

# FAREHAM

## BOROUGH COUNCIL

### Report to the Executive for Decision 4 November 2013

<b>Portfolio:</b>	Policy and Resources
<b>Subject:</b>	<b>Commercial Property Investment Acquisition Strategy</b>
<b>Report of:</b>	Director of Finance and Resources
<b>Strategy/Policy:</b>	
<b>Corporate Objective:</b>	A dynamic, prudent and progressive Council

#### **Purpose:**

To request that the Executive consider providing additional funds to purchase further commercial property as a means to optimise returns on Council investments.

#### **Executive summary:**

A report was considered by the Executive on 7 January 2013 and approval was given for;

- (a) The principle of a programme of investment in commercial property and the adoption of a Commercial Property Investment Acquisition Strategy;
- (b) an initial investment of £3 million to fund a commercial property investment acquisition programme;
- (c) the authority to be delegated to the Director of Finance & Resources following consultation with the Executive Leader to submit offers for commercial property investments in accordance with the criteria set out in the Commercial Property Investment Acquisition Strategy.

The first commercial property investment has been acquired at Clifton House in Segensworth and an offer has been accepted and is in the hands of solicitors on a second property investment in Eastbourne.

The balance remaining of approximately £339,000 after both purchases is unlikely to be sufficient to acquire a third commercial property investment. However, when considering the Medium Term Finance Strategy, the Executive recognised the potential to make a further tranche of funding available to investment in commercial property, and this report invites the Executive to consider making £5m available to support the continued implementation of the Acquisitions Strategy.

**Recommendation:**

That;

- (a) The Executive are requested to consider providing an additional £5m to fund further commercial property investment acquisitions for the reasons set out in the briefing paper and,
- (b) Reaffirm the criteria for selecting investment opportunities as set out in the Commercial Property Investment Acquisition Strategy attached as Appendix B to this report and agreed by the Executive on 7 January 2013.

**Reason:**

To release additional funds to invest in commercial property, in line with the agreed Acquisitions Strategy, as an alternative to the treasury related investments and which are currently producing a low level of return which is likely to continue into the medium term

**Cost of proposals:**

The cost of the proposal is £5m, to be met from the Council's capital reserves.

**Appendices:** **A:** Executive Briefing Paper - Investments Acquired and Financial Implications (Confidential Appendix)  
**B:** Commercial Property Investment Acquisition Strategy

**Background papers:** Report to Executive 7 January 2013

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## BOROUGH COUNCIL

### Executive Briefing Paper

**Date:** 4 November 2013

**Subject:** Commercial Property Investment Acquisition Strategy

**Briefing by:** Director of Finance and Resources

**Portfolio:** Policy and Resources

#### INTRODUCTION

1. As part of the Council's on-going review of finances and new income generating opportunities, some initial investigative work was carried out into the possibility of generating an on-going revenue stream by increasing its investment in commercial property.
2. This work identified that if the Council were use some of its treasury related cash investments to acquire commercial property; it is likely that a greater return could be secured. However, it was also clear that, to provide the security that such an approach would require, a set of clear criteria were necessary to ensure that only high quality; low risk property assets were acquired.
3. The Executive, on 7 January 2013, agreed to put in place a Commercial Property Investment Acquisition Strategy to achieve this aim. The strategy included the criteria that would need to be considered in order to choose the most suitable investment and measures to minimise risk. The Executive also agreed to provide £3m as an initial investment to fund the acquisition programme.
4. On 7<sup>th</sup> October 2013, the Executive agreed a report on the Annual Review of the Council's Medium Term Finance Strategy. Included within the Strategy at paragraph 102 was reference to the meeting on 7 January 2013 when the Executive approved the Commercial Property Investment Acquisition Strategy which is designed to increase the Council's return on investments due to the low returns being received from treasury related investments. As mentioned in this report, the Executive agreed to commit up to £3 million of investment in commercial property to achieve returns of up to £150,000 per annum to assist in reducing funding pressures.
5. The Finance Strategy at paragraph 103 advised that a report will be brought to this Executive meeting to review the investments that have been made to date and with a view to increasing the amount available to invest by between £3 million and £5million funded from capital reserves, to relieve the pressure on the revenue budget.

## **INVESTMENTS ACQUIRED**

6. Following the decision of the Executive in January 2013, an industrial property; Clifton House in Segensworth was acquired in August 2013. The purchase price for this property, including all costs was £1.8m. A second property comprising a ground floor Sainsbury's unit in Eastbourne is progressing with solicitors. The full details are set out in the Confidential Appendix A.
7. Officers have also considered a number of other acquisition opportunities. These have been tested against the criteria within the Commercial Property Investment Acquisition Strategy and have either been rejected as they have not satisfied the criteria or offers have been submitted but rejected. The decision to pursue or reject an opportunity site is documented, and for those which are pursued, the Councils retained commercial property advisors provide a detailed investment report which informs the decision-making process.
8. It is appropriate, in considering whether to extend the acquisitions programme, to review the selection criteria in the Strategy agreed by the Executive on 7 January 2013 and attached as Appendix B to this report. This has been undertaken and officers are satisfied that the criteria remain relevant and appropriate and therefore should continue to be used to acquire further investment property if the Executive agree to allocate additional funding. .

## **RISK ASSESSMENT**

9. The risks associated with acquiring commercial property investments and measures to minimise the exposure to risk are set out in the Commercial Property Investment Acquisition Strategy which was approved by the Executive on 7 January 2013. For example, acquiring property with long term leases to a tenant with a strong financial standing and good track record. The risks can also be mitigated by establishing a clear "exit strategy" in the event that the property no longer achieves the wider objectives of the portfolio.

## **FINANCIAL IMPLICATIONS**

10. The total cost committed from the £3m budget is £2,660,966, leaving a balance of approximately £339,000 which is unlikely to be sufficient to acquire a third commercial property investment.
11. For the current financial year to date, the Council is currently earning on average 0.965% from its treasury related cash investments. Had £2,660,966 been invested at this interest rate, the return for the year would be £25,678 compared to the projected rental income of £217,000; a difference of £191,322 (full details are set out in the Confidential Appendix A).
12. Assuming that an average rate of return of 6% could be achieved from high quality acquisitions, then a second, £5m tranche of investment would produce a return of £300,000 p.a.

## **CONCLUSION**

13. The report outlines the acquisitions of investment property following the Executives decision in January 2013 to provide £3 million as an initial investment to fund a commercial property investment acquisition programme. The report also sets out the financial benefits of providing additional funds of £5m to purchase further commercial property bearing in mind the positive investment returns which can be obtained when compared to the low returns being received by the Council from treasury relates investments and which is likely to continue into the medium term.
14. Assuming that the Executive supports an extension to the funding for this strategy, the selection criteria as approved in January 2013 will continue to be applied to ensure that high quality, low risk acquisitions are pursued.