

Rother District Council

Report to:	Audit and Standards Committee
Date:	20 March 2023
Title:	Property Investment Strategy Update
Report of:	Ben Hook
Purpose of Report:	To update the Committee on the delivery of the Property Investment Strategy
Officer	
Recommendation(s):	It be RESOLVED : That the report be noted.

Introduction

1. This report is to update the Committee on the Council's activity in delivery of the Property Investment Strategy (PIS), and commitments against the £35m budget approved in February 2018.
2. Since the previous report to Audit and Standards Committee in April 2022 (Minute AS21/58 refers), the Council has completed further acquisitions in pursuance of the PIS and the Council's Corporate Plan.
3. This report should be read in conjunction with earlier reports as much of the background information remains substantially the same.

The Property Investment Strategy

4. The current PIS was adopted by the Council in June 2020 (Minute CB20/05 refers) and is attached as Appendix 1. This has remained unchanged therefore since the previous report. The objective of the PIS is to support and safeguard the economy of the Rother area through the long-term protection of existing and the creation of new employment space, through investment in land and property in the Rother economic area.
5. The PIS sets out the types of property that the Council will seek to acquire and the factors that will be considered when assessing the suitability of potential acquisitions. It also describes how purchases may be funded and how the Council will manage risk.
6. Since the previous report, the Council has acquired three further properties and the £35m allocation is therefore either fully spent or committed.

The Property Investment Panel

7. The Property Investment Panel (PIP) is made up of six Members and is chaired by the Leader of the Council. Current members of the PIP are Councillors Bayliss, Curtis, Dixon, Jeeawon, Mier and Oliver. The Terms of Reference for

the PIP were revised and approved by Cabinet in June 2020 (Minute CB20/05 refers) and are attached as Appendix 2.

The Process for Identifying Investments

8. The process for identifying investments remains the same as outlined in previous reports. Once opportunities are identified, they are recorded by officers and are subject to the seven stage acquisition process outlined in Appendix 3. Progress in each case is monitored by close liaison with the Council's Legal Services team. The timescales indicated in Appendix 3 are indicative and may vary considerably from property to property, depending on circumstances.
9. The processes and procedures identified as a result of the earlier Internal Audit review (as reported previously) are in place and continue to be actioned as part of the acquisition process. A training session was held with members of the PIP in December 2020, hosted by CIPFA.
10. As the approved fund has now been fully committed, the PIP currently has no further purchases to consider under the PIS; however, it will continue to have a role in approving the purchase of commercial premises ancillary to residential properties being acquired under the Temporary Accommodation Investment Strategy (TAIS) [see below].

Acquisitions to date

11. At that time of the previous report in April 2022 the following properties have been acquired:

14 Terminus Road, Bexhill	£850,000
16 Beeching Road, Bexhill	£825,000
18-40 Beeching Road, Bexhill	£825,000
1-7 Wainwright Road, Bexhill	£1
Glovers House, Bexhill	£7,450,000
Land at Barnhorn Green, Bexhill	£600,000
Market Square, Battle	£3,075,000
Land at Mount View Street, Bexhill	£4,250,000
35 Beeching Road, Bexhill (headlease)	£675,000
64 Ninfield Road, Sidley	£100,000 *
Total	£18, 650,001

* Commercial element only of mixed-use property acquired primarily for Temporary Accommodation.

Since then the following further properties have been acquired:

Sainsburys Foodstore, Buckhurst Place, Bexhill	£9,650,000
16 Beeching Park Estate (long leasehold)	£217,500
18 Beeching Park Estate (long leasehold)	£217,500
Total	£10,085,000

12. Once these further transactions are taken into account, this takes the total value of purchases and commitments to £30,347,001 against the original £35m budget. A further commitment remains against the fund yet to be completed, details are set out in Confidential Appendix 4.
13. The above tables show the purchase prices only, net of costs. Acquisition costs such as stamp duty and professional fees, and the total cost of demolition works at 1-7, Wainwright Road amount to a further £3,225,222 also met from the original £35m budget, leaving a balance of £1,427,777.
14. In addition, the Council has approved the sum of £10m borrowing for the development of the site at Barnhorn Green. This was originally also intended to be met from the initial £35m PIS budget, however as this is now fully committed, further budget approvals will be needed in order to bring this project forward. This will be the subject of reports to Cabinet and full Council in due course, which will also include the acquisitions referred to in Confidential Appendix 4.

Risks and Challenges

15. The Treasury has in recent years implemented tighter regulation on the use of the Public Works Loan Board (PWLB) for property acquisitions, explicitly requiring that a direct local social or economic benefit be demonstrated, rather than acquisition for purely financial gain. The penalties for non-observance are strict, including withdrawal of access to all PWLB funding.
16. Whilst this removes the risk of public borrowing being used for speculative investments, it does push councils towards regeneration led acquisitions where there is either already market failure or risk of market failure, where the private sector may be less likely to invest. These are by their nature higher risk or require additional investment in order to realise a benefit in the longer term.
17. As stated in previous reports, the Council's PIS is explicit in referencing local economic benefit as the basis for acquiring properties, which points towards properties within the district where the case for local economic benefit can be made. However, Rother does not have a significant commercial property market and in general transactions are small-scale. Whilst in theory, the Council could acquire large numbers of small properties, the acquisition process is heavily resource intensive and the ongoing management of such properties would also require significant resourcing. The opportunities locally for further acquisitions that will make a significant contribution to meeting the Council's income targets are few and far between.
18. The Council's focus for property acquisitions has recently shifted towards buying residential properties to accommodate temporary housing needs, and this activity is conducted under the TAIS. This is therefore a separate approval and funding framework to the PIS. The Council recently approved an amendment to the TAIS to allow the inclusion of commercial elements (such as ground floor shops) with these housing purchases where it made sense to do so (Minutes CB22/60 and C22/72 refer). This requires that the commercial element be considered by the PIP for approval.
19. Whilst the approved funding under the PIS has been fully committed, the Council's interest in acquiring residential properties is now well established and

the recent approval to include commercial elements provides further opportunities for rental income from that source, on top of the savings made to the Council's Temporary Accommodation budget.

Conclusion

20. Members are asked to note this report and consider the work of officers and the PIP in the delivery of the PIS and the TAIS. Officers and the PIP will continue to assess each opportunity coming forward on its own merits.

Other Implications

21. Appendix 4 is marked as confidential as these transactions have yet to be completed and remain Subject to Contract and to further Council approval.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	External Consultation	No
Environmental	No	Access to Information	No
Risk Management	No	Exempt from publication	Yes

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Appendices:	Appendix 1: Property Investment Strategy Appendix 2: Property Investment Panel Terms of Reference Appendix 3: Stages for Acquisition of Commercial Property Appendix 4: (Confidential) Transactions pending completion
Relevant Previous Minutes:	AS19/52, CB20/05, CB22/60 and C22/72
Background Papers:	N/A
Reference Documents:	N/A

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.

PROPERTY INVESTMENT PANEL TERMS OF REFERENCE

1. PURPOSE

The Property Investment Panel is set up by Cabinet to make recommendations to the Head of Paid Service on matters relating to the Property Investment Strategy under powers as set out in Rother District Council Constitution. These may be to further the aims and objectives of the Council to promote economic growth in the Rother area; or in pursuance of commercial investment objectives in accordance with a formally adopted Commercial Investment Strategy.

The Head of Paid Service has been given delegated powers to acquire properties for economic, regeneration and investment purposes subject to the recommendations of the Panel and as guided by the Property Investment Strategy.

The Panel will:

- i. receive investment prospectuses and evaluations of potential property acquisitions;
- ii. set the parameters, within the overall Property Investment Strategy parameters, for bidding on each property.
- iii. make recommendations to the Head of Paid Service on the acquisitions of properties; and
- iv. oversee the due diligence and acquisition process in accordance with the Property Investment Strategy.

2. CONSTITUTION, DUTIES AND POWERS

- i. The Panel shall comprise six elected Members nominated by the Leader of the Council, with one vote each:
 - three Executive Councillors, ~~one of whom must be the Portfolio Holder with responsibility for Finance~~; and
 - three other Councillors.
- ii. Council Officers attending will be the Executive Directors and Section 151 Officer. Other Council Officers and external advisors may attend the Group, in an advisory capacity (e.g. the Property Investment and Regeneration Manager).
- iii. The Section 151 Officer will attend in an advisory capacity. However, if he/she disagrees with the Panel's recommendation he/she can refer the decision to the next scheduled meeting of Cabinet for further consideration.
- iv. The Panel shall appoint the Leader of the Council ~~Portfolio Holder with responsibility for finance~~ as Chairman. In his/her absence, the Panel can appoint a chairman for that meeting.

- v. The quorum of the Panel shall be three. One Executive Director (who need not necessarily be the Head of Paid Service) and the Section 151 Officer (or his/her deputy) must be in attendance.
- vi. There will be no substitution arrangements.
- vii. Recommendations made to the Head of Paid Service will be made by majority vote of all those present and entitled to vote. In the event of an equal number of votes for and against a proposal, the matter will be referred to Cabinet.
- viii. The financial performance of the investments will be reported to the Audit and Standards Committee as part of its treasury management responsibilities. In addition, the Panel will report its activities through the Overview and Scrutiny Committee to Cabinet.
- ix. The frequency of the Panel meetings will be as and when required.

STAGES FOR ACQUISITION OF COMMERCIAL PROPERTY

Stage 1 – Properties identified and screened	Week 1
Regular review of relevant websites, local press and other media.	
Intelligence received from local agents, businesses, landowners.	
Initial discussion with internal Property Investment Group.	
Properties approved for further investigation or rejected.	
Stage 2 – Viewing & First Level Appraisal	Week 2
Potentially viable property viewed by officers. Photographic record taken.	
High level financial appraisal carried out.	
Discussion with internal Property Investment Group re: suitability, yield and purchase offer.	
Stage 3 – Negotiation	Weeks 2-3
Receipt of relevant documentation – leases, evidence of title, trading accounts (where relevant), plans, etc.	
Purchase price negotiated with vendor. All negotiations subject to contract, Property Investment Panel approval, survey and external valuation.	
Purchase price and other relevant Heads of Terms agreed in principle.	
Stage 4 – Report to Property Investment Panel	Week 3 onwards
Report to Property Investment Panel, including financial appraisal, risk assessment, planning commentary, recommendations.	
Stage 5 – Due Diligence	Week 3 onwards
Arms' length valuation commissioned to Royal Institution of Chartered Surveyors 'Red Book' standard.	
Condition survey commissioned.	
Legal team at Wealden District Council instructed - where insufficient capacity exists or unlikely to meet transaction timescales, Wealden will contract out but retain management of the case.	
Receipt of report on Title, Searches, Valuation and Survey reports. Review Heads of Terms or withdraw in the event of prejudicial information coming to light.	
Ongoing progress updates with internal Property Investment Group.	
Stage 6 – Exchange of contracts & completion	By Week 8
Completion Statement received and checked.	
Transfer documents signed and monies transferred.	
Internal administrative systems set up: Estates records updated, Finance briefed.	
Stage 7 – Exchange of contracts/completion	Week 8