

Report to Cabinet

Title:	Property Investment Programme - Grade A Office accommodation and a data centre Opportunity at Buildings 1-4, Globeside, Fieldhouse Lane, Marlow, SL7 1HZ
Date:	29 October 2018
Date can be implemented:	6 November 2018
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Portfolio areas affected:	Resources

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

This report has been taken under the General Exception Rule which means it has not had the required notice on the Forward Plan.

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% across the portfolio. 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 good covenant strength tenants.

A diversified multi-let office and data centre opportunity which satisfies these criteria has been identified in Marlow, at Globeside, Buildings 1-4, Fieldhouse Lane, Marlow, SL7 1HZ ("Property"). The investment presents Grade A office accommodation and a Data Centre. The Vendor has agreed to sell the Property to the Council without an open market 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



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6.78%. Once acquired, this opportunity will improve the risk profile of our investment portfolio by diversifying it in terms of location, lot size and sector type.

This paper seeks Cabinet approval to proceed with an in-depth due diligence process 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.

Recommendation

That Cabinet:

- 1. Reviews the risks associated with the potential purchase as explained in the report, including the size of the investment and the remaining length of the current lease on Building 3;**
- 2. Subject to 1 above, approves formal due diligence and negotiations with the Vendor's investment agent;**
- 3. 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.**
- 4. 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 multi-let grade A detached office buildings, a light industrial and an on-site café Globe totalling 118,920 sq ft. It is located on Globe Park, a well-established business park adjacent to Marlow train station and the Town Centre. The property is a 3 minute walk from Marlow train Station which provides a service into Maidenhead which will shortly benefit from the opening of Crossrail. It is a 10 minute walk from Marlow High Street which offers a range of amenities. Café Globe has recently been opened on Globeside providing an additional amenity for staff.

Globeside is 1 mile from the A404 which links to the national motorway network with the M40, which is 2.7 miles to the north and the M4 is 7.6 miles to the south. Marlow is 20 miles to the west of Heathrow Airport, the UK's busiest and expanding airport due to begin development of the new third runway increasing the UK's profile as the business capital of the world.

The property comprises four buildings totalling 116,191 sq ft let to four tenants plus a café pod, all on a site of approximately 7 acres. Buildings 1, 2 and 3 provide Grade A office accommodation totalling 91,027 sq ft with the specification including air-con, raised floors, suspended ceilings, LED lighting and passenger lifts. Buildings 1 and 2 have recently been refurbished to a high standard by the Vendor at a Capex of approximately £110 per square foot including new air-conditioning. The buildings have floor plates of approximately 7,000 to 12,000 sq ft which can be split to provide additional flexibility. Building 4 is fitted out as a data centre totalling 23,913 sq ft. There is a good parking ratio of 1:243 (sq ft).

This opportunity would increase the investment properties in the Council's portfolio to 8 (including the proposed Voyager Place property) and would represent about 30% of the overall income. The opportunity would balance the risk profile of the portfolio by diversifying both sector and location.

A. Narrative setting out the reasons for the decision

The purchase of the Property provides the Council with an opportunity to acquire a diversified income from multi-let grade A offices and a data centre in a Thames Valley office market that is performing well. Buildings 1 & 2 have 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 M40 and M4 motorway in close proximity. The tenancies in Buildings 1 and 2 have 9.8 years to run, with the exception of a vacant suite on the ground floor of Building 2 which is being offered with a 24 month rent guarantee and a 12 month rates and service charge guarantee.

The data centre has 12.7 years left to run on the lease let to Telefonica, a good covenant strength tenant. The tenant has invested heavily in their fit out of the building.

Building 3 is sub-let and the lease expires in 3.3 years. The tenant occupies the adjacent warehouse which is not part of this sale with a co-terminus lease. There is a risk of a void in three years therefore if the tenant decides not to renew the lease.

The financial implications of this investment are contained in the confidential Appendix. The investment would generate an important income stream for the Council which will contribute to the costs of service delivery in the very challenging financial environment facing the organisation.

B. Other options available and their pros and cons

The Council could choose not to invest in income-generating commercial property. This would put pressure on the Council to find alternative savings in response to increasing demands on service delivery.

There are other opportunities currently being investigated by the Council supported by Carter Jonas. These opportunities will be assessed on their own merit to determine 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 purchase this particular property. In terms of the ambition to achieve a balanced portfolio, this property would be the largest single purchase in the portfolio and would represent 30% of the total income generated.

It is important to be aware that there is a risk associated with the remaining lease on Building 3 if the tenant decides not to renew in three years time, and it is likely that some refurbishment may be needed at that point. This scenario has been modelled as part of the financial assessment and the income would nevertheless continue to significantly exceed the investment costs.

If market conditions were to change in the future and lead to reduced demand for office accommodation in this location, it is possible that the site may be suitable for residential development subject to planning or permitted development rights as it backs onto residential to the south east. The floor plate size gives the building flexibility and it would be possible to restructure the accommodation in the event of a void. In the longer term, there may also be potential for parking and/or light industrial use.

If the Cabinet agree the purchase in principle, it will be important to fully satisfy ourselves on these risks through the due diligence process.

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 significantly exceed the financing costs of borrowing and the annual revenue costs of managing the property. The net initial yield maintains the fully occupied blended yield above 6.00%. .
If a void were to arise in Building 3 in three years time, the income would still significantly exceed the costs of borrowing.

D. Value for Money (VfM) Self Assessment

This investment opportunity has gone through an initial assessment process to understand the risks and issues of the proposed purchase. If Cabinet approves the purchase in principle, a robust due diligence process will be undertaken using external advisers to ensure that the Council has a complete understanding of the risks and issues before entering into a final decision.

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.

Background Papers

Site Plan

Confidential Appendix 1 – Financial Implications

Confidential Appendix 2 – Investment Summary

Confidential Appendix 3 – Marlow Globeside Brochure

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 26 October 2018. This can be done by telephone (to 01296 382343), or e-mail to democracy@buckscc.gov.uk