

## Report to Cabinet

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<b>Title:</b>	<b>Property Investment Programme - Grade A Office Opportunity at Voyager Place, Shoppenhangers Road, Maidenhead, SL6 4BY</b>
<b>Date:</b>	22 October 2018
<b>Date can be implemented:</b>	30 October 2018
<b>Author:</b>	Cabinet Member for Resources
<b>Contact officer:</b>	Oster Milambo – Head of Assets Management
<b>Local members affected:</b>	N/A
<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 investment strategy includes considering properties of low risk profile that achieve a blended yield of 6.00%. This ensures 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 with strong covenant tenants.

An office opportunity which satisfies these criteria has been identified outside County in Maidenhead, at Voyager Place, Shoppenhangers Road, Maidenhead, SL6 4BY ("Property"). The investment presents prime office accommodation. Chalk Portfolio Limited based in the Isle of Man ("the Vendor"), an SPV for the parent company Clearbell Asset Management, has agreed to sell the Property 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 5.25% after deducting purchaser's costs of 6.77%. 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 Chalk Portfolio Limited's investment agent;**
- 2. Authorise the Cabinet Member for Resources and Executive Director of Resources to conclude the purchase of the Property following a successful outcome from the process of due diligence and negotiations.**
- 3. Allow and authorise the Council to enter into or execute under seal, if necessary any agreements and other related documentation required to facilitate the completion of the purchase of the Property.**

## **Background**

The Property comprises a single-let modern detached office accommodation with a total floor space of approximately 55,577 sq ft (NIA) spread across 4 floors. The Property was built in 1990s. The accommodation is in excellent condition with air conditioning, full access raised floors, suspended ceilings with recessed light fittings, 2 x 13 person passenger lifts, and male & female toilets and showers on each floor. The property comes with 60 bicycles spaces and 275 car parking spaces reflecting a good ratio of 1:202 sq ft. It also provides for 6 new electronic car charging points. The property has recently undergone an extensive refurbishment equating to a total cost in excess of £7 million, bringing the property to Grade A standard.

The Property is prominently located on its own 3 acre island site on Shoppenhangers Road. It is one of the closest office buildings to the M4, with an approximate journey time of only 5 minutes. The town centre is approximately 1.5 miles away. Nearby occupiers include GSK, Volvo, Maersk, Adobe and Seiko, and the Council owned office building Clarion House.

The Property is let on a 10 year FRI lease to FM Insurance Company Ltd (FM Global Ltd) with a D&B rating of 5A1. This office serves as their European HQ. The tenant is a property insurance company used by more than a third of Fortune 1000 companies. The group's principal activities are underwriting of property insurance risks and the provision of relating engineering and loss prevention services to large and medium size clients.

This opportunity would increase the overall investment properties from 6 to 7 and providing 26% of the overall current income. The opportunity would also improve the risk profile of the portfolio by diversifying both sector and location – it represents the second office acquisition and the second acquisition 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 and to proceed with the legalities of the acquisition of the Property.

## **A. Narrative setting out the reasons for the decision**

The purchase of the Property provides the Council with an opportunity to acquire a modern good quality office investment in a prime location in an affluent Thames Valley town with good transport connectivity.

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.

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

## **B. Other options available and their pros and cons**

There are other opportunities currently being investigated by the Council 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 as appropriate.

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. The rental income is subject to an upward only rent review at the 5<sup>th</sup> anniversary to open market rental value.

## **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 maintains the fully occupied blended yield above 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.

The Council has a range of powers to enter the agreements envisaged by this report, including the general power of competence under Section 1 of the Localism Act 2011 to do anything that individuals can do subject to any specific restrictions contained in

legislation. The Council also has the power to acquire, appropriate and dispose of land in accordance with Sections 120-123 of the Local Government Act 1972 subject to obtaining all appropriate consents and approvals.

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.

Legal due diligence is required on all property acquisitions, to include a review of title and ownership, and searches and enquiries of the vendor, in order to ascertain relevant liabilities and restrictions connected with the Property.

**F. Property implications**

This paper has been prepared by the Head of Asset Management 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**

N/A

**J. Progress Monitoring**

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

**K. Review**

A review of progress and ongoing investment value will be overseen by the Cabinet Member for Resources via the Property 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**

Sales Particulars

Site Plan

Confidential Appendix 1 – Financial Implications

Confidential Appendix 2 – Investment Summary

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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 Democratic Services Team by 5.00pm on 19 October 2018. This can be done by telephone (to 01296 382343), or e-mail to [democracy@buckscc.gov.uk](mailto:democracy@buckscc.gov.uk)*