Development Sub-Committee

9 August 2021

Title	Annual Commercial Property Report for Financial Year 20/21
Purpose of the report	To note
Report Author	Katherine McIlroy, Property Manager
Ward(s) Affected	Not applicable
Exempt	No
Exemption Reason	
Corporate Priority	Financial Sustainability
Recommendations	**Committee is asked to:** Note the Annual Commercial Property Report for the year ending 31 March 2021. Agree that it is put on the Councils website
Reason for Recommendation	The Annual Investment Report 2021 sets out a picture of our investment and regeneration assets as at the end of the financial year March 2021. The report ensures there is full transparency around the portfolio and its performance.

1. Key issues

1.1 With a portfolio of nearly £1bn the Council clearly needs to set out in a transparent way (as any other major institutional investor would) the performance of the portfolio over the preceding year. This Annual Investment Report 2021 seeks to do that (Appendix 1).

1.2 It is divided into various sections (1) property market overview (2) portfolio valuation (3) key performance indicators (4) investment activity (5) Investment portfolio activity (6) Regeneration portfolio activity (7) asset profiles of each of our assets including a short summary of the Councils asset strategy for each building.

1.3 The report reflects the COVID-19 pandemic which began in March 2020 and still continue to be felt, including the impact that this has had on our portfolio and the wider property market. These impacts were also specifically covered and referenced in the annual valuation report undertaken by Carter Jonas on behalf of the Council which fed into this report.

1.4 There is a lot of detailed information in the report, but set out below are some key messages

Portfolio Key Facts	Value
Net Asset Value 31 March 2021	£962.47 million
Number of Property Holdings	11
Average Lot Size	£87.5 million
Total Passing Rent (per annum)	£49.68 million*
Estimated Rental Value (per annum)	£57.22 million**

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

**Excludes Elmsleigh Centre.

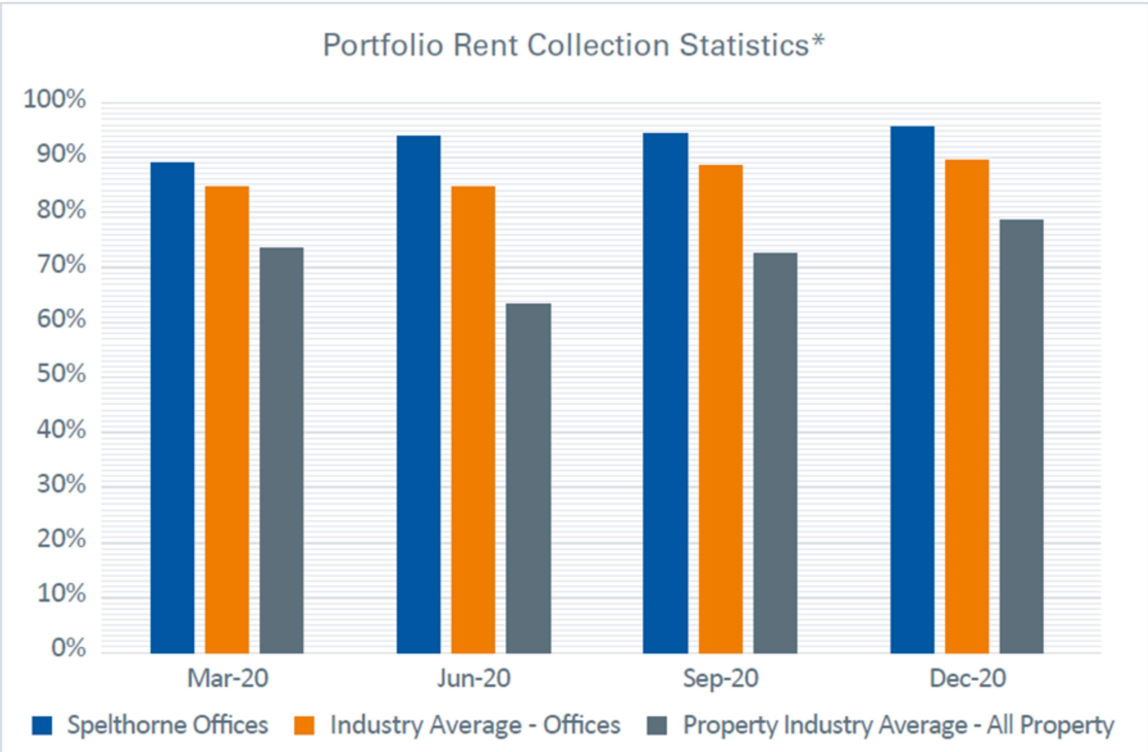
Key Performance Indicators	Numbers
Portfolio Capital Growth (last 12 months)	-5.34%
Portfolio Income Yield at 31/3/2021	4.59%
Sinking Fund income cover	30.46 months
Investment Cover Ratio	1.45
Vacancy Rate – % of floor area	6.74%
Vacancy Rate - % of market value	6.47%

Acquisitions 2020/21	Portfolio	Sector	Value (£m) March 2020	Value (£m)
105 – 107 High Street	Regeneration	Retail	N/A	0.5
				0.5

Assets	Sector	Value (£m) March 2020	Value (£m) March 2021
Investment			
Sunbury Business Park, Sunbury	Office	391.73	393.10
12 Hammersmith Grove, London	Office	165.90	162.00
Charter Building, Uxbridge	Office	131.21	105.00
Thames Tower, Reading	Office	126.80	113.80
The Porter Building, Slough	Office	69.90	62.00
World Business Centre 4, Heathrow	Office	45.80	46.00
3 Roundwood Avenue,	Office	20.10	18.34

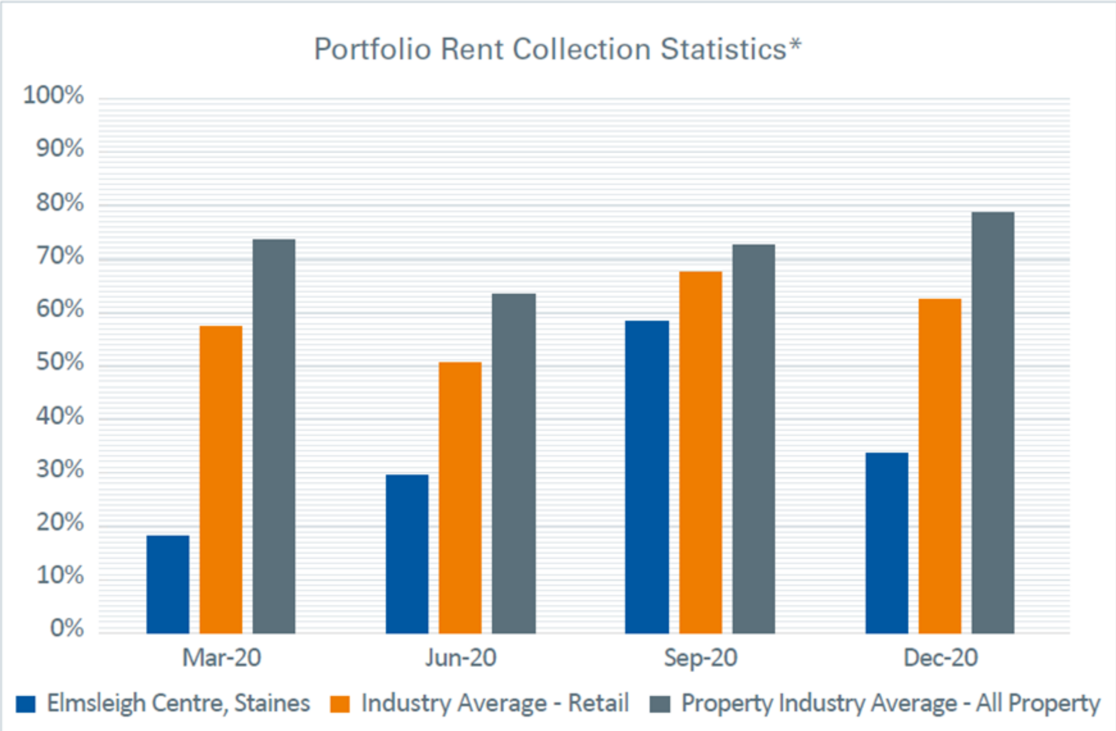
Heathrow			
Elmbrook House, Sunbury	Office	7.24	7.23
Sub total		**958.67**	**907.47**
Regeneration			
The Summit Centre, Sunbury	Office Industrial	13.50	12.70
Communications House, Staines	Office	14.50	14.70
Elmsleigh Centre, Staines	Retail	39.33	27.60
Sub-Total		**67.33**	**55.00**
Total		**1,026**	**962.47**

Rent Collection Rates - Office



*at day 35
Source: Remit Consultancy

Rent Collection - Retail



*at day 35
Source: Remit Consultancy

2. Options analysis and proposal

2.1 There is no requirement for the Council to produce such a report or to make it public. As such there is the option to do nothing and not report on performance.

2.2 This is not a realistic course of action and does not make sense bearing in mind the size of the investment and regeneration portfolio, and the need to be open and transparent in reporting about the portfolio and how it is performing. It will also provide an easy reference point for members of the public and the frequent FOI requests that we receive.

2.3 It is therefore recommended that the development sub-committee note the report and agree to its publication on the Councils website.

3. Financial implications

3.1 The Annual Investment Report makes it clear that the ongoing global COVID 19 pandemic has resulted in the worst annual decline in the economy in 300 years, with GDP falling by 9.9% during 2020. Impacts have been felt in the office sector, with working at home the new norm, resulting in a fall in value of -5.1% (our portfolio declined in line at -5.34%). Retail fared worse as a result of an increase in online shopping with values falling by -28.23% (our portfolio decreased in line at -28.8%). This does mean the asset value on the Balance Sheet as at the end of March 2021 dipped £52m. However, the income streams continue to be robust, and over time we expect these values to recover. We are looking to hold these assets for the long term.

3.2 Despite this gloomy picture, the property market is already showing signs on recovery, and in the medium term the view is that the investment and regeneration portfolios are well placed to take advantage of an improving economy, and a structural shift away from Central London to the Thames Valley and West London.

3.3 The COVID-19 effect of rent collection level on the Council's overall financial position has been regularly reported on at various Cabinet and Council meetings, the most recent example being the verbal update by the Section 151 Officer to the Council meeting held on 15 July 2021.

3.4 As of the 31st March 2021 the investment portfolio collection rate was 98.09%, substantially above the all property market average of 72.03% and the office market benchmark of 86.65%. This is a reflection of the strength of our assets and means we have continued to be able to support the funding of our services for residents and contribute towards our housing delivery and regeneration programme.

3.5 The rent collection rates for the retail sector nationally, not surprisingly were lower than the all-property industry average. Over the 12 months to March 2021 retail landlords collected an average of 59.50% of all rent compared with the all-property average of 72.03%. In comparison the Elmsleigh Centre collected 34.87% of total rent over the same period, the lower figure reflecting Staines ranking in the wider retail market.

3.6 The Committee are reminded that the reason we bought out the long lease on the centre was to enable the Council to invest in diversifying the site to protect the long-term viability of the centre. We are actively progressing this with schemes to add affordable residential on site and bring in a range of community facilities into the centre.

3.7 As part of the Council's 'triple net' approach a portion of money has been set aside from each acquisition to be added to a sinking fund. These funds are set aside, on the basis of 50 years modelling, to cover future potential dips in income in the event of tenants exercising break clauses or not renewing leases resulting in void and rent free periods.

3.8 As at the 31st March 2021, the Council accumulated a sinking fund balance of £25.87m (as at 31 March 2020 the sinking fund balance was £20.3 million). At this level the sinking fund could cover the continued running of the Council services within the borough for 30.4 months at the current level of expenditure. As at March 2021 it was forecast that the sinking fund would increase to £43.21m in 2027 before closing at £24.55m at the end of 2030.

3.9 Projections have been improving in recent months and indicate that even on the worst cast scenarios the Council will comfortably have sufficient funds to insulate the Revenue Budget and council tax payers from any dips in rental income over the next 10 years.

4. Other considerations

4.1 Risk management is embedded in the work of the team and how they assess all of our assets. The Council closely monitors the financial position of all our tenants and guarantors. The accountancy firm Deloitte provides advice on tenant covenant strength on acquisitions, on large transactions and provides regular financial reviews. In addition, the Council subscribes to the Dun and

Bradstreet service which monitors the financial performance of the tenants. The monitoring of all tenants is clearly important at the current time.

4.2 The lockdown for COVID-19 has resulted in the introduction of a number of measures to protect tenants. Whilst this has protected businesses it has to a large extent ‘tied the hands’ of landlords and limited the options available in respect of legal remedies as a result of withheld rental payments.

4.3 The report includes specific commentary on risk distribution and security of income. More detail on the general principles around how we manage our assets are set out in the adopted 2020 Asset Management Plan.

5. Equality and Diversity

5.1 Not applicable.

6. Sustainability/Climate Change Implications

6.1 There are no climate change implications. As regards sustainability, the vast majority of our commercial assets are under 10 years old and have been built to meet more rigorous building regulations requirements. As an example, 12 Hammersmith Grove is Platinum WiredScore rated, and a BREEAM Excellent building.

7. Timetable for implementation

7.1 Once the report has been noted, and any final amendments made, the report will be uploaded onto the Councils website. An easy to read Executive Summary will be provided on the website which will draw out the key information in a digestible form for those who just wish to review the headline facts. This may be in a one page visual format.

Background papers: Capital Strategy 2021

Appendices: Annual Commercial Property Report for Financial Year 20/21