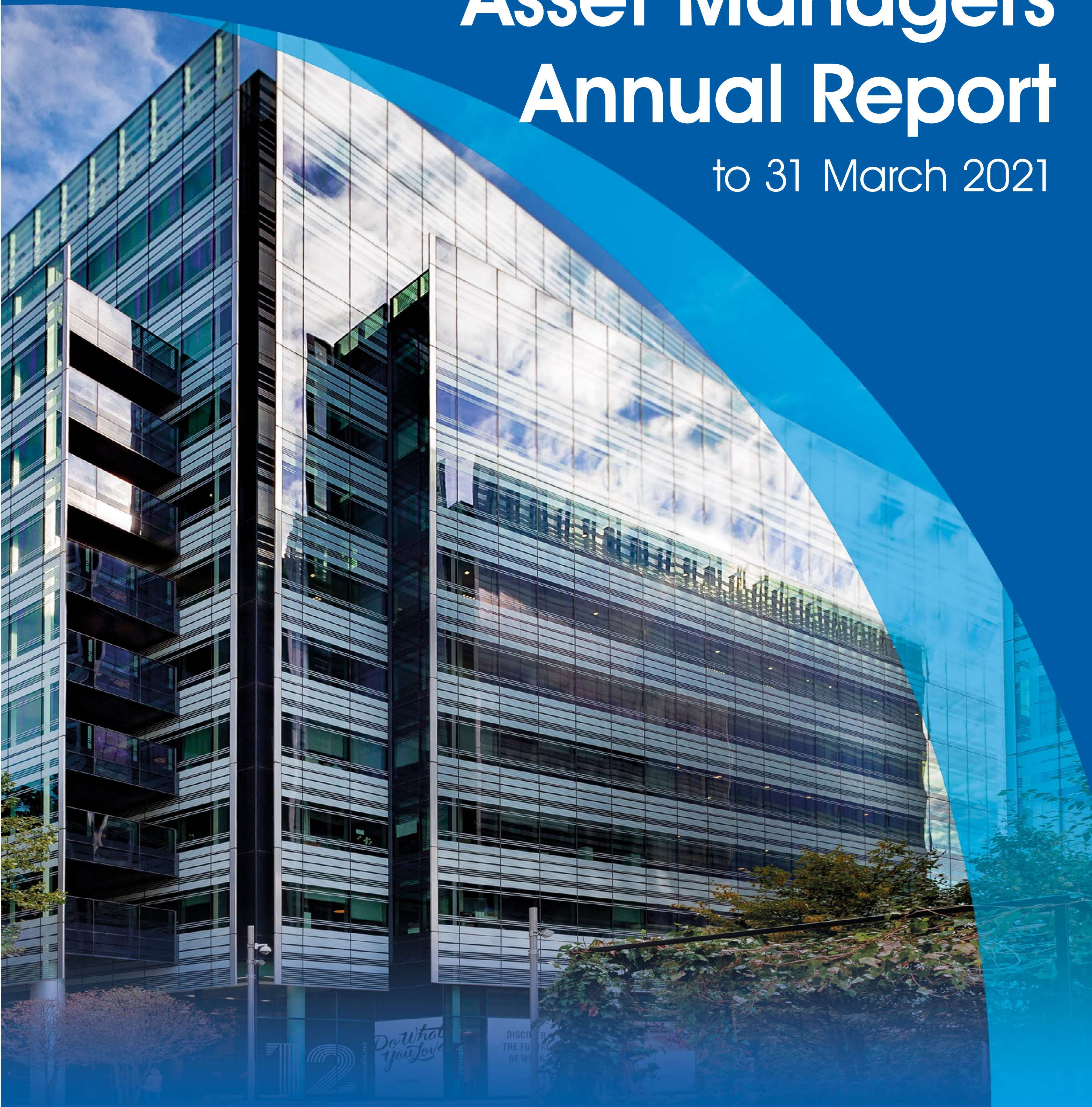
Spelthorne Borough Council Property Fund

Asset Managers Annual Report

to 31 March 2021



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Reviewed: July 2021

SPELTHORNE
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1 Introduction

The Investment report is produced by the Asset and Property Team at Spelthorne Borough Council. It includes an analysis of the commercial property portfolio owned by the Council as at 31 March 2021.

The commercial portfolio is wholly owned by Spelthorne Borough Council; it comprises of the Investment and Regeneration portfolio. The objective of the investment portfolio is to generate revenue to support the services delivered by the Council to residents and businesses of Spelthorne including the delivery of affordable housing for residents. The regeneration portfolio holds assets with development potential to facilitate the regeneration of Staines town centre and meet the need for additional housing in the Borough.

Commercial Portfolio Key Facts	
Net Asset Value 31 March 2021	**£962.47 million**
Number of property holdings	**11**
Average Lot size	**£87.50 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 and excludes guarantees

2 Property Market Overview

The Covid-19 pandemic has had a widespread impact on the property market. It has been reported that Britain's economy experienced its biggest annual decline in 300 years with GDP falling by 9.9% during 2020. National lockdowns which resulted in the workforce working from home, the closure of non-essential retail, hospitality and schools posed unfamiliar challenges to all sectors of the property market.

The initial unknown risk to the economy saw businesses take a cautious approach to all property decisions. As a result there was a sharp decline in letting activity and a decrease in commercial property transactions. Within this cautious market and with limited transactions valuers discounted property values and all property capital values fell 3.5% over the year. The pandemic affected sectors differently with the retail sector most affected (-13.2%) and the industrial sector the least (9.3%). Office sector capital values fell by -5.1%.[1]

The office market reacted to the enforced 'work from home' directive by suspending or halting any new letting transactions. Between March and December 2020 new demand for office space in the south east fell by 50%. The number of lettings completed in the south east declined by 24% in 2020 compared to the 5 year average[2]. As the year progressed and working from home became the new norm, employers began to review their future property requirements based on the presumption that more staff would work flexibly on a permanent basis post pandemic. As such they have sought to dispose of surplus accommodation. This trend together with business failures has resulted in an increase of office availability which rose by 26% in 2020 [3]. Over the last year across the South East office market, rental values fell between 5-10% and lease incentives have increased as landlords aggressively compete to attract tenants. The traditional office is expected to evolve, with businesses retaining a smaller creative hub supported by other work locations within closer reach of employees typically outside Central London. This 'hub and spoke' model could see a structural shift in office size and location.

The closure of non-essential retail and hospitality in three national lockdowns has had major impact on the retail sector. The pandemic accelerated the shift to on-line shopping, which reached a record 36%

1 MSCI/IPD Carter Jonas

2 Cushman & Wakefield South East Office Market Report Q1 2021

3 Cushman & Wakefield South East Office Market Report Q4 2020

of all retail sales in November (outside of lockdown periods). The rise in unemployment, constrained wage growth and low consumer confidence also affected sales. Many retailers could not sustain a prolonged closure and were forced into administration or CVA, others announced store closures or a switch to on-line trading only. Some of the well-known high street names collapsed during the year including Arcadia, Debenhams, Monsoon, Cotswold Outdoor, Office and Cath Kidston to name a few. Rental levels had been declining for 18 months prior to Covid but the crisis accelerated the trend, according to our valuers all retail rental values fell by 8.7% during 2020. In contrast, the industrial sector fared better largely due to the increased demand for distribution facilities as a consequence of changing shopping patterns.

The most significant challenge for property managers has been the collection and preservation of rental income. Most tenants suffered a loss of cash flow, with some businesses affected to a greater degree than others. Other businesses did not want to tie up cash reserves with the uncertainty of how the country would exit the pandemic. Inevitably this meant a small number tenants were either unable to pay or unwilling to pay rent. The passing of the Coronavirus Act 2020 further hindered the landlords' ability to collect rent as it placed a moratorium on legal remedies for non-payment. The Government Code of Practice for commercial property relationships during the Covid pandemic encouraged landlords to engage with their tenants and to work together to protect viable businesses. The key to maintaining robust rent collection rates was strong tenant relationships and a willingness to engage with tenants and agree workable payment plans.

As the economy showed improved signs of stability so did the property sector. The investment market saw a strong end to 2020 with £470m transacted along the Western Corridor between September and December. Investment activity totalled a robust £42.7 billion in 2020 which although 15% below the 2019 figure of £50.4 billion, was remarkable given the challenges investors faced [4]. Furthermore, the roll out of the vaccination programme and the agreement of a Brexit trade deal in late December removed some of the economic uncertainty and valuations stabilised.

Q1 2021 saw signs of increased optimism and all property monthly returns increased to 0.6% from 0.5% in January, the highest 12 monthly

4 JLL UK Capital Markets 2020/21

total return since March 2020 [5]. This was primarily due to the industrial sector which saw positive capital value and rental growth on the back of continuing demand for distribution warehousing. Letting activity across the South East office market increased with take-up totalling 784,170 sq.ft, the highest quarterly total since Q4 2018. Whilst positive, with four large lettings above 50,000 sq.ft there was still a lack of mid-sized letting transactions. The public sector, notably the Department of Work and Pensions accounted for the highest proportion of take up as they bolstered their network of offices to support anticipated rising unemployment. The market continued to register rising office availability, with a 5% quarterly increase. Availability along the M4 corridor stood at 6.3 million sq.ft. at the end of March above the 10 year average of 6.1 million sq.ft [6].

Looking forward investment activity and transaction volumes are expected increase 20-25% on 2020 levels to reach between £50-£55 billion in 2021. In terms of sector performance the trends from 2020 will continue throughout 2021; UK shopping centres are forecast to see negative returns of -12.3%, the South-East industrial sector 10.6% and the South-East office sector -1.7% [7]. The retail market will continue to face extreme challenges with falling rental and capital values. Whilst JLL forecast office capital growth of 1% nationally, capital growth is not expected in Spelthorne's portfolio sub-markets this year. Office rents will come under pressure and incentives will continue to increase during 2021. Demand and the level of office space requirements have increased since December and this trend is expected to continue as lockdown restrictions ease and occupiers focus on returning to the office. Whilst supply is forecast to increase during 2021 it should plateaux by the end of the year. Headline rents are also predicted to stabilise at the end of the year assisted by the availability of grade A space and a limited development pipeline in the South-East.

In the medium term both the investment and the regeneration portfolios are well placed to take advantage of an improving economy and a structural shift from Central London offices towards well located Thames Valley and West London locations. The quality of the buildings will provide some resilience to the downward pressure on rents and capital values.

5 JLL MPEC March 2021

6 Knight Frank M25 Offices Q1 2021

7 JLL MPEC March 2021

3 Portfolio Valuation

The investment and regeneration portfolio is independently valued annually at the 31 March to comply with the Councils accounting obligations. At the 31 March 2021 Carter Jonas LLP valued the portfolio at £962.47 million. Carter Jonas LLP is familiar with the portfolio having been appointed the independent valuer for the last 3 years. The Investment portfolio is valued on Fair Value basis (i.e. open market) in accordance with the RICS Professional and Global Valuation Standards.

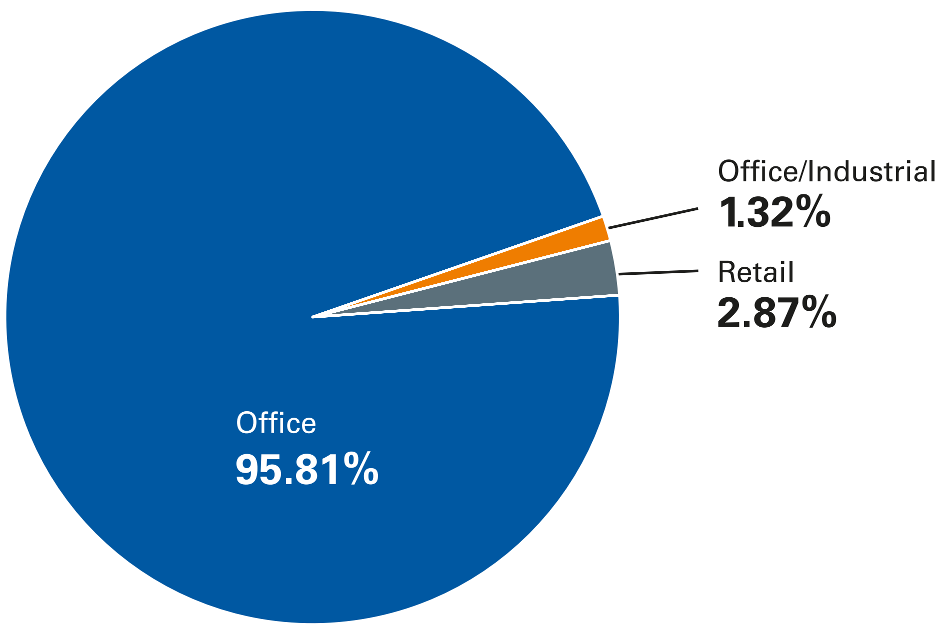
The value of the investment portfolio at 31 March 2021 was £907.47 million. No property acquisitions were made for the Investment fund during the financial year. The portfolio decreased in value by 5.34% over the 12 month period since March 2020. Two properties; BP Sunbury Business Park and WBC4 increased in value whereas most saw a decline. The decline in capital value was largely due to the impact of Covid-19 and the resultant softening of investment yields and market rents. At a property level the valuers factored in increased voids, increased incentives and lower rents in line with the wider office market. The Investment portfolio performed in line with the wider UK office market which suffered a decline in capital value of 5.1% during the financial year to March 2021 according to MSCI/IPD.

The combined value of the Regeneration Portfolio at 31 March 2021 was £55 million a reduction of 18.31% in capital value since March 2020. One acquisition of a High Street retail unit in Staines was made during the financial year. The property was an opportunistic purchase and has been consolidated into the Elmsleigh Shopping Centre asset valuation. Communications House saw a marginal increase in value, however both the Summit Centre and the Elmsleigh Centre saw a decrease in value. The decline in the value of the Elmsleigh Shopping Centre is in line with UK shopping centres which saw capital values fall by 28.2% over the last 12 months. It is important to note that the Council does not hold the regeneration portfolio to generate an income, unlike the investment portfolio. The assets are a long-term hold, acquired to meet the Council's objective to re-generate Staines Town Centre and provide more affordable housing across the Borough. The Elmsleigh Centre was valued on an existing use basis for accountancy purposes and no hope value was attached to the development potential of the shopping centre and the surrounding retail units.

Commercial Property Assets - Valuation table

Investment Portfolio			
Address	**Sector**	**Value (£m) March 2020**	**Value (£m) March 2021**
Elmbrook House, Sunbury	Offices	£7.24	£7.23
3 Roundwood Avenue, Stockley Park	Offices	£20.10	£18.34
World Business Centre 4, Heathrow	Offices	£45.80	£46.00
12 Hammersmith Grove, London	Offices	£165.90	£162.00
The Charter Building, Uxbridge	Offices	£131.20	£105.00
The Porter Building, Slough	Offices	£69.90	£62.00
Sunbury Business Park, Sunbury	Offices	£391.73	£393.10
Thames Tower, Reading	Offices	£126.80	£113.80
Sub total		**£958.67**	**£907.47**
Regeneration Portfolio			
Address	**Sector**	**Value (£m) March 2020**	**Value (£m) March 2021**
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	**All Properties**	**£1,026**	**£962.47**

Commercial Portfolio Sector Analysis (by value)



4 Key Performance Indicators

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

The Council has set a number of key performance indicators for the Investment Portfolio which were published in the Capital Strategy 2021. The portfolio capital growth measures the long term capital performance of the fund, comparing the current valuation with the previous year. As noted earlier the value of the portfolio fell over the last 12 months by -5.34%, in line with the market which fell by -5.1%. This is not a concern as the Council is a long-term investor and the medium-term prospects for offices in the South East are positive. Capital growth is forecast to return to the Council's sub-markets from 2022.

The Council's primary focus is the rental income provided by the investment portfolio which is used to support the services the Council provides within the Borough. The management strategy for the investment portfolio focuses on protecting and optimising rental income over capital growth. The investment portfolio generated an income of £47.23 million for the financial year to 31 March. This is the passing rent including rental guarantees less any rental concessions and arrears. During the financial year the net contribution of the combined portfolio to the revenue budget was £10.19 million.

The investment portfolio income yield at valuation was 4.58%. The income or initial yield, being the annualised rent expressed as a percentage of the portfolio value. The equivalent yield, perhaps a better indication of the return over time, as it includes the rents of tenants currently benefiting from rent free periods was 5.80%. The yield is an indication that the portfolio is producing a sufficient income return to meet loan repayments and interest, sinking fund contribution and the net contribution required to cover the Council's business activities. The portfolio initial yield also provides a good guide to the quality of the investment, with a high-quality investment expected to produce a low initial yield. The portfolio initial yield demonstrates that the Council holds good quality assets.

The Council funded the acquisition of the properties during the period 2016 to 2018 by borrowing at very competitive fixed rates of interest mainly from the Public Works Loan Board. The rental income is required to service the interest and loan repayments. For the year to 31 March the Council made re-payments of £11.05 million to the PWLB plus a further £23.16 million in debt interest on the commercial assets. The investment cover ratio of 1.45

demonstrates that the Council is comfortably able to re-pay the interest and loan repayments.

The Council is prudent in its approach to protecting the rental income required to cover the cost of the Council's services and has an established sinking fund. A proportion of rental income is reserved on a quarterly basis to the sinking fund to cover all capital and revenue costs associated with the properties. These costs may include rental voids, marketing costs, refurbishment costs which are cannot be recovered from the tenant as well as the future potential cost of redevelopment.

As at the 31 March 2021 the Council had accumulated a sinking fund balance of £25.87 million (as at 31 March 2020 the sinking fund balance was £20.3 million). The sinking fund at this level could support the continued running of the Council services within the Borough for 30.4 months at the current level of expenditure.

The sinking fund is subject to rigorous financial modelling to ensure that the fund can meet the potential costs associated with the portfolio. Over the last year, as the market conditions deteriorated a greater focus was placed on stress testing the sinking fund and forecasting the likely balance over a 10-year period on an expected and worst-case basis. As at March, it was forecast that the sinking fund would increase to £43.21 million in 2027 before closing at £24.55m at the end of 2030. The Council is confident that even on a worst-case scenario the sinking fund remains positive.

The combined commercial portfolio had a void rate at the 31 March of 6.23%. The Charter Building remains the Council's largest single vacancy at 5.46%, however, it does not constitute a void due to the rental guarantees provided by the vendor which expires in August 2022. The guarantee covers the vacancy costs associated with the building including rent, rates and service charge. The 4th floor (3,128 sq.ft) at Communications House, became available in January after the tenant exercised their break option and the remaining void relates to the Elmsleigh Shopping Centre in Staines.

The Charter Building is the only notional void in the investment portfolio. The vacancy represents 6.74% by reference to the total floor area of the investment portfolio or 6.47% when calculated as a percentage of the portfolio rental value. The vacancy rate has reduced from 8.4% in March 2020 due to several successful lettings during the year. The vacancy rate compares favourably with the South East Office vacancy rate which was 18.3% (by floor area) according to MSCI/IPD at the end Q1 2021.

Commercial portfolio - Void Table

Property	Town	Portfolio	Sq.ft to Let	% of Property total floor area
The Charter Building	Uxbridge	Investment	107,524.00	5.46%
Communications House	Staines	Regeneration	3,128.00	0.16%
Elmsleigh Centre	Staines	Regeneration	12,165.00	0.62%
Total Vacancy			**1,970,988.00**	**6.23%**

5 Investment Activity

Properties acquired since March 2020

Assets	Portfolio	Sector	Value (£m) March 2020	Value (£m)
105-107 High Street, Staines	Regeneration	Retail	N/A	0.50
Sub-Total				**0.50**

Over the last 12 months the Council acquired one property, 105-107 High Street in Staines-upon-Thames, which it bought from Marks & Spencer Plc in January 2021. This in-borough property was acquired with vacant possession at a purchase price of £500,000. The unit of c.50,000 sq.ft provides an important linkage between the high street and the Elmsleigh Centre, the freehold of which had been acquired in February 2020. The acquisition enabled the Council to attain control of a key high street unit that is currently integrated and focal to the shopping centre. It is strategically important to the Council's regeneration plans for the town centre. The property provides a long term, residential-led regeneration opportunity which aligns with the Council's redevelopment aspirations for the town centre. In the short to medium term the Council plans to mitigate holding costs and re-let the retail premises in which there is keen interest from a number of retailers.

6 Portfolio Activity - Investment Portfolio

Letting Activity

Despite the challenging leasing market and low levels of office take-up, the Council completed on three new lettings across the investment portfolio totalling 24,383 sq.ft over the last 12 months. The lettings at the Charter Building and Thames Tower have increased the contracted rental income, after the expiry of rent free period by £632,494 per annum. As a result of the leasing activity Thames Tower is now fully let and the Charter Building is 54.33% let. At the year end a further letting was in solicitors hands which increases the occupancy rate to c.60%. The void rent on the Charter Building is covered by rental guarantees negotiated on purchase and which expire in August 2022.

Charter Building, Uxbridge

In June the Council completed a new lease with Validity International Ltd at the Charter Building, Uxbridge. Validity took a 10 year lease, with a 5th year break option at a rent of £271,328 per annum on the 1st floor of the building (8,479 sq.ft). The Council undertook the Cat B fit out on behalf of the tenant and delivered a fully fitted office allowing Validity to take immediate occupation. The office fit out was delivered on time despite the challenges provided by the national lockdown.

In September an Agreement for Lease was completed with the IWG Group to take 10,904 sq.ft on the 1st floor of the Charter Building. A straight 10-year lease was agreed with IWG who operates under the brand 'Spaces', on an agreed base rent plus turnover deal estimated at £179,916 per annum. This was an expansion of 'Spaces' existing office on the ground floor and part of a wider transaction to achieve improved terms on the ground floor lease. The ground floor lease was extended by 6 years to be co-terminus with the 1st floor and the rent mechanism altered to a base rent plus turnover deal from an unsatisfactory profit share arrangement which increases the rent payable on their existing lease by approximately £188,410 per annum.

In November the Council completed a lease of the part 10th floor at Thames Tower, Reading (5,000 sq.ft) to the ISIO Group Ltd. A full repairing and insuring lease for a term of 10 years subject to a tenant's option to break in the 5th year was agreed at a rent of £181,250 per annum, reflecting pre-pandemic rental levels. This new letting was the only office transaction to complete in Reading town centre in 2020.

Asset Management

During the year the Council completed a number of asset management initiatives which improved long term rental income by extending the lease term.

In October at Stockley Park, the Council was successful in varying the lease with Volga Dnepr on the 1st floor (21,479 sq.ft) moving the tenant's break option from January 2021 to January 2024 in return for 7 months rent free. By retaining the tenant in the building for a further 3 years the Council has preserved £1.95 million in rent and prevented the costs associated with a void office including the replacement of the air conditioning system.

At the Porter Building, Slough in June 2020 the Council agreed a five year reversionary lease on the retail unit of 2,540 sq.ft which trades as Starbucks. This secured a future additional income of c.£200,000 and the tenant was granted the equivalent of 7.5 months rent free.

A similar agreement also at the Porter Building was completed with the IWG Group on the ground and second floor (31,726 sq.ft). The lease was extended for a further 5 years, providing the Council with an estimated additional income of £4.11 million in exchange for 24 months at a reduced rent.

In July the Council completed a Deed of Variation and reversionary lease with WeWork at 12 Hammersmith Grove, London on 54,698 sq.ft. The transaction extended the current lease term by five years to 2042 which provided an additional net income of £10.4 million which is secured by WeWork Companies LLC. WeWork were granted an 18-month rent free period structured over 5 years.

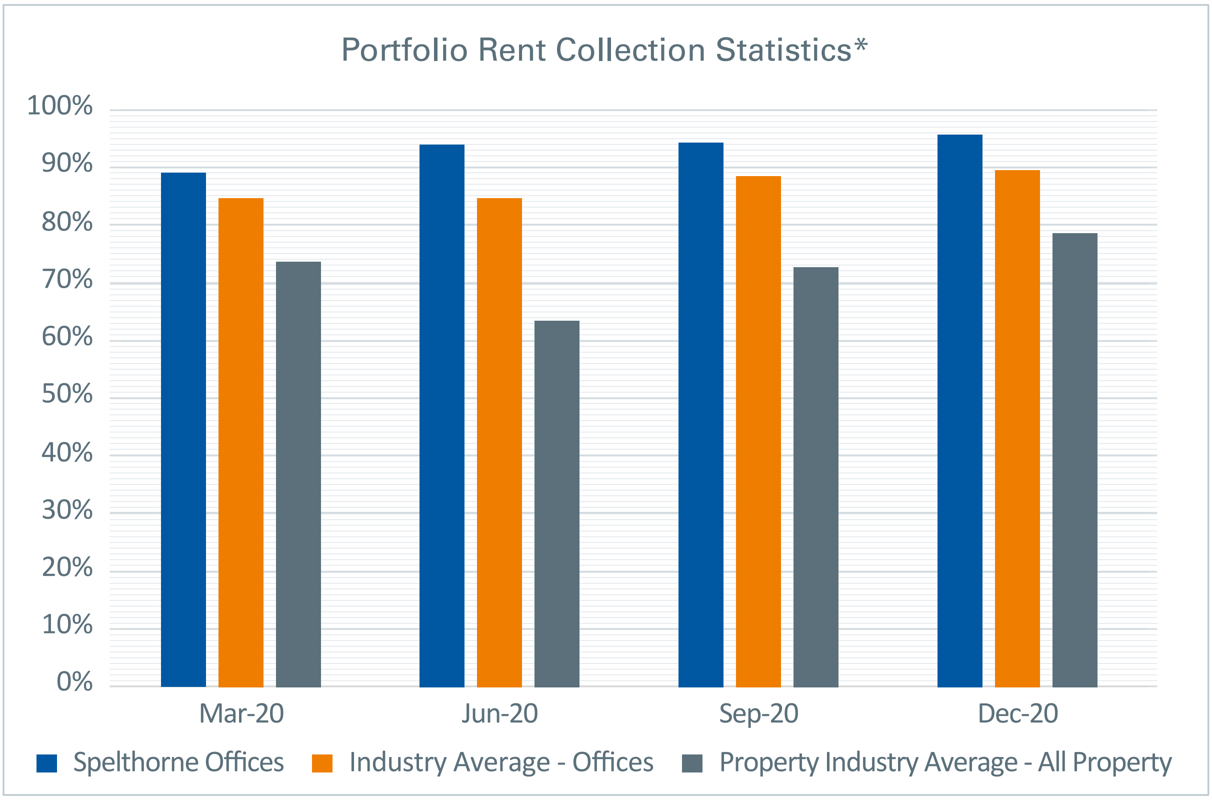
The three latter transactions were principally motivated by the tenants' need for short term financial assistance due to Covid but has created an additional £14.71 million in future net income receipts. The Council has been proactive in managing the portfolio to support financially viable tenants and thereby prevent tenant failures and costly voids across the portfolio. By engaging with our tenants, the Council has embraced the Government's Code of Practice for commercial property relationships between landlord and tenant during the Covid pandemic.

Rent Collection

The collection of rent has been a challenge for all landlords throughout the last 12 months. Since 25 March 2020 the Coronavirus Act and successive regulations limited the landlord's remedies to enforce the collection of rent. The use of forfeiture was prohibited, the ability to use Enforcement Agents a process called CRAR was restrained and there was a ban on the use of statutory demands and winding up orders where the tenant could not pay for Covid-19 reasons. The Code of Practice for Commercial Property Relationships during the Covid Pandemic also encouraged landlords to engage with their tenants to find mutually beneficial options to pay the rent.

The Council collected 98.09% of rent across the office portfolio during the financial year. This was substantially above the UK all property market average (72.03%) and the office market benchmark (86.65%) across all four quarters. This was due to a combination of sound stock selection, financially strong tenant covenants and a pro-active approach towards asset management and tenant liaison.

Rent Collection Rates - Office

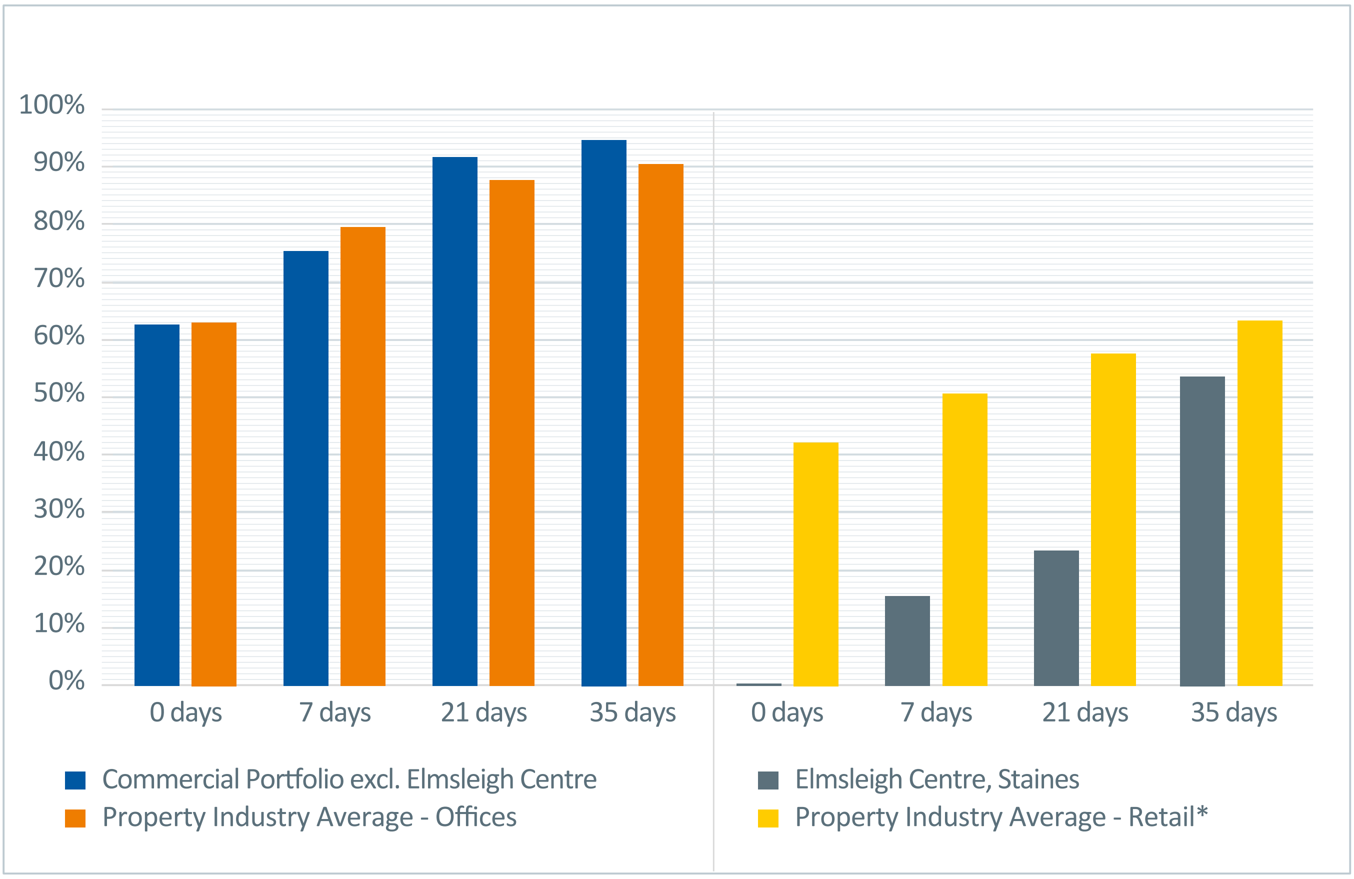


*at day 35
Source: Remit Consultancy

The rent collection statistics reflect a small number of rent deferral agreements which will be repaid over successive quarters. Only two tenants have failed to meet their rental obligations; one tenant was placed into Administration and the Council is seeking a summary judgement for the payment of arrears from the other. The Council has written off only 0.02% of the overall rent due for the financial year.

The rent collection rate for the March quarter 2021 which cover the rent due for the period 25 March to 23 June 2021 was 94.79% after 35 days which compares positively to the property industry average of 90.20%.

Portfolio Rent Collection Statistics - March quarter 2021



Rent Analysis – Security of Income

BP International Ltd is the Council's largest tenant paying an annual rent of £17.57 million which equates to 39.61% of the total investment portfolio rental value. This is not surprising as Sunbury Business Park remains the Council's largest asset by floor area and value at £393.1 million. WeWork, the serviced office provider at 12 Hammersmith Grove is the Council's second largest tenant representing 6.70% of the total rental value followed closely by Amadeus IT Services and Dazn Media. The Council's top 10 tenants contribute 74.76% of the rental income.

Investment Portfolio - Top 10 tenants (by rent) 31 March 2021

Property	% of rent
BP International Ltd	39.61%
12 Hammersmith Grove Tenant Ltd (We Work)	6.70%
Amadeus IT Services Uk Ltd	5.54%
Dazn Media Services Ltd	5.33%
MDSOL Europe Ltd	3.94%
Creative Artists Agency UK Ltd	3.40%
Ericsson Ltd	3.23%
For a Thames Tower Limited	2.73%
Fiserv (Europe) ltd	2.18%
Mattel UK Limited	2.10%
Total of Top 10	**74.76%**

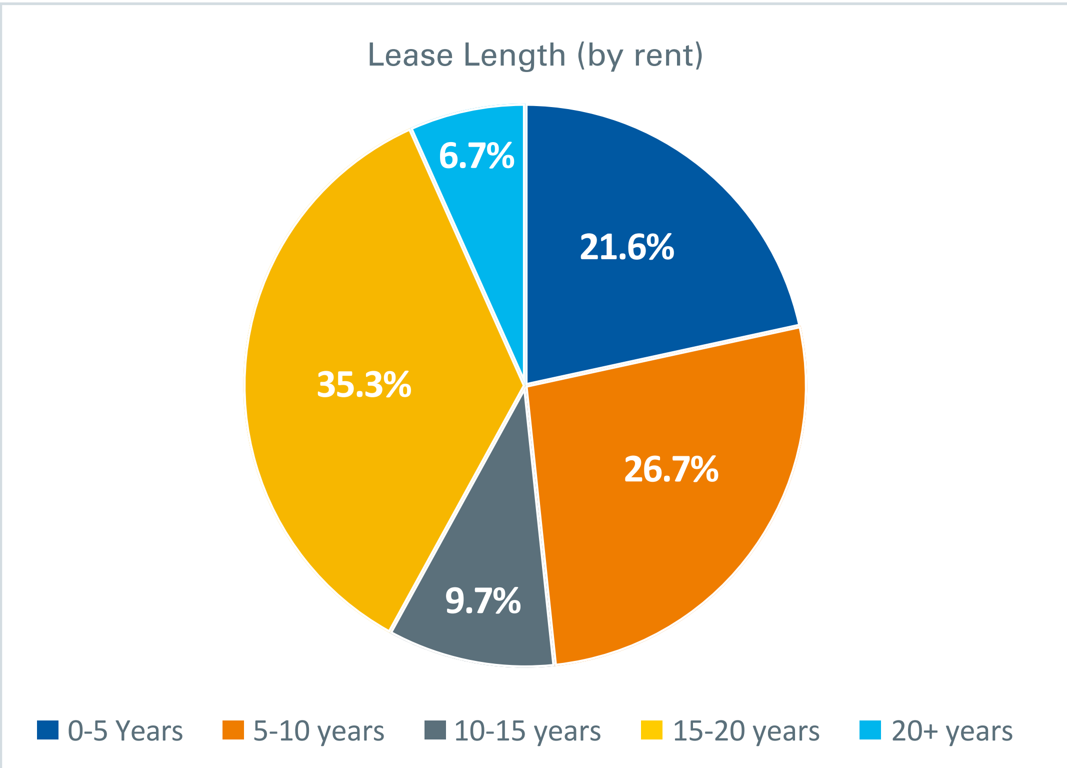
The Council closely monitors the financial position of all our tenants and guarantors. The accountancy firm Deloitte provides advice on tenant covenant strength on acquisitions, on large transactions and provides regular financial reviews. In addition, we subscribe to the Dun and Bradstreet service which monitors the financial performance of the tenants. Further monitoring via Experian is also undertaken on a periodic basis to supplement the Dun & Bradstreet analysis. The monitoring of all tenants has clearly been important over the last 12 months.

The rental income across the investment portfolio is supported by tenants of high financial strength. According to Dun & Bradstreet of the 49 companies that are monitored, 67% of the companies within the portfolio are rated as a low risk of business failure, 20% moderate risk and 6% high risk. All the Council's top 10 tenants by rental value are considered a low risk of business failure.

Longevity of Income

The Portfolio is positioned well in terms of longevity of rental income with 51.7% of total rent passing secured for 10 years or more. Of this figure 42% is secured for more than 15 years. Both BP International and WeWork have leases which have an unexpired term of greater than 15 years. The proportion of short-term income, expiring in 5 years or less is 21.6%. The long-term trend in offices, which the pandemic has reinforced is for shorter, more flexible leases with most tenants insisting on a 3rd or 5th year break option in a standard 5 or 10 year lease term.

The weighted average unexpired lease term to lease expiry across the investment portfolio is 10.97 years, with the unexpired term to the nearest break option 10.45 years. By comparison the weighted average unexpired lease term was 11.57 years in March 2020 and 10.97 year to the nearest break option. Without any asset management input the unexpired lease term would be expected to reduce by 12 months between valuations. Indeed, the weighted average unexpired lease term indicates that approximately six months of income was added or preserved through new lettings, re-gears and other asset management initiatives. The completion of reversionary leases with WeWork, Spaces and Starbucks together with the lettings at the Charter Building and Thames Tower have had a positive impact on the portfolio's income position.



7 Portfolio Activity - Regeneration Portfolio

Letting Activity

During the financial year, three new lettings were completed at the Summit Centre, Sunbury producing £95,000 per annum in secured rent. In July a five year lease of Unit 1f (1,086 sq.ft) was completed to Benjamin Raymond Ltd at a rent of £18,500 per annum, in excess of the previous rent and the estimated rental value. The Council had taken possession of the unit in March 2020 after the previous tenant went into liquidation.

In October, a two year lease of the 1st floor (3,799 sq.ft) at 33 Hanworth Road was completed with SSS Gears at a rental of £40,000 per annum. In March 2021 the rear warehouse (2,164 sq.ft) of 33 Hanworth Road was let to LP Customs Clearance Ltd for a term of five years with a break option in the third year at a rent of £36,500 per annum. The ground floor (4,661 sq.ft) will be occupied by the Council's Business Incubator, an initiative developed by the Economic Development Team. The building is now fully occupied.

In November the lease renewal of unit 1D (1,029 sq.ft) was completed with Sandrair International Ltd. A new five year lease subject to a tenant break option at a rent of £15,500 per annum rising to £18,500 per annum was agreed. The lease renewal maintains the income and minimises the Council's exposure to void costs.

33 Hanworth Road, Summit Centre, Sunbury

The Council completed six new lettings at the Elmsleigh Shopping Centre, Staines during the 12 months to March, providing a headline rent of £170,000 and minimising the Council's exposure to void costs. Despite the lettings completing in difficult market conditions, the Council was pleased to welcome four new retail stores to the Shopping Centre including Ximiso, Mobile Bitz, and Talking Tree. The lettings at units 28 and 32a were completed to new legal entities after the original tenants; Regis Plc and Johnsons Shoes were placed in Administration and they continue to trade as a hairdresser and shoe retailer. Toy Barnhaus took a new lease of unit 19 moving from the adjacent store due to the success of the business and the need for additional floor space.

Letting Activity

Date of letting	Unit	size (sq.ft)	Tenant	Rent	Use
Nov-20	91 High Street	682	Talking Tree	£-	Bicycle repair/ community Café
Mar-21	Unit 19	2215	Toy Barnhaus	£40,000.00	Childrens Toys
Nov-20	Unit 28	401	UK Hairdressers 2190 Ltd	£15,000.00	Hairdresser
Jan-21	Unit 32a	1171	Newjohn Retailer Staines Ltd	£50,000.00	Shoe Shop
Nov-20	Unit 37	904	Mobile Bitz	£30,000.00	Mobile phone
Nov-20	Unit 46	1179	Ximiso	£35,000.00	Gift shop
Total				**£170,000.00**	

Asset Management initiatives

In addition to the new lettings detailed above, a large number of asset management initiatives were instigated at the Elmsleigh Centre and the adjacent retail holdings. A total of forty transactions have been negotiated; mainly these consisted of restructuring the lease term and/or the rent payable. The transactions arose due to a combination of scheduled lease events; commercial/economic drivers brought about by the trading restrictions, as well as our over-arching objectives as asset managers to review and optimise each letting package as a whole.

The Council's asset management strategy during the pandemic has been to negotiate the best possible deal in each individual case, to keep the premises open and the tenant trading wherever possible and in all advisable cases. Not only does this mitigate the void costs for the Council but it maintains a vibrant town centre as retailers 'lean on each other' in terms of driving trade. Despite the government measures to provide support grants and reduce business rates obligations, the impact upon retailers has been severe after seven months of general retail lockdown. Over the past year Staines has seen the loss of Debenhams, Topshop, New Look, Ponden Home, Accessorize/Monsoon, Regis Plc 'Supercuts', and Johnsons Shoes.

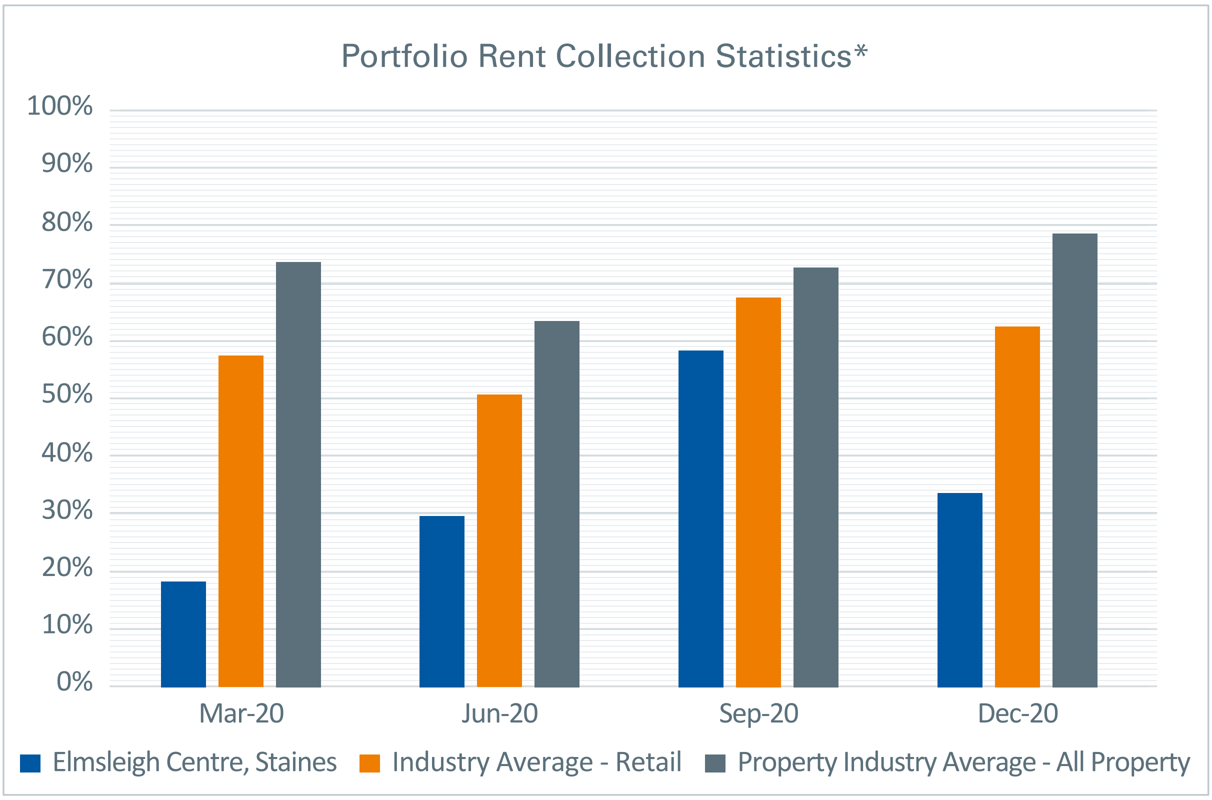
Over thirty transactions were completed following negotiations prompted by an approaching lease expiry or a tenant exercising their break option. These included lease renewals with Waterstones, Claires Accessories, H Samuel, The Body Shop among others. A further seven lease restructures were the result of tenants entering into pre-pack administration. This was the case for Moss Bros, River Island, Top Shop, Trespass, Supercuts, Clinton Cards and Muffin Break. In most cases the asset manager was able to act quickly to agree a lease restructure on somewhat better terms with the new company before the retailer declared insolvency. In a few cases involving small independent businesses a more flexible approach was employed recognising the need to support 'local' businesses and protect jobs within the borough. In these instances, a covid rent concession was granted to the retailer which amounted to a reduction in their rent for a short period. Where the asset manager was approached by the larger national tenants seeking rent relief, the Council was able to agree an extension to their lease to equate the provision of a short-term concession.

In line with the wider retail market common theme among the deals negotiated during this period has been the move away from fixed rents and towards a turnover rent model. Although a fixed base rent provides the landlord with income certainty, it does not address the uncertainty in the marketplace. Turnover rent deals allow for a degree of fair play to be reflected in the agreements and ensure that rents remain affordable by reflecting sales, meanwhile acting as an incentive for tenants to optimise profitability in the knowledge that their rents remain proportionate.

Rent collection

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% according to Remit Consulting. 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. During the first lockdown only 4 stores within the Elmsleigh Centre considered 'essential' retail remained open. Footfall fell to its lowest point in April and May and even when the store re-opened at the end of June the number of customers visiting the centre was 55% of 2019 footfall. In these situations, many of the retailers were unable or unwilling to pay rent whilst their premises were closed and with the Government moratorium preventing landlord's taking punitive action or forfeiture measures there were limited options for the Council to enforce payment. The payment of rent was often incorporated into the terms of lease restructures mentioned above. In addition, the Council agreed a number of payment plans whereby tenants have been permitted to pay off arrears over several quarters to ease their immediate cashflow issues. The Council expects to collect further payments during 2021 as retailers resume trading.

Rent Collection - Retail



*at day 35
Source: Remit Consultancy

The rent collection rate for the March quarter due on 25 March 2021 but collected in advance for the period 25 March to 23 June 2021 was 53.70% after 35 days. At the same date the property industry average for all retail property was 63.30%.

Rent Analysis – Security of Income

The passing rent on the regeneration portfolio as at 31 March 2021 was £5.321 million. Samsung Electronics (UK) Ltd at Communications House, Staines and ADT Fire & Security Plc at the Summit Centre, Sunbury are the two largest tenants contributing 17.7% and 15.97% respectively to the total rental income across the portfolio. Both tenants are considered a low risk of business failure by Dun & Bradstreet. Primark, Matalan and Deichmann Shoes at the Elmsleigh Shopping Centre are also key tenants cumulatively providing 21.9% of the total passing rent. The top ten tenants provide £3.476 million or 65.34% of the total rental income. At the 31st March, six of the Council's largest tenants by rent were considered a low financial risk (50.73%) whilst three companies were of a moderate risk of failure (12.98%) and one assessed as a moderate to high risk by Dun & Bradstreet (1.63%).

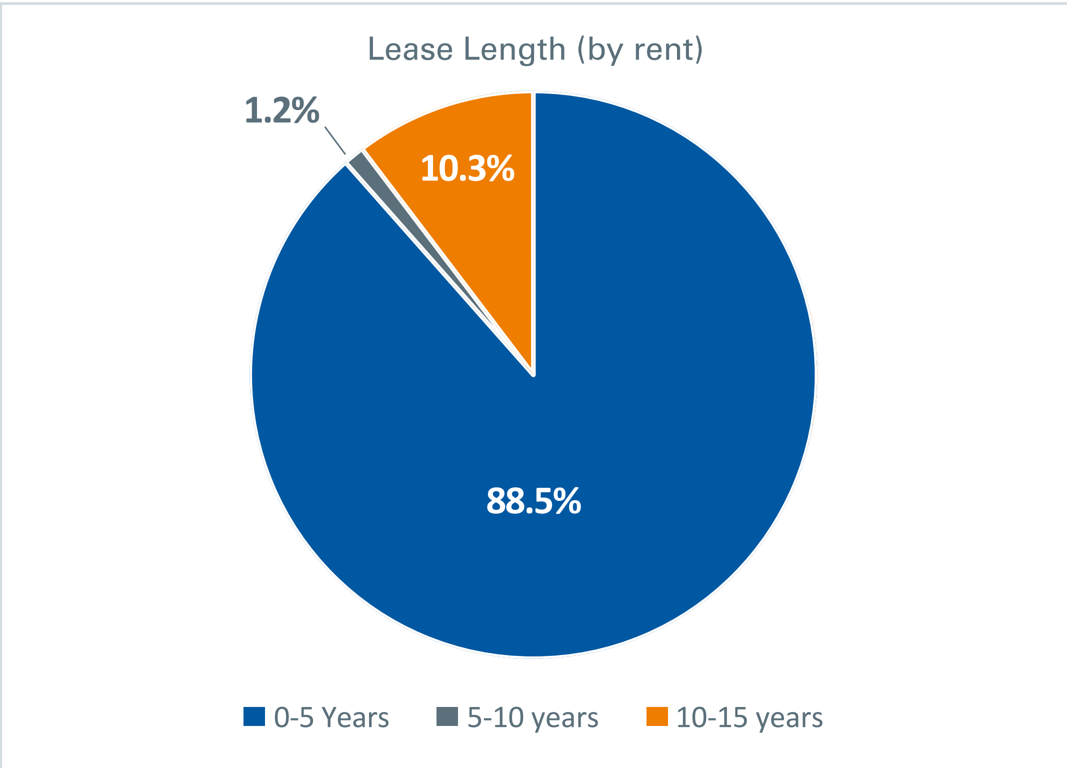
Regeneration Portfolio - Top 10 tenants (by rent) 31 March 2021

Property	% rent
Samsung Electronics (UK) Ltd	17.70%
ADT Fire & Security plc	15.97%
Primark	10.34%
Matalan Retail Ltd	8.27%
Deichmann Shoes UK Limited	3.29%
Decathlon UK Ltd	2.36%
Sportswift Ltd	2.35%
H Samuel Ltd	1.82%
Matthison & Macara LLP	1.63%
Telefonica UK Ltd	1.62%
Total of Top 10	**65.34%**

Longevity of income

Unlike the investment portfolio the properties in the regeneration portfolio were acquired for their medium to long term redevelopment potential. This is reflected by the lease profile which illustrates that 88.5% of the passing rent is due to expire within the next five years. This provides the Council with the opportunity to achieve vacant possession to redevelop the property. Indeed, the Council is actively managing the lease expiries at Communications House, Staines to ensure that vacant possession is provided in 2023 to enable a redevelopment scheme. On mixed office/industrial property such as the Summit Centre short lease terms provide the opportunity to re-let on improved rental terms in a growth market.

The retail market especially during the last 12 months has seen a fundamental shift towards short term leases sub-five years. The weighted average unexpired lease term on the Elmsleigh Centre is 3.4 years. This is reflective of the weak in-town retail market which the Council is aiming to redress through new lettings and lease renewals. The vacancy rate within the Elmsleigh Centre is 4.79% with units 20, 35/36, 47/48 currently available to let. This compares favourably with the south east retail sector vacancy rate of 8.9% according to MSCI/IPD. The overall vacancy rate on the regeneration portfolio is 4.07%.



Asset Profile:
BP Campus, Sunbury Business Park, Sunbury

Asset Details			
Sector: Office/Business Park	**Tenure:** Freehold	**Independent Valuation:** £393.1 million (31 March 2021)	**Purchase Price:** £384.9 million (December 2016)
Property Description:	The main site is arranged as a campus style development comprising of eight buildings constructed between 2000 and 2014. They are of steel framed construction with glazed and aluminium cladding under a flat roof. They are fitted out as offices with a Grade A specification although some of the accommodation includes laboratories and a lecture hall. The SW corner site comprises of 4 buildings dating from the 1950's to 2000. The offices, laboratories and warehouse are of a basic internal specification in line with the age of the property. There are 2,001 car parking spaces.		
Total Area: 701,659 sq.ft	**Passing rent:** £17.57 million pa	**ERV:** £19.90 million pa	**Vacancy %** 0%
Key Tenant:	BP International Ltd		

Asset Strategy Summary

Long term hold with indexed linked rent reviews. Next rent review in September and December 2021 which will provide a substantial uplift in income for the Council.

Asset Profile:
12 Hammersmith Grove, Hammersmith, London

Asset Details			
Sector: Office	**Tenure:** Long Leasehold	**Independent Valuation:** £162 million (31 March 2021)	**Purchase Price:** £170 million (January 2018)
Property Description:	The property is located in a prime position in Hammersmith, next to the entrance to Hammersmith Underground station and within easy access to the A4/M4 corridor and Heathrow. The Landmark building was completed in February 2016. The multi-let office building provides Grade A accommodation over ground and ten upper floors.		
Net Lettable Area: 170,011 sq.ft	**Passing rent:** £9.55 million pa	**ERV:** £9.11 million pa	**Vacancy %** 0%
Key Tenant:	We Work Hammersmith, Dazn Media Services, Creative Arts Agency, Medidata Europe Ltd, Research Instruments ltd and All Nippon Airways Co Ltd.		

Asset Strategy Summary

The grade A building is well placed to benefit from a return to positive rental growth over the next five years. Whilst not currently reversionary, it is anticipated that rental uplifts will be achieved at rent reviews in 2022/23. Capital growth is expected to turn positive in 2022. The property should benefit from the post pandemic trend towards satellite offices outside Central London.

Asset Profile:
3 Roundwood Avenue, Stockley Park

Asset Details			
Sector: Office/Business Park	**Tenure:** Freehold	**Independent Valuation:** £18.34 million (31 March 2021)	**Purchase Price:** £21.40 million (July 2017)
Property Description:	Stockley Park is a well-established business park located near Uxbridge with excellent transport connections to J4 of the M4, M25, Heathrow Airport and Central London via Hayes and Harlington Rail Station, Uxbridge Underground station and soon Crossrail. The property was built in 1990 and was comprehensively refurbished in 2014 and 2016. It is a two storey, steel-framed building with glazed atrium reception and WC's and shower facilities on both ground and first floor. The refurbished office space provides 4 pipe fan coil air conditioning, LED lighting, raised floors, metal tiled suspended ceiling. A car park provides 136 car parking spaces, a ratio of 3.17 spaces per 1,000sq.ft.		
Net Lettable Area: 42,961 sq.ft	**Passing rent:** £1.43 million pa	**ERV:** £1.44 million pa	**Vacancy %** 0%
Key Tenant:	Verifone (UK) Ltd, Volga DNEPR (UK) Ltd		

Asset Strategy Summary

To maintain the income stream and avoid void costs by retaining the tenants where possible bearing in mind both have break options in 2022 and 2024. To ensure that the building is maintained to a high standard to retain its competitive edge on the business park.

Asset Profile: World Business Centre 4, Newall Road, Heathrow Airport

Asset Details			
Sector: Office	**Tenure:** Part freehold and part leasehold	**Independent Valuation:** £46 million (31 March 2021)	**Purchase Price:** £47.248 million (September 2017)
Property Description:	Located to the north of Heathrow airport it is a stand-alone office building adjacent to World Business Centre 1, 2 and 3. A modern, grade A building completed in 2018 it provides open plan accommodation over ground and three upper floors. There is an underground car park providing a car parking ratio of 1:556sq.ft. It is a single-let building on full repairing and insuring terms.		
Net Lettable Area: 89,282 sq.ft	**Passing rent:** £2.46 million pa	**ERV:** £2.37 million pa	**Vacancy %** 0%
Key Tenant:	Amadeus IT Services UK Ltd		

Asset Strategy Summary

Long term hold to benefit from the 11 year income return. Asset well placed to withstand market movement due to grade A building, close proximity to Heathrow and long lease to a tenant of substantial financial strength.

Asset Profile:
Elmbrook House, 18-19 Station Road, Sunbury-on-Thames

Asset Details			
Sector: Office	**Tenure:** Freehold	**Independent Valuation:** £7.23 million (31 March 2021)	**Purchase Price:** £7.160 million (December 2016)
Property Description:	The property was constructed in the mid 1990's and comprehensively refurbished in 2016. It is three storey concrete framed structure with brick elevations and hipped slate covered roof. The property provides office accommodation over ground with three upper floors.		
Net Lettable Area: 19,480 sq.ft	**Passing rent:** £0.477 million pa	**ERV:** £0.458 million pa	**Vacancy %** 0%
Key Tenant:	Complete Cover Group Ltd		

Asset Strategy Summary

The property provides a good income for a further 5 years (lease expires 2026).

It provides flexible office space in a regional market and compares favourably to other office accommodation in the area in terms of parking and transport connections. The property benefits from planning consent for a change of use from offices to residential apartments. The site together with 17 Station Road also owned by the Council has development potential to provide a high number of residential dwellings when the lease expires.

Asset Profile:
Charter Building, Uxbridge

Asset Details			
Sector: Office	**Tenure:** Freehold	**Independent Valuation:** £105 million (31 March 2021)	**Purchase Price:** £135.98 million (August 2018)
Property Description:	The property is located in Uxbridge town centre within close proximity to the train station and well connected to Central London and Heathrow. Completed in 2017 it provides modern, high quality office accommodation over lower ground and five upper floors. The building benefits from a large reception area and five storey atrium, decked roof terraces, coffee shop, concierge service and 326 car parking spaces. The open plan floorplates of c.54,000 sq.ft provide flexible space that can be split in size to accommodate tenants from 3,000 sqft upwards.		
Net Lettable Area: 235,458 sq.ft	**Passing rent:** £3.12 million pa (excl. guarantees)	**ERV:** £7.41 million pa	**Vacancy (as % of floor area):** 46%
Key Tenant:	IWG t/a Spaces, Tracelink Europe, Parkside Recruitment, AVA Security, Regeneron, Insight Direct, Validity International, Lavazza Coffee (UK) Ltd.		

Asset Strategy Summary

To let the vacant space so the building is fully income producing at rents that are at or above the market rate. The building is best placed to benefit from the post pandemic uptick in demand for satellite offices within close proximity to Central London, Heathrow and soon Crossrail. Over the next five years as the market recovers the building should benefit from rental growth and positive capital growth.

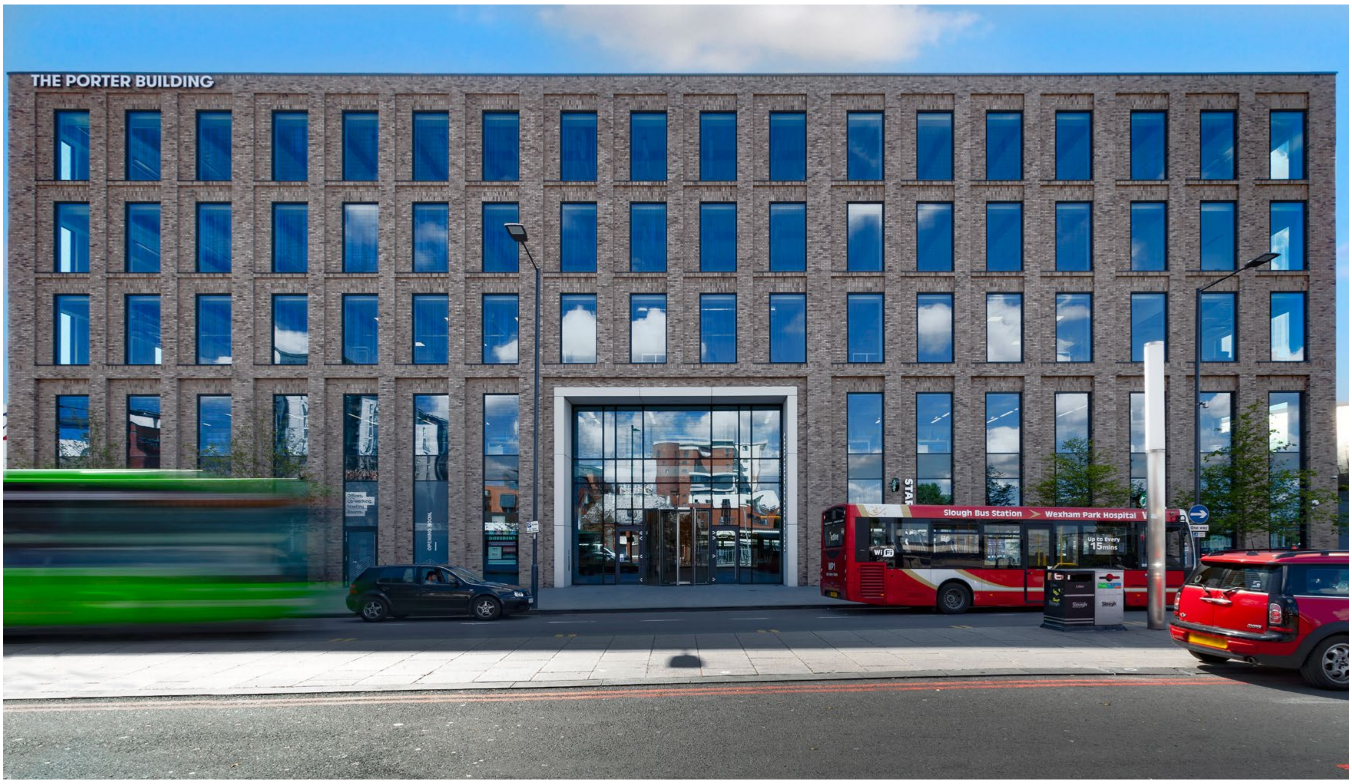
Asset Profile: Thames Tower, Reading

Asset Details			
Sector: Office	**Tenure:** Freehold	**Independent Valuation:** £113.8 million (31 March 2021)	**Purchase Price:** £119.32 million (August 2018)
Property Description:	An iconic building completed in 2017 it provides high quality office space in central Reading. It is prominently located in Reading town centre adjacent to Reading train station. It provides Grade A office accommodation over basement, ground and 14 upper floors. Floor plates of c.14,000sq.ft allow for sub-division and multiple occupation. A private occupier terrace and café is provided on the 14th floor. The area surrounding Thames Tower known as Station Hill is subject to redevelopment providing further office, retail, residential and public open space thereby improving the location.		
Net Lettable Area: 190,868 sq.ft	**Passing rent:** £6.36 million pa (excl. guarantees)	**ERV:** £6.61 million pa	**Vacancy (as % of floor area):** 0%
Key Tenant:	Fora, Pret a Manger, Clarkslegal, Make a Wish, Broadway Malyan, HSBC, MBNL, Eriksson, BDO, Austin Fraser, Objective Corporation.		

Asset Strategy Summary

The building is multi-let which provides active management opportunities to improve the income profile by negotiating longer leases, increasing the rents, removing break options or improving the covenant strength. The building is reversionary and with Reading forecast to recover from the pandemic quicker than other SE towns the medium term prospects for rental growth and capital growth are positive.

Asset Profile:
The Porter Building, Slough



Asset Details			
Sector: Office	**Tenure:** Freehold	**Independent Valuation:** £62 million (31 March 2021)	**Purchase Price:** £66.47 million (August 2018)
Property Description:	The building was developed in 2017 to a high specification achieving WELL certification. It is located in a prominent position in Slough town centre opposite the station. It provides high quality office accommodation over ground and four upper floors on floor plates of c.27,000 sq.ft allowing for sub-division and multiple occupation. A communal terrace is provided on the fifth floor and basement car parking.		
Net Lettable Area: 116,732 sq.ft	**Passing rent:** £3.4 million pa	**ERV:** £3.85 million pa	**Vacancy (as % of floor area):** 0%
Key Tenant:	Starbucks, Fiserv, Spaces, Mattel and Orange Business Services.		

Asset Strategy Summary

A multi-let office building which provides active asset management opportunities to increase value through lease extensions, new lettings, removing break options and improving covenant strength. Medium term opportunities to benefit from anticipated rental growth at rent reviews in 2022/23 and capital growth especially when Crossrail is finally operational.

Asset Profile:
Elmsleigh Shopping Centre, Staines

Asset Details			
Sector: Retail	**Tenure:** Freehold	**Independent Valuation:** £27.6 million (31 March 2021)	**Purchase Price:** £39.325 million (February 2020)
Property Description:	The Elmsleigh Shopping Centre is a modern (refurbished in 2007), covered shopping mall fronting the High Street and with access at the rear to Friends Walk and bus station. Adjoining the Centre is a multi-storey car park. The freehold was purchased by Spelthorne in February 2020 and in January 2021 105-107 High Street was acquired. The asset also includes 1-6 Friends Walk, 77 High Street, 91-93 High Street, 101-103 High Street, and Tothill multi-storey car park. The shopping centre and adjacent premises currently present 51 separate retailers plus additional mall kiosks and the Centre is anchored by Primark and Matalan.		
Net Lettable Area: 253,767 sq.ft	**Passing rent:** £3.13 million pa	**ERV:** £3.40 million pa	**Vacancy (as % of floor area):** 4.79%
Key Tenant:	Deichmann, Matalan, Primark, M&S, H&M, New Look, and others		

Asset Strategy Summary

A strategic long-term regeneration investment for the Council, Elmsleigh Centre is also a focal point at the heart of the community. An opportunity to maximise potential on multiple levels – housing, work, communications, community, leisure, retail – it is key to the prosperity of Staines. The Council is committed to promote and improve Staines as a thriving centre.

Asset Profile: Communications House, South Street, Staines

Asset Details			
Sector: Office	**Tenure:** Freehold	**Independent Valuation:** £14.70 million (31 March 2021)	**Purchase Price:** £11.70 million (July 2018)
Property Description:	The property is located in Staines town centre adjacent to the Tothill car park and the Elmsleigh Shopping Centre. Constructed in 1981 and refurbished internally in 2013 it provides office accommodation over ground and five upper floors. The building is an 'L' shaped, brick construction with a flat roof. Currently let on short term leases which would allow a redevelopment scheme to commence in 2023.		
Net Lettable Area: 48,194 sq.ft	**Passing rent:** £1.16 million pa	**ERV:** £1.25 million pa	**Vacancy (as % of floor area):** 6.49%
Key Tenant:	Samsung Electronics (UK) Ltd, Pros Europe Ltd, Anglo Gold Ashanti Holdings Plc, Mathison & Macara LLP.		

Asset Strategy Summary

To maximise the income in the short term by re-letting the part 4th floor until 2023. In the medium term there is the potential to redevelop the site in conjunction with other property assets owned by the Council nearby such as Tothill Car park.

Asset Profile: The Summit Centre, Sunbury

Asset Details			
Sector: Light Industrial/Office	**Tenure:** Freehold	**Independent Valuation:** £12.7 million (31 March 2021)	**Purchase Price:** £13.79 million (September 2019)
Property Description:	The site of 4.47 acres includes a mix of industrial and office accommodation constructed during the 1970's and 1980's. Units 3 & 4 provide a 2 a storey office and R&D space over 56,412 sq.ft. 33 Hanworth Road provides 1970's style office accommodation with a warehouse to the rear totalling 10,627 sq.ft. There is a terrace of 6, small industrial units ranging in size from 997 to 1,196 sq.ft.		
Net Lettable Area: 73,398 sq.ft	**Passing rent:** £1.02 million pa	**ERV:** £1.10 million pa	**Vacancy (as % of floor area):** 0%
Key Tenant:	Johnson Controls/ADT Fire and Security plc, SSS Gears, Sandrair International Ltd, LP Custom Clearance.		

Asset Strategy Summary

To maintain short/medium term income by renewing leases if possible or re-letting at rents in excess of rental value. The longer-term strategy is to redevelop the site to meet the housing needs of the borough.

Glossary

Capital Growth - The increase in value of the property over time also known as capital appreciation. It can be calculated with reference to the previous valuation or since purchase.

Capital Return – In the context of the report this is the capital value growth shows the capital appreciation since the date of purchase.

Capital Value - This is also known as the property's market value. The market value is defined by the International Valuation Standards Council 'IVSC' and the Royal Institution of Chartered Surveyors to mean 'the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The IVSC makes it clear that a "willing seller" is simply a seller motivated to sell at the best price obtainable on the valuation date.

Estimated Rental Value (ERV) - The estimated annual rent that would be achieved if the floor space was to be re-let in the open market at the valuation date. The rental value is determined by Carter Jonas, the Council's appointed valuers.

Equivalent yield - The internal rate of return of the cashflow from the property, assuming a rise to ERV (estimated rental value) at the next review but with no further rental growth.

Grade A – This refers to the quality of the office space. A Grade A building is the highest quality of building, it is typically newly constructed or substantially redeveloped. It is considered the best in class in terms of aesthetics, standard of finishes, state of the art systems and location.

Gross/Net Rental Income – The actual rent received or receivable either including or excluding revenue costs such as marketing costs, letting fees, void costs.

Income Yield/Net Initial yield – The annual passing rent less costs as a percentage of the capital value, after adding notional purchaser's costs. In the report the income yield has been calculated at the valuation date.

Investment cover – The ratio of net income received by the Council to the total payable in loan repayments and interest in the financial year.

Lot size – The capital value of the property.

Net Asset Value – The full value of all the properties owned by Spelthorne Borough Council.

Passing rent – The contracted rent or gross rent less any ground rent payable under the lease over a 12 month period.

Quarter Day – The dates specified under the lease when the rents are payable. The English quarter days are 25th March, 24th June, 29th September and 25th December.

Rent free period – A period of time during the lease when the tenant does not have to pay rent. Typically granted to a tenant as an incentive to enter into a lease.

Reversionary Lease – A lease which is granted today but has a future term commencement date. They are granted to extend a tenant's lease.

Vacancy rate – The amount of space within a property which is currently empty and not generating rent as a percentage of the whole property or portfolio. The rate can be expressed a percentage of floor area or as a percentage of the estimated rental value.

Void – A period when the property is vacant and is not generating any rent.