

Report to Cabinet

Title:	Property Investment Programme - Grade A Office Opportunity at Clarion House, Norreys Drive, Maidenhead, SL6 4BY
Date:	17 November 2017
Date can be implemented:	17 November 2017
Author:	Cabinet Member for Resources
Contact officer:	Oster Milambo – D/Head of Strategic Assets
Local members affected:	Outside County
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 investment criteria include considering properties of low risk profile that achieve a minimum net initial yield of 6.00%. This will ensure that the financing costs of any required borrowing are more than covered by the anticipated income. Furthermore, the aim is to achieve a balanced and diversified portfolio.

An office opportunity which satisfies these criteria has been identified outside County in Maidenhead, at Clarion House, Norreys Drive, Maidenhead, SL6 4BY ("Property"). The investment presents prime office accommodation that Quantum Pension Scheme ("the Vendor") has agreed to sell to the Council after a competitive bidding process, subject to the Council's due diligence. This is a freehold acquisition. The opportunity presents an attractive net initial yield of 6.25% after deducting purchaser's costs of 6.69%. Once acquired, this opportunity will improve the risk profile of our investment portfolio by diversifying it in terms of



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location, lot size and sector type. The property will benefit from the arrival of Crossrail in 2019 generally giving a major boost to the local economy.

Recommendation

That Cabinet:

- 1. Approve further formal due diligence and negotiations with the vendor's investment agent;**
- 2. Authorise the Cabinet Member for Resources and Director of Finance and Assets to conclude the purchase of the Property following a successful outcome from the process of due diligence and negotiations.**
- 3. Allow the Council to enter into agreements to facilitate completion of the purchase.**

Background

The property comprises a multi-let modern detached office accommodation with a total floor space of approximately 33,300 sq ft spread across 4 floors. The property was built in 2007. The accommodation is in excellent condition with air conditioning, full access raised floors, suspended ceilings with recessed light fittings, 2 x 12 person passenger lifts, and male & female toilets and showers on each floor. The property comes with 30 bicycles spaces and 102 car parking spaces reflecting a good ratio of 1:326 sq ft.

The property is prominently located 1 mile south of the Town centre approximately 20 minutes' walk from the train station. It has excellent transport links being 200 meters from the A404(M) junction, which in turn provides direct access to Junction 8/9 of the M4, 1.7 miles away. Nearby occupiers include GSK, Volvo, Seiko, SAP and Socionext Europe and local amenities including a Holiday Inn Hotel.

The property is let on four FRI leases with an average unexpired lease term of circa 9.2 years to lease expiry. Current Tenants include Logrhythm (on 1st + 3rd floors), The Fertility Partnership (on ground floor), Lxia Technologies Europe Ltd (on part of 2nd floor), Haulfryn Group Ltd (on part of the 2nd floor).

This opportunity would increase the overall investment properties from 5 to 6 and providing 13% of the overall current income. The opportunity would also improve the risk profile of the portfolio by diversifying both sector and location – represents the first office acquisition and the first outside County.

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.

A. Narrative setting out the reasons for the decision

The purchase of the property provides the Council an opportunity to acquire a modern good quality office investment in a prime business park location in an affluent Thames Valley town.

The building has been finished to a high standard with a Grade A specification including a good car parking ratio and is located on a self-contained site with easy access to the M4 motorway in close proximity.

Maidenhead itself is set to benefit from the opening of a Crossrail link from its mainline train station in 2019, which will create a positive effect in the town in terms of tenant demand and prospects for rental growth. Town centre rents have already reached £35.00-37.50psf demonstrating there is headroom over and above the current passing rent derived from the property, which is arguably reversionary by virtue of recent letting activity within the building.

The acquisition of an office investment in Maidenhead will introduce sector and location spread to the Council's current investment portfolio, whilst maintaining the required target income return rate.

The property is multi let and occupied by companies engaged in a wide range and diverse industries. As such this is a defensive acquisition and the property should appeal to a broad selection of occupiers which are typical of those involved in knowledge based businesses located in the Thames Valley.

B. Other options available and their pros and cons

There are other opportunities currently being investigated by the Council's Investment Group (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 Council could choose not to invest in income-generating commercial property at all. However, this would put pressure on the Council to find alternative savings in response to increasing demands on service delivery.

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 Deputy 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

N/A

I. Communication issues

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

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

- Sales Particulars
- Site Plan
- Confidential Appendix 1 – Financial Implications
- Confidential Appendix 2 – Investment Summary

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.