

# **Resources Policy Development & Scrutiny Panel**

**20 January 2016**

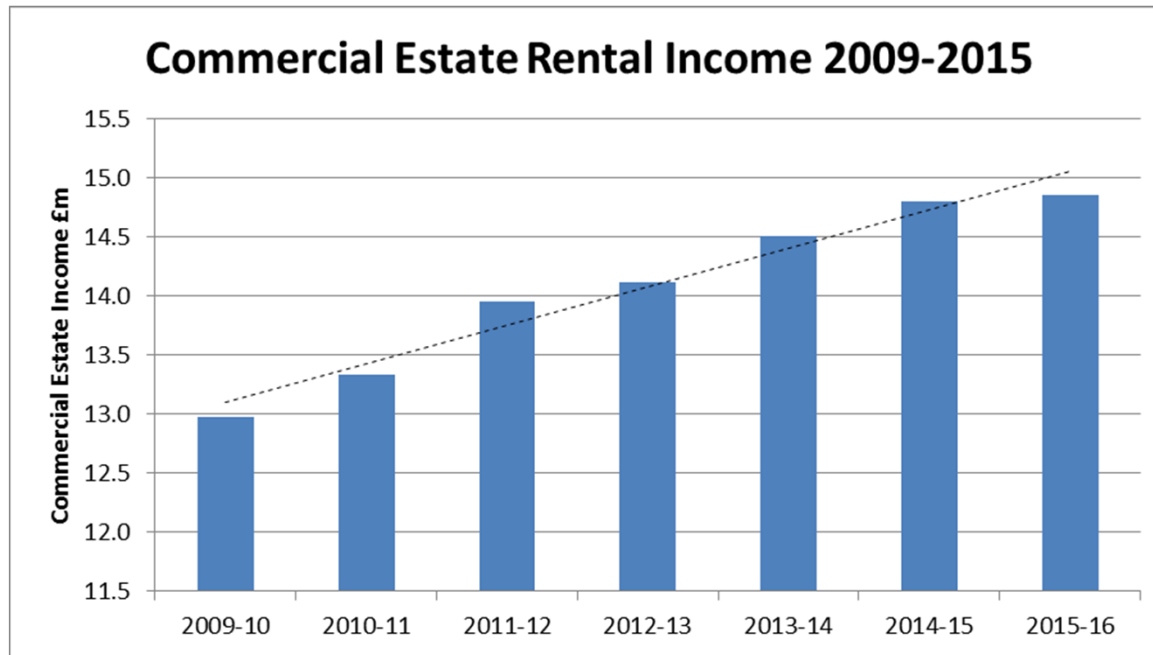
**Approach to the management  
and investment strategy of the  
Commercial Estate**

# Commercial Estate

Comprising approximately 220 assets:

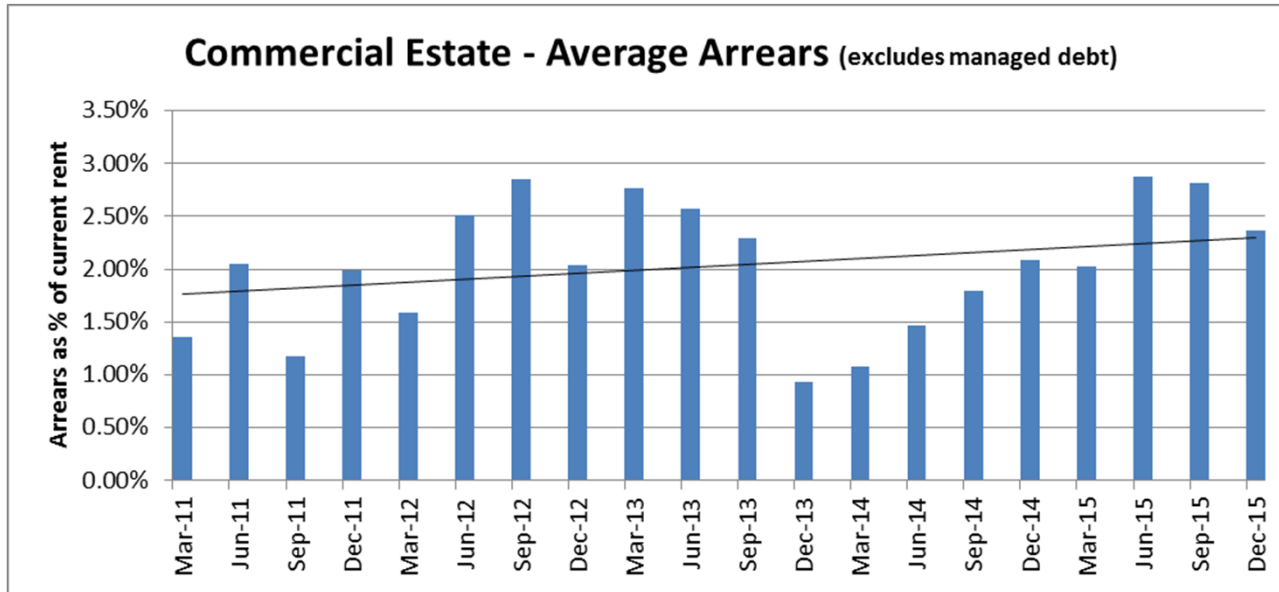
- » Asset value of £210 million
- » Generating a rental income in excess of £14.5 million per annum in 2014/15
- » Forecasted to generate £14.85 million in 2015/16
- » Retail, commercial, industrial & leisure properties located primarily in Bath City Centre
- » Returning a gross yield of 6.9% in 14/15

# Gross rental income over the last six years



# Rent arrears

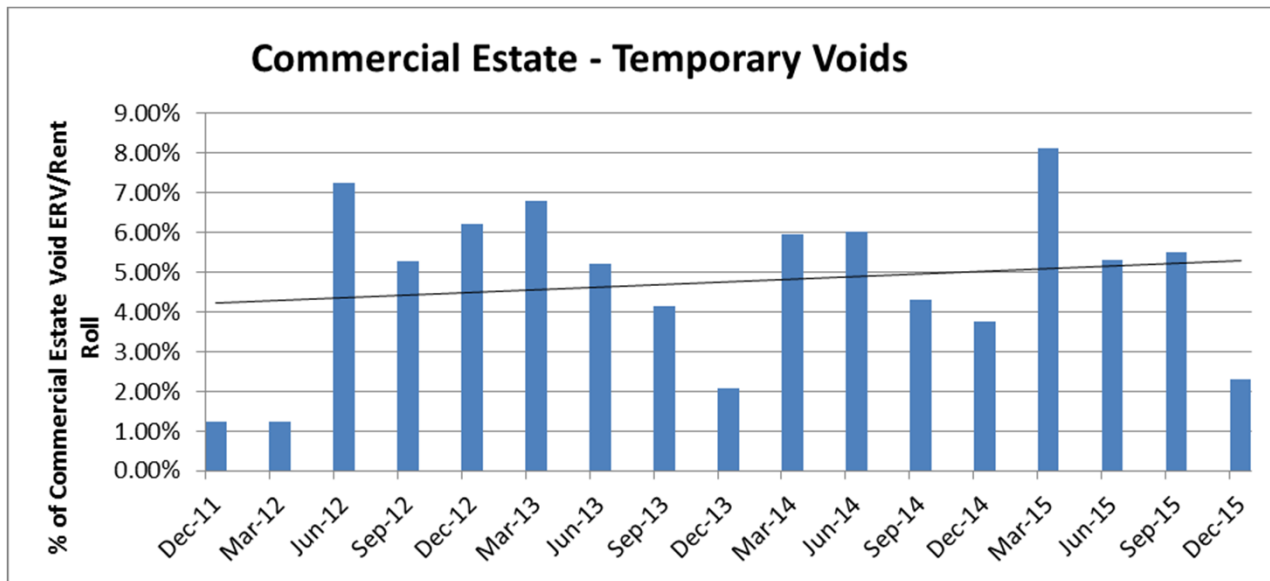
The trend line shows the average for the period from December 2011 to December 2015 years at around 2.1%. Similar sized estates in the private sector have targets of long term debt in excess of 5%.



# Voids

BNPPRE Retail Focus for Q2 2015/16 reported that the All UK trend is currently at 13%. Spring Board Retail Intelligence reported the national town centre vacancy rate in the UK was 9.1% in January 2016.

The trend line for B&NES shows an average at around 4.9% over the four year period December 2011-2015.



# Growth of secure net income

This essentially involves the challenge of existing assets to justify their retention, re-investment or disposal and an acquisition strategy that targets the growth of secure net income.

# Asset management plans

- » Retention of and engagement with key tenants
- » Target specific areas of the estate – to exploit opportunities for premium receipts at limited loss of rent as well as those where significant rental growth may be stimulated by active management
- » Understand growth potential and risk profile of assets within target areas
- » Identify underperforming assets
- » To inform lease restructuring decisions

# Acquisition and restructures

In the last 3 years the Council has acquired:

- » 47 Milsom Street – FH purchased, £4.9m, NIY 4.75%, Rent £246,750 p.a
- » Jolly's - £3.85m, restructure resulting in increase in rent of £415,000 p.a
- » Seven dials – LLH purchased, £8m, NIY 6.64%, Rent £588,800 p.a

These acquisitions were funded through borrowing



# Acquisition and restructures – future approach

- » Identifying the assets to acquire
- » A balancing act between investment risk and security of income
- » Aim to spread different levels of risk and security across the entire portfolio
- » Reducing exposure to retail sector
- » Previous acquisition funded through borrowing through PWLB

# Funding options of future acquisitions and restructures

- » As PWLB rates increase however this will limit the nature of investment assets available through borrowing.
- » Therefore long term borrowing will only be used to fund acquisitions where the return is higher than the borrowing costs or as a short term bridge.
- » The alternative will use ring fenced capital receipts from disposals of underperforming and surplus commercial assets to fund certain acquisitions or to pay down existing borrowing.

# Cost of managing the Commercial Estate

- » Staff budget for L&T function -
  - £395,000 per annum in 2015/16
  - £428,000 per annum in 2010/11
- » Staff resources as at 2015/16 equate to 2.66% of the total rent roll.
- » Traditionally estate management costs roughly 5% of rent roll, exclusive of transactional work.

# Cost of managing the Commercial Estate

Staff resource within the L&T function

- » Head of Service
- » Team Manager
- » Senior Estates Surveyor
- » Estates Surveyors x 4
- » Estates Technicians x 3
- » Technical Estates Officer

Managing approximately 1,100 individual leasehold interests.

## Critical partner

When compared with the private sector providers, Property Services produces upper quartile performance statistics in respect of its income generation and its void and debt management.

In order to enhance and maintain this position Property Services has appointed BNP Paribas Real Estate to act as its critical adviser.

## Critical partner

Work with BNP has been focussed on four key areas:

- » Challenge the status quo ensuring industry best practice.
- » Composition of the investment portfolio
- » Understanding and mitigating the risk of the retail focus
- » Assist in the Development of an investment strategy based on the development of AMP's to support an acquisition and disposal programme in pursuance of the growth of secure net income.

# Critical partner

## Comments from BNP:

‘Underlying growth in net income [*from the commercial estate*] over the three years to 2013 had outperformed the Investment Property Databank index.’

‘The overall running costs of the commercial estate appeared competitive when compared to the limited market data available to us.’

(Extracts from a letter to B&NES from BNP Paribas Real Estate dated 19/01/16)