

Property Investment Strategy Criteria

- 1 The strategy will consist of a diversified and balanced portfolio of investment assets with regard to the following considerations.
- 2 Established property investment practice has evolved based on long standing markets for assets in main stream sectors such as Offices, Retail, Industrial and Residential. Investing in these traditional asset categories in a balanced fashion, allows for a lower risk investment when compared to emerging markets such as Student Accommodation, Nursing Homes and Medical Centres.
- 3 When considering the tenure of an asset, freehold would be preferable to leasehold. Freehold provides for greater levels of security against a leasehold asset that would effectively decrease in value over time. However assets on long leasehold basis may still be suitable for consideration.
- 4 Whilst properties let to only one tenant may offer an acceptable level of risk, multi-tenanted properties would be favourable as they offer the opportunity to minimise the impact of any one part of the asset being vacant due to tenant default or lease expiry. If assets are occupied by a single tenant, then detailed financial due diligence would be undertaken to ascertain their financial stability.
- 5 Investment opportunities are restricted to those within a 50 mile radius of the Council's Argyle Road offices.
- 6 Based on the above considerations and taking into account local market conditions, a suggested lot size of between £1m and £5m is recommended. This is to avoid the lower part of the local market where private high net worth individuals would be seeking to invest and also the high end, where Pension Funds and Life Assurance Funds tend to dominate.
- 7 Given the likely risk profile of an asset meeting the above considerations, it is suggested that an income yield of in excess of 5%* (based on advice from Savills) when not borrowing or in excess of 3% for schemes that include some external borrowing is appropriate. Opportunities should be sought that lend themselves to a potential to increase rental income than is currently being realised. (*The income yield is calculated as an average return over 10 years).

- 8 A limited number of opportunities that include the potential for development should also be considered. This approach may have the potential to deliver an additional 20-30% return on investment could be realised.
- 9 Where sites that are already in the ownership of the Council could be redeveloped in partnership with neighbouring sites, added value can be derived from 'marriage' of the sites. Consideration should be given to Joint Venture (JV) projects that maximise value, with priority given to those which would result in the delivery of assets meeting the investment criteria.
- 10 It is proposed that external specialist property investment advisors be retained on each transaction, advising on suitability having undertaken detailed pre purchase due diligence, including valuation, risk analysis and lease / title reviews.
- 11 Taking all of the above considerations into account, the following specific criteria are proposed:
 - i. Income Yield of 5%+ when not borrowing or in excess of 3% for schemes that include some external borrowing, based on an average over 10 years. (Flexibility may be applied to those opportunities that show an acceptable social return on investment)
 - ii. Individual Properties or Portfolios
 - iii. Lot size of £1m - £5m
 - iv. Freehold / Long Leasehold
 - v. Single or Multi Tenanted
 - vi. Asset categories: Industrial, Office, Retail, Trade Counter and Private Residential
 - vii. Potential to increase rental income, through pro-active Asset Management
- 12 It is proposed that initially, the Strategic Asset Management and Operational Property Management of the portfolio be delivered from existing resource within the Council's Economic Development and Property Team. There will however be times when specialist external advice is needed and this work will be commissioned on an 'as required' basis, funded from the income from the assets. This approach is to be reviewed regularly, including ongoing resource requirements, as the portfolio grows.

- 13 Funding for the acquisition of assets should be reviewed on a case by case basis but could be derived from a number of sources:
- Receipts from previous property disposals.
 - Receipts from proposed land / property disposals in future years.
 - Reallocation of some of the funds currently held in reserves.
 - Borrowing from the Public Works Loan Board.
 - Borrowing from the Municipal Bonds Agency.
- 14 Each scheme will also be analysed to decide whether it is preferable to proceed as the council or via Quercus 7.