Report No.
CSD21021A

London Borough of Bromley

PART ONE - PUBLIC

Decision Maker:	**ERC PDS**
Date:	**3rd February 2021**
Decision Type:	Non-Urgent Executive Key
Title:	**INVESTMENT PORTFOLIO REVIEW**
Contact Officer:	Amy Milton, Head of Estates and Asset Management Tel: 020 8313 7172 E-mail: Amy.Milton@bromley.gov.uk
Chief Officer:	Director of Housing, Planning, Property and Regeneration
Ward:	All

1. REASON FOR THE REPORT

The London Borough of Bromley investment portfolio comprises an investment fund totalling 21 assets with a total value of circa £73m which currently generates in the region of £5.3m pa. The purpose of this report is to apprise Members of the Portfolios performance within in the context of the national impacts on property currently being experienced as result of the Covid Pandemic together with other economic factors. In addition the report provides details as to the governance around the management of the portfolio.

---

2. RECOMMENDATION(S)

Members are asked to note the contents of this report.

Impact on Vulnerable Adults and Children

1. Summary of Impact: N/A

Corporate Policy

1. Policy Status: Existing Policy
2. BBB Priority: Excellent Council

Financial

1. Cost of proposal: n/a
2. Ongoing costs: n/a
3. Budget head/performance centre:
4. Total current budget for this head:
5. Source of funding:

Personnel

1. Number of staff (current and additional): Not applicable
2. If from existing staff resources, number of staff hours: Not applicable

---

Legal

1. Legal Requirement: Statutory Requirement
2. Call-in: Applicable

Procurement

1. Summary of Procurement Implications: Not applicable

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): Not Applicable

---

Ward Councillor Views

1. Have Ward Councillors been asked for comments? No
2. Summary of Ward Councillors comments: N/A

3.0 COMMENTARY

3.0.1 The following commentary sections covers the topics as set out below:

- 3.1 Introduction to the Investment Portfolio
- 3.2 General Market Overview
- 3.3 Covid Pandemic Overview
- 3.4 Portfolio Performance
- 3.5 Portfolio Opportunities
- 3.6 NAO Consideration
- 3.7 Portfolio Performance v income alternative.
- 3.8 New Portfolio Advisor and Portfolio Oversight

3.1 Introduction to Investment Portfolio

3.1.1 The London Borough of Bromley investment portfolio comprises an investment fund totalling 21 assets with a total value of circa £73m which currently generates in the region of £5.3m pa. These 21 assets were purchased, as per the definition of a Property Investment within the International Public Sector Accounting Standard, and are now held in order to generate an alternative revenue stream for the Council.

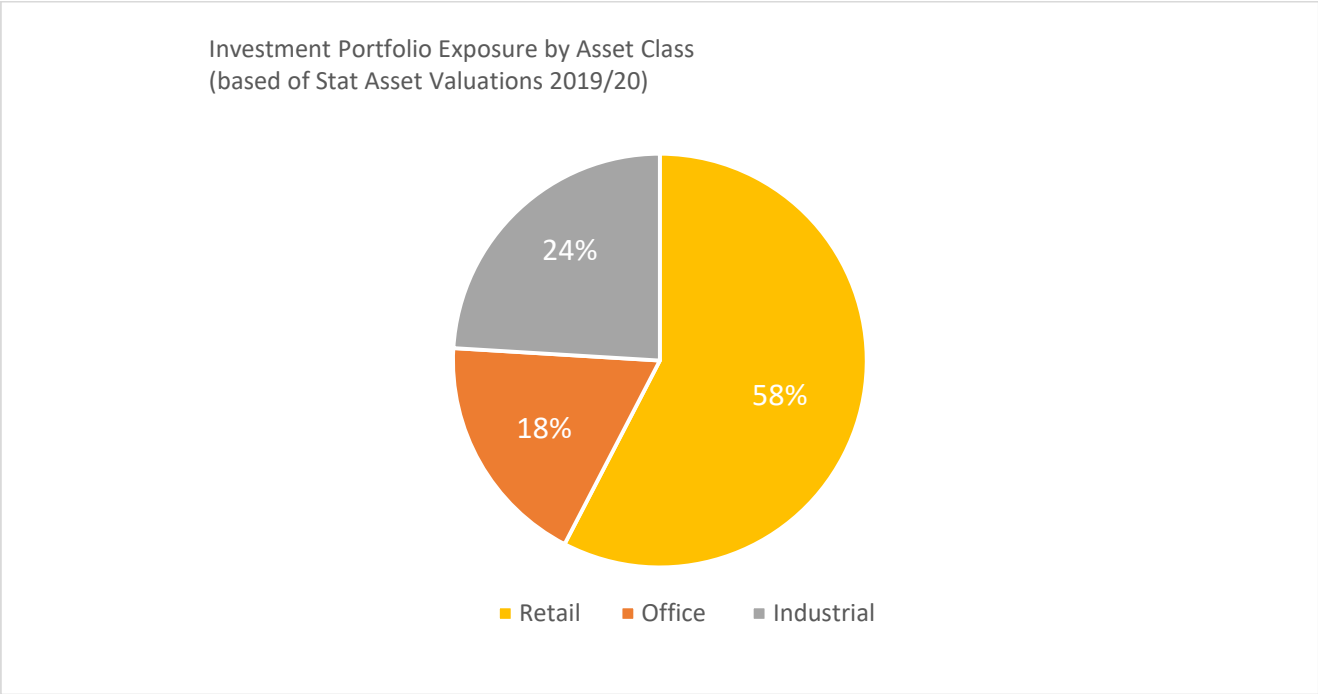
3.1.2 The contents of this report relates solely to the investment fund as set out above, but it should be noted that in addition to the investment fund, the Council also owns a number of other income generating properties that are held outside the investment fund. For the avoidance of doubt, any reference to the investment fund or portfolio within this report only relates to the 21 assets mentioned above.

3.1.3 The creation of the investment fund dates back to 2011/12. Background on the use of these funds are reported quarterly to the Executive and at its meeting on 19th July 2017, Executive approved the following new property investment criteria:

- Provides a net investment return of 5%;
- Provides a suitable mix of portfolio to mitigate against risks of “all eggs in one basket” i.e. variation in investment portfolio to cover void risk;
- Ability to sell the asset at a future date within a reasonable turnaround period of less than one year;
- Mitigates against problematic tenancy risks e.g. secured tenancy etc;
- Mitigates against significant repair liabilities which have a downward impact on the investment return i.e. seek full repairing leases from tenants;
- Mitigate against capital value risk – purchase in places where capital values are unlikely to fall in the longer term;
- That opportunities should be explored in economic growth areas as well as the South East. This would be the cities of Manchester and Leeds together with other areas such as Cardiff, Bristol and the Midlands;
- That the lot size should be in excess of £5m;
- That multi-let investment opportunities which provide suitable income protection and covenant should be considered taking into account management costs.

3.1.4 The investment portfolio comprises a mix of property types including offices, industrial and retail units which are primarily (but not all) let to a single tenant.

3.1.5 As shown below, the portfolio is heavily weighted towards retail assets:



3.2 General Market Overview

Retail

3.2.1 The retail market as a whole has been underperforming compared with other asset classes for a number of years, with yields rising steadily as values fall. Unsurprisingly, the retail sector has also been hardest hit by the Covid-19 pandemic, both in the short term (with non-essential shop closures) but also with the pandemic fuelling an exacerbation of trends already gaining pace (such as increased online commerce). As demonstrated below, yields have been steadily rising since circa 2016, and are set to continue to do so, as retail values fall further.

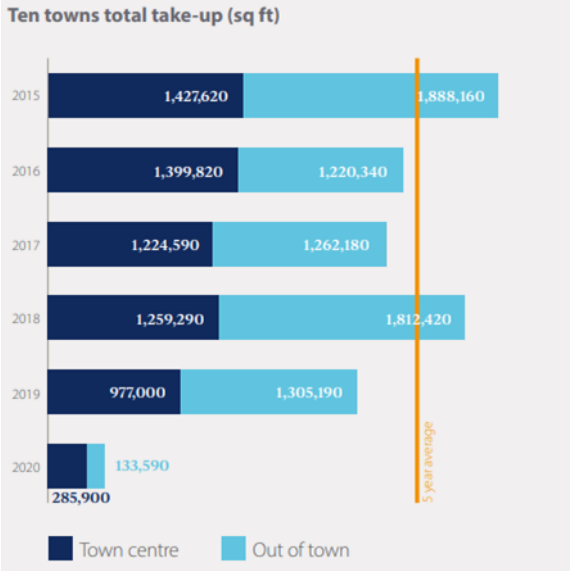
Offices

3.2.2 Prior to Covid-19, 2020 started off well for the office investment market. Q1 2020 saw an uptick in investment activity of 16% across the South East Market compared with Q1 2019.

3.2.3 From an investment perspective the occupation market was highly constrained, with availability in most regions at historically low levels. A lack of speculative development meant rental growth prospects were significant, putting downward pressure on yields.

3.2.4 However, whilst demand from both investors and occupiers alike has been dampened by the uncertainty of Covid-19, the contrasting force, is that construction costs are likely to increase, particularly with supply chains being affected by reduced travel and potential post Brexit tariffs going forwards. The rising cost of developing new space will lead to the eventual uptick in rents to follow.

3.2.5 In the shorter term the focus for investors is on their tenants' cashflows and in the longer term, their changing requirements from their workspaces. The prospect of a two-tier market between older Grade B office space and the Grade A product which was already emerging may have been exacerbated.

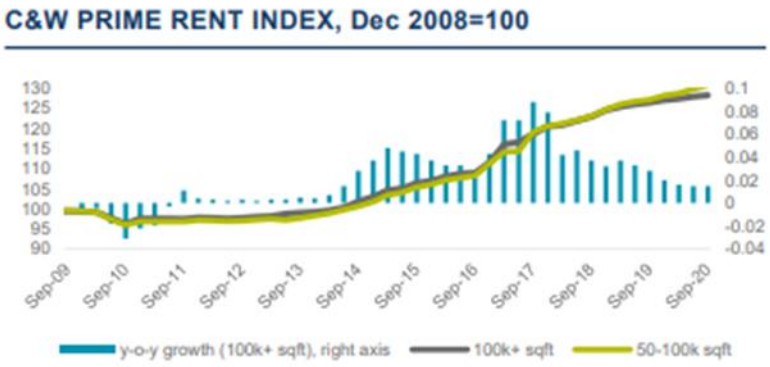


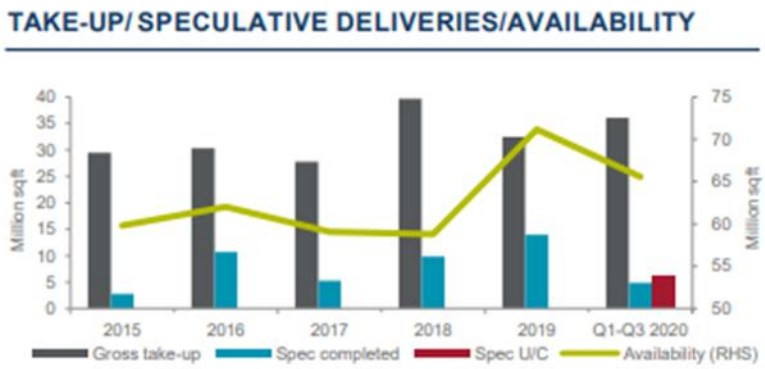
Industrial

3.2.6 In the space of a few months the UK logistics market has virtually swung from a position of potential oversupply to one of (localised) near-undersupply. Record take-up caused availability to fall by 11% during the Q3 2020 to 65.6 million sqft, roughly where it was a year ago.

3.2.7 New product continued to push the rental ceiling during Q3, amid a growing divergence in growth trajectories across size bands. Prime rental growth for Big Box (100,000 sqft+) has levelled off around 1.5% y-o-y over the last quarters, while smaller Mid-Box units (50- 100,000 sqft) posted stronger growth of 2.8% y-o-y in Q3. London has been at the forefront of this growth.

3.2.8 London Prime yields are now at 4%, with the South East at 4.75%, and the UK average at 5.1%. Given the level of unsatisfied demand, some investors will arguably have to realign their return aspirations to the strong market fundamentals in order to compete. As a result, further yield compression cannot be ruled out in prime markets, such as London and Manchester, and for longer term income streams.





3.3 Covid Pandemic Overview

3.3.1 The pandemic has accelerated the polarisation of the commercial property market.

Home working during the pandemic has prompted many employers to rethink their working arrangements

3.3.2 Unsurprisingly, those letting space to retail and leisure operators – already blighted by rising company voluntary arrangements (CVA) and administrations – have suffered the highest shortfalls in rent payments over the last three quarters. Even 60 days after the September rent collection day, retail landlords had suffered an average shortfall of 28 per cent of the amount due, according to data from property management platform Re-Leased. That was higher than the 21 per cent loss recorded by office and industrial landlords during the final quarter of this year.

3.3.3 While the acceleration towards ecommerce and enforced closure of non-essential stores has placed pressure on retailers, the moratorium on evicting tenants over non-payment of rent has also weighed on rent collection rates. That moratorium was extended to 31 March 2021 earlier this month, which could mean some occupiers will soon not have paid rent for up to a year.

3.3.4 The British Property Federation are anticipating that legal disputes between landlords and tenants are expected to rise. It is also unclear whether the final extension of the protections for tenants will delay the wave of CVAs that is expected to see in the new year. More landlords will draw down on rent deposits, recovering monies from guarantors and clogging up the courts with debt actions.

3.3.5 Shares in the UK's major retail and leisure landlords including Hammerson, Capital and Counties (CAPC) and Shaftesbury (SHB) are trading at sharp discounts to the last reported net

asset value (NAV) of each of the respective groups, an indication that the value of the underlying assets is expected to fall dramatically. That judgement seems accurate. In September, shopping centres and high-street retail property values were approaching the levels they fell to during the aftermath of the 2008 financial crisis, according to data from Savills and are considerably below their five-year averages.

3.3.6 The bleak outlook for retail rental income streams has led some landlords to explore redeveloping properties to serve another use. For property groups such as NewRiver REIT (NRR), that has included residential development. However, the challenge is finding opportunities where it stacks up to redevelop something into a profitable alternative use, however in reality such opportunities aren't that numerous. That is partly because the least attractive retail space can often be in towns where there is high unemployment, which can make the locations unattractive for other uses too.

3.3.7 The acceleration of the trend towards ecommerce during lockdown meant UK-listed landlords such as LondonMetric (LMP) and Warehouse Reit (WHR) continued to let space above estimated rental values and grow underlying rental income.

3.3.8 Standard industrial space and distribution warehouses are forecast to record the highest increases in rental value over the next four years, according to Colliers International, at a compound annual growth rate of 2.3 per cent and 1.7 per cent, respectively.

3.3.9 The resilience of rental income has made logistics landlords such as LondonMetric and Segro part of the exclusive group of real estate companies to raise their dividend payouts in the face of the pandemic. With UK gilt yields at historic lows and the pace of economic recovery uncertain, the prospect of rising dividends is likely to continue driving up the market valuations of this sector.

3.3.10 The outlook for the office sector is more difficult to place. Rent collection levels and asset valuations have been largely stable. Yet the home working experiment necessitated by the pandemic has already prompted some employers to rethink their working arrangements. That has sparked concerns of a downturn in demand for space and fall in rents.

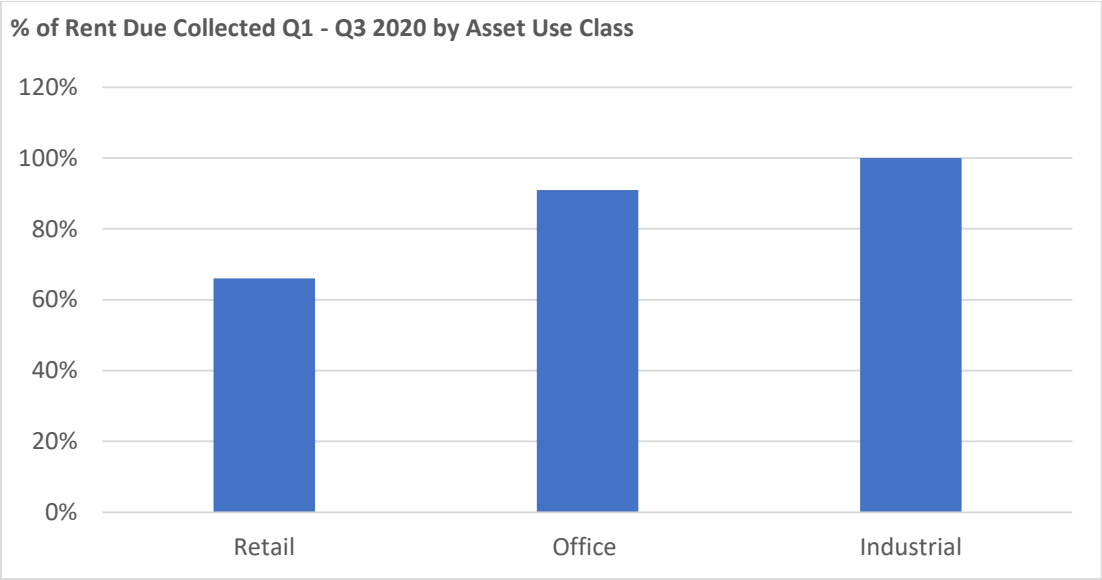
3.3.11 According to research carried out by Colliers International, occupiers are broadly considering a reduction of between 10 and 15 per cent in their overall space requirement. However, industry experts expect the most likely scenario to emerge is a three-tier market – newly developed space, good quality second-hand offices and older space. There is still a sharp shortage of newly developed offices in London. Overseas investors are taking an increased interest in London's offices.

3.4 Portfolio Performance

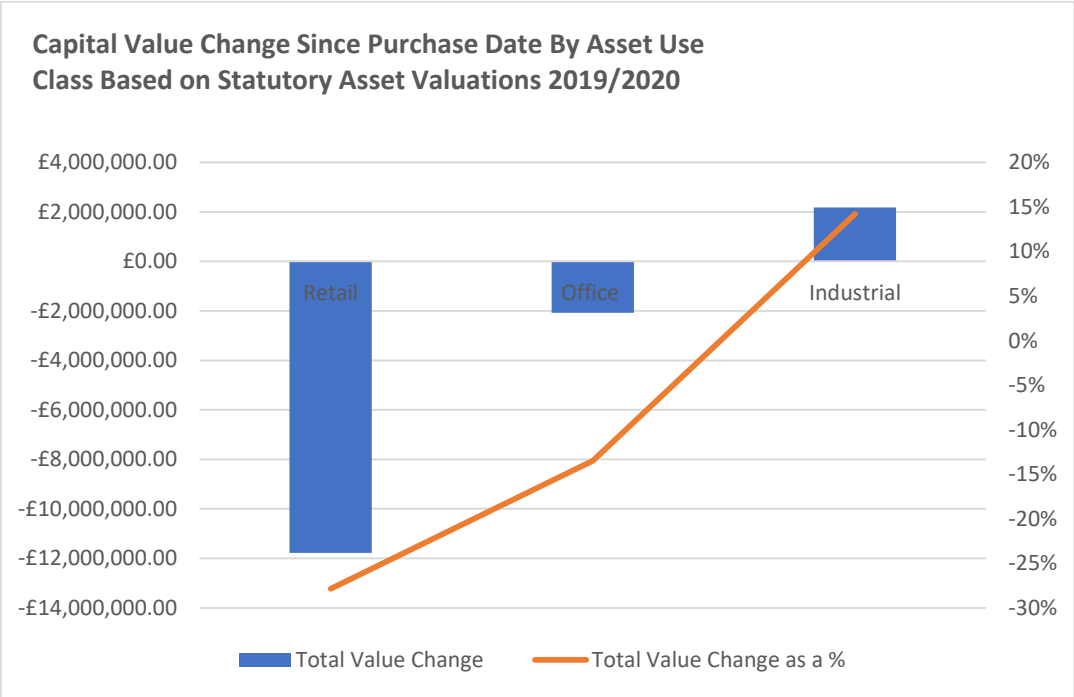
3.4.1 The overall performance of the Council's Investment Portfolio is mirroring that of general market conditions, with the industrial assets performing well, the office units steady, and the retail units struggling.

3.4.2 Unfortunately, the portfolio's weighting towards retail, is having a negative impact on overall performance in terms of voids, yields, and debtors. In addition, depending on periods of voids going forwards, increased holding costs associated with business rates and security liabilities may occur. These are common themes across the UK for retail landlords at present, with over half anticipating lease negotiations going forward to require rent free windows, rent reductions or a move to turnover based rents (Source: Savills 2020).

3.4.3 The graph directly below shows the rent collections outstanding per use class as at the end of Q3 2020 for the period of Q1 – Q3 2020. The poor retail figure highlights the negative impact on the overall performance of the portfolio that a weighting towards this use class is having.



3.4.4 The following graph shows the aggregated change in capital value across the portfolio, by asset use class, since each asset was purchased against their latest statutory asset valuation. Again, this demonstrates that the portfolio is broadly mimicking that of the property market across the UK, with retail values falling, office values broadly steady, and industrial values in a strong position.



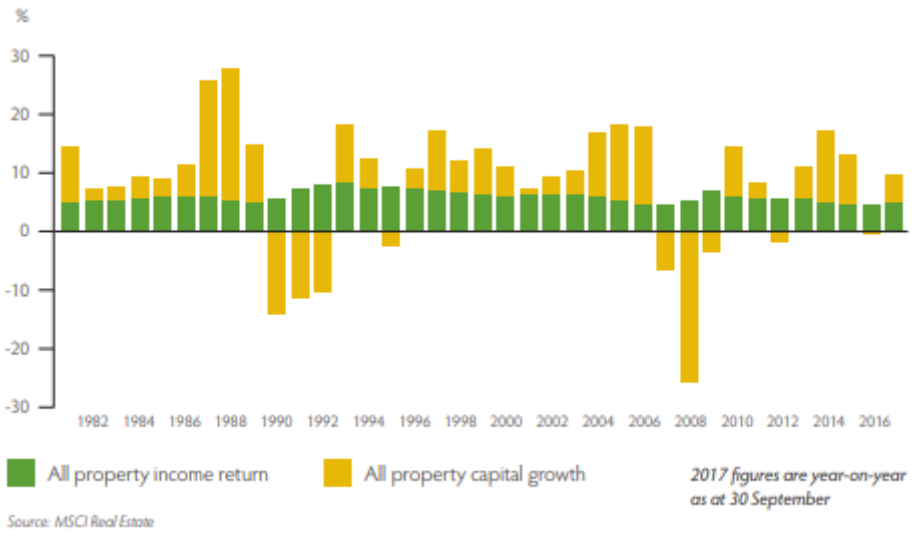
3.4.5 Note of caution - Regrettably the ongoing relationship issues with Cushman and Wakefield (with that relationship ending on 1 May 2021) meant that they were unable to provide the necessary advisory service to provide valuations to the existing portfolio and so these tables have utilised the Council's Statutory Asset Valuation data instead. It should be noted that Statutory Asset Valuations can, and often do, provide a different outcome to a 'Brokers Opinion of Value' (BOV)

which is a suitably qualified and experienced agent's view of what the sale of an asset would achieve in the open market. Brokers Opinions of Values tend to provide a less conservative indication of the possible sales receipt achievable in the open market than statutory asset valuations, with these appraisals focussed on the approach the most competitive market entrant would take, thereby capturing additional value that the methodology for undertaking statutory asset valuations does not allow for. Therefore, the figures that the graph above show should be viewed with caution, with the overarching trends that it draws out between the three use classes being the key takeaway.

3.4.6 At the present time the property market is going through a period of uncertainty, which drives yields up and capital values down as investors require a higher return on their investment to reflect the perceived risk of an uncertain market. Therefore, looking at the above graphs, the portfolio's performance is below aspirations. However, this data only reflects a snapshot in time and generating income from a property portfolio is a long-term investment and the portfolio management strategy is therefore set up accordingly.

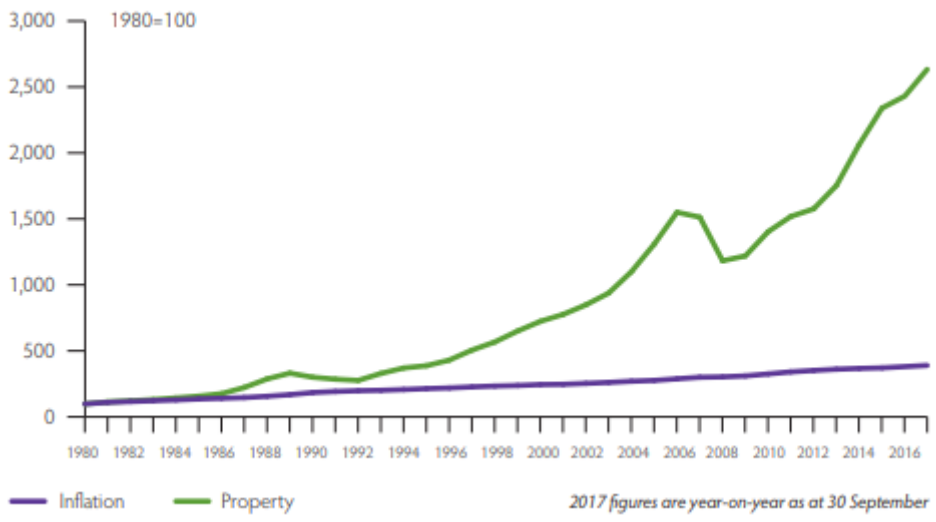
3.4.7 The following graph shows the performance of the UK property investment market between 1982 and 2017 in terms of income returns and capital growth. The recession of the early 1990s, and that of 2008, show the impact of market uncertainty on the performance of UK property (particularly with regards to capital growth), and importantly demonstrates how following each recession, the market recovers with the long term trend being one of growth. Of the 35 years of data shown below, investment property values fell in only 8 of these years.

Property Income & Capital Growth



3.4.8 As the above graph illustrates, whilst capital values fell by 27% across the UK during the 2008 recession, a full recovery to pre-recession values was achieved within approximately 5 years, as is the cyclical nature of the property cycle.

3.4.9 The graph below tracks the total property returns vs inflation between 1982 and 2017, perhaps more clearly indicating the trend for the long-term growth of property investments, despite there being moments in time (such as the one we are in now) where market conditions lead to falling returns and values.



3.5 Portfolio Opportunities

3.5.1 As mentioned earlier in this report, the portfolio's weighting towards retail, has resulted in exposure to tenants now in receivership, alongside declining retail activity in general. However, this has also resulted in there being opportunity for a number of repositioning opportunities within the portfolio.

3.5.2 Further exploration works to identify the opportunities for repositioning within the portfolio will be undertaken by the new Portfolio Advisor (once appointed), as part of the strategic advisory works that they will be undertaking.

3.5.3 Repositioning of assets will enable the Council to capitalise on the control they have over the land that they hold within the portfolio and wider stakeholder benefits and objectives can also be considered in the repositioning of assets that are within the Borough, such as those on Bromley High Street.

3.6 NAO Consideration

3.6.1 Members should note that several local authorities have received criticism and media attention as to how decisions have been made as to acquisition of investments by utilising borrowing arrangements for their purchase from the Public Works Loan Board. The Councils funding for its investments has been made via its own resources with all purchase decisions being made via executive decisions.

3.6.2 The appointment of a specialist advisor and the creation of the creation of a new Property Investment Advisory Board (Members and Officers) further strengthens the governance around the management of the council's portfolio.

3.7 Portfolio Performance v income alternative.

3.7.1 The overarching reason that the Council acquired Investment Properties was to receive the benefit of rental income to fund services. The objective of generating an alternative income stream for the Council could have been met by investing into Treasury Management (a LB Bromley specific option), or alternative income producing assets, such as 10 year Treasury Bonds (a market alternative), but both options would have provided considerably less return on investment than the property investments have proven to do since their acquisition.

3.7.2 The graph below demonstrates the rate of return achievable on 10 year Treasury Bonds from 2012 until present day. The rate of return has been steadily declining from a high of 3.4% in 2012 to low of 0.1% in July 2020, with the current rate at 0.3% (as at 1st January 2021).

3.7.3 Treasury Management performs similarly to the above, with the average yield at 1%.

3.7.4 The investment portfolio properties have been acquired between 2012 and 2017 for a total investment of just over £89m. The gross yield achieved by the portfolio at present is 6%. The average return achievable via Treasury Management, is only 1%, clearly demonstrating the property returns the Council has benefitted from have exceeded the alternative return that could have been achieved through investment in Treasury Bonds across the portfolio.

3.7.5 Over the lifetime of the investment portfolio, the additional income to the Council over and above Treasury Management returns stands at circa £24.5m, calculated until the end of December 2020. This additional revenue generated from these investments offsets the decline in capital values. Furthermore the ongoing additional income generated over and above Treasury Management returns will be circa £4.5m per annum assuming current yield differentials.

3.8 New Portfolio Advisor and Portfolio Oversight

3.8.1 A number of retail business' have entered administration over the course of 2020. A number of these are tenants of the Council, such as Arcadia. The Council's exposure to retail assets is therefore negatively impacted the overall portfolio performance.

3.8.2 However, this is something that the Council is looking to address, with the appointment of a specialist investment advisor to review the portfolio and advise on the strategic plan that will balance our exposure to risk and ensure the optimal performance of the portfolio in the short, medium and long term to best meet the objectives of the Council.

3.8.3 Until now, the management of the portfolio has fallen under the TFM framework, and the Part 2 Report of the same title details the ongoing property management tasks and their recommended asset management strategies in the short term.

3..8.4 Members will recall that the Leader made the Executive decision, following scrutiny by this committee, on 10 July 2020 to the following:

1) That a full asset management approach to the Investment Portfolio be adopted by seeking to award a contract for the full management of the portfolio to a suitably experienced and qualified firm of Chartered Surveyors.

(2) Proceeding to procurement for provision of asset management services via a further competition using the Crown Commercial Services Framework for a proposed duration of 3 years with a 1 year extension be approved.

(3) A report be submitted to the Executive for consideration once the outcome of the mini competition for asset management services is known.

(4) The creation of a new Property Investment Advisory Board (Members and Officers) be approved, with authority delegated to the Director of Housing, Planning and Regeneration in consultation with the Portfolio Holder for Resources, Commissioning and Contract Management to approve investment plans for the portfolio and also give authority to the contracted firm of Chartered Surveyors to action said plans.

(5) Councillor Gareth Allatt be invited to become a member of this Board.

3.8.5 The Council is currently in the process appointing a specialist external consultant who has the appropriate, specialist skillset to review the portfolio and advise on the strategic plan that will ensure the optimal performance of the portfolio in the short, medium and long term and meet the objectives of the Council, the Executive will be advised of this appointment once made.

3.8.6 The day to day property management will continue to be serviced by internal resource, and it is anticipated that the internal team will consult with the appointed advisor before actioning any works that may have impact on the strategic plan for the portfolio.

3.8.7 The Council will require the advisor to undertake a portfolio performance & strategy review report on a rolling 6-monthly basis. The review should make any required updates to the strategic plan and track the performance of the portfolio against the strategic plan and market conditions.

3.8.8 The required workstreams can be broken into three stages:

- Initial portfolio review and analysis
- Setting the strategic plan
- 6 monthly reviews

3.8.9 Stage One - Portfolio review and analysis:

- Providing analysis of the portfolio composition and analysing the makeup and performance to date. Market analysis including investment trends / activity / forecasts, as well as for the occupational markets and benchmarking portfolio performance with the markets that they sit within. Providing projected performance (5-year cash flow) based on upcoming lease events, market dynamics and trends without any significant strategic plan being implemented to provide a base position to monitor projected performance against.
- Independent review of existing advice – The focus in recent years has been on the acquisition of assets to grow the portfolio, and during this period, the portfolio has been managed by internal resources. The Council has received some asset management

advice on an asset by asset basis which the incoming consultant should review and provide comment on, identifying the urgency of any recommended amendments to previous advice with explanation/justification for a change in direction (particularly as implementation of such advice is ongoing).

- SWOT analysis - Identification of strengths, weaknesses, opportunities and threats on both an asset specific basis, and as a holistic approach for the portfolio as a whole, linked back to the portfolio and market analysis sections.

3.8.10 Stage Two - Strategic plan:

- Identification of the Council's short (next 18 months), medium (18-36 months) and long-term (36 months onwards) objectives and production of a strategic plan to effectively meet these objectives. An investment strategy statement should be provided, based on best practise CIPFA guidance, as to what the overarching investment strategy is.

The following sections to be included as part of the overarching strategic plan report:

- Identification / Setting of Core Objectives – The advisor should work with the Council to identify core objectives for the portfolio in the short, medium and long term to provide a platform from which to set the strategic plan.
- The Council's previous investment criteria has been provided and the advisor should review this criteria and update for current market conditions, to ensure any acquisitions meet the Council's objectives for a balanced portfolio that is suitably de-risked to anticipated future market fluctuations.
- Alongside the investment criteria, core objectives are required to support the ongoing strategic plan for the portfolio. The advisor should also provide recommendations as to additional considerations for the Council which can be used to set the parameters for strategic decision making.

  Items for consideration include (but are not limited to):

  (a) Reputational considerations

  (b) Moral obligations as a public sector landlord

  (c) Identification of best practise guidelines for public sector investments

- Setting the direction of travel – In line with the Council's investment criteria and core objectives, the advisor should provide a strategic plan to meet these objectives. The strategy should provide a holistic overview of the current day position and the short, medium and long term aims for the portfolio, as well as on an asset by asset basis where appropriate.
- Action Plans – Once the overarching strategic plan has been identified, action plans that specify what is required to meet each stage of delivery of the overarching strategic plan should be provided. It is anticipated that there will be an action plan provided for each asset.
- Deliverables – Following the identification of the action plans being recommended to meet the overarching strategy objectives, a more granular breakdown of the workstreams involved should be provided. Chronological workstreams linked to the delivery of action plans, identifying the stages of work required in order to meet these objectives to be provided.
- Creation of Best Practise Guidelines for Processes – The formal governance of both the acquisition and disposal process together with the ongoing management of the invested

commercial property portfolio is through a Property Investment Advisory Board (PIAB) with acquisition and disposals requiring Executive approval.

- Advice and recommendations as to best practise guidelines for the Council to deliver the strategic plan objectives will be required, taking into account the democratic and decision-making processes and regulation that the Council must adhere to. Adoption of explicit processes for delivering the strategic objectives that represent best practise processes, will enable the PIAB to efficiently implement the strategic plan and manage the portfolio effectively going forwards (e.g. process, reporting formats, timescales & sign off procedure for acquisitions / disposals).
- Projected Outcomes – The strategic plan should be supported by a 5-year cash flow projecting the portfolio's performance. Comparison of this with the base cash flow provided in stage one of the workstreams, will demonstrate the anticipated impact that implementation of the strategy will have and will provide a benchmark for tracking future performance with the projected outcomes.

3.8.11 Stage Three - Review reports on a rolling 6 monthly basis:

Commencing after stage one and two of the workstreams are completed. The aim of the regular reviews is to ensure the strategic plan still provides the optimum framework for meeting the Council's objectives and that the performance of the portfolio reflects these objectives.

- Review progress of strategic plan implementation – the review should highlight progress made against the timeline of deliverables provided in phases 1 and 2, as well as clearly identifying any slippages to the implementation timeline. Provision of an updated implementation timetable should be provided every six months, with adjustments to the overall timeline as and when needed.
- Review performance of investment portfolio against strategic plan – Performance tracker and analysis of the performance to be provided against the strategic plan. After the initial 6-month review, the review of the portfolio's performance should be provided for both the last 6 month period, as well as for the performance of the lifetime of the instruction.
- Review performance of investment portfolio against the market – Performance tracker and analysis of the performance to be provided against the overall market that each asset sits within, as well as at a portfolio level. After the initial 6-month review, the review of the portfolio's performance should be provided for both the last 6-month period, as well as for the performance of the lifetime of the instruction.
- Update strategic plan if required – Having analysed the performance of the investment portfolio against both the aims of the strategic plan and the market, the advisor should provide clear advice as to any amendments to the strategic direction required, with suitable evidential based justification. If any significant amendments are recommended, the advisor should provide a reissued Strategic Plan document with the relevant updates to the action plan and deliverable sections to ensure the smooth adoption of any required changes to strategy. If new/additional best practise guidelines are required as a result, these should also be provided.

3.8.12 The new Property Investment Advisory Board (Members and Officers) held its first meeting in early December with Cllr Allatt in attendance.

3.8.13 Regrettably the ongoing relationship issues with Cushman and Wakefield (with that relationship ending on 1 May 2021) meant that they were unable to provide the necessary advisory service to provide valuations to the existing portfolio, however the appointment of the new advisor is now well underway.

3.9 Concluding Comments

3.9.1 The UK property market at present is going through a period of uncertainty, due to a multitude of factors but with the Covid-19 pandemic exacerbating the situation. The retail sector has been hit the hardest, with the office market broadly steady and the logistics market comparatively strong. The Council's investment portfolio is broadly reflective of the overall market trends seen over 2020.

3.9.2 Experience of financial crash in 2008 led to some commercial property values falling by 30% which subsequently recovered. The current Covid situation creates uncertainty in the market which results in spot vales not provide realistic longer term values (e.g assets may be under-priced in view of uncertainty at current time);

3.9.3 Equally, the Council still receives significant annual income of circa £5.3m from investment properties, which if not achieved would require service savings within the Council's budgets;

3.9.4 The underlying long-term investment return of commercial properties has generated significant investment returns compared to many other types of investments (such as Treasury Management)

3.9.5 The additional income earned by the Council since the properties were purchased stands at circa £24.5m in excess of the potential return that could have been via Treasury Management, and the ongoing additional income over and above Treasury Management stands at circa £4.5m per annum. This excess income offsets short term decreases in capital values.

3.9.6 The property portfolio consists of different type of properties (not just retail) which provides some diversification of risk. The appointment of a new Investment Advisor will also ensure the short, medium, and long-term objectives of the Council are being best met by the portfolio going forwards through a balanced approach to risk exposure.

3.9.7 With any property portfolio there remains potential opportunities to add value through considering alternative use including conversion to residential and the location of some of the properties will assist in future regeneration opportunities in the medium and longer term e.g. Bromley town centre commercial properties.

3.9.8 In light of recent headline news of other Local Authorities investment decisions, it is important to recognise that no borrowing has been used to acquire properties – we do not (and will not) face the situation that some authorities have found themselves in whereby they have lost income but still have to service the debt.

3.9.10 We withdrew from further investments in last 2/3 years as our view was that prices were becoming excessive;

3.9.11 Criteria used to acquire investment properties represents a balanced approach, considering each acquisition on its merits, and taking a long-term investment view (e.g. no fire sales or sales during recessionary periods which would be poor timing in getting best value);

3.9.12 Given the current economic environment, we are factoring in a reduction in budget for 2021/2022 which will be monitored on an ongoing basis.

3.9.13 The focus now is on the short, medium and long term investment management strategies to be adopted to best meet the objectives of the Council with the appointment of a new Investment Advisor which is underway at the time of writing.

4 IMPACT ON VULNERABLE ADULTS AND CHILDREN

4.1 There is not considered to be an impact on Vulnerable Adults and Children as a consequence of this decision.

5 POLICY IMPLICATIONS

5.1 It is essential that the Council optimises the utilisation of its assets and ensures that it retains only those properties that meet the corporate and service aims and objectives.

6 FINANCIAL IMPLICATIONS

6.1 The current annual income budget for the Investment Portfolio properties is £5.6m for 2020/21.

6.2 It is currently anticipated that the outturn position will be in the region of £5.3m as a result the underachievement of income resulting from long term vacant properties in the High Street and market pressures that have restricted the potential to increase rents.

6.3 In addition to this, the ongoing restrictions due to the COVID-19 lockdowns experienced brings uncertainty over the current outstanding debts of tenants within these properties, including amounts due from Arcadia who are now in administration. Whist other tenants have received assistance in the form of rental deferments, ultimately it is likely that some will be unable to pay.

6.4 Business owners affected by the pandemic will be protected from eviction until the end of March 2021 and this could be extended with the deferment of such cases likely to generate a 12-month court backlog for determination. Therefore, the true impact on the performance of these properties may not be known fully until we are into the next financial year or beyond.

6.5 The draft budget for 2021/22 has allowed for a reduction in all investment property income of £0.715m.

Non-Applicable Sections:	HR and Procurement and Legal
Background Documents: (Access via Contact Officer)	