

PROPERTY INVESTMENT STRATEGY**June 2020****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.
2. In addition, the Council will acquire land and properties for the prudent management of the Council's financial affairs under its Commercial Investment Strategy. Properties acquired for this purpose may not necessarily be situated in the Rother economic area.

What will the Council invest in –

3. 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/or generate a stable revenue income for the Council.
4. 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. However, opportunities will be considered on their respective merits.
5. Where a case can be made on the basis of local benefit the Council will consider opportunities within the Rother District or within its immediate environs.
6. Where the acquisition is not linked to local benefit the Council will consider opportunities within Rother District or within an approximate 40-mile radius.
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 guiding criteria will be applied:
 - A target average annual yield of 2% net of borrowing costs over the expected lifetime of the asset
 - Individual Properties or Portfolios.
 - Flexible lot size but £1m – £10m expected. Larger lot sizes will be considered on their merits, having regard to financial due diligence.
 - 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.
 - Geographically located within an approximate 40-mile radius of Rother District, where the case is made for investment purposes.

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.

Expert Support and Guidance

15. 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; including the appointment of introductory agents where appropriate.

Managing Risk

16. 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.
17. 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

18. Annual reports on activity and performance will be considered by the Council's Audit and Standards and Overview and Scrutiny Committees.