

## Report to Cabinet

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



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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.

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## **Background Papers**

Confidential Appendix 1 – Financial Implications

Confidential Appendix 2 – Investment Summary

Draft Sales Particulars

Site Plan

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## ***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](mailto:democracy@buckscc.gov.uk)*