

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