

Cabinet 25 September 2017

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16 EXCLUSION OF THE PRESS AND PUBLIC To resolve to exclude the press and public as the following item is exempt by virtue of Paragraph 3 of Part 1 of Schedule 12a of the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)	
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Report to Cabinet

Title:	Property Investment Programme - Knaves Beech Retail Park Investment Opportunity.
Date:	25 September 2017
Date can be implemented:	03 October 2017
Author:	Cabinet Member for Resources
Contact officer:	Oster Milambo – D/Head of Strategic Assets
Local members affected:	Cllr David Shakespeare OBE – Tylers Green & Loudwater
Portfolio areas affected:	Resources

For press enquiries concerning this report, please contact the media office on 01296 382444

There is a confidential appendix to this report, which is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government (Access to Information) (Variation) Order 2006 because it contains information relating to the financial or business affairs of any particular person.

Summary

The Council's new Property Asset Management Plan (PAMP) has changed the way we manage our Property Assets. One of its innovations is to develop a commercial investment property portfolio. This is predicated on properties of a low risk profile, achieving a minimum net initial yield of 6.00% (to cover the risks and to ensure that the financing costs of any required borrowing are adequately covered by the anticipated income) subject to thorough due diligence.

An opportunity which satisfies these criteria has been identified at Knaves Beech Retail Park, Loudwater, High Wycombe, HP10 9QY ("Property"). The investment presents an off-market opportunity that Aviva ("the Vendor") is willing to transact directly with the Council, subject to agreeing terms, due to the Council's covenant strength and its ownership of the adjoining Knaves Beech industrial estate, without exposure to greater competition and potentially a higher asking price. The opportunity presents an attractive net initial yield of 6.12% after



INVESTOR IN PEOPLE



deducting purchaser's costs of 6.75%. The Property yields an annual income of £1,580,000.00. This is an off market freehold acquisition.

This investment comprises a multi-let retail warehouse park of 4 units having a total floor area of approx. 88,200sqft. The units range in size from 10,600sqft to 45,600sqft and are arranged as a detached bulky goods store together with a terrace of four units having the benefit of open A1 planning use. Please see attached plan for further detail: the areas edged red is BCC's current ownership (999 year lease), whilst Aviva retained the land edged blue, hatched grey and the roadways coloured purple, subject to a right of way to BCC in perpetuity.

The property is prominently located at Junction 3 of the M40 Motorway at High Wycombe, approximately 8 miles west of Junction 16 of the M25. Occupiers located nearby include a Tesco superstore, together with Costa Ltd., Clinimed Ltd. and Ultra Electronics Ltd. who are tenants on the adjoining industrial estate which is within the Council's ownership.

The property is let on four FRI leases with an average unexpired lease term of circa 12 years to lease expiry.

This also offers the Council the opportunity to acquire the Freehold interest in their adjoining Industrial Estate which is currently held as a 999-year leasehold ownership. The aggregated freehold ownership gives the Council greater control of the estates with regards to potential future developments/capital improvements on site.

We are seeking Cabinet Approval to proceed with the usual in-depth due diligence and, if satisfied, to make arrangement for the required finance to be available to secure this freehold opportunity.

Recommendation

That Cabinet:

- 1. Approve further formal due diligence and negotiations with Aviva's investment agent; and**
- 2. If there is a successful outcome from the process of further due diligence and negotiations, authorise the finance arrangements for the Council to conclude the purchase of the Property including the execution of all**
- 3. agreements to facilitate completion of the purchase.**

A. Narrative setting out the reasons for the decision

The County Council's PAMP incorporated a number of innovations which are fundamentally changing the way we manage our property assets.

The core thread of this plan is to adopt a commercial approach in the management of the Council's property portfolio. This entails disposing of underperforming and surplus properties whilst understanding longer term opportunities of the retained portfolio – not only in terms of supporting service delivery, but also as a means of deriving long term revenue streams for the Council.

In this context, the Council has embarked on a property investment programme of acquiring income-generating investment commercial properties using a combination of cheap prudential borrowing and its own resources. The income derived from this portfolio will provide a long term revenue stream for the authority which will be used to support service delivery across the County.

The property investment programme targets a mixture of all commercial sectors of low risk with tenants of good covenant strength, along with a target net initial yield of 6% and above so that the income generated exceed the borrowing costs should this be required to finance / part finance the purchase costs.

Our professional advisers, Carter Jonas, are instructed to search for investment opportunities and recommend them to the Cabinet Member for Resources in liaison with the Council's informal Board, the Investment Group (IG). The IG consists of the Cabinet Member for Resources and his deputy, and senior Council officers whose mandate it is to assess the opportunities using the agreed criteria and decide which ones to recommend to Cabinet for approval.

Many opportunities have been reviewed in depth by the IG and our professional advisers Carter Jonas.

An opportunity has arisen to purchase a retail park together with the freehold interest in the Council owned adjoining industrial estate, at a net initial yield of 6.12% and an income stream of £1,580,000.00 per annum, located in a strong South East location with excellent links to the motorway network. It is fully let to a resurgent Homebase Ltd, Dunelm (Soft Furnishings) Ltd, TJ Morris Ltd, and Carpetright.

B. Other options available and their pros and cons

There are other opportunities currently being investigated by the IG supported by Carter Jonas. These opportunities will be assessed on their own merit and whether they meet the set criteria in the Council's Investment Strategy. Viable opportunities will be recommended to Cabinet in due course subject to the Council not being priced out of the market or gazumped. The retail park opportunity does fulfil our selection criteria.

If we miss this opportunity, the Vendor may choose to release it to the open market thereby exposing the Council to greater competition and potentially a higher asking price.

We could choose not to invest in income-generating commercial property at all. However, this would put pressure on the Council to find alternative savings as our approved budget plans have a set MTP savings and income target from property of £1.50m by 2018/19.

C. Resource implications

The financial implications relating to this proposed purchase are commercially sensitive and are explained in the attached confidential appendix to this report. The cost of purchase will be funded from borrowing. The rental income will far exceed the financing costs of borrowing and the annual revenue costs of managing the property.

D. Value for Money (VfM) Self Assessment

This investment opportunity has gone through a due diligence process, including fully understanding the risks and issues of the proposed purchase. Furthermore, the net initial yield exceeds the Council's agreed 'hurdle rate' of 6.00% which will ensure that the income generated exceeds the financing costs of borrowing.

E. Legal implications

HB Public Law, the Council's in-house legal service has been consulted with regard to the preparation of this report.

Local authorities have broadly drawn powers allowing them to invest and to borrow, in each case either for purposes relevant to the performance of any of their functions or generally for the prudent management of their financial affairs (s1 and s12 of the Local Government Act 2003). They may also acquire property by agreement located either inside or outside of their borough for the purposes of any of their functions, including their investment functions, or otherwise for the benefit, improvement or development of their area (s120 of the Local Government Act 1972). Lastly, they may also take any action (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions, which would again include their investment functions (s111 of the Local Government Act 1972).

The Council will ensure that in exercising its investment and borrowing functions to expand its property portfolio, that any actions are reasonable and proportionate and for proper purposes consistent with the Council's prudential regime and its investment strategy. Investment decisions taken are consistent at all times of the Council's fiduciary duties to ensure the sound management of the public finances.

F. Property implications

This paper has been prepared jointly by the Director of Finance & Assets and the D/Head of Strategic Assets based on advice received from our contracted professional service provider Carter Jonas. The property implications and likely costs are accounted for within the yield calculations and risk profile.

G. Other implications/issues

N/A

H. Feedback from consultation, Local Area Forums and Local Member views

The Local member has been consulted and is supportive of this acquisition.

I. Communication issues

Any concerns raised by the public regarding borrowing can be overcome by reference to the revenue receipt.

Members have been consulted as above.

J. Progress Monitoring

A review of progress and ongoing investment value will be overseen by the Cabinet Member for Resources via the Asset Strategy Board.

K. Review

A review of progress and ongoing investment value will be overseen by the Cabinet Member for Resources via the Asset Strategy Board. In the long term, this is expected to be an annual review, but may be more frequent (6 months) in the early formation of

the portfolio to ensure that the Authority is reviewing and learning from the decisions made.

Background Papers

Confidential Appendix 1 – Financial Implications

Confidential Appendix 2 – Investment Summary

Draft Sales Particulars

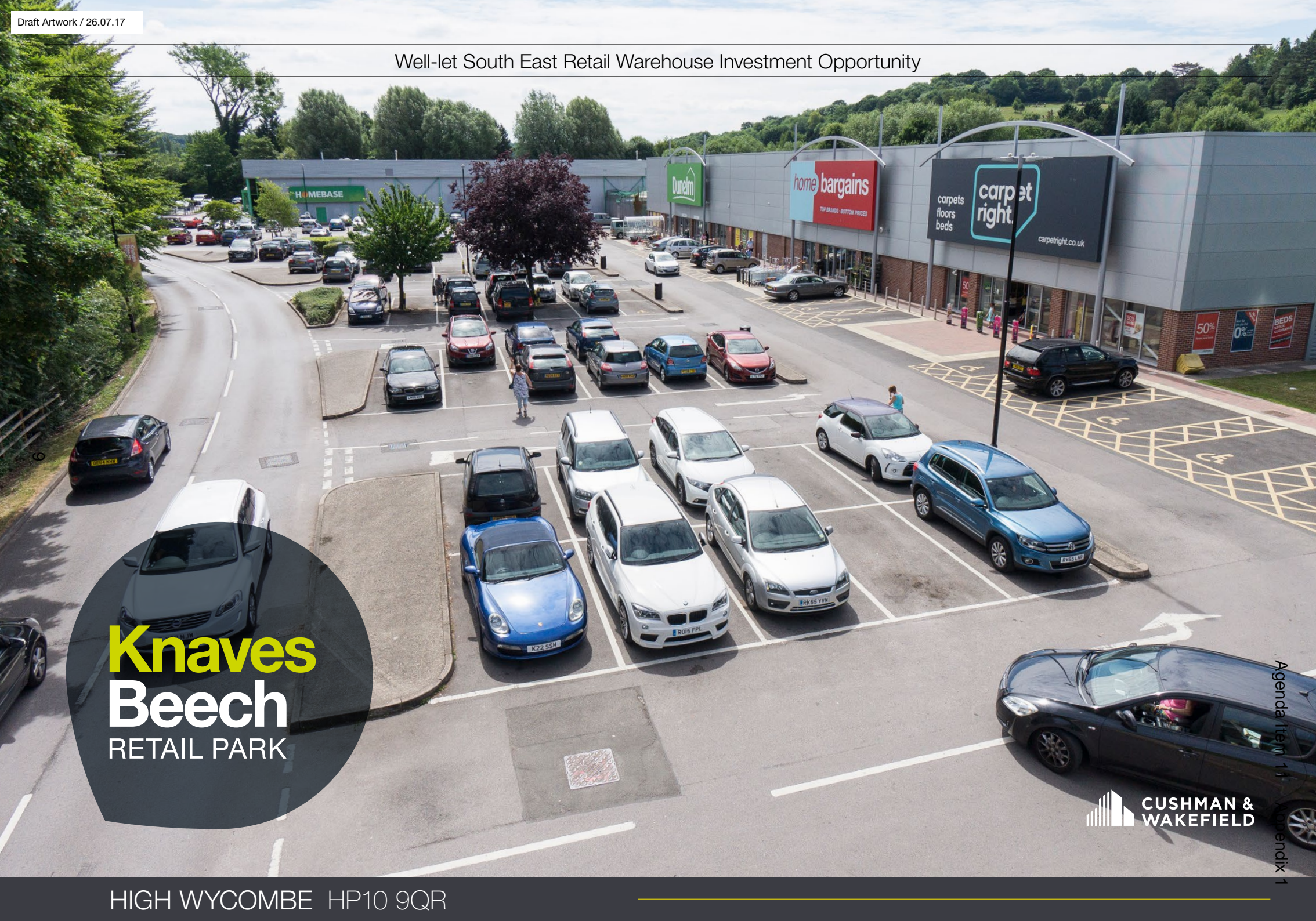
Site Plan

Your questions and views

If you have any questions about the matters contained in this paper please get in touch with the Contact Officer whose telephone number is given at the head of the paper.

If you have any views on this paper that you would like the Cabinet Member to consider, or if you wish to object to the proposed decision, please inform the Member Services Team by 5.00pm on Friday 22 September. This can be done by telephone (to 01296 387969), or e-mail to democracy@buckscc.gov.uk

Well-let South East Retail Warehouse Investment Opportunity



**Knaves
Beech**
RETAIL PARK

To M25 J16 & Central London

M40

Junction 3

A40

TESCO

A40

M40

A4094

Dreams

A4094

**Knaves
Beech**

A4094

HOMEbase carpetright.

home bargains

**Dunelm
mill**

Investment Summary

- A well-let four unit scheme in **one of the UK's most affluent towns**
- **85,506 sq ft** of accommodation with **408 car parking spaces**
- Fully let to **Carpetright, Home Bargains, Dunelm** and **Homebase**, with an AWULT of **11.9 years**
- Total passing rent of **£1,580,000 per annum**, reflecting an average of **£18.48 psf**
- All tenants have recently joined or renewed their leases at the scheme
- **Open A1 (Non-Food)** planning consent, with the Homebase unit subject to **Bulky Goods** consent
- Freehold

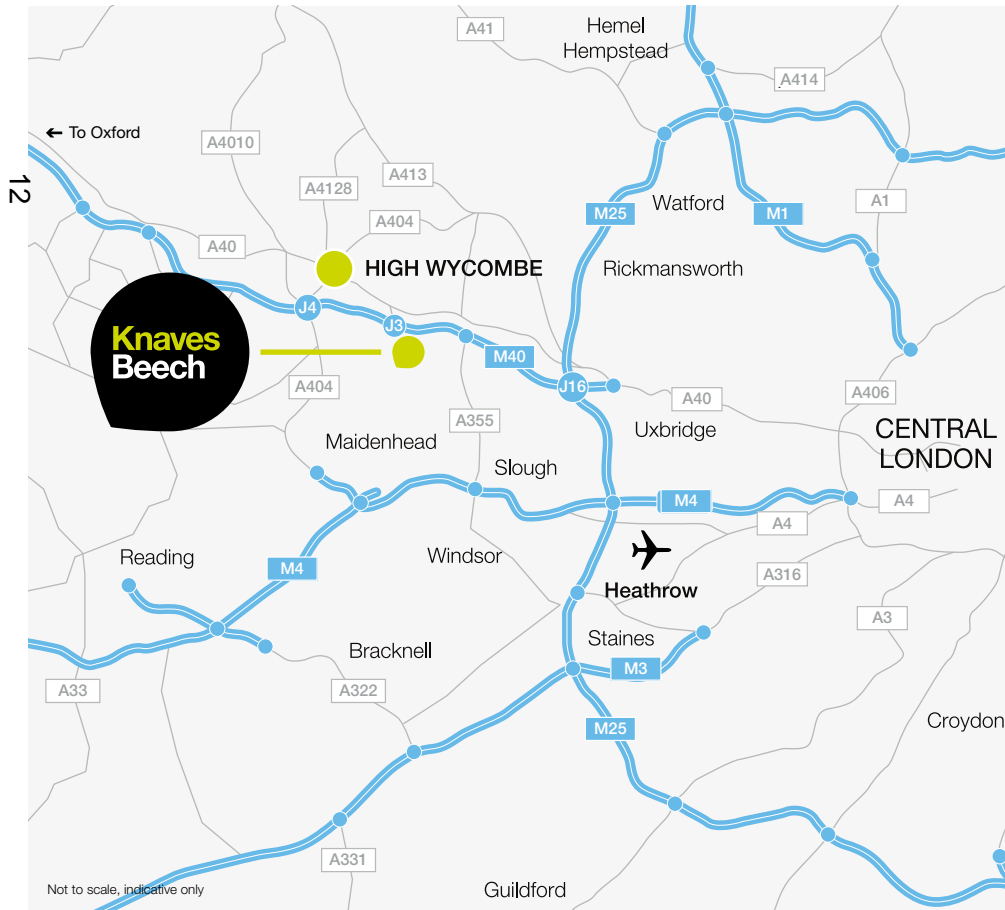
Offers sought in excess of [£x], subject to contract and excluding VAT. A purchase at this level would reflect an attractive net initial yield of [x%], assuming purchaser costs of [x%]



Location

High Wycombe is one of the South East's principal commercial towns and benefits from a highly affluent catchment population. Located 31 miles north west of Central London, adjacent to Junction 4 of the M40 motorway and within 25 minutes of London by train, the town is highly accessible and draws on a significant catchment.

The town also benefits from a captive shopping population, with the nearest competing towns being Oxford, Maidenhead and Slough, all of which are outside of the 20 minute drive time catchment.



Situation

Knaves Beech Retail Park is located to the south east of High Wycombe town centre with retailers in the immediate vicinity including Tesco and Dreams.

The scheme's primary access from the M40 is via the westbound Junction 3, leading directly on to Knaves Beech roundabout and then on to the A4094 (Knaves Beech Way), which provides access to the scheme via Davies Way. The scheme benefits from prominent signage along both the A4094 (Knaves Beech Way) and Davies Way.

Access to the scheme from the eastbound side of the M40 is via Junction 4, which passes through the town centre before connecting to the A40. Customers accessing the scheme from High Wycombe town centre and the surrounding smaller towns do so via the A40 motorway, which links to Knaves Beech roundabout.

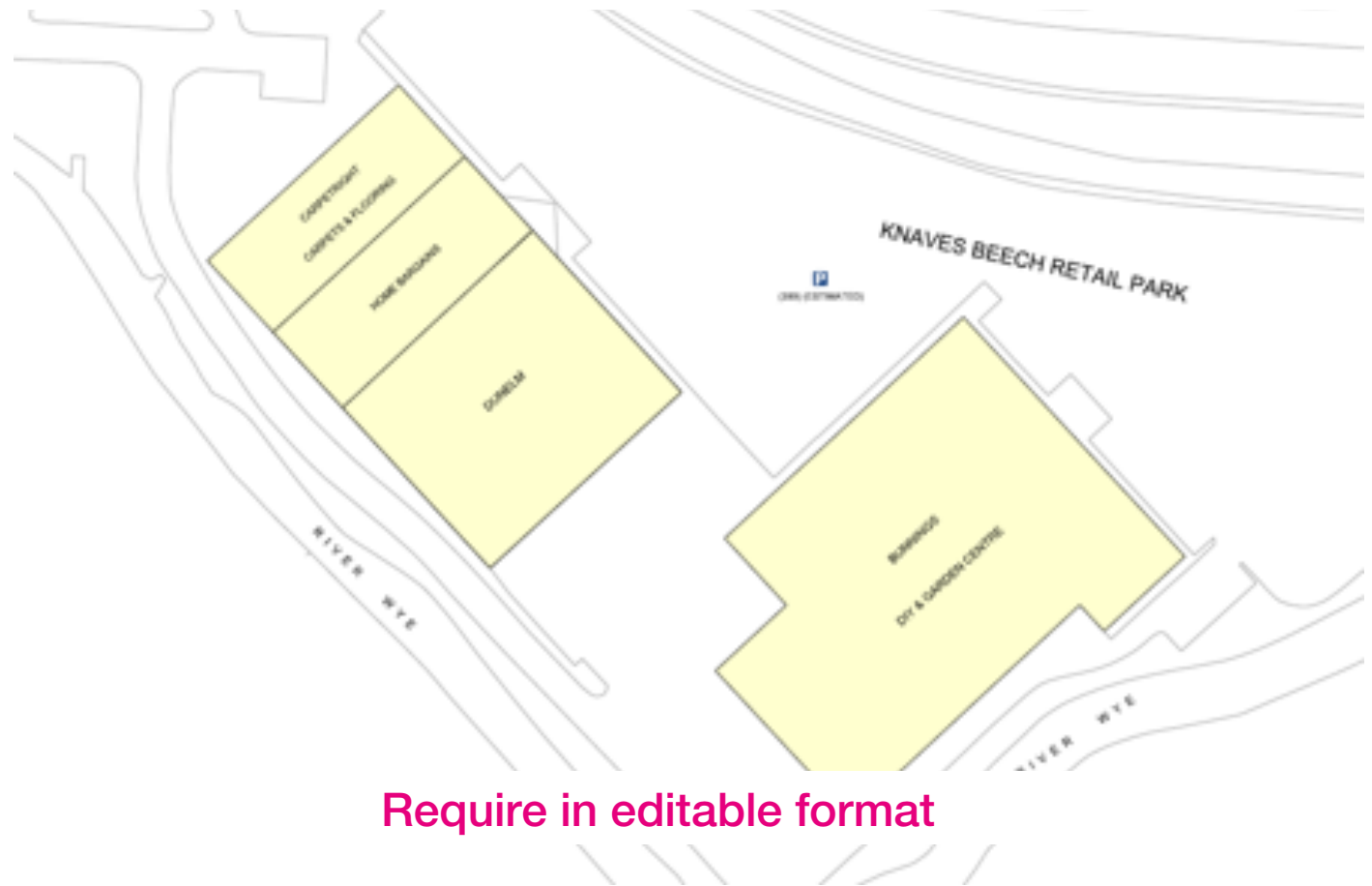
Description

Knaves Beech Retail Park is a four-unit scheme arranged as a three-unit terrace with a standalone Homebase (Bunnings). Originally developed as two units, the terrace has recently been subdivided into three units, onwards with "providing a more flexible range of unit sizes. As part of this subdivision, the terrace was refurbished and now benefits from prominent and modern fascias.

All of the tenants have either recently taken space on the scheme or re-gearred their leases. As such, all tenants are now in right sized units and trade form their most up to date formats. Homebase are due to rebrand their store into the Bunnings format imminently.

Dunelm, who took their unit, after 2016 have incorporated a large trading mezzanine into their unit while Homebase benefits from a garden centre.

Customer access to the scheme is via Davies Way while the units are serviced separately to the rear of the scheme via Boundary Road. In total there are an estimated 408 car parking spaces, providing a car parking ratio of 1:210 sq ft.



Require in editable format



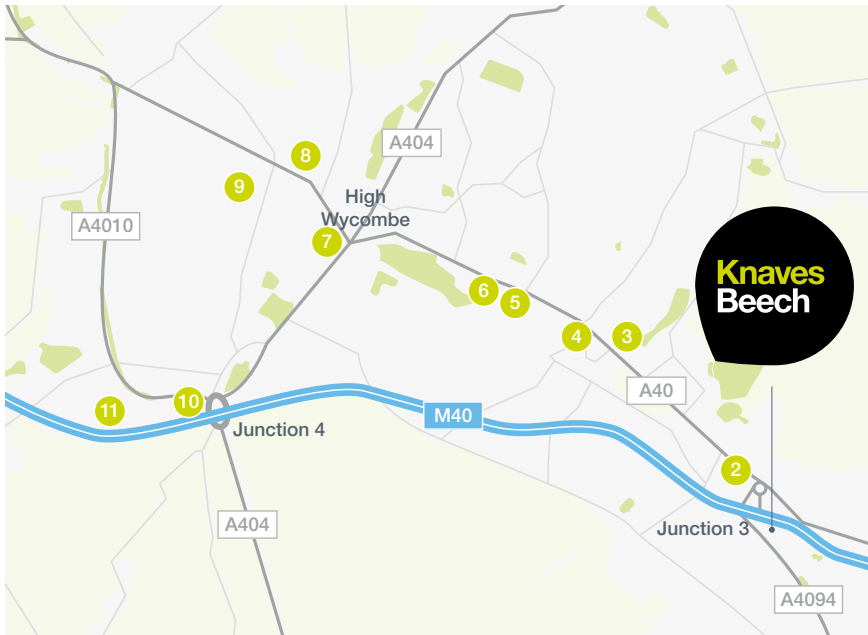
Retail Warehouse Provision

High Wycombe has a relatively limited supply of retail warehouse accommodation, with PROMIS estimating total supply at approximately 629,000 sq ft.

We have set out below the current retail warehouse provision in the town.

- | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ol style="list-style-type: none"> 1. Knaves Beech Retail Park 2. Dreams 3. B&Q & Halfords 4. Wycombe Retail Park (anchored by Wickes) 5. DFS 6. Homebase | <ol style="list-style-type: none"> 7. Lidl 8. Bellfield Road Development 9. Office Outlet 10. Next Home & Garden 11. John Lewis & Asda |
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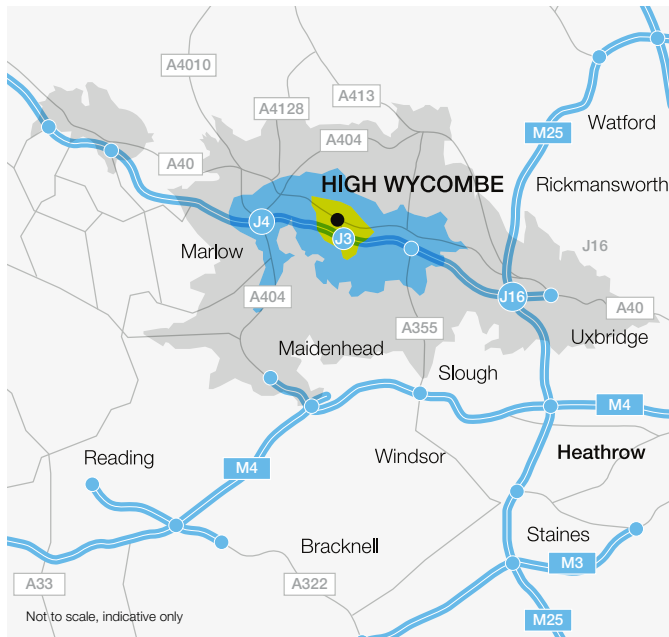


Demographics

PROMIS estimates the total population within High Wycombe to be 226,000. The population is one of the more affluent in the UK, ranking 11 of the PROMIS centres and as a result per capita retail spending levels are significantly above average.

The property has a 5-minute drive time catchment of 16,920, increasing to 73,259 within a 10-minute drive time and 387,109 within a 20-minute drive. Reflecting the wealth of the catchment, consumer expenditure is significantly higher than the national average in 31 out of 32 CACI expenditure categories, with the only below average spending within the tobacco category. Total comparison goods expenditure is 23% higher than the national average.

KEY 5 mins drive 10 mins drive 20 mins drive



High Wycombe benefits from one of the most affluent catchments in the UK

Tenancy Schedule

The scheme has an average weighted unexpired lease term 11.9 years.

Unit	Tenant	Trading Fascia	GIA (sq ft)	Lease Start	Term (yrs)	Lease Expiry	Next Rent Review	Rent (pa)	Rent (psf)	Comments
D1	Carpetright plc	Carpetright	7,763	30/07/2014	10	25/02/2026	30/07/2019	£189,000	£24.35	Current lease expires on 29 July 2024. In 2016 the tenant right sized their unit and extended their lease.
D2	T.J. Morris Limited	Home Bargains	11,832	01/02/2016	15	31/01/2031	01/03/2021	£250,000	£21.13	Open Market Rent Reviews capped at 2% pa compounded.
E	Dunelm (Soft Furnishings) Ltd	Dunelm	20,316	25/01/2016	15	24/01/2031	25/01/2021	£320,000	£15.75	Open Market Rent Reviews capped at 2.5% pa compounded.
F	HHGL Limited	Homebase (To be re-branded as Bunnings)	45,595	28/11/2003	15	27/11/2028	28/11/2018	£821,000	£17.50	Current lease expires on 27/11/2018. A 10-year reversionary lease has been agreed at a rent of £729,850 per annum (£16.00 psf) subject to 24 months at half-rent. Open Market Rent Reviews capped at 3% pa compounded.
Total			85,506					£1,580,000		

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Unit D1 – 7,763 sq ft



Unit D2 – 11,832 sq ft



Unit E – 20,316 sq ft



Unit F – 45,595 sq ft

Asset Management Opportunities

All of the tenants have either recently taken space on the scheme or re-gearred their leases. As such the scheme is well let to good covenants off current market rents and does not require any immediate asset management.

Subject to obtaining the necessary consents, purchasers could explore the possibility of enhancing the scheme by building on the underutilised land between Dunelm and Homebase, which would support an additional single unit of approximately 5-10,000 sq ft or a terrace of smaller units such as restaurants or cafés.

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Require in editable format



Covenant Information

We have set out below recent account information, together with the Dun & Bradstreet ratings for each tenant:

Carpetright Plc

Company No: 02-294-875



Year to Date	Turnover (£000's)	Pre Tax Profit (£000's)	Tangible Net Worth (£000's)	D&B Rating
Apr 2016	456,800	12,800	16,900	4A 1
May 2015	469,800	6,600	3,400	
Apr 2014	447,700	(7,200)	2,500	

Dunelm (Soft Furnishings) Ltd

Company No: 02-129-238



Year to Date	Turnover (£000's)	Pre Tax Profit (£000's)	Tangible Net Worth (£000's)	D&B Rating
Jul 2016	880,900	127,400	32,200	4A 1
Jul 2015	835,805	118,442	88,072	
Jun 2014	730,152	114,471	31,018	

T. J. Morris Limited T/A Home Bargains

Company No: 01-505-036



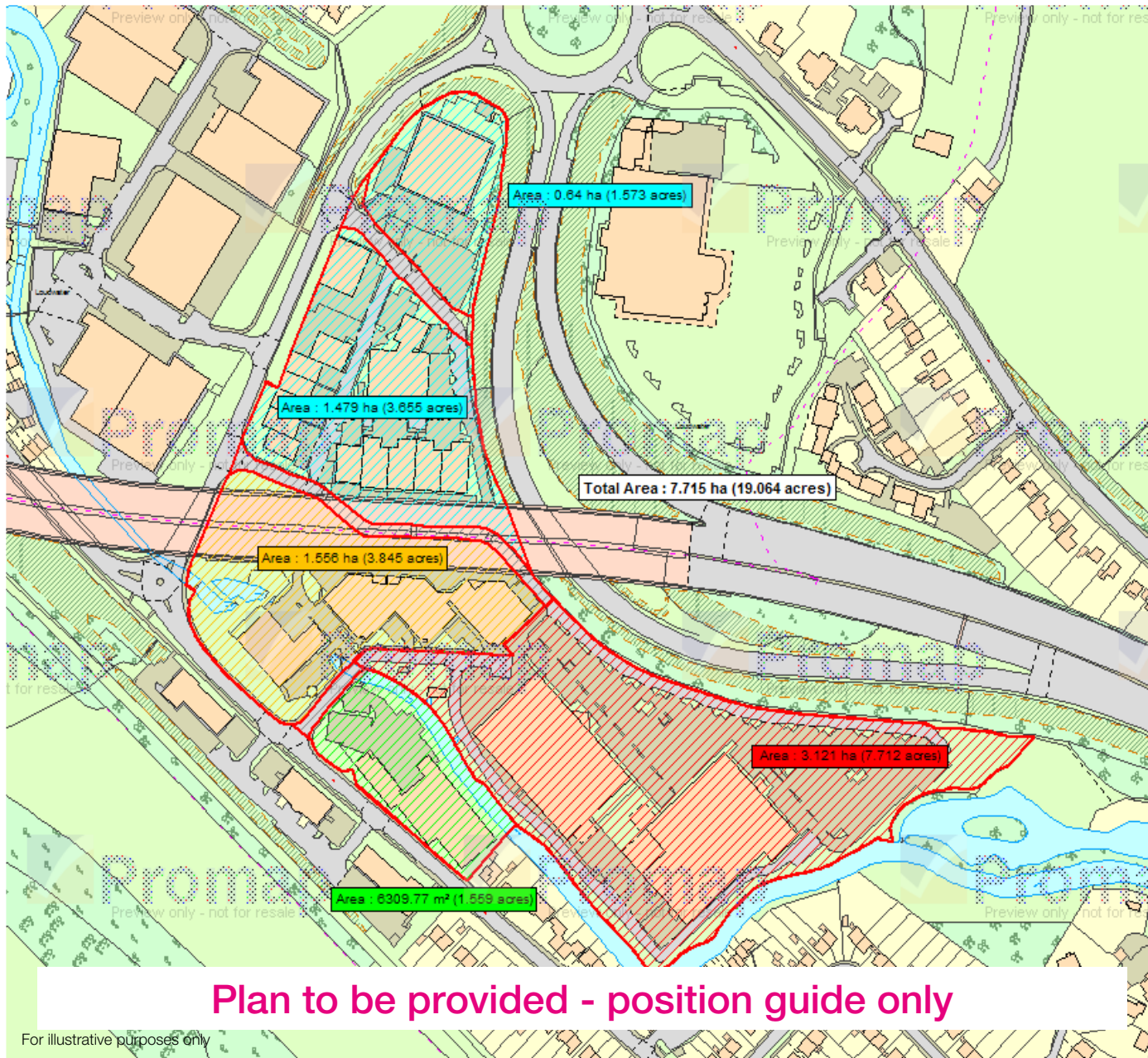
Year to Date	Turnover (£000's)	Pre Tax Profit (£000's)	Tangible Net Worth (£000's)	D&B Rating
Jun 2016	1,602,865	136,994	614,800	5A 1
Jun 2015	1,472,432	147,121	547,987	
Jun 2014	1,277,324	124,760	439,875	

HHGL Limited T/A Homebase

Company No: 00-533-033

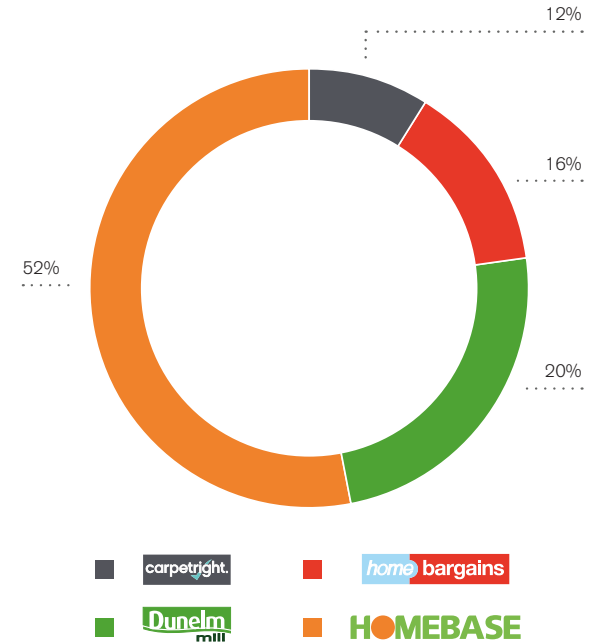


Year to Date	Turnover (£000's)	Pre Tax Profit (£000's)	Tangible Net Worth (£000's)	D&B Rating
Feb 2016	1,360,112	32,824	8,263	3A 2
Feb 2015	1,408,807	7,551	379,666	
Mar 2014	1,415,829	(20,221)	377,402	



For illustrative purposes only

Percentage Of Income



Planning

The scheme benefits from Open A1 (including food) planning consent and Bulky Goods consent for the Homebase.

Tenure

The property is held by way of freehold as outlined in red below. The areas highlighted in blue, orange and green have been sold off on a long leasehold basis.

The scheme has a site area of 3.12 ha (7.70 acres).



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EPC

Copies of the EPC's are available upon request.

VAT

This property has been elected for VAT purposes and it is expected that the investment sale will be treated as a TOGC.

Proposal

We are instructed to seek offers in excess of [£xx], subject to contract and exclusion of vat. A purchase at this level would reflect a net initial yield of [x%] assuming standard purchaser costs of [x%].

Further Information

For further information or to arrange an inspection, please contact:

Marcus Wood

marcus.wood@cushwake.com

Direct +44(0) 20 7152 5751

Mobile +44(0) 7979 245 430

Max Wilson

maxwell.wilson@cushwake.com

Direct +44(0) 20 7152 5745

Mobile + 44(0) 7584 885 013

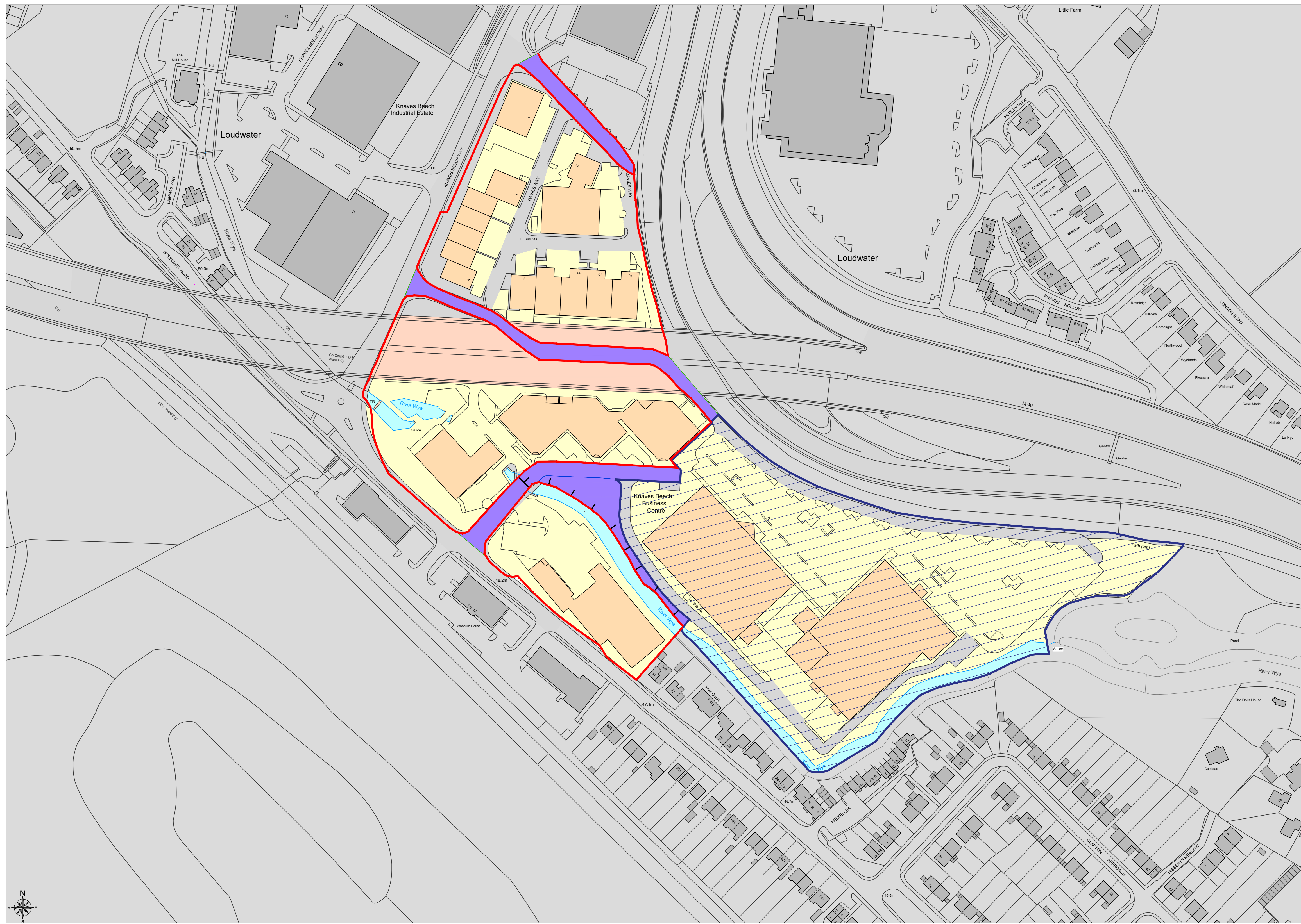
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		dwg. no. PP4121-03	sheet A1



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