment criteria: spreading the area of search is therefore more likely to bring suitable opportunities forward;
  - a wider geographical coverage will allow the Council to create a diverse portfolio which spreads risk across different localities and commercial sectors; and
  - the asset base within the district is dominated by smaller properties and therefore smaller lot sizes, which tend to have higher yields and a greater risk profile. Smaller lots would also place the Council in competition with local high net worth investors.
45. At this stage it is anticipated that properties will be acquired in order to generate income. Capital growth is not factored into the criteria set out in the draft Investment Strategy; although it is expected that capital values will appreciate over time in line with historic trends.

## Reporting and Decision-making

46. If the Council is to become active in acquiring land and properties in the commercial marketplace, it will be necessary to ensure a streamlined decision making process.
47. At present, all decisions regarding disposals or acquisitions of property are made by Cabinet and amendments to the Capital Programme require approval by full Council. This means that any acquisition of property requires at least two formal approvals by Members and the limited frequency of meetings, in particular full Council, mitigates against quick decision-making. In addition, any confidential reports require a minimum of 28 days' public notice prior to publication, a further 10 days before the meeting itself.
48. In a competitive commercial environment where the Council is negotiating to acquire properties as investments, these procedural requirements will limit the ability of the Council to respond flexibly to opportunities. This is an issue faced by all local authorities, and many have addressed this by streamlining their decision-making.
49. In particular it will be necessary to make arrangements for the prior approval of funds, in order to react quickly to opportunities as they come about. The experience of other Councils is that being able to move quickly on purchases and having finance in place to complete builds trust in the market and makes it more likely that the Council will be approached by sellers and agents as other opportunities arise.
50. It is proposed therefore that an Investment Panel be established comprising Members and senior officers, with delegated authority to conclude acquisitions and to oversee the due diligence and acquisitions process. The Panel will operate within approved Terms of Reference and will make decisions in accordance with the criteria set out in the Property Investment Strategy.
51. Internal Controls will be put in place through standardised reporting arrangements, reviewed by Executive Directors, the S151 Officer, Internal Audit and the Council's legal advisors; and a risk register will be maintained and updated to identify any areas of concern. Prior to any purchase a detailed acquisition report will be produced setting out the project details, the business requirement, the due diligence carried out, the finances and risks.
52. The Council will continue to follow the current decision-making protocols for properties that may be acquired for non-investment led reasons (such as the Council's recent bid to acquire 28-34 Western Road, Bexhill for regeneration purposes). Typically such projects are likely to carry greater risks and require consideration of outcomes and benefits that are not directly financial (although they may of course generate a financial return also).

## Legal Considerations

53. As indicated earlier in this report, the Council will need to be certain of the legal powers it is using in order to undertake deliver this strategy. Whilst officers are aware that many authorities have or are intending embarking on similar activities, it is sensible that independent advice is sort to confirm the powers and any specific structures or special purpose vehicles that need to



be in place. This is particularly important if the Council undertakes investments outside its borders. For the purposes of this report it is assumed that the legal powers are available to undertake the investment strategy.

### Property Investment Strategy – Capital Budget

54. The sum required to invest in order to generate a minimum net revenue income of £600,000 per annum could range between £12m and £60m depending on the financing arrangements and the actual financial return (rental) on the assets acquired. Subject to the necessary governance arrangements and structures being in place, it is proposed that an initial investment budget of £7m be agreed, with further tranches subject to approval as required in future. Funding of this will be from a mix of existing revenue reserves and capital reserves. Detailed funding arrangements will be considered as proposed investments come forward for approval.

### Resources and Staffing

55. The Council has not hitherto embarked upon acquisitions of land and property, and it has undertaken only one direct development in recent years. It will therefore be necessary to invest in the necessary expertise if the targets and aspirations set out in the Corporate Plan are to be achieved; whether that be for income generation or to realise wider economic development goals.
56. With regard to investment acquisitions, the Council will appoint a commercial agent to act on its behalf to identify, recommend and negotiate acquisitions, overseen by the Executive Directors with on-going contact plus regular progress reports to the Investment Panel.
57. An agent's knowledge of the market and properties that are about to come to market will be essential to sourcing the best investment options as agents rely on their networks of contacts and market intelligence. Good agents can bring information to the Council of the best opportunities available before the information is more widely known and therefore put the Council in an advantageous position.
58. The agent will be in a position also to conduct the necessary due diligence including a full market appraisal within the timescales required; and help to ensure the Council obtains value for money through the bidding and negotiation stage. The use of an agent also lends substance to the Council's bid. The Council will need to procure agency services; typically costs will be between 0.5% and 0.8% of the purchase price.
59. It is also recommended that third party valuations are undertaken at 'arm's length' on a case-by-case basis to provide independent assurance; and the Council will need to procure this service also. These costs will be met within the Capital Investment Fund.
60. With regard to developments on Council-owned land, the development of Elva Business Centre by the Council took place on land already within its ownership and took some five years to complete from inception to opening. The Council no longer has the staff resources to oversee such projects itself.
61. In order to bring forward the potential redevelopment sites listed in paragraph 27 above, it is therefore recommended that the Council appoint a

development surveyor to lead and deliver property development projects from inception to completion, including project appraisals and business case preparation, site acquisition, appointing and overseeing professional teams, overseeing the construction process and managing budgets. It is estimated that the salary and on-costs associated with this post is likely to be in the region of £60,000 per annum; to be met initially from the Medium Term Financial Strategy Earmarked Reserve and ultimately the additional income generated through acquisitions outlined above.

62. Legal resources will also be required to undertake pre-purchase due diligence for acquisitions and to support. This will be undertaken either through the service agreement currently in place with Wealden District Council or externally and a decision will be made on a case-by-case basis. Legal costs will be drawn from the approved budget and taken into account when calculating the net yield on acquisitions.

## **Conclusion**

63. This report updates Members on the actions in support of the AMP and advises on progress regarding disposal, devolvement and current land and property assets. A significant new strategy of the Council is that of additional income generation through investment in property assets and the adoption of Property Investment Strategy. The report concludes that an initial budget of £7m be approved for property acquisitions to generate income to help towards the 2020 programme income target; changes to decision-making structures will need to be adopted; use of commercial agents to assist with identifying and facilitating acquisition; and the appointment of a development surveyor will be required to bring the sites forward and managed.

Dr Anthony Leonard  
Executive Director of Business Operations

## **Risk Assessment Statement**

The Council faces a significant financial shortfall with the withdrawal of direct Government support by 2020, and it is essential that steps are put in place now to bridge the gap with a sustainable income stream; and provide a base for future growth as required.

There are risks associated with property investment attributable to the risk of defaults, market fluctuations and liquidity. Proper due diligence, monitoring and review processes will be needed to assess any proposed opportunities in accordance with the criteria set out in the draft Property Investment Strategy.

Failure to review and streamline the Council's decision-making processes will make it extremely difficult for the Council to act effectively in acquiring commercial property in the future. This is seen as an essential component of meeting the Council's 2020 income target.

## DEVOLVED ASSETS AS AT SEPTEMBER 2017

Asset Ref	Asset Name/Address	Town/Parish	Asset Type	Devolvement Status
F003	Watch Oak	Battle	Allotments	Let to Battle Town Council for 99 years from January 2012 at a peppercorn rent.
B114	Collington Avenue	Bexhill	Allotments	Let to Collington Woods Allotment Association, 99 year lease from February 2015 at a peppercorn rent.
B136	Summerhill Allotments	Bexhill	Allotments	Let to Summerhill Allotment Association on a 25 lease from July 2014 at a peppercorn rent.
B040	Allotments at Barrack Hall, Chantry Lane	Bexhill	Allotments	Let to Barrack Hall Allotment Association on a 24 year lease at a peppercorn rent from April 2016.
B022	Broad Oak Allotments	Bexhill	Allotments	Let to Broad Oak Park Allotment Association on a 25 year lease at a peppercorn rent from April 2016.
B005	Ingram's Farm Allotments	Bexhill	Allotments	Let to Ingram's Farm Allotment Association, 25 year lease at a peppercorn rent from April 2017.
F006	Land off Shrub Lane	Burwash	Open Space	Let to Burwash Parish Council on a 99 year lease from October 2014 at a peppercorn rent.
F010	Yates Close	Camber	Allotments	Let to Camber Parish Council on a 99 year lease from May 2014 at a peppercorn rent.
F015	Jubilee Green	Camber	Open Space and Play Area	Let to Camber Parish Council on a 999 year lease from November 1999 at a peppercorn rent.
C015	Catsfield Car Park, Church Road	Catsfield	Car Park	Let to Catsfield Parish Council, 99 year lease from July 2014 at a peppercorn rent.
F018	Stage Field, Silverhill	Hurst Green	Open Space	Let to Hurst Green Parish Council 999 years from July 2011 at a peppercorn rent.
B108	Northiam Cemetery	Northiam	Cemetery	Let to Northiam Parish Council on a 999 year lease from February 2004 at a peppercorn rent.
B123	Dixter Lane, High Park	Northiam	Open Space	Let to Northiam Parish Council 999 years from March 1999 at a peppercorn rent.
F030	Land to east of the Maltings	Peasmarsh	Open Space	Let to Peasmarsh Parish Council 999 years from July 1997 at a peppercorn rent.
F031	Factory Marsh allotments	Peasmarsh	Allotments	Let to Peasmarsh Parish Council 99 year Lease from May 2014 at a peppercorn rent.
B012 and G001	Land at Love Lane	Rye	Amenity Land and allotments	Let to Rye CIC on a 25 lease from December 2013 at a peppercorn rent.
B013	Factory Marsh,	Rye	Allotments	Let to Rye CIC on a 25 year

Asset Ref	Asset Name/Address	Town/ Parish	Asset Type	Devolvement Status
	South Undercliff			lease from December 2013 at a peppercorn rent.
C019 and B089	Ticehurst Car Park, Pickforde Lane and Public Conveniences adj Duke of York	Ticehurst	Car Park and Public Conveniences	Let to Ticehurst Parish Council on a 99 years lease from July 2015 at a peppercorn rent.
F053 and F054	Farthing Hill and Springfields allotments	Ticehurst	Allotments	Let to Ticehurst Parish Council on a 99 year lease from July 2016 at a peppercorn rent.
C002 and B087	Rye Harbour Car Park and PC's	Rye Harbour	Car Park and Public Conveniences	Let to Icklesham Parish Council on a 99 year lease from July 2016 at a peppercorn rent.
<b>Currently in negotiation</b>				
C018 and B086	Station Road Robertsbridge Car Park and Public Conveniences	Robertsbridge	Car Park and Public Conveniences	Final lease queries are currently being resolved. Some maintenance issues remain outstanding but completion expected by April 2018.
C012 and B079	Burwash Car Park and Public Conveniences, High Street	Burwash	Car Park and Public Conveniences	Interest to investigate the opportunity has been registered by the Parish Council.  Information on the site has been shared and a meeting held. Decision deferred until September 2018 due to staff levels at the Parish.
C017	Northiam Car Park	Northiam	Car Park only	Interest to investigate the opportunity has been registered by the Parish Council. Information on the site has been shared and a meeting held in 2016, no further progress to date.
C020 and B085	Pett Level Car Park and PC's	Pett	Car Park and Public Conveniences	Interest to investigate the opportunity has been registered by the Parish Council.  Information on the site has been shared and an initial meeting held in 2016. No further progress to date.
B074, B076, B077, B078,	Station Approach, Lucknow Place, Gun Gardens, The Strand	Rye	Public Conveniences only	Rye Town Council has indicated that it will not take on management of the PC's without also taking on management of car parks.
B090	Monks Walk Public Conveniences	Winchelsea / Icklesham Parish Council	Public Conveniences only	Interest to investigate the opportunity has been registered by the Parish Council.  Information on the site has been shared and a meeting held. Deferred due to staff availability,

Asset Ref	Asset Name/Address	Town/ Parish	Asset Type	Devolvement Status
				discussions to recommence in autumn 2017.
B091	Dogs Hill Road Public Conveniences	Winchelsea / Icklesham Parish Council	Public Conveniences and Car Park	Interest to investigate the opportunity has been registered by the Parish Council.  Information on the site has been shared and a meeting held. Deferred due to staff availability, discussions to recommence in autumn 2017.
C027 and B088	Sedlescombe Car Park and Public Conveniences	Sedlescombe	Car Park and Public Conveniences	Interest to investigate the opportunity has been registered by the Parish Council.  The Parish Council have requested the freehold of the car park, but not the toilets, be devolved to them. This is not acceptable to the Council so alternative uses for the site will now be explored.
C016	Hurst Green Car Park	Hurst Green	Car Park only	Interest to investigate the opportunity has been registered by the Parish Council.  Information on the site has been shared, no further progress since.
B113	Sidley House Allotments	Bexhill	Allotments	In discussion with allotment holders - completion expected March 2018.
B003	Preston Road Allotments	Bexhill	Allotments	Discussions to commence with allotment holders January 2018.

**CURRENT INVESTMENT PORTFOLIO (summarised list)**

<b>INDUSTRIAL / WORKSHOPS</b>
Malthouse Business Park , Peasmarsh
Worskshops at Float Lane, Udimore
West Trading Estate, Bexhill
8b, London Road, Bexhill
Nicholls & Edge Workshops, Elva Business Centre, Bexhill
Advartex premises, Pickforde Lane, Ticehurst

<b>OFFICES</b>
Optivo offices at Watch Oak, Battle
Napier House, Elva Business Centre, Bexhill

<b>RETAIL</b>
31 Station Road, Bexhill
Sovereign Light Café, West Parade, Bexhill
The Kiosk, West Parade, Bexhill
Former PC's, Tower Street, Rye
69/70 High Street, Battle
48 Cinque Ports St, Rye
Marine Cafe, Camber
Refreshment Kiosk, Western Car Park, Camber

<b>RESIDENTIAL</b>
No 2 Broad Oak Cottages, Bexhill
Egerton Park Lodge, Bexhill

<b>OTHER</b>
Premises at Broad Oak Park, Bexhill (Studio, Religious centre)
Pontins Holiday Centre, Camber (Leisure)
Depot & Garages, Cyprus Place, Rye (Depot)
Site Telecommunications Mast, Watch Oak, Battle (Telecoms)
Land adj Bedford Place Car Park, Rye (Car Parking)
The Mountain Field, Fairlight (Education / Car Parking)

**Notes:**

Some assets have been agglomerated in the above list e.g. West Trading Estate which comprises 23 separately valued assets.

Commercial assets which are not let on wholly commercial terms, such as the Colonnade & Kiosks at Bexhill sea front, are not counted as investment properties. Should their status change in the future they will be added to the investment portfolio at that time.

**WEST TRADING ESTATE, BEXHILL**

The West Trading Estate, comprising the majority of Beeching Road, Wainwright Road and premises at Terminus Road, is the Council's largest commercial landholding. The Council owns the freehold interest in the Estate, which has been subdivided into a number of individual sites and premises, the majority of which are held on ground leases granted in the late 1960's / early 1970's. The West Trading Estate currently generates approximately £395,000 per annum in revenue and had a combined book value in March 2017 of approx. £5.565m, showing a gross yield of 7.1% and a net yield after costs of 6.66%.

However, the estate is now showing its age, with a number of premises including the former Sharwoods factory and more recently the former Grahams' premises being vacated and on the market.

The southern part of the estate was until recently the subject of interest from a major foodstore, however the foodstore interest is no longer active due to changing conditions in the food retail market. This area remains the favoured location for meeting Bexhill's future retail requirements due to its proximity to the town centre, and has been identified as having potential for that use in the draft Development and Site Allocations (DaSA); although this does not of course preclude continuation of existing established uses also.

The Council is exploring ways to protect and enhance its rental income into the long term, whilst at the same time act as a driver for change by stimulating investment in the estate. Where opportunities arise, the Council is seeking to re-structure the terms of the existing ground leases in circumstances where this will facilitate redevelopment or re-investment.

The Council will also seek opportunities to acquire head leases where possible. This will allow the Council to take direct control over the future management of the site, and to receive the full rental value rather than a ground rent. At present officers are in negotiations relating to five sites on the West Trading Estate which will be the subject of confidential reports and recommendations to Cabinet in due course.

**DRAFT PROPERTY INVESTMENT STRATEGY**

1. The Council will seek to maintain a diversified and balanced portfolio of investment assets, having regard to the considerations set out below.
2. Established property investment practice has evolved based on long standing markets for assets in mainstream sectors such as offices, retail, industrial and residential. Investing in these traditional asset categories in a balanced fashion, allows for a lower risk investment when compared to emerging markets such as Student Accommodation, Nursing Homes and Medical Centres.
3. The Council will consider opportunities within a geographical area broadly bounded by the A23 / M23 to the West, the M25 to the North and the M2 to the East, and within a 90 minute drive time radius of Bexhill; this therefore includes a number of established commercial centres including Crawley / Gatwick, Brighton, Tunbridge Wells, Maidstone and Ashford.
4. Freehold tenure is preferred to leasehold. Freehold provides for greater levels of security than a leasehold asset that would effectively decrease in value over time.
5. Properties should preferably be let to a single tenant on a full repairing lease, in order to minimise management input. Properties with more than one tenant may be considered however if the management requirements are considered to be minimal. Whilst properties let to only one tenant may present a level of risk of a void in the event of tenant failure or at the end of the lease, detailed financial due diligence would be undertaken to ascertain their financial stability.
6. At this stage, the Council will seek investments that are already producing an income from day one, with existing tenants in place, rather than properties with vacant accommodation or development sites where the return on investment is deferred.
7. The general principle is that properties will be acquired in order to retain for their income, but the Council may consider disposals where there is significant capital appreciation, or where capital is sought for re-investment elsewhere.
8. Based on the above considerations and taking into account market conditions, a suggested lot size of between £2m and £10m is recommended. This is to avoid the lower part of the local market where private high net worth individuals would be seeking to invest and also the high end, where Pension Funds and Life Assurance Funds tend to dominate.
9. Opportunities may be sought that lend themselves to a potential to increase rental income than is currently being realised.
10. Taking all of the above considerations into account, the following specific criteria are proposed:
  - Minimum Income Yield of 5% gross of borrowing costs, based on an average over 10 years.



- Individual Properties or Portfolios.
  - Lot size of £2m – £10m.
  - Freehold.
  - Single tenanted preferred, or multi tenanted where management input is minimal.
  - Asset categories: likely to focus on Industrial, Office, Retail, Leisure, Trade Counter; but others may be considered.
  - Geographically located within a 90 minute travel to work area from Bexhill.
11. It is proposed that external specialist property investment advisors be retained on each transaction, advising on suitability having undertaken detailed pre purchase due diligence, including valuation, risk analysis and lease / title reviews.
  12. The risks of each potential investment will be considered by carrying out due diligence to include the following:
    - Valuation.
    - Market Conditions.
    - Covenant strength of tenants.
    - Terms of leases.
    - Structural surveys.
    - Funding options.
    - Future costs.
  13. It is proposed that, initially, the management of the portfolio be delivered from existing resource within the Council's Estates team. There will however be times when specialist external advice is needed and this work will be commissioned on an 'as required' basis, funded from the income from the assets. This approach is to be reviewed regularly, including on-going resource requirements, as the portfolio grows.
  14. Funding for the acquisition of assets should be reviewed on a case-by-case basis but could be derived from a number of sources:
    - Receipts from previous property disposals.
    - Receipts from proposed land / property disposals in future years.
    - Reallocation of some of the funds currently held in reserves.
    - Borrowing from external lenders – Bank Real Estate Finance, Annuity Funds, Pension Funds.
    - Borrowing from the Public Works Loan Board.
    - Municipal Bonds Agency.
  15. An initial budget of £7m will be set aside to invest, with further tranches subject to approval in due course.
  16. The Council will monitor the performance of its investment portfolio against this performance target. Assets will be disposed of and the funds invested elsewhere where there are business reasons for doing so.
  17. The Council will review this strategy as the portfolio develops and as the Council's business needs evolve.