

PROPERTY INVESTMENT STRATEGY

April 2018

Objective of the Strategy

1. The Council is committed to supporting and safeguarding the economy of the Rother area through the long term protection of existing and the creation of new employment space. This objective will in part be achieved through the investment in land and property in the Rother economic area. For this strategy to be sustainable the investments must make a net positive return for the Council. For new developments this may not occur in the early period but must by the medium term be making a positive return. The Council will review this strategy as the portfolio develops and as the Council's business needs evolve.

What will the Council invest in –

2. The Council will seek to maintain a diversified and balanced portfolio of property assets, having regard to the considerations set out below. The general principle is that properties will be acquired in order to protect their current or desired use and generate a stable revenue income for the Council.
3. 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.
4. The Council will focus on acquiring properties which contribute to local economic or social benefit, provided they meet the minimum yield requirement.
5. Where properties include residential accommodation either rented or on long leasehold (likely especially in town centre locations), the Council will seek to make alternative holding and management arrangements outside of the Council.
6. The Council will consider opportunities within the Rother District; or within its immediate environs where a case can be made on the basis of local benefit.
7. 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. However the Council may also buy back ground leases on assets where the Council is already the freeholder, in order to gain control over future development and benefit from increased rental income.
8. 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 acceptable. 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.

9. The Council will balance investments that are already producing an income, with existing tenants in place, with properties with vacant accommodation or development sites where the return on investment is expected in the medium term particularly where there are strategic reasons for doing so. The interim funding implications will be considered as part of the business case for investment.

Size of Investment Lots and investment criteria

10. Due to the nature of the local property market the Council will be flexible on lot size and consider investment opportunities on their individual merit; however the ideal suggested lot size is between £1m and £10m. This will be flexible if there is an overriding strategic reason to acquire a property.
11. Opportunities may be sought that lend themselves to a potential to increase rental income than is currently being realised.
12. The following specific criteria will be applied:
 - Minimum Income Yield of 5% gross of borrowing costs, based on an average over 10 years.
 - Individual Properties or Portfolios.
 - Flexible lot size but £1m – £10m preferred.
 - Freehold preferred.
 - Single tenanted preferred, or multi tenanted where management input required is at an acceptable level.
 - Asset categories: likely to focus on Industrial, Office, Retail, Leisure, Trade Counter; but others may be considered.
 - Geographically located within Rother District, or immediately nearby where a case can be made on the basis of local benefit.

Land and Property Disposals

13. The Council's land and property holdings will be reviewed regularly to assess their contribution to the objectives of this strategy and where there is a shortfall may consider disposal. In addition where there is significant capital appreciation of an asset, disposal may be considered where the capital receipt enables reinvestment in the Rother area.

Funding the Investments

14. Funding for the acquisition of assets will be reviewed on a case-by-case basis 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 £35m to cover the three financial years 2018/19 to 2020/21 funded through borrowing has been approved to fund investment acquisitions, to be drawn down as and when required.

Expert Support and Guidance

16. External specialist property investment advisors will be retained as necessary on each transaction, advising on suitability having undertaken detailed pre purchase due diligence, including valuation, risk analysis and lease / title reviews.

Managing Risk

17. 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.
18. The subsequent management of the portfolio will be delivered from existing resources within the Council's Estates team, supplemented by specialist external advice as needed. A specific budget provision will be made available to meet these costs. This approach will be reviewed regularly by the Property Investment Panel, including on-going resource requirements, as the portfolio grows.

Monitoring the Strategy

19. Performance of the investment portfolio will be measured against a number of targets to be agreed annually by the Property Investment Panel. These will include both financial and non-financial measures. It will also be necessary to forecast performance of current assets to identify any which may fall below the income return target.