

**Classification:** Public

**Key Decision:** No

## **Gravesham Borough Council**

**Report to:** Full Council

**Date:** 6<sup>th</sup> October 2020

**Reporting officer:** Director (Corporate Services) and Service Manager (Property and Regulatory)

**Subject:** Commercial Property Investment Guidance

### **Purpose and summary of report:**

To consider amendments to the commercial property investment guidance followed by the council.

### **Recommendations:**

1. That Full Council adopt the five measures, detailed below in paragraphs 2.2-2.6 as guidance for future acquisitions under the Property Acquisitions Strategy and to support the ongoing management and maintenance of its commercial property portfolio.

## **1. Background**

- 1.1 In February 2016, Full Council adopted a Property Acquisition Strategy which provided a framework for the future acquisition of commercial properties in order to generate a revenue return.
- 1.2 The strategy currently sets out the following criteria for selecting investment assets:
  - 1.2.1 The investment provides a regular income with the net initial yield exceeding a minimum level of 3% above the prevailing 25 year PWLB fixed maturity rate, and after taking into account all costs associated with the acquisition.
  - 1.2.2 That the purchases be from the retail, industrial and business (i.e. office premises) sectors.
  - 1.2.3 That the funding made available be invested in such assets as long-term cash-flow modelling shows this cash to be available for the authority to use on a long-term basis.
  - 1.2.4 Acquisitions are not limited to being within the Borough of Gravesham.

- 1.3 It is proposed that the initial yield hurdle agreed in 2016 (as at paragraph 1.2.1 of this report) be revised and expanded to include four further risk mitigation measures. These are detailed in paragraphs 2.2 to 2.6 below. It is also proposed that these measures are adopted not only to provide a framework for further purchases but also to assist with managing and monitoring the commercial property portfolio going forwards alongside the property dashboard.
- 1.4 Prior to being considered by Full Council this matter was discussed at 10<sup>th</sup> September 2020 meeting of the Commercial Services Cabinet where it was Resolved that the Cabinet Member recommends to Full Council that the five new measures are adopted.

## 2. Proposed investment guidance

- 2.1 It is suggested that the proposed expanded 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
<b>Legal</b>	No legal implications
<b>Finance and Value for Money</b>	It is anticipated that this revised guidance will enable the Council to maximise 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.
<b>Risk Assessment</b>	The approval of this revised guidance will enhance risk control.
<b>Data Protection Impact Assessment</b>	<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>a. Does the project/change being recommended through this paper involve the processing of <a href="#">personal data</a> or <a href="#">special category data</a> or <a href="#">criminal offence data</a>? 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 <a href="mailto:gdpr@medway.gov.uk">gdpr@medway.gov.uk</a>. N/A</p>
<b>Equality Impact Assessment</b>	<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>
	<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>
<b>Corporate Plan</b>	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.
<b>Climate Change</b>	N/A
<b>Crime and Disorder</b>	No implications
<b>Digital and website implications</b>	No implications
<b>Safeguarding children and vulnerable adults</b>	No implications