

Classification: Public

Key Decision: No

Gravesham Borough Council

Report to: Commercial Services Cabinet
Date: 10th September 2020
Reporting officer: Service Manager (Property and Regulatory) and the Estates and Valuation Manager
Subject: Commercial Property Investment Guidance

Purpose and summary of report:

To consider amendments to the commercial property investment guidance

Recommendations:

1. That the Cabinet Member recommends to Full Council that the five measures, detailed below in paragraphs 2.2-2.6 are adopted as guidance for future acquisitions.

1. Background

- 1.1 In 2016 Full Council agreed amendments to the initial yield at which property could be purchased agreeing that the initial yield on acquisitions should be 3% above the 25 year fixed maturity PWLB rate. The prior position had been that a 6% initial yield was required but that was felt to be a too restrictive hurdle. Additionally at that time Full Council agreed to some wording regarding the classification / types of properties that could be purchased and there is no change suggested to that classification.
- 1.2 It is proposed that the initial yield hurdle agreed in 2016 (as above) be revised to include four further risk mitigation measures. These are detailed in 2.2 below.
- 1.3 Following discussions between the Chief Executive, Director of Corporate Services and the Property Services team, it has been agreed that it would be beneficial to adopt this guidance not only for any further purchases but also to assist with managing and monitoring the commercial property portfolio going forwards alongside the property dashboard.

2. Proposed investment guidance

- 2.1 It is suggested that the proposed investment guidance be used to assist with any future investment proposals and as a tool in the ongoing management and monitoring of the portfolio. A brief explanatory commentary on each of the new guidance points is also included in brackets.

- 2.2 Target a net initial yield of 4%+ on new acquisitions, and a weighted net equivalent yield of 5%+ across the portfolio. (The initial yield on its own is a blunt tool and the addition of the net equivalent yield enables future reversions and anticipated changes in income levels from the asset to be considered as well).
- 2.3 Target that the contracted rent receivable from any one asset be limited to 15% of the portfolio income. (This measure seeks to reduce the risk of there being too heavy a reliance in income terms on any one asset).
- 2.4 Target that the contracted rent receivable from any one tenant be limited to 15% of the portfolio income. (This measure seeks to reduce the risk of there being too heavy a reliance on any one tenant).
- 2.5 Target that the value of reversions in any three year period be limited to 30% of the portfolio income. (This measure relates to the timing of reversions and seeks to minimise spikes in lease / income expiries in any three year period).
- 2.6 Target a portfolio income split, by sector, as follows:
 - Industrial – 40-60%
 - All retail (including retail warehouses) – 20-40%
 - Office and alternatives – 20-40%

(A target weighting to the various sectors prevents an overweighting / overreliance on any one sector and should reflect a view on where the best and most durable returns are available. For example at present a lower weighting to retail is seen as desirable and a weighting towards the bottom end of that range would ideally be targeted).

3. Background papers

- 3.1 There are no background papers relating to this report.

IMPLICATIONS	APPENDIX 1
Legal	No legal implications
Finance and Value for Money	It is anticipated that this revised guidance will enable the Council to maximize its income from the assets by reducing concentration risks to income and allowing for better quality assets to be purchased in a more considered fashion.
Risk Assessment	The approval of this revised guidance will enhance risk control.
Data Protection Impact Assessment	<p><i>A data protection impact assessment (DPIA) should be carried out at the start of any major project involving the use of personal data or if you are making a significant change to an existing process.</i></p> <p>a. Does the project/change being recommended through this paper involve the processing of personal data or special category data or criminal offence data? A definition of each type of data can be found on the Information Commissioner's Office website via the above links.</p> <p>b. If yes to question a, have you completed and attached a DPIA including Data Protection Officer advice? N/A</p> <p>c. If no to question b, please seek advice from your nominated DPIA assessor or the Information Governance Team at gdpr@medway.gov.uk. N/A</p>
Equality Impact Assessment	<p>a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community? If yes, please explain answer. N/A</p> <p>b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? If yes, please explain answer. N/A</p> <p><i>In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above</i></p>
Corporate Plan	Links to #3 Progress - PI 45 and 46. (Total income from property and average yield from property) and also sound internal controls / corporate governance commitments.
Climate Change	N/A
Crime and Disorder	No implications
Digital and website implications	No implications
Safeguarding children and vulnerable adults	No implications