

# Bath & North East Somerset Council

MEETING:	<b>Corporate Policy Development &amp; Scrutiny Panel</b>	
MEETING DATE:	<b>12 March 2024</b>	EXECUTIVE FORWARD PLAN REFERENCE:
TITLE:	<b>Commercial Estate performance</b>	
WARD:	All	
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report: None</b>		

## 1 THE ISSUE

The Panel requested for more detail to be provided behind the update report on the commercial estate presented at the informal briefing given to the Panel on 16 January 2024. This report therefore expands on the summary information presented previously.

## 2 RECOMMENDATION

The Panel is asked to note and provide feedback in respect of the contents of this report.

## 3 THE REPORT

### 3.1 Commercial Estate monitoring as at January 2024.

The date used for this report is the Quarter 3 position April 2023 – December 2023.

#### 3.1.1 INCOME

The approved gross income budget is £16.4m for 2023/2024. The Q3 forecast is provided together with previous forecasts. The actual income received at the end of December was £14.8m with a forecast to the end of the year of £16.2m. The forecast figures do not take account of actual agreed lease renewal and rent review settlements which are subject to fluctuations.

Table 1- Commercial Estate Gross Rental Income Budget and Forecast 2023-24

Budget (1081)	Actual to date	Q1 - Initial Forecast	Q2 - Forecast	Q3 - Forecast	Variance to Budget
£16,356,513	£14,770,204	£16,356,513	£16,191,644	£16,191,644	£164,869

### 3.1.2 LETTINGS

From the beginning of April 2023 to 31<sup>st</sup> December 2023 we had achieved 12 lettings. (The presentation at the January meeting reported that 17 lettings had been achieved in 2003. Five of these lettings were completed between 1 January and 31 March 2023). The income has been profiled and produces £99,211 from 1st April 2023 onwards, rising to £277,151 from April 2024.

Table 2 – Lettings during 2023

Grd & Basement	21 Milsom Street	Estate Agency	17-Mar-23
Unit 2	Wansdyke Workshops Unity Road	Landscaping Company	17-Mar-23
Grd & Basement	15 Cheap Street	Doughnuts, ice cream and cookies	15-Mar-23
Unit 9	Queen Sq Hse Parking & Palace Yard Mews	Offices/education	29-Mar-23
Unit 11	Mill Road Industrial Estate Radstock	Bicycle components	30-Mar-23
Whole	4/5 New Bond Street Place	Coffee shop	06-Apr-23
Grd & Basement	9 Edgar Buildings	Wine bar	23-May-23
Ground Floor	6 Broad Street	Childrens clothes	21-Jul-23
Unit 3	Wansdyke Workshops Unity Road	Mixed - classic car restoration	17-Aug-23
Unit 2	Wansdyke Workshops Unity Road	Automotive and marines repairs	17-Aug-23
Ground, Basement & Upper	4-4A Burton St	Opticians	12 October 2023
First Floor	16 Abbey Churchyard	Recruitment Company	22 September 2023
Whole Property	24A Monmouth Place	Marketing/films	02 November 2023
Ground	19 Westgate Street	Takeaway	30 November 2023
Ground	7 Broad Street	Sustainable Fashion Brand	02 November 2023
Whole Property	89 Walcot Street	Store	01 December 2023
Whole Property	15 New Bond Street	Jewellery	12 December 2023

The letting terms are understandably commercially sensitive and confidential.

### 3.1.3 VOIDS

Out of the 36 void units in the Commercial estate, 52% are retail (19), compared with 55% (26) of the total in May 2021; and nearly 32% are offices (11).

Tables 3 and 4 below provide a breakdown of voids in terms of unit numbers and rental values by void classification as follows:

- Temp Let – Asset is subject to a pop-up or temporary letting.
- Void Offer – Property is under offer and no longer being marketed.
- Void Temp – Asset is on the market and available for letting.
- Void Works – Asset is currently awaiting works prior to commencing marketing.
- Void Legal – Legal Services have been instructed to draft documentation.

Table 3 - Table illustrating number of units under each void classification heading.

Count of Units	Unit sta					Total
Category	Temp Let	Void - Offer	Void - Temp	Void - Works	Void - Legal	
Licensed			1			1
Office			4	6	1	11
Other		1	1	3		5
Retail	2	3	5	9		19
<b>Total</b>	<b>2</b>	<b>4</b>	<b>11</b>	<b>18</b>	<b>1</b>	<b>36</b>

Most units are not capable of being let at this time due to various reasons, although mainly because they are awaiting works prior to commencing marketing. This is illustrated below in the following table.

Table 4 - Table illustrating rental values under each void classification heading.

Sum of Erv tegrity	Unit stat Temp Let	Void - Offer	Void - Temp	Void - Works	Void - Legal	Total
Licensed			£32,400			£32,400
Office			£60,050	£103,000	£14,000	£177,050
Other		£1,800	£3,300	£33,230		£38,330
Retail	£96,200	£74,000	£170,125	£313,550		£653,875
<b>Total</b>	<b>£96,200</b>	<b>£75,800</b>	<b>£265,875</b>	<b>£449,780</b>	<b>£14,000</b>	<b>£901,655</b>

Out of the total value of ERV reported, (£901,655) 50% equating to £449,780 of potential revenue requires works. Of the units classed as void temp, which are currently on the market and accounting for 29% of the total revenue, a significant number of these also require an element of works.

### 3.1.4 INVESTMENT ASSET PERFORMANCE

In terms of commercial property investment, the commercial estate asset value was assessed at 31 March 2023 as £237.9 million.

The revenue outturn for 2022/23 stood at £15.1million. As a proportion of the net book value of the commercial estate at 31 March 2023 this produced a yield of 6.4%.

By comparison, the IPD All Property Equivalent Yield for Q3 2023 also stood at 6.39%<sup>1</sup>

IPD or the Index Property Databank is a monthly property performance index which tracks retail, office and industrial properties. The index includes data on actual property transactions from institutional investors and property companies. It produces annual and monthly figures for the total property return. The IPD UK index is the standard benchmark for investors to analyse the performance of property in the UK market.

### 3.1.5 INCOME RECOVERY (ARREARS)

The arrears position in January 2024 (using KPI data produced on 15<sup>th</sup> of January) for the Commercial Estate portfolio is reported in the table set out below. This indicates a risk profile and is tracked from the pre Covid level (of March 2020) and from the start of Property Board (May 2021).

Table 5 - Arrears position in January 2024.

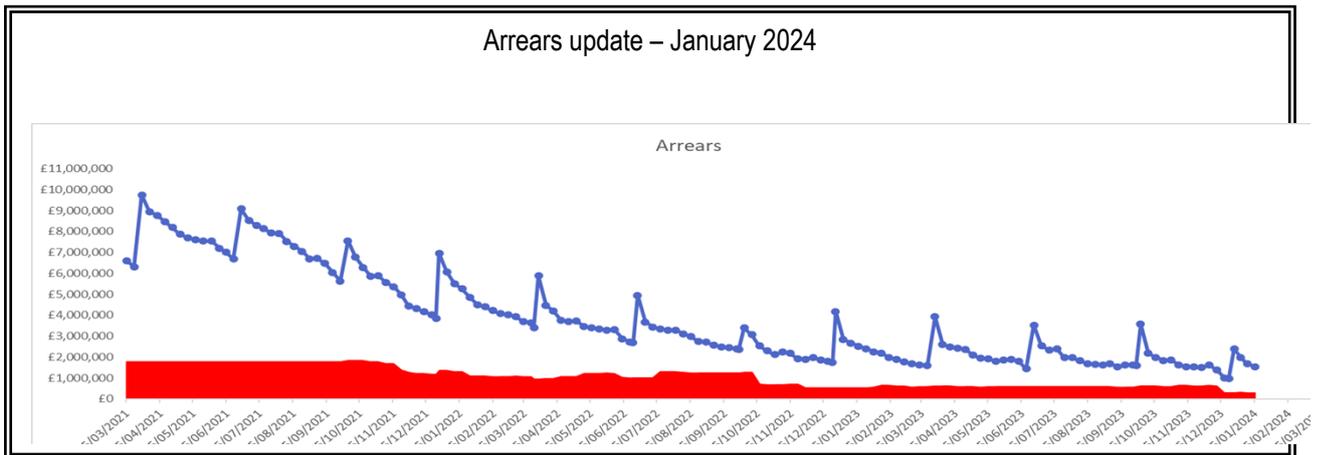
Row Labels	Current	1 Qtrs	2 Qtrs	3 Qtrs	4+ Qtrs	Grand Total
G	£ 389,681	£ 32,345	£ 8,847	£ 371	£ 221,143	£ 652,386
A	£ 156,412	£ 29,613	£ 10,246	£ 2,885	£ 121,942	£ 321,098
R	£ 13,873	£ 12,812	£ 19,030	£ 7,918	£ 130,222	£ 183,855
	£ 20,090	£ 6,550	£ 171	£ 12	-£ 1,924	£ 24,898
Grand Total	£ 580,055	£ 81,319	£ 38,293	£ 11,187	£ 471,382	£ 1,182,237
	<b>Current</b>	<b>1 Qtrs</b>	<b>2 Qtrs</b>	<b>3 Qtrs</b>	<b>4+ Qtrs</b>	<b>Grand Total</b>
May 2021 baseline	£ 1,986,704	£ 1,550,130	£ 1,104,759	£ 803,879	£ 1,363,397	£ 6,808,869
January 2024	£ 580,055	£ 81,319	£ 38,293	£ 11,187	£ 471,382	£ 1,182,237
%age Var	-70.80%	-94.75%	-96.53%	-98.61%	-65.43%	-82.64%
March 2020	£ 498,799	£ 199,347	£ 147,477	£ 31,216	£ 533,765	£ 1,410,604

<sup>1</sup> Colliers - February 2024.  
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Table 5 above shows baseline data which provides useful context when the more up to date information is presented.

On the final working day of December (22<sup>nd</sup> December), arrears were at their lowest since the pandemic, at £963,090. This increased following the charging of the quarterly rents on 25<sup>th</sup> December to £2,381,865, before reducing to the outstanding balance of £1,182,237, representing a significant decrease, compared with the arrears position at the May 2021 baseline.

Fig 1 – Graph showing Arrears Balances over a period of Years to 15<sup>th</sup> January 2024.



Every current tenant, including residential tenants, that owe more than £100 continue to be contacted, with any new debtor being identified via a weekly report and immediately contacted. Of the 550 tenants in arrears, a total of 312 tenants (ie 57%) currently owe less than £100, with an aggregate arrears total of £6,794 (0.44% of the total debt)

### 3.1.6 CAPITAL EXPENDITURE

The approved Commercial Estate Refurbishment Programme (CERP) budget at the start of 2023/2024 was £8,494m but it has been necessary to carry forward £6,354,000 to 2024/25. The February Budget papers were drafted to show a current budget and forecast of £2,110k for 2023/24.

Table 6 - The Commercial Estate Refurbishment Programme (CERP) Expenditure

2023/24 Revised budget - Jan24 £'000s	2023/24 Actual to Date £'000	2023/24 Purchase Order Commitments £'000	2023/24 Forecast £'000	2023/24 Rephasing to Forecast £'000
£2,110	£1,054	£828	£2,110	£6,354

This programme of works is under regular review and prioritisation with renewed focus on key priority empty properties.

For each asset included within the capital programme, an assessment is undertaken to ensure that investment in the asset delivers value for money and a

return on investment. A further programme of works under a provisional budget is already in development and will be submitted for formal approval in due course.

Work is on-going concerning the further approved budget of £500k for fire safety works in 'common areas'. This is initial funding for a larger scheme which is being developed and additional provisional budget in 2024/25 will be required. A total of £175K has been spent so far with £110K on surveys and reports.

A planned maintenance programme for the commercial estate is also being developed, with 45 condition surveys commissioned which may require additional provisional capital budget for 2024/25 and future years.

#### **4 STATUTORY CONSIDERATIONS**

The Commercial Estate is held under the powers of s120 of the Local Government Act 1972. All decisions in respect of the commercial assets are taken in accordance with the provisions of this Act.

#### **5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)**

None as a direct result of this report.

#### **6 RISK MANAGEMENT**

A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision-making risk management guidance.

#### **7 EQUALITIES**

No adverse impacts in relation to an EIA have been identified as a direct result of this report.

#### **8 CLIMATE CHANGE**

No adverse impacts in relation to an EIA have been identified as a direct result of this report.

#### **9 OTHER OPTIONS CONSIDERED**

None

#### **10 CONSULTATION**

The s151 and Monitoring Officer have both been consulted and provided their approval to this report.

<b>Contact person</b>	Richard Long, Head of Commercial Estate
<b>Background papers</b>	<i>None</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

