

Executive Summary

The investment report is an overview of the performance of the commercial property portfolio owned by Spelthorne Borough Council for the financial year ending 31st March 2020.

Commercial Portfolio Key Facts

Net Asset Value 31 March 2020	£1.026 billion
Number of Property Holdings	11
Average Lot Size	£93.27million
Total Passing Rent (per annum)	£46.97 million*
Estimated Rental Value (per annum)	£54.28 million**
Vacancy Rate - % of floor area	8%**

* Contracted rent assumes rent free periods have expired, excludes guarantees & Elmsleigh Centre.

**Excludes Elmsleigh Centre.

At the 31st March 2020 Spelthorne Borough Council owned 11 properties with a total value of £1.026 billion.

In the last 12 months the Council has acquired two properties; the Summit Centre in Sunbury and the Elmsleigh Shopping Centre in Staines totalling £53.11 million. In line with the Capital Strategy both properties were acquired for regeneration purposes; to provide long term housing and to rejuvenate the retail offer in Staines town centre. Since the end of 2018 the Council's income generating assets have reached a critical mass that has allowed the Council to focus on regeneration and housing opportunities in the Borough.

Since 2016 the Council has invested £1.017 billion in commercial property largely funded by the Public Works Loan Board on long term loans at low, fixed rates of interest. With the portfolio now valued at £1.026 billion, the portfolio has seen positive capital growth since purchase of 0.86%.

The commercial properties were independently valued annually on 31st March by Carter Jonas LLP at £986.67 million. Carter Jonas did not value the Elmsleigh Shopping Centre which has been recently acquired in February 2020. The Council has relied upon the acquisition price of £39.33 million.

With the exception of Sunbury Business Park all the properties fell in value over the 12 month period. Excluding the properties acquired during the year the portfolio decreased in value by 1.13% since March 2019 when they were last valued. The decrease in value is in line with the market, it reflected the increased market uncertainty due to Brexit and more recently the global covid-19 pandemic.

Despite the fall in value, the Council has been successful if increasing the rental income. Six letting transactions were completed over the 12 months increasing the passing rent by £3.67 million and reducing the portfolio vacancy rate from 14% to 8% (as a percentage of total floor space excluding the Elmsleigh Centre). The Porter Building is now fully let and Thames

Tower is principally let at 96.7% with space currently under offer. The Charter Building is now 46% let which is commendable in difficult market conditions. The portfolio void on the investment properties (ie. the Porter Building, Thames Tower and the Charter Building) are all covered by rental guarantees.

The Council has been prudent in its approach to property investment by setting aside a percentage of the rental income as a sinking fund. The sinking fund has a balance of £20.3 million as at 31st March 2020 (as at 31st March 2019 the sinking fund balance was £10.6 million). This sum is the equivalent to 5.19 months of the portfolio rent, in the very unlikely event that no tenants pay rent. More importantly the sinking fund would cover 25 months of the net income payable to the Council to support services to the Borough.

The sinking fund was established as a reserve account to cover capital costs such as refurbishments and void costs. In the current Covid-related economic crisis the Council acknowledges that the sinking fund may be needed earlier than anticipated to cover void costs of tenants who may default. The Council undertakes rigorous financial modelling and stress testing on the sinking fund cash-flow. Even modelling the worse-case scenario the Council can demonstrate that the reserve fund remains in a healthy position over the next 10 years.

The Council's investment portfolio of Grade A buildings are well-let to tenants who are best placed to financially withstand the economic shock of the national lockdown and anticipated economic recession. BP International Ltd is the Council largest tenant contributes 41% of the total rental income and 51.8% of the total portfolio income is contracted for 10 years or more.

The rent collection rate on the investment portfolio at the 31st March was 79%. This compares favourably to the property market as a whole which recorded that 49.7% of all UK rent had been collected 10 days after the March quarter. At the year-end the Council was not looking to 'write off' any bad debts (the Council has subsequently collected 91% of rents by day 60) which demonstrates the resilience of the investment portfolio.

The Elmsleigh Shopping Centre was acquired as a regeneration opportunity and not an asset to generate income to support Council services. In line with the wider retail market, the rent and service charge collection statistics on the Elmsleigh Centre stood at 18.06% and 61.13% respectively.

With the retail sector in the doldrums the Council has proactively commenced the regeneration opportunities identified for the Elmsleigh Centre at acquisition. Collado Collins, an architectural practice has been appointed to progress initial scheme designs for elements of the shopping centre.

The Elmsleigh Centre together with the Summit Centre and Communications House were all acquired with the long term objective to redevelop to provide much needed housing within the Borough. Identified for their redevelopment potential the three properties are collectively known as the regeneration portfolio. Over the next 12 months the Council will be progressing the regeneration opportunities whilst focusing on maximising the income generated from our existing properties in what will be a challenging property market.

