



Please reply to:

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Date: 01 November 2024

Notice of meeting

Commercial Assets Sub-Committee

Date: Monday, 11 November 2024

Time: 1.30 pm

Place: Council Chamber, Council Offices, Knowle Green, Staines-upon-Thames TW18 1XB

To the members of the Commercial Assets Sub-Committee

Councillors:

L. E. Nichols (Chair)

R. Chandler

D. Saliagopoulos

S.N. Beatty (Vice-Chair)

A. Gale

H.R.D. Williams

Substitute Members: Councillors M. Beecher, T. Burrell, M. Gibson, K. Howkins and K.E. Rutherford

Councillors are reminded that the Gifts and Hospitality Declaration book will be available outside the meeting room for you to record any gifts or hospitality offered to you since the last Committee meeting.

Spelthorne Borough Council, Council Offices, Knowle Green

Staines-upon-Thames TW18 1XB

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Agenda

Page nos.

1. Apologies for absence & substitutions

To receive any apologies for non-attendance and details of Member substitutions.

2. Minutes

5 - 12

To confirm as a correct record the minutes of the meeting held on 07 October 2024.

3. Disclosure of Interest

To receive any disclosures of interest from members in accordance with the Members' Code of Conduct.

4. Questions from members of the Public

The Chair, or his nominee, to answer any questions raised by members of the public in accordance with Standing Order 40.

At the time of publication of this agenda no questions were received.

5. Urgent Actions

To consider any urgent action that have arisen since last meeting.

6. Forward Plan

13 - 16

To note the Forward Plan for future Commercial Assets Sub-Committee business.

7. Half Year Portfolio Review

17 - 42

To note the Half Year Commercial Property Portfolio Review.

8. Exclusion of Public and Press (Exempt Business)

To move the exclusion of the Press/Public for the following items, in view of the likely disclosure of exempt information within the meaning of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985 and by the Local Government (Access to information) (Variation) Order 2006.

- | | | |
|------------|--|------------------|
| 9. | Commercial Portfolio Update | 43 - 64 |
| | To receive an update on the rent collection, voids and arrears of the Commercial Portfolio. | |
| 10. | Lease Variation, pt 10th Floor, Thames Tower, Reading | 65 - 70 |
| | To consider a report on the proposed lease variation for the part 10 th Floor of Thames Tower, Reading. | |
| 11. | Settlement of Dilapidations and appointment of a contractor - ground floor suite, Charter Building, Uxbridge | To Follow |
| | To consider a report on the proposed settlement of Dilapidations and the appointment of a contractor for the ground floor suite, Charter Building. | |
| 12. | Proposed letting terms for suite 2, second floor, The Charter Building, Uxbridge | To Follow |
| | To consider a report on the proposed letting terms for suite 2, second floor, Charter Building. | |
| 13. | Asset Portfolio Exit Strategies | 71 - 98 |
| | To consider a report on the draft exit strategy for each investment asset. | |
| | Please note: Appendix 2 is to follow. | |

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**Minutes of the Commercial Assets Sub-Committee
7 October 2024**

Present:

Councillor L. E. Nichols (Chair)
Councillor S.N. Beatty (Vice-Chair)

Councillors:

R. Chandler

D. Saliagopoulos

H.R.D. Williams

Substitutions: Councillors M. Beecher

Apologies: Councillors A. Gale

33 Apologies for absence & substitutions

Apologies were received from Councillor Gale, with Councillor Beecher in attendance as his substitute.

34 Minutes

The minutes of the meeting held on 16 September 2024 were agreed as a correct record.

35 Disclosure of Interest

There were none.

36 Questions from members of the Public

There were none.

37 Forward Plan

Councillor Nichols queried when the End of Project reports would be presented to the Sub-Committee and were advised that they would be at the December meeting.

The Sub-Committee **resolved** to note the forward plan for future committee business.

38 Exclusion of Public and Press (Exempt Business)

It was proposed by Councillor Beatty, seconded by Councillor Beecher and **resolved** to exclude the public and press for the following agenda items, in accordance with paragraph 3 of part 1 of Schedule 12A of the Local Government Act 1972 (as amended) because it was likely to disclose information relating to the financial or business affairs of any particular person (including the authority holding that information) and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information because disclosure to the public would prejudice the financial position of the authority in being able to undertake even-handed negotiations and finalising acceptable contract terms.

39 Urgent Actions

There was one urgent action for the Sub-Committee to consider. The Sub-Committee were informed of a potential lease at 3 Roundwood Avenue.

Councillor Williams arrived at 13:42

The Sub-Committee **resolved** to agree to the recommendations as set out in the report.

40 Commercial Portfolio Update

The Sub-Committee received updates on the commercial portfolio from the Commercial Asset Managers.

The Sub-Committee **resolved** to note the updates.

41 Asset Portfolio Exit Strategies

The Sub-Committee considered draft exit strategies for four properties in the Asset Portfolio.

The Sub-Committee **resolved** to approve the form and detail of the Exit Strategy for each investment asset.

Meeting ended at 14:59

Spelthorne Borough Council Services Committees Forward Plan and Key Decisions

This Forward Plan sets out the decisions which the Service Committees expect to take over the forthcoming months, and identifies those which are **Key Decisions**.

A **Key Decision** is a decision to be taken by the Service Committee, which is either likely to result in significant expenditure or savings or to have significant effects on those living or working in an area comprising two or more wards in the Borough.

Please direct any enquiries about this Plan to CommitteeServices@spelthorne.gov.uk.

Spelthorne Borough Council

Service Committees Forward Plan and Key Decisions for 01 November 2024 to 28 February 2025

Anticipated earliest (or next) date of decision and decision maker	Matter for consideration	Key or non-Key Decision	Decision to be taken in Public or Private	Lead Officer
Commercial Assets Sub-Committee 11 11 2024	Asset Portfolio Exit Strategies	Non-Key Decision	Private	Coralie Holman, Group Head Assets
Commercial Assets Sub-Committee 11 11 2024	Half Year Portfolio Review	Key Decision	Public	Coralie Holman, Group Head Assets
Commercial Assets Sub-Committee 11 11 2024	Lease Variation, pt 10th Floor, Thames Tower, Reading	Key Decision	Private	Bruce Strong, Investment Asset Manager
Commercial Assets Sub-Committee 11 11 2024	Proposed letting terms for suite 2, second floor, The Charter Building, Uxbridge	Non-Key Decision	Private	Jo Stilwell, Investment Asset Manager
Commercial Assets Sub-Committee 11 11 2024	Settlement of Dilapidations and appointment of a contractor – ground floor suite, Charter Building, Uxbridge	Non-Key Decision	Private	Jo Stilwell, Investment Asset Manager
Commercial Assets Sub-Committee 16 12 2024	Refreshed Sinking Fund Model	Key Decision	Private	Paul Taylor, Chief Accountant
Commercial Assets Sub-Committee 16 12 2024	End of Project Report	Key Decision	Private	Coralie Holman, Group Head Assets

Commercial Assets Sub-Committee 27 01 2025	Investment & Regeneration Assets Business Plans	Non-Key Decision	Private	Coralie Holman, Group Head Assets
Commercial Assets Sub-Committee 27 01 2025	Update on Elmsleigh Centre Management	Key Decision	Private	Coralie Holman, Group Head Assets
Commercial Assets Sub-Committee 24 02 2025	Investment & Regeneration Assets Business Plans	Non-Key Decision	Private	Coralie Holman, Group Head Assets

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Commercial Assets Sub-Committee



Monday 11th November 2024

Title	Half Year Commercial Property Portfolio Review
Purpose of the report	To note
Report Author	Katherine McIlroy – Asset Manager
Ward(s) Affected	All Wards
Exempt	Report: No Appendix A: Yes Appendix B: No
Exemption Reason	Appendix A contains exempt information within the meaning of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985 and by the Local Government (Access to information) (Variation) Order 2006 Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information) and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information because, disclosure to the public would prejudice the financial position of the authority in any lease, contract or other type of negotiation with the tenant or developer, who could then know the position of the Council.
Corporate Priority	Service delivery
Recommendations	Committee is asked to: To note the Half Year Commercial Property Portfolio Review. .
Reason for Recommendation	The report provides an overview of the asset management initiatives completed during the first 6 months of the financial year. It reports on progress to date against the objectives set out in the Asset Investment Strategy and the business plans for the financial year 2024/25.

1. Summary of the report

What is the situation	Why we want to do something
<ul style="list-style-type: none"> The Asset Management Strategy states that the performance of the portfolio will be reported in a half yearly report covering the period 1 April to 30 September. 	<ul style="list-style-type: none"> The report is a summary of asset management activity over the last 6 months and records progress against the objectives set for the financial year. It provides a transparency to Members and the public on the Council's property performance.
This is what we want to do about it	These are the next steps
<ul style="list-style-type: none"> The attached Half Year Commercial Property Portfolio Review reports on progress since 1 April 2024 measured against the objectives set in the Asset Investment Strategy. 	<ul style="list-style-type: none"> To note the progress and approve the report which will be published on the Council website (with commercially sensitive information redacted)

1.1 The Asset Management Strategy states that the Council will report on the performance of the commercial portfolio on an annual and bi-annual basis. The Annual Commercial Property Report covers the performance during the financial year 1 April to 31 March. The Half Year Commercial Property Portfolio Review provides an interim report on the progress made on achieving the objectives set in the Asset Investment Strategy at the beginning of the financial year. The current report covers the period 1 April 2024 to 30 September.

2. Key issues

2.1 The focus of the Asset Investment Strategy is on maintaining and improving the income during the financial year primarily by letting the vacant office space.

2.2 The office market has not improved at the pace anticipated and whilst there has been a modest uptick in enquiries this has not been converted into a substantial increase in lettings. The vacancy rate has continued to increase over H1 2024. New lettings are typically the result of companies downsizing. The trend for grade A space continues with the majority of lettings occurring only on the very best office space.

- 2.3 The retail market has fared slightly better than offices being further ahead in the property market cycle; void rates are stable, there is evidence of modest rental growth and the investment market has been more active.
- 2.4 Progress on letting the vacant office space has been slower than forecast, nevertheless, we can report two office lettings under offer at 30 September at two different sites in the Council's portfolio.
- 2.5 Three lettings were also completed across Porter Building, Elmbrook House and Elmsleigh Shopping Centre. A number of car parking licences were also completed to maximise income on the buildings where we have vacant space.
- 2.6 Two lease renewals were completed both providing an uplift in rent. Three rent review negotiations were concluded with a substantial increase agreed at one of the sites.
- 2.7 With a focus on reducing revenue expenditure two refurbishments were competitively tendered at Thames Tower (13th floor) and the Charter Building (ground floor).
- 2.8 The rent collection performance continued to exceed the benchmark with 98.7% and 98.4% collected for the March and June quarter day.
- 2.9 Appendix A is the confidential Half Year Review. Appendix B is the version of the Half Year Review available for publication.

3. Options analysis and proposal

- 3.1 Not applicable.

4. Financial management comments

- 4.1 The half year report is not intended to comment on revenue and capital expenditure. This is reported separately by the Finance Team.
- 4.2 The portfolio is valued annually as at 31 March by the Council's independent valuers and the valuation figures are included in the Annual Report. The half year report is not intended to report any change in asset valuation.

5. Risk management comments

- 5.1 Risk management is embedded in the work that the property team undertake. The Council's approach to risk and how it is managed is included in the Asset Management Strategy 2023/24 - 2027/28 together with the risk register. The property team works with a number of external consultants in their field of expertise whether it be letting agents, valuers or building surveyors to ensure the best outcome for the Council. The Council also closely monitors the financial position of all our tenants and guarantors using Dun and Bradstreet.

6. Procurement comments

- 6.1 Not applicable.

7. Legal comments

- 7.1 There are no direct legal implications arising from this report.
- 7.2 Legal Services (g.legal@spelthorne.gov.uk) provide advice and assistance with the relevant agreements and documentation as required.

8. Other considerations

- 8.1 Not applicable.

9. Equality and Diversity

- 9.1 Not applicable.

10. Sustainability/Climate Change Implications

Not applicable.

11. Timetable for implementation

- 11.1 The report will be summarised with commercially sensitive information removed and published on the website.

12. Contact

- 12.1 Katherine McIlroy – Property Asset Manager (k.mcilroy@spelthorne.gov.uk)

Background papers:

There are none.

Appendices:

Appendix A – Confidential Half year Commercial Property Portfolio Review
Appendix B - Half Year Commercial Property Portfolio Review: public version

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Spelthorne Borough Council Property Fund Half Year Commercial Property Portfolio Review

Report to 30th September 2024



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3 Roundwood Avenue, Stockley Park

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4	Review of Portfolio Asset Investment Strategy	3
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1 Introduction

This report provides a half year progress review on the commercial property assets owned by Spelthorne Borough Council. It forms part of the Asset Management Strategy for the commercial properties. The objective of the review is to report progress against the targets set out in the Business Plans and the Asset Investment Strategy. The report covers the period 1 April 2024 to 30 September 2024.

2 Property Market Review

South East Offices

The South East office market remains challenging for landlords. Letting activity has been slow and driven by companies downsizing. Whilst the take-up for the first half of 2024 was higher than the same period in 2023 it was starting from a low base. The average transaction size was 17,500 sq.ft. ¹which has increased since 2021 and a few larger enquiries have been circulated over recent months. Whilst demand has seen a modest uptick across the South East region the vacancy rate still rose over the first half of 2024. According to Colliers, the South East vacancy rate was 13.1% at the end of Q2 2024. Part of this was due to pre-letting activity which will have no impact on existing availability. The trend for high quality new or refurbished space continues as evidenced by three pre-letting of 112,355 sq.ft at One Station Hill in Reading.

The investment market remained muted with few office transactions taking place. During the first half of 2024 £655 million was transacted which was lower than the same period in 2023². Residential developers were the most active investors of office property whilst UK property funds and property companies were disposing of assets. The continued lack of appetite for office property and a slow occupational market is expected to result in a further fall in capital values for 2024. There is some consensus that the bottom of the property cycle has been reached with stronger economic forecasts and total return figures for 2025 onwards.

Retail Market

Despite a summer of sport, which was hoped would bolster retail sales, sales recorded a slow start to early summer but rapidly gained momentum throughout August and September³. UK spending increased at its fastest pace in 6 months in September increasing by an annual rate of 2% up from 1% in August⁴. Supermarkets did particularly well in July/early August, most likely due to the Euros followed by Wimbledon and the Olympics and this led into significant back to school promotions

¹ Colliers South East Offices Snapshot July 2024

² Colliers South East Offices Snapshot July 2024

³ Knight Frank 'Retail is Coming Home' 19/7/2024

⁴ FT 'UK Retail sales boosted by warm weather in August' 2 September 2024

2 Property Market Review - continued

in late August/Sep which bolstered clothing and shoe sales. Other strong sectors have included music and cosmetics. It is hoped that this optimism and this upwards trajectory in retail sales continues through the golden quarter (Sept-Dec, Halloween, Black Friday, Christmas) with inflation easing and the expectation of lower interest rates.

In the shopping centre sector, void rates remain stable at 17.4% across the UK⁵. It is felt that there is increased retailer stability despite the collapse of Lloyds Pharmacy and Ted Baker in the last 6 months and there are some small signs of rental growth in prime markets. A recent RICS survey suggested that 35% of respondents believed that the retail market had now bottomed out and this has been reflected in the investment market with £1.1 billion of shopping centre transacting in Q1 24⁵. This has included Land Securities purchasing a further 17.5% of Bluewater and Norges Bank acquiring a 50% stake in Meadowhall, whilst smaller private equity groups are circling secondary distressed assets and Mike Ashleys Fraser group remain key purchasers of quality subprime assets including Exeter, Maidstone and Gloucester.

The Elmsleigh Centre continues to trade well and footfall remains stable at 2023 levels with spend per head per visit increasing slightly year on year. We understand that both Primark and Matalan remain in the upper quartile of their regions performance and the programme of ongoing lease regears/renewals with Muffin Break, Card Factory, H Samuel and River Island all suggesting that Staines remains an important market and catchment, with the recent and proposed unit refreshes showing retailers ongoing commitment to the town.

⁵ Cushman & Wakefield 'Marketbeat' Retail & Leisure Q2 2024

3 Asset Management Activity

A number of lettings, lease renewals and rent reviews have been completed over the last six months as detailed in the tables below.

The key highlights include:

- Letting the part ground floor of Elmbrook House. Three lettings have been secured since December 2023 and the building is now 86% let.
- Placing part ground floor, 3 Roundwood Avenue, Stockley Park (9,560 sq.ft) under offer following the comprehensive refurbishment which completed in December 2023.
- Placing the 13th floor at Thames Tower, Reading (13,926 sq.ft) under offer with an anticipated completion date of late October 2024.
- Completing several lease renewals and lease extensions at Elmsleigh Shopping Centre to protect the income stream and to ensure that the scheme remains fully let.

New Lettings Completed between 1 April and 30 September 2024

Date Completed	Property	Sector	Area sq.ft	Contracted Rent (£) p.a.	Estimated Rental Value (£) p.a.
Apr-24	Part 4th floor, Porter Building*	Office	12,543	451,548	451,548
Aug-24	Elmbrook House, Sunbury	Office	3,062	61,240	55,116
Aug-24	Elmsleigh SC - MSU2 Library	Retail	MSU2	-	-
Apr-24	Porter Building, Slough	Office	9 car parking spaces	13,500	13,500
Jun-24	Porter Building, Slough	Office	10 carparking spaces	15,000	15,000
Sep-24	Charter Building, Uxbridge	Office	1 car space	4,000	4,000
Sep-24	Charter Building, Uxbridge	Office	10 car spaces	10,000	10,000
Total			15,605	555,288	549,164

3 Asset Management Activity - continued

Lease renewals completed between 1 April 2024 & 30 September 2024

Property	No. of lease renewals	Passing Rent (£) p.a	Estimated Rental Value (£) p.a	Rent Achieved (£) p.a.	Uplift of ERV %
Elmsleigh Centre and High Street, Staines	1	40,000	37,000	40,000	8.11%
Summit Centre, Sunbury	1	22,000	22,700	23,000	1.32%
Total	2	62,000	59,700	63,000	9.43%

Rent reviews completed between 1 April 2024 & 30 September 2024

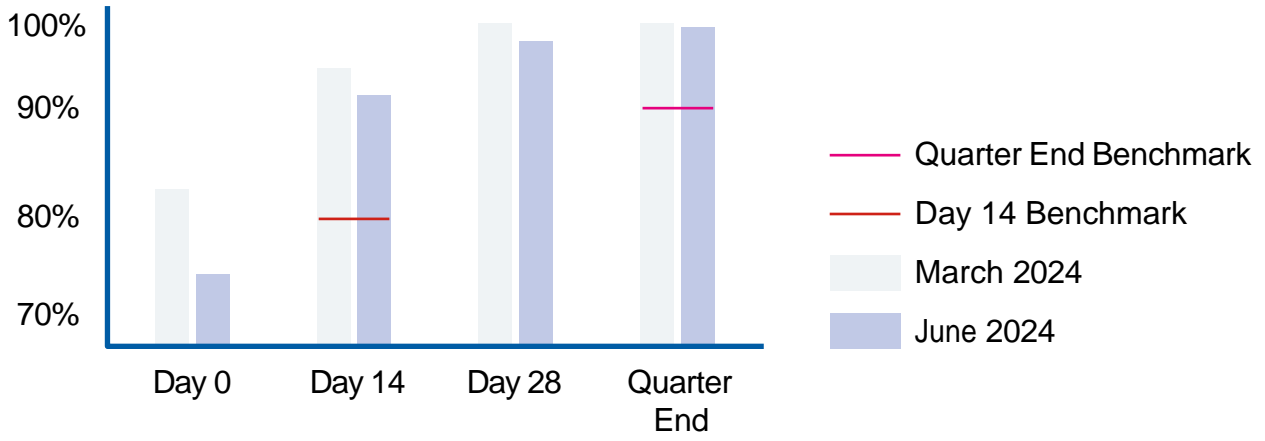
Property	Sector	Rent Review Date	Passing Rent (£) p.a	Rent Achieved (£) p.a.	Uplift %
Ground floor Charter Building, Uxbridge	Office	23/06/2023	£188,410	£226,092	20%
1st floor Charter Buildings, Uxbridge	Office	23/06/2023	£0.00	£130,848	100%
Ground floor Porter Building	Office	23/05/2023	£40,000	£40,000	nil uplift

The Asset Management Team have brought the management of the office building WBC4 at Heathrow Airport in-house. This is a single let property of 89,282 sqft which is relatively straightforward in terms of management, being an FRI lease which has no service charge or on site team. By undertaking the property management and the rent collection on this property there is a £5,000 saving per annum.

A strong focus remains the collection of the quarterly rent. The Council achieved its target of collecting 80% of all rent demanded within 14 days of the due date and 95% of all rent by the quarter end.

3 Asset Management Activity - continued

Rent Collection Statistics - Office Portfolio



4 Review of Portfolio Asset Investment Strategy

In June 2024 Corporate Policy and Resources Committee approved the Portfolio Asset Investment Strategy for the financial year 2024/2025. This summarised the key actions to be undertaken during the financial year with a focus on maintaining and improving the income. These objectives are listed below with an update on progress as at 30th September 2024.

Confidential information – redacted

5 Summary

In the six months to September significant progress has been made to reduce the void rate on the investment portfolio which stands at 10.66% (as a percentage of floor area). Nevertheless, we have pursued all opportunities to maximise income and completed four car parking licences. The focus over the next 6 months will be to complete the lettings under offer, convert the existing interest and let the remaining space.

With occupier demand focusing primarily on the highest quality space we will complete the refurbishment the 13th floor at Thames Tower and the ground floor at the Charter Building. It is also anticipated that the 11th floor at Thames Tower (13,933 sq.ft), currently let to Austin Fraser will require refurbishment when the lease is disclaimed by the Administrator.

After prolonged lease negotiations with Surrey County Council it was rewarding to see the lease for the new Staines Library complete which will be a fantastic new facility for the borough when it opens in Spring 2025.



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