Property Investment Strategy (agreed by Council 22/02/22)

1. The strategy will consist of a diversified and balanced portfolio of investment assets with regard to the following considerations.

2. As the portfolio has grown and property markets have changed, all asset categories are now included subject to appropriate due diligence and ensuring no asset class exceeds 20% in total value of the approved funding.

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 all of England, however recognising that this may need to be changed in future if legislation is amended.

6. Based on the above considerations and taking into account local market conditions, a lot size of between £1m and £10m has been set. 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, the following has been set. The income yield be 3%+ above the Council's average treasury management return when not borrowing or internally borrowing, and 3%+ above the borrowing rate when externally borrowing, based on an average over 10 years. (Flexibility may be applied to those opportunities that show an acceptable social return on investment).

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.

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 expected that external specialist property investment advisors will 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 current criteria are:

    i. Income yield of 3%+ above the Council's average treasury management return when not borrowing or internally borrowing, and 3%+ above the borrowing rate when externally 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 - £10m subject to multiple tenants for lots over £5m

    iv. Freehold / Long Leasehold

    v. Single or Multi Tenanted

    vi. Asset categories: all subject to appropriate due diligence and ensuring no asset class exceeds 20% in total value of the approved funding.

    vii. Investment opportunities be restricted to all of England.

    viii. Potential to increase rental income, through pro-active Asset Management

12. 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.
    - Internal borrowing.
    - Borrowing from the Public Works Loan Board.
    - Borrowing from the Municipal Bonds Agency.

- Income strip funding.

14. Each scheme will also be analysed to decide whether it is preferable to proceed as the council or via Quercus 7.