

Appendix 1
PORTFOLIO ASSET INVESTMENT STRATEGY
APRIL 2025 – MARCH 2026

1. Portfolio Overview (as at 31 March 2025)

No of assets	11 (8 Investment & 3 Regeneration* inc Summit Centre under offer)
No of tenants	135 (including Elmsleigh)
Rental income	£46.79m pa vs £44.80m pa 2024
Vacancy rate (Investment)	9.96% vs 9.92% 2024
Vacancy Rate (Regen)	9.61% vs 14.34% 2024
South East Office av vacancy rate	26.6% vs 21.9% 2024
Portfolio Net Initial Yield	6.44% (combined Investment & Regeneration) vs 6.45% 2024
Capital Value	£623.85m vs £650.36m 2024

2. Summary 12 month strategy 2025-2026

The management approach for the next 12 months will be aligned with the Strategic Objectives for the Investment portfolio as set out in the Asset Management Strategy:-

“The strategic objectives for the investment portfolio are that it:

- Provides a net revenue return to the Council after all costs and risks are accounted for
- Maintains its long-term value
- Contributes to the Council's wider objectives and the economic and social wellbeing of Spelthorne residents
- Does not put the Council in a position of unquantified risk”

The Strategy will be aligned with the requirements of the Improvement and Recovery Plan. The Council will also engage in collaborative work with our Surrey councils to share data on our assets as we move towards the new unitary authorities. The overarching strategy for the next 12 months is to maintain and improve the income received across the Investment and Regeneration portfolios by:-

- a) Securing new leases on vacant accommodation;
- b) Prioritising the removal and/or deferment of break options;
- c) Agreement of lease renewals well ahead of expiry dates; and
- d) Settlement of outstanding rent reviews

At the same time, the Assets team will limit the Council's exposure to revenue expenditure and other financial risk caused by:-

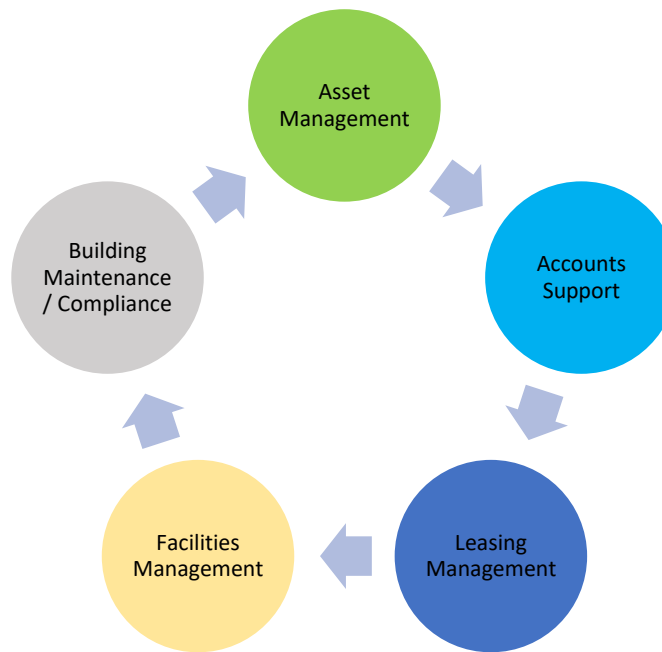
- a) Holding costs on void properties (e.g. business rates, service charge, insurance and utility costs);
- b) Refurbishment costs following a tenant break or lease expiry; and
- c) Fees paid to professional advisers.

In order to achieve these goals, our approach will be to:-

- a) In line with Improvement and Recovery Plan and the assets disposals and debt reduction directions issued following the Best Value Inspection report seek to move forward disposals where there is a business case for doing so
- b) Actively engage with our occupiers to understand their business needs;
- c) Procure any refurbishment or works projects in accordance with Contract Standing Orders to ensure best value for the Council is achieved;
- d) Utilise external advisers prudently and only where the relevant skills are not available within the existing Assets team; and
- e) Maintain the 'Golden Thread' approach to effective Corporate Landlord style management of the portfolio, as identified in the Asset Management Plan

The Corporate Landlord management approach is summarised in the image below, and highlights how the various teams and disciplines within the Assets department are involved in a consistent way to maximise income and mitigate against risk. In addition, the Assets team works closely with other teams within the Council (e.g. Legal, Finance) to ensure a consistent approach towards asset management of the portfolio.

The key lease events and CAPEX for 2025/6 are detailed in Appendix 1 which, due to commercially sensitive information, are contained in Part 2.



As previously reported in the 2024 Asset Investment Strategy, the flight to quality offices remains the key driver of relocating businesses, keen to secure quality offices for their employees and encourage them back to the office. The Council remain well placed in this flight, offering a 'best in class' investment, as re-affirmed in the Jones Lang La Salle report of December 2023, with high environmental ratings and good communal staff welfare facilities. The portfolio which has shown its resilience over the past 3 years retaining a significantly lower than average void rate when compared with SE offices and is well placed to benefit from increased tenant demand and the low rates of new office construction.

The ESG (Environment, Social and Governance) agenda is also becoming notably important to potential occupiers, who are keen to understand buildings EPC's, building wellness ratings and Landlords green policies for the duration of their lease. Whilst the JLL portfolio review (December 2023) highlighted that 75% of the Council's Investment portfolio enjoys EPC ratings of A or B, some do expire in 2027/8.

It is imperative that the Council stay ahead of the curve and to this end we intend to commission a full environment audit in 2025. This will enable us to strategically manage cost exposure both to our tenants and the Council over a number of service charge years in implementing any recommendations in order to retain or improve our EPC and environmental ratings.

Fundamental to our asset management strategy remains our relationship with our Tenants and bringing forward, where possible, lease negotiations to mitigate risk.

One of the major initiatives which commenced in 2024 and is ongoing is the review of the future of the BP SW Corner. Electrical capacity surveys were undertaken in 2024 and the results of these have fed into a report now commissioned by Knight Frank into the future strategy of the site. The report and its viability surveys will feed into our future strategy for the entirety of the site which will be progressed throughout 2025.

During 2024, a number of properties were brought back to be managed in house including World Business Centre 4 and Summit Centre and we recently brought the rent collection for the investment portfolio (offices) in house, demanding the March quarter 2025. This has proved to be beneficial in enhancing the Council's cashflow and has significantly improved rent collection rates across the portfolio achieving 99.63% of rent collectable within 4 days of the quarter day. Building on this success, the Elmsleigh shopping centre will be brought in house in September.

We will also be re-tendering the property management contract in late Spring 2025 for the office portfolio.

Finally, risk will continue to be monitored and addressed through the regular review of Key Performance Indicators and the portfolio Risk Register, as part of the wider Asset Management reporting process (see below). Financial performance against budget continues to be monitored on a monthly basis, working closely with Finance colleagues.



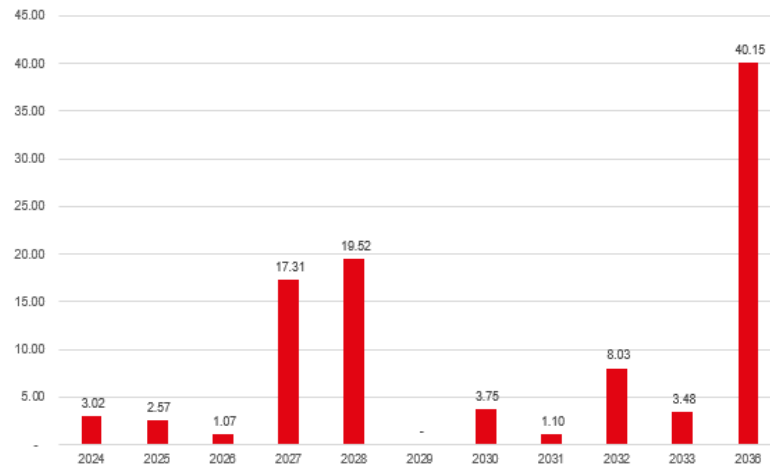
3. Medium Term Strategy 2025-2028

It was recommended by the BVI inspection that our Exit Strategies were further developed to inform decision making regarding the future of our assets and an external surveying company will look to develop these further in Q1 2025. The results of these will form our short to medium term comprehensive commercial strategy review which will determine our action plan to determine whether assets should be held, disposed of or consideration should be made towards a change of use, over a 10 year period.

The medium term asset management strategy remains to secure early lease renewals where possible to alleviate the pinch point in lease expiries across the portfolio in 2027/8. With this date now only 2 years off, we anticipate more tenants will commence engaging with us, with many previously citing 2027/8 as being too distance to plan/commit. Where there are buildings with a number of expiries, for example Hammersmith Grove, agents have been instructed to assist with these negotiations.

The graphic below shows the percentage of the portfolio income (by rental value) which is due to expire in each of the years shown.

Portfolio: Lease Expiry Profile



*Based on Asset Data supplied.

It will also remain imperative that our assets remain “best in class” and we will be continually reviewing and evolving our asset management medium term strategy to align with marketplace requirements to ensure we maintain our agility to move with trends and occupier demands.

4. Aggregated Business Plans

Detailed below are the aggregated business plans for the next 5 years and exclude Summit Centre (freehold under offer).

Financial Year Ending	2025/2026	2026/2027	2027/2028	2028/2029	2029/2030
Annual Gross Rental Income without any deductions	£48,643,510	£51,815,542	£53,902,061	£53,595,989	£57,409,565
Accrued Rental Income pa(excluding Elmsleigh)	£41,903,878	£46,070,860	£45,900,849	£42,785,006	£44,739,726
Rent Free Incentive	-£3,536,720	-£4,565,615	-£6,351,862	-£5,943,237	-£5,344,760
Gross Rental Income less Rent Free	£45,106,790	£47,249,928	£47,550,200	£47,652,752	£52,064,804
Capital Expenditure	-£6,997,459	-£10,546,708	-£4,591,265	-£5,093,238	-£2,986,658
MRP/Interest	-£35,017,005	-£35,078,178	-£35,136,616	-£35,181,361	-£35,217,422
Net Income (less all costs)	£3,092,326	£1,625,041	£7,822,318	£7,378,153	£13,860,724
Amalgamated Accrued Rent (exlcuding Elmsleigh)	£41,903,878	£46,070,860	£45,900,849	£42,785,006	£44,739,726
Costs (excluding Elmsleigh)	-£40,333,860	-£44,038,343	-£38,120,706	-£38,648,307	-£36,629,120
Net Income	£1,570,017	£2,032,517	£7,780,143	£4,136,699	£8,110,606

3 Yr Average	5 Year Average
£51,453,705	£53,073,333
£44,625,196	£44,280,064
-£4,818,065	-£5,148,439
£46,635,639	£47,924,895
-£7,378,478	-£6,043,066
-£35,077,266	-£35,126,116
£4,179,895	£6,755,712
£44,625,196	£44,280,064
-£40,830,970	-£39,554,067
£3,794,226	£4,725,996

