APPENDIX

A Report to the Resources Policy Development & Scrutiny Panel on the Commercial Estate acquisition strategy on 17 May 2017.

1.0 PURPOSE OF THE REPORT

To provide the Resources Policy Development & Scrutiny Panel with an update on the achievement to date against the revenue targets set for the Commercial Estate during the periods 2016/17 and 2017/18 and to provide a review of the process adopted for property acquisitions in pursuance of the growth of net secure income generated by the commercial estate in line with the targets that have been set, in advance of seeking formal adoption by the Council of this process as part of the emerging re-freshed Corporate Asset Management Plan.

1.1 An introduction to the Commercial Estate

1.1.1 The Commercial Estate's Characteristics

The Commercial Estate includes 433 assets, comprising the Investment Estate consisting of 205 assets along with a further 228 other assets which are held for non-operational reasons that generate income.
The focus of this report is on the 205 properties within the Investment Estate (the Estate), which on the 31 March 2017 had an asset value of £264million.

The Estate mainly consists of a wide variety of retail properties, mostly located within Bath City Centre. The Estate also contains a smaller number of licensed, office and industrial premises, as well as a large number of low value miscellaneous interests situated throughout the Bath & North East Somerset area.

The majority of the Commercial Estate's value is concentrated within Bath City centre.

About 60% of the city centre of Bath is owned freehold by the Council, which gives the Council a degree of potential control, although this control is dependent upon the contractual relationship with the tenant.

1.1.2 <u>The composition of the Estate</u>

The table below provides a breakdown as at 1 November 2016 by property type identifying the number of properties in each property type.

Property type		**Number of properties**
Retail	Prime	55
	Secondary	56
	Tertiary	55
Licensed		21
Offices		10
Industrial		8
Total:		**205**

1.1.3 The Commercial Estate Objectives

The overall objective for holding the investment property portfolio is that "The Estate is held for the benefit of the citizens of B&NES, by helping to maintain the physical, economic and social fabric of the area as well as underpinning the 'World Heritage' status of the City of Bath and making a major financial contribution to the Council's financial resources."

This overall objective has been further defined to identify the specific purposes for holding the investment estate:

- The maintenance of the architectural significance of Bath as a World Heritage City is actively promoted and encouraged.
- The estate significantly contributes towards providing the resources necessary to enable the Council to meet its corporate and strategic objectives and directly contributes towards the resources required to deliver front line Council services.
- Economic development initiatives may be supported.
- A diverse and appropriate range of shopping uses may be promoted and encouraged in Bath.
- Workshop accommodation can be provided to let on flexible terms to new, small and expanding businesses within the B&NES area.
- The introduction of residential uses of otherwise vacant upper floor accommodation in retail centres may be actively promoted.

The Council's aims for the Investment Estate therefore encompass far more than simply the promotion of financial performance, suggesting it is clearly not held purely for commercial purposes.

2.0 UPDATE ON THE ACHIEVEMENT OF INCREASED NET SECURE INCOME

2.1 The council's requirements for revenue from the property portfolio

2.1.1 Profile of the target income

The Commercial Estate has been set a target to increase revenue generated through rental income for the period 2017-2021 of £1.475 million. This income target is to be achieved by several means including the following:

- Growth in rental income from current Estate.
- Reduction in service supported borrowing through the disposal of underperforming and surplus property assets.
- Restructuring existing lease arrangements.
- The construction of income generating development opportunities.
- **The acquisition of income producing investment properties.**

The purpose of this report is to focus upon the final of these five measures.

The MTSRP for 2017-2021 assumes increases as follows:

	Growth in existing rental income	Acquisitions/ Restructures	Additional Target set by MSR	TOTAL INCREASE IN NET INCOME
2017-18	£ 125	£ 250	£ 150	£ 525
2018-19	£ 125	£ 250	£ 450	£ 825
2019-20	£ 125	£ -	£ -	£ 125
	£ 375	£ 500	£ 600	£ 1,475

A budget of £53.6m was provisionally approved by Council in February 2017 for property acquisitions. It is intended that this capital provision will fund the acquisitions required to generate the £1.1million, which is the residual target after allowing for the revenue growth from existing rental income.

Release of this funding is subject to the approval by the cabinet of an individual business case for each investment opportunity.

2.1.1 Revenue growth against the income profile from acquisitions to 2016/17

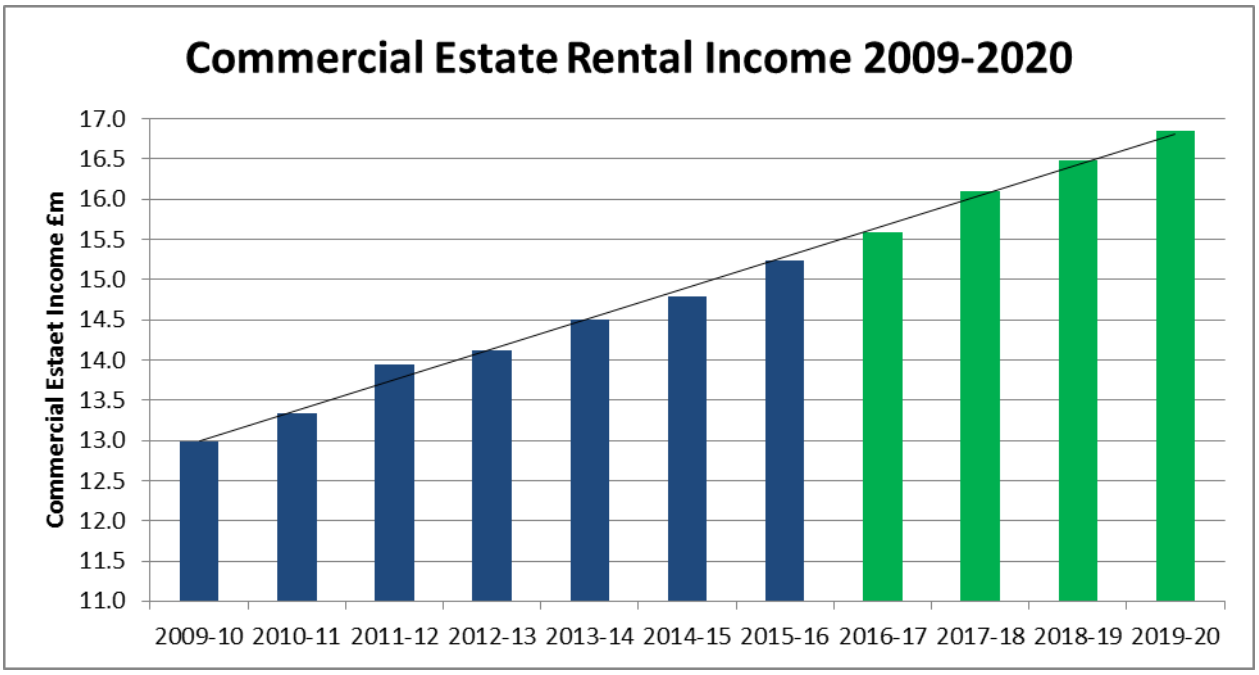
Over the last 4 years the Council has already invested more than £26.7m in new investments.

This has been funded through a combination of long and short term borrowing.

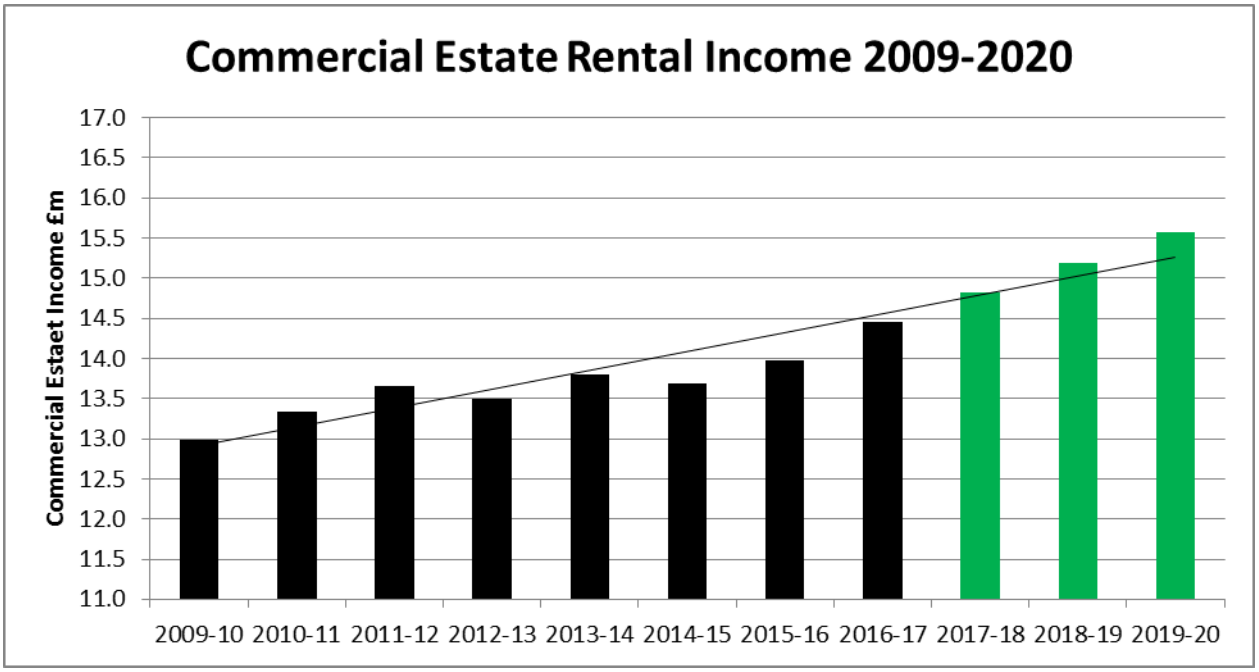
The net return on these acquisitions, after taking into account borrowing costs is 3.34%; significantly higher than cash investments or medium term government bonds.
The table below identifies recent acquisitions of revenue generating assets.

	Total Capital	Income	Cost of Borrowing	**Net Income**	Initial yield (before borrowing)	Initial yield (after borrowing)	Borrowing %age rate
	£000's	£000's	£000's	**£000's**			
Jolly's	**5,468.1**	418.5	244.7	**173.8**	7.65%	3.18%	6.0%
47 Milsom Street	**5,152.6**	246.8	88.4	**158.3**	4.79%	3.07%	1.2%
Seven Dials	**8,389.3**	588.8	219.2	**369.6**	7.02%	4.41%	1.2%
30-35 Westgate St	**7,773.2**	446.4	254.2	**192.2**	5.74%	2.47%	2.5%
Total	**26,783.2**	**1,700.5**	**806.5**	**893.9**	**6.35%**	**3.34%**	

The significance of these acquisitions can be illustrated by the two graphs below, which profile income generation to date (shown in blue), together with the forecasted income profile over coming years (shown in green). One graph illustrates income growth with the benefit of the acquisitions; the other excludes these purchases.



Gross Income Growth (Including Acquisitions)



Gross Income Growth (Excluding Acquisitions)

2.1.2 Revenue growth from acquisitions 2017/18 against income targets

Early in 2017-18 two further new acquisitions have been made, which are contributing towards the £1.1million target income. The anticipated income streams from these are shown in the table below:

	Total Capital	Income	Cost of Borrowing	**Net Income**	Initial yield (before borrowing)	Initial yield (after borrowing)	Borrowing %age rate
	£000's	£000's	£000's	**£000's**	%	%	%
Melksham	**9,598.5**	696.1	373.1	**323.0**	**7.25%**	**3.37%**	**3.0%**
Aztec West	**9,120.0**	623.8	354.5	**269.4**	**6.84%**	**2.95%**	**3.0%**
Total	**18,718.5**	**1,319.9**	**727.5**	**592.4**	**7.05%**	**3.16%**	

<u>Melksham</u>

The subject property is situated on Hampton Park West in Melksham and comprises a bespoke industrial warehouse constructed in 2004, comprising 89,862 sq ft (8,348 sq m) of warehouse and office accommodation. The Property is held Freehold and is let to Knorr-Bremse Rail Systems (UK) Ltd for a 20 year term expiring 30 April 2025, with 5 yearly rent reviews increasing by 12.5% of the preceding rent. The current passing rent is £696,094 per annum. On the basis of the fixed increase at review, the rent will increase at the next review to £783,105 per annum.

Aztec West

The Property at 930 Aztec West comprises Grade 'A' office premises constructed in 2007, extending to 30,430sq ft (2,827 sq m) on ground, and two upper floors. The Property is held Freehold and is let to 'Highways England Company Limited' (formally the Highways Agency) for a 10 year term expiring 30 June 2027, with 5 year rent review with a current passing rent of £623,815 per annum.

As well as enhancing rental income, these recent acquisitions have also significantly contributed towards re-balancing the weighting of ownership of the Council's investment portfolio in different property types. Previously, retail property made up the majority of the portfolio. The recent acquisitions comprising industrial premises and an office building will contribute significantly towards a re-balancing of the portfolio. Along with the growth in rental income, this diversity of property type therefore provides the added advantage of spreading the risk associated with holding investment in one particular sector only.

2.1.3 Profile of income generation from acquisitions against future years' targets

On the basis that further acquisitions are made that are similar in cost and return as those already made then the Council is on track to address the income targets set out earlier in the paper for the period 2017 – 2021.

3.0 REVIEW OF THE ACQUISITION STRATGEY

3.1 Understanding the risk and reward of property investment

3.1.1 Property Investment - Risk versus rewards

A simple definition of an investment is the acquisition of something (an 'asset') with a view to satisfactory returns in the future. Not forgetting that there are many differing forms of investments - cash, shares, property.

The criteria for the selection of an investment asset will usually be the provision of an adequate rate of return at an acceptable level of risk exposure. Most investors are risk averse. All things being equal a higher return (yield) will be offered on riskier investments.

Examples of current interest rates at the date of this report are as below:

Bond (10 year Government Bond) - 1.54%
Base Rate - 0.50%

3.1.2 Risk associated with Property as an investment medium

Investing in property is different to trading in other forms of investment. The returns can be compared, but the mechanics of investment are dissimilar.

Property is tangible, it tends to be long-term in nature, the costs of purchasing and selling is relatively high and the time involved tends to be lengthy (not liquid). There can be considerable prestige to being a property owner and values tend to appreciate with time (and therefore a good hedge against inflation).

Property is not free. It is in itself an expensive commodity, not just in terms of management costs (manpower, repairs, etc) but there is an opportunity cost in holding the asset – if it becomes vacant money is required for rates, insurance and maintenance. Investors expect to be compensated for these drawbacks.

The best yield an investor can acquire is called the 'prime' yield. In the general sense it is the yield at which the highest quality property would be valued and it is the property which is expected to show the best combination of high growth, low risk, ease of marketability and so on.

There are four main commercial property sectors – retail, office, industrial and leisure. All have their own inherent investment characteristics and advantages and disadvantages. Arguably when considering an investment property the over-riding consideration is location. Everything else can be asset managed – poor condition, weak tenant, unfavourable lease terms.

Currently prime yields for Bath are as below:

Retail -	4.00%
Offices -	5.50%
Industrial -	6.25%
Leisure -	6.00%

The value of a property is expressed in terms of its return or it's 'yield'. The complexity of valuing properties differs depending on the nature of the holding; put simply, the yield at which investors are prepared to buy properties depends mainly on the rate at which rents (and therefore capital values) are expected to grow coupled with the anticipated security of that income stream. The faster the growth (rise of rents) and the more secure the income stream the lower the yield adopted. Thus ironically top quality shops (whose rents are generally expected to increase rapidly) coupled with secure covenant strength often command the lowest yields (and higher capital values) whereas industrial buildings may command the highest yields (as factories and warehouses traditionally have a lower anticipated growth rate).

3.1.3 The Council's Portfolio - Portfolio Composition and Risk

The Investment Estate consists of a variety of properties, located in the centre of Bath, although a small percentage in terms of value and numbers, are situated in the outlying areas of Keynsham and Radstock. The assets are mostly retail, and therefore high value assets although there are a small number of licensed, office and industrial premises. In addition there are a high number of miscellaneous interests but these are low in value. A breakdown of the commercial estate by property type is provided at the start of this paper.

The Council's portfolio is predominantly retail and located in the city centre meaning the Council has all its 'eggs in one basket'. This may be considered a risky strategy in light of the uncertainty surrounding future trends in retailing.

There is however recognition that the benefits to the Council of retaining its holdings are considerable particularly given the security of income due to the location/situation. Arguably the central location can provide greater control in terms of estate management functions. Furthermore the retail sector has performed well in comparison to other property sectors and investment asset classes in the past.

Generally, the Council holds two types of property investment, within its portfolio: one where the Council receives the full rental income from the property; the other where the right to receive all or most of the income has been sold to a third party who has a long leasehold interest from the Council. The Council may receive a 'Ground rent' in such instances.

3.1.4 Corporate Pressures

The Council receives income from four main sources – Council tax, Business rates, government grants and other, self- generating income – from car parks, Heritage Assets and the Commercial Estate.

The Council's property portfolio is already seen as an important source of income generation and looking to the future, it is an asset that can be used to not only sustain the levels already generated but, with a creative approach, to increase the levels of income and thereby help fill the revenue gap that is anticipated in the next few years.

In order to maximise on such opportunities, it will be necessary to be active in the property market adopting an acquisition strategy aimed at revenue generation, through seeking out opportunities to acquire rack rented property holdings (those assets that are let at full market terms).

3.2 STATUTORY POWER AND RESTRICTIONS ON THE MANAGEMENT OF THE COMMERCIAL ESTATE

3.2.1 Acquisition powers

3.2.1.1 Section 1 of the Localism Act 2011

Section 1 of the Localism Act 2011 (the 2011 Act) provides local authorities with the power to do anything that an individual may do, subject to a number of limitations. This is referred to as the "general power of competence". The general power of competence is often characterised as a free-standing power and the Council may exercise its general power of competence for its own purpose, for a commercial purpose and/or for the benefit of others. The Council is still subject to its general duties and to the public law requirements and must exercise this power only for a proper purpose.

The Council has the ability to use the general power of competence to acquire commercial properties as it is a very wide power, and it is the view of the Council's legal advisers that this power would extend to the acquisition of commercial properties outside of the Council's geographical area.

However, Section 4 of the 2011 Act requires that, where a local authority exercises/uses its general power of competence for a commercial purpose it must do this through a company. The Council's legal advisers have considered whether the acquisition of commercial properties outside of its geographical area would constitute acting for a commercial purpose, which would therefore, under the requirement in Section 4 of the 2011 Act, require the Council to use a company for the purchase. It is the view of the Council's legal advisers that there is an important distinction between doing things for a commercial purpose - which would require the use of a company - and doing things that are not for a commercial purpose but which are merely commercial in nature; the latter not requiring the use of a company, if using the general power of competence.

It is the view of the council's legal advisers that whilst the purchasing of commercial premises with a view to those properties generating an income stream for the Council is, by its nature a commercial activity, it is the purpose of the acquisition and holding that needs to be commercial in order to require the use of a company under the general power of competence. If the income generated for the acquisition and holding of the commercial properties will be used to support and fund non-commercial Council services (such as adult social care, children and environmental services etc) and this income is to be earmarked for these (or other) specific non-commercial purposes, it is the view of the Council's legal advisers that the acquisition is not for a commercial purpose.

3.2.1.2 Section 120 - General power to acquire land and property

Section 120(1) of the Local Government Act 1972 (the 1972 Act) allows the Council to acquire land whether situated inside or outside its area, either; (a) for the purposes of any of its functions or; (b) for the benefit, improvement or development of their area. The Council therefore needs to either identify the function the purchase is supporting in order to use (a) or, in order to rely on (b) establish that the acquisition of the commercial asset will assist in benefiting, improving or developing the Council's area.

The general power of competence, provided under Section 1 of the Localism Act 2011, is a function and it may be possible for the Council therefore to acquire the commercial property under this function in justification of s120 (1) (a). In order to satisfy (b) the Council needs to demonstrate that the property to be acquired is relatively proximate to the Council area and provides benefits directly into the Council area. It should therefore be noted that the further removed from the borough boundary the more difficult it might be to identify benefits flowing to the Council area.

The Council's legal advisers are of the opinion that given the intentions of the Council to utilise rental income for non-commercial Council activities and functions, Section 120 of the 1972 Act provides a free standing power for the Council to acquire commercial properties both inside and outside of its geographical area either in support of the general power of competence (or other identifiable power) or if it benefits the area. The more closely proximate to the borough boundaries that the property is makes the benefit likely to be more straightforward to identify.

3.3 THE EMERGING ACQUISITION STRATEGY

3.3.1 Growth of secure net income

Property Services has recognised that to achieve increased revenue generation it is also important to improve the resilience of that income by seeking to rebalance the portfolio slightly more away from its dependence on retail. The primary objective in doing this is to achieve growth of secure net income.

Essentially this will involve the challenge of existing assets to justify their retention, re-investment or disposal, together with an acquisition strategy that focusses on increasing the quantum of non-retail stock within the estate.

The property market is suggesting that rental growth in the industrial and distribution warehouse sector is forecast to outperform retail by a significant margin over the next five years.

Subject to complying with the legal considerations set out in this paper regarding the acquisition and property holding powers, the Council could look to purchase further investment opportunities beyond the BANES boundary.

3.3.2 Criteria for evaluating acquisitions

In order to assess the suitability of potential investment property acquisitions each opportunity needs to be considered against an agreed set of parameters as part of the Council's investment strategy. It is recommended that the Council's initial selection of an asset to be acquired should be assessed on two main essential criteria on a pass or fail basis.

Where acquisitions are to be funded through long term borrowing, details of which are considered below, the net initial yield should exceed a minimum level of 5.5%, thereby providing a return in excess of the cost of borrowing at present levels. Where an acquisition is to be wholly or partially funded by cash then this limitation may be relaxed.

Where a property is let to an occupational tenant then that lease needs to be classified, for accounting purposes, as an operating lease rather than finance lease, to ensure that all rental income can be treated as revenue income.

Any asset meeting these first two criteria will then pass to the next stage of consideration.

For assets that pass the first two essential criteria, officers will then evaluate any prospective property against a comprehensive set of defined property specific criteria.

The Evaluation Matrix contained within Appendix 1 to this report is used to assess each potential acquisition against the property specific criteria, which are considered in turn below.

- **Comparison to IPD (sector dependant)**
  The equivalent yield for any potential property is compared against the Investment Property Databank (IPD) quoted equivalent yield for that particular property type. The score is awarded depending upon whether the IPD equivalent yield is higher or lower than the potential acquisition.

- **Creates immediate income**
  As the aim is to generate growth of net secure income, the score will increase the earlier the rental stream can be accessed. If the investment is subject to a new lease containing a rent free period, then the property will attract a lower score than one where the tenant is already paying a passing rent under the lease.

- **Addresses threat to estate, including portfolio balance**
  The portfolio is heavily skewed towards retail property and is therefore potentially exposed to the risk of a downturn in the retail economy. In order to mitigate this risk other property types such as offices, industrial or leisure will help to rebalance the portfolio and will attract higher weighted scores than a retail property. Furthermore, there are certain property types which the market considers will enjoy greater rental growth such as industrial and distribution warehouse sectors. These sectors will therefore attract higher weighted scores than other non-retail property types.

- **Tenant risk (Delphi band)**
  The strength of the tenant covenant is key in seeking to ensure a secure income stream. A tenant with an excellent credit rating will attract the highest score.

- **Level of expenditure**
  The Council uses external agents to identify acquisition opportunities and good relationships have been built up with a number of the local and national commercial property agencies, who both seek out opportunities and subject to Council instruction, negotiate the terms of any purchase often keeping the Council identify anonymous. The agents have advised on the appropriate financial target acquisitions in terms of their value range, which is often referred to as the “lot size”. Each lot size will attract a specific type of investor and for the Council to be successful in acquiring property on the open market it is important they compete within the market that they are most likely to be selected as the preferred bidder. A property type with a lot size that the external agents have identified as the most appropriate for the Council to compete for will attract a higher weighted score.

- **Lease expiry (unexpired term)**
  A lease with a long unexpired term will offer a greater secure income stream. A lease with a reversion in two or three years’ time will be subject to the risk of either the rent reducing at renewal or at risk of the tenant vacating the premises leaving the landlord with the prospect of having to re-market the property and then offering any ingoing tenant a substantial rent free period.

- **Long term income generation**
  Lease lengths in the retail sector have reduced significantly in recent years. Other sectors however still see leases being granted for longer periods of time. The longer the lease length; the more secure the income stream.

- **Opportunity for real rental growth**
  Where there are prospects of long term income growth then that property will be more favourable than a property where the rental growth has or is anticipated to stagnate.

- **Asset Management opportunity**
  There may be opportunities to alter the way in which a property is occupied in the future either by changing the use or refurbishing a property for example which may result in the landlord being able to command a higher rent for their property. Where such an opportunity exists, this will attract a higher weighted score.

- **Sustainability - EPC rating**
  The introduction of the Minimum Energy Efficiency Standards (MEES) will have a serious impact upon a landlord's ability to relet buildings on both lease renewal or on a new letting. It is important therefore to ensure that a potential acquisition is assessed to ensure that it has an appropriate MEES rating assessment. The higher the EPC assessment the less chance there is of a building failing to reach the required rating preventing it from being let without potential significant expenditure.

Properties are scored against the criteria shown within the Appendix. For an opportunity to be considered the weighted score should exceed 75%.

3.3.3 Purchaser's costs

Any direct property acquisition would be subject to purchaser's costs; typically these would include the following:

Stamp duty		4.0%
Legal Fees		0.5% +VAT = 0.6%
Agent, Survey & Valuation Fees		1.0% +VAT = 1.2%
Total Acquisition costs	=	5.8% of the property purchase price.

This level of acquisition costs is the industry standard and all commercial property yields quoted are net of purchaser's costs. Whilst the Council can claim back VAT, these costs are still shown for comparative purposes.

3.3.4 Financing costs and corporate financial considerations

Public Works Loan Board rates are currently at considerably low levels and it is recommended the Council takes advantage of these rates to fund further investment acquisitions, as long as after allowing for borrowing costs the investment produces an acceptable level of secure net income.

To supplement borrowing, however, the Council has also recently approved that capital receipts from the disposal of underperforming and surplus commercial estate assets may be ring fenced to either fund new purchases or to pay down the service supported borrowing.

In February 2017, Council approved a provisional budget of £53.6m for property acquisitions. It is intended that this capital provision will fund the acquisitions required to generate £1.1million. Release of this funding is subject to the approval by a Single

Member Decision of the Cabinet of an individual business case for each investment opportunity.

Any acquisition of investment property will generate an MRP charge and will result in an increase in interest payable on external borrowing. At the current time interest on external borrowing through the Public Works Loan Board stands at approximately 3% with a further 2% for MRP. It is for this reason it is recommended that the current minimum level of initial return is 5.5%. As interest rates rise, the minimum level of return will need to be reviewed and revised accordingly.

Finally it is imperative that any proposed acquisition is viewed in the context of the corporate risk profile by looking at the Council's financial portfolio as a whole (especially where the purchase involves borrowing) to assess the Council's existing exposure/risk profile and particularly exposure to economic risk.

3.3.5 Risk Management

Section 3 of this report considered the risks associated with Property as an investment**.** Among them are the risks that capital values and rental values can fall as well as rise. There is also the risk of tenants defaulting or going into liquidation, and that financing costs could rise. All of these factors have an impact on the net return of an investment.

It is critical that prior to any acquisition there is an appropriate level of due diligence undertaken. This will include credit assessments, together with relevant searches. The previous acquisitions by the Council have also been supported by an externally procured RICS Red Book compliant valuation which considered the inherent risks associated with each particular property investment.

This report has already considered the risk associated with a portfolio heavily weighted towards one particular property type. It is also important to consider such factors as the exposure of assets to tenant default. In certain instances it may be preferable to have one single occupier in an asset, where that occupier represents a very safe covenant or low risk. In other circumstances however, to avoid the exposure of risk of one individual asset being occupied by one individual tenant it may be prudent to consider an investment which is multi let to multiple tenants in order that the risk of tenant default may be offset by the other tenants.

Wherever possible to do so, the Council will seek to mitigate the risks through the choice of more secure property investments; however, as discussed earlier in this paper, it is necessary to balance risk management with the requirement for a greater level of financial return.

4.0 CONCLUSIONS AND RECOMMENDATIONS

The Commercial Estate represents one of the finest publicly owned property holdings in the country in terms of character, quality and opportunity. A proportion of the property holdings are capable of improvement through asset management activity so that they make a greater contribution towards achieving the Council's financial, economic and social objectives.

Further secure net income may be generated however through acquisitions of additional investment property, which will not only increase revenue to the Council but also contribute towards the rebalancing of the existing property mix within the portfolio providing increased financial resilience for the estate.

It is therefore recommended that a policy of active property acquisition is adopted to enhance the income generated by the existing stock in support of the Council's key aims and objectives for the Council area.

APPENDIX 1

Bath and North East Somerset Council - Property Acquisition/Investment Scoring Matrix

Address				
Town				
Post Code				
Sector				
Tenant				
Term unexpired	6 years			
Annual Rent	£556,300	rising to £618,800 in Feb 15		
ERV	£625,444			
Next review	Mixed - see schedule			
Repair covenant	Internal Repairing - Service Charge			
Other comments	Circa £260k income linked to office use, likely to be over-rented or risk of void			
Equivalent Yield	5.75%		Proposed purchase price	
IPD Sector EY	5.25%			
Covenant Strength	Equifax	A Excellent	Dephi score	81
EPC Rating	C			
Vacancy	0%			
Agreed Price/Investment (total)	£8,500,000		Proposed purchase price	

Contribution to Strategy Objectives	**Weight**	**Score**			**Score**	**Weighted score**
		Negative	**Neutral**	**Positive**		
		1	**3**	**5**		
Comparison to IPD (sector dependant)	20	> 1% below target	+/- 1% of target	> 1% above target	5	**100**
Creates immediate income	20	<£50k	£51-99K	>£100k	5	**100**
Addresses threat to estate, including portfolio balance	15	Retail	Office	Industrial / leisure	1	**15**
Tenant risk (Delphi band)	15	Above Average risk or worse	Below Average Risk	Low Risk / Very low Risk	5	**75**
Level of expenditure	10	>15%	10-15%	<5%	5	**50**
Lease expiry (unexpired term)	3	< 5 years	5 - 10 years	> 10 years	3	**9**
Long term income generation	5	High Risk	Medium Risk	Low Risk	5	**25**
Opportunity for *real* rental growth	5	In long term (>6 yrs)	In med term (3-6 years)	In short term (<3 yrs)	1	**5**
Asset Management opportunity	10	None	In long term (>5 yrs)	In short term (<5 yrs)	1	**10**
Sustainability - EPC rating	5	EFG	CD	AB	3	**15**
	110			**TOTAL SCORE**	39	**414**
				Max Possible		550
				% Maximum		**75%**

For an opportunity to be considered the weighted score must exceed 75%