

Decision Maker: Executive

Date: 10th June 2015

Decision Type: Non-Urgent Executive Non-Key

Title: INVESTMENT PROPERTY REVIEW

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Chief Officer: Director of Regeneration & Transformation

Ward: (All Wards);

1. Reason for report

The report gives an overview of the Council's investment property portfolio and proposes a process for the review of this portfolio going forward. It also seeks to regularise and establish some policies with regard to the management of property within this portfolio.

2. **RECOMMENDATIONS**

2.1 The Executive is asked to:

- a) Approve the proposed programme for the review of the Investment Property Portfolio as set out in Section 4 of this report
- b) Consider and reaffirm the management policies outlined in Section 5 of this report.

Corporate Policy

1. Policy Status: Existing Policy: Maximising the Council's assets.
 2. BBB Priority: Excellent Council
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Financial

1. Cost of proposal: Estimated Cost :
 2. Ongoing costs: Not Applicable
 3. Budget head/performance centre: Properties Held for Investment
 4. Total current budget for this head: (£4,823K)
 5. Source of funding: Revenue
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Staff

1. Number of staff (current and additional): N / A
 2. If from existing staff resources, number of staff hours: N / A
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Legal

1. Legal Requirement: None:
 2. Call-in: Applicable:
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): N / A
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not Applicable
2. Summary of Ward Councillors comments: N / A

COMMENTARY

- 3.1 The impact of the current economic climate on the Council's resources places an even greater emphasis on the need to achieve efficiencies and budget savings through maximising how the Council uses its assets to achieve optimum income levels. Acquisition of income producing investment properties is a key priority going forward, as is the disposal of land and buildings surplus to requirements
- 3.2 Lambert Smith Hampton (LSH) produced a report for the Council on its Property Investment Portfolio. It recommended a strengthened review process and the development of policies for the management, review and disposal of the Council's property to maximise income opportunities and / or add value to the portfolio. One of LSH's specific recommendations was to challenge the reasons for holding each property. Whilst this has always been part of the Council's property review process, it is now opportune to clarify the reasons for holding each (or each category) of property.
- 3.3 The Council's overall Asset Management Strategy needs to ensure that it:
- Optimises the contribution its property assets make to the Council's strategic and service objectives;
 - Prioritises investment in its operational assets to meet current and future service delivery needs;
 - Provides a cohesive rationale for the ownership, occupation and management of its assets;
 - Ensures the maximum return from its commercial investment portfolio of land and buildings;
 - Uses its assets to encourage new development, re-development and to support the local economy;
 - When applicable, use its assets to further the economic and social well-being of the community.
- 3.4 The Asset Management Strategy is about ensuring we achieve best value for money, cost effectiveness and efficiency from our assets. In order to do this, the report provides clarity to Members about the types of investment properties owned by the Council and the annual rents generated from these properties. The Investment Portfolio currently generates £7.358m income p.a. and given the financial position over the next few years it is important that all assets are reviewed to ensure we are maximising our income returns and income growth prospects.
- 3.5 The Council's property investment portfolio essentially consists of those assets which the Council does not occupy itself and from which it generates an income or some other benefit. The Council also has an operational property portfolio which consists of those properties which are occupied by the Council in order to deliver various services. In addition to the freehold properties, the Council also leases in various operational properties, the most significant of these being Yeoman House in Penge. There is also a third category of properties (referred to as Leased Operational Properties below), which are essentially held for the delivery of Council services, but are let to a Council contractor / service provider (examples of these would be the leisure facilities leased to Mytime, day centres leased to Age UK or depots leased to Veolia). Members considered a report on operational properties in September 2014.
- 3.6 The management of the Council's investment property portfolio is currently dealt with by the small in-house Strategic Property team. The team also deals with all aspects of the Council's property portfolio, including disposals, acquisitions, property review, rating, valuations, boundary disputes etc

- 3.7 The data for all the Council's property assets is held on UNIFORM, the Councils Asset Management System. Whilst the information held is generally good for those properties which require regular and intensive property management, because of the lack of investment in developing the database, particularly its reporting functions, there is a lack of data in some areas and on some records. In order to comply with the Government's Transparency agenda, an officer has been recruited on a 6 month contract to verify and improve the property ownership records to enable these to be published for public access. In line with the Government's deadline, this data was published on the Council's website on 2nd February 2015. However, there is still considerable work to be done to verify and update all records.
- 3.8 Although the main driver for holding investment property is to generate a secure rental income with future growth potential, this will not apply to the Council's entire portfolio, where there are other reasons for holding the property. For example farms are also held for the protection of the Green Belt and Scout Halls are primarily held for community benefit.

4 REVIEW OF ASSETS

- 4.1 Officers propose that a detailed review of all assets is undertaken over the next year, which will consider the criteria for retention or disposal of each property and will develop methods for measuring the overall performance of these assets. The reviews will consider a strategy for maintaining a balanced portfolio for managing risk and exposure to the market and establish the Council's priorities for income generation or longer term capital growth and the Council's objectives for owning investment property.
- 4.2 The review of all these categories of properties is a wide ranging task and it is thought the focus of such a review could be lost if this was dealt within a single report. It is therefore proposed that each category of property is considered in a series of detailed reviews over future meetings of the Executive. The table below provides a breakdown of the overall number of properties in each category:-

CATEGORY	Annual Income	
	£	No's
Estate Shops	962,303	141
Shopping Centres	2,098,800	3
Green Belt	130,786	18
Miscellaneous Commercial Properties	679,351	64
Residential Properties	43,548	53
Sports and Community Use	150,888	45
Recent Investment Purchases	2,405,300	10
Operational Leases	864,424	108
Other Interests	22,653	460
TOTAL	7,358,053	902

- 4.3 Operational properties were reviewed in 2014 officers are proposing that this is not included in the review process. It is also proposed that the Other Interests category which is wide ranging and of little value is also not included from this process

4.4 The following review programme is suggested in order of priority:

- a) Estate Shops (Freehold and Leasehold)
- b) Shopping Centres
- c) Green Belt
- d) Miscellaneous Commercial Properties
- e) Residential Properties
- f) Sports and Community Use

Not being reviewed through this process

- g) Recent Investment Purchases
- h) Operational Leases
- i) Other interests

4.5 The review process will be mainly undertaken by the in-house property team although for the Shopping Centres or Green Belt additional resources may need to be brought in. If additional resources are needed to undertake these reviews, this will be managed within the current budget available.

a) Estate Shops (Freehold and Leasehold)

4.6 The Council owns 12 parades of shops (141 units), which are located on the former local authority housing estates which were transferred to Broomleigh (now Affinity Sutton) Housing Association in 1992. Ten of these parades are held on long leases (999 years from 1992) where Affinity Sutton is the freeholder and two are held freehold by the Council.

These were built as part of housing estate schemes, mainly by the London County Council, in the 1950's and 1960's, to provide local facilities to meet the day to day needs of the local residents and currently generate a gross revenue income £962k.

A review of these properties was reported to the Resources Portfolio Holder in December 2010, when it was resolved that the parades be retained. At this time the gross rental income was £778k. Thus, the gross rental income has increased by over 23% in that period. This is due largely to asset management initiatives, reduced voids and rent increases resulting from good estate management.)

b) Shopping Centres

4.7 The Council owns three shopping centre interests, all of which are leased out on long leases. The Glades in Bromley and the Walnuts in Orpington generate annual rental income of approximately £1.9m and £120k respectively, which equates to about 29% of the Council's total rental income from the investment portfolio. These rents do vary from year to year as they arise from rent share arrangements with the lessees, which are based upon the letting performance of the Centres. The Blenheim Centre site was originally leased out for a capital premium and a longer lease was granted in 2010 for a further premium, and therefore no rent is payable.

c) Green Belt

- 4.8 This category includes the Council's 5 farms, grazing land, stables and various areas of grazing land. Whilst these properties are income producing, they have primarily been held for the purpose of protecting the Green Belt.

d) Miscellaneous Commercial Properties

- 4.9 This category of properties includes a wide variety of properties which do not have much in common, but generate a significant income of £679k. Some of the most notable of these are the Homebase unit in St Paul's Cray (let on a long lease at nil rent), the Sainsbury's (£16.5 k pa) and Poundland (£0 pa) stores in Orpington, World of Golf (the former County Gate Sports Ground), which was sold on a long lease and has potential development value and where the only income is from the telecoms masts, and 28A Beckenham Road, a recent letting to a nursery provider at £35k pa. Some of these properties are let at current market rents on leases with regular review patterns, whilst others are let on reversionary leases and have high capital growth prospects.

It also includes property assets within Crystal Palace Park, such as the Mast, the Camping Ground, Reservoir and the Lake, and also Biggin Hill Airport and the Anerley Business Centre, which is currently under review.

e) Residential Properties

- 4.10 Although the Council's housing stock was transferred to Broomleigh H A in 1992, it still holds some interests in residential property. It has five houses which were previously managed by the Leisure Services department and which are occupied by former / current employees under service tenancies (rental income £39.5k). Legal advice acknowledges that these are in effect secure housing tenancies under the Housing Acts. The established policy on these is to sell when they become vacant.

It also owns the freehold interest in Lownds Court, a block of 20 flats adjacent to the Glades Shopping Centre, which are let on long leases at nil rents. It also has 16 houses in Elmers End Road which are let on 999 year leases at low ground rents. Receipts are generated from these properties when long leaseholders request the purchase of the freehold interest. The Council also owns the freehold interest in flats on the Poverest and Grassmead Estates in Orpington, where leaseholders regularly seek extensions to their leases, currently achieving sums of between £10,000 and £13,000 for the Council.

f) Sports and Community Use

- 4.11 The Council leases various land and buildings to Sports Clubs. Examples include Bromley Indoor Bowls Centre, Langley Park Golf Club, Bromley Valley Gymnastics Club, Coney Hall Football Club, Croydon Rugby Club, Downham and Bellingham Cricket Club, the Duke of Kent Bowls Club in Downham and various scout halls. These areas of land are often not developable, usually because of planning constraints. The leases enable income to be generated and pass maintenance responsibilities to the tenants. This category specifically excludes those recreation grounds and parks used for sport, which are managed by the Council's Environmental Services Department under the delegated management arrangements

g) Recent Investment Purchases

- 4.12 The Executive has received a number of reports in the last two years around acquisition of investment properties, which will generate rental income of £2.4m in a full year. The cost of these acquisitions to date (including purchase costs) is £41.2m. This equates to an average yield of 5.8 % after making a small allowance (£12k) for repairs liabilities in respect of one property.

The strategy going forward is to acquire further investment properties (£32m available) to generate a further £1.6m net income, taking this figure to £4m additional revenue income in a full year. This remains a key priority for the Council. Any acquisitions will be regularly reported to members, so this category will not form part of the review process at this stage.

h) Operational Leases

- 4.13 As mentioned this category of property consists of operational properties which are now leased to the Council's private sector or voluntary sector contractors to enable Council services to be delivered. An income of £864k is generated. These were considered in the Operational Property Report in September 2014 and therefore it is not considered necessary to further review this category at this stage.

i) Other interests

- 4.14 The Council owns numerous other interests in property. Whilst these tend to generate small amounts of income, they do require intensive management input from time to time (primarily renewals and rent reviews). They include easements and wayleaves (primarily with the utility companies), sub-stations, licences of garden land to adjoining residents etc.

Some of these are held to protect the Council's interest, for instance where encroachment has occurred or where there is potential for future development, or might have previously been acquired for future road widening. Many have little value and would not result in significant capital receipts if the Council attempted to sell. Others would be very difficult or impossible for the Council to sell, and therefore it has no choice but to retain.

5. MANAGEMENT POLICIES

- 5.1 In managing the Council's investment portfolio, various policies have been adopted as custom and practice over the years. Some are a result of the need to develop new ways of working to achieve greater efficiency. It is now thought appropriate to ask Members to reaffirm such policies, as follows:

- a) **To achieve best market terms in all transactions (lettings, rent reviews, lease renewals, surrenders etc.).** This will enable the maximisation of income and value and meet the statutory requirements of S123 of the Local Government Act.
- b) **When letting property to agree appropriate rent free periods or other appropriate incentives, e.g. minor expenditure on repairs.** This enables lettings to be secured when prospective tenants are discouraged by the poor condition of a property.
- c) **When letting property to agree appropriate lease lengths.** In respect of the estate shops, the aim is to grant leases of 10 or 15 years, with 5 year review patterns, and encourage break options rather than accept shorter leases.

- d) **In situations where the initial market rent is very low and / or where there is not an established market for the property (and therefore a lack of market evidence), to provide for indexation rent review clauses in leases.** This enables rent reviews to be agreed without recourse to protracted negotiations or third party determination, and therefore reduces management input, whilst maintaining income growth.
- e) **to forego existing market rent reviews where there is little or no prospect of an increase in rent at review or where the increase in rent will not exceed 3% or £200 of the existing rent increase (whichever is the lower).** Again, this will minimise management input in relation to the anticipated financial gain.
- f) **not to agree preferential terms with charities and similar organisations.** This policy avoids the Council giving a hidden property subsidy. Applications for Council support for good causes should be made through the correct channels. This policy also enables good estate management and maintains good relations with the other tenants on the parade.
- g) **With the exception of Cotmandene Crescent, which is significantly larger than the other parades, to avoid granting leases to competing businesses.** This is in the interests of good estate management as it will maintain a variety of uses and enable stronger sustainable businesses to develop, which meet the needs of local people.
- h) **To only letting to tenants with suitable covenant strength appropriate to the specific property, who can provide sufficient references (bank, trade and previous landlord, if applicable) and have suitable background checks and credit worthiness.** Many of the Council's properties are suitable for small fledgling businesses without track records. To avoid issues arising from non-payment of rent it is important to lease properties to those tenants who are most unlikely to default.
- i) **Where appropriate and where possible, all future leases should make the tenant responsible for all repairs and this should be reflected in the rent payable.** Historically many of the Council's properties are leased on internal repairing terms with the Council being responsible for external repairs. This was often because the tenant was unable to bear this risk. With the increasing pressure on the Council's maintenance budgets, with suitable buildings and in appropriate circumstances, this liability could be passed to the tenant. It should be noted, however, that in lease renewals, tenants are entitled to leases on the same repairing terms as in their previous lease.
- j) **Not to grant further garden licences unless it is in the Council's interest, for example to prevent an occupier obtaining title or to grant temporary use pending development. It is not envisaged that the renewal of existing garden licences will be opposed unless it is in the Council's interest.** Even though a contribution to the Council's costs is required from the applicant, the grant of a garden licence often takes a disproportionate amount of staff time relative to the income generated.
- k) **Not to dispose of small areas of land for garden extensions unless it is in the Council's interest.** Even though a contribution to the Council's costs is required from the applicant, the sale of small areas of often involves a disproportionate amount of staff time relative to the income generated.

6. POLICY IMPLICATIONS

6.1 The Council is an organisation that manages its assets well

7. FINANCIAL IMPLICATIONS

7.1 Given the financial situation facing local authorities over this austerity period, it is important as part of the review process that we maximise income returns and growth prospects

Non-Applicable Sections:	Personnel, legal Implications.
Background Documents: (Access via Contact Officer)	property files/finance files