

Agenda Item 4

Report title: Commercial Property Investment Update	
Report to: Corporate Policy and Scrutiny Committee	
Report author: Nicole Wood, Director, Finance and Procurement	
Date: 27 November 2018	For: Discussion
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County Divisions affected: All Essex	

1. Purpose of Report

This report will outline the progress to date of the Commercial Property fund since its inauguration in October 2017 and its adherence to the criteria set out in the cabinet paper.

2. Recommendations

Note the progress of the fund

3. Summary of the funds history

- 3.1. In July 2017 Cabinet approved the creation of a £50m fund for Essex County Council (the Council) to purchase Commercial Property, working in partnership with the specialist advisors Lambert Smith Hampton Investment Management and the investment criteria was reviewed by Scrutiny Committee in October 2017.
- 3.2. The portfolio would target prime established assets of value between £3m to £15m, on an initial property programme targeted at around £50m, with the aim to grow this over time, depending on the success of the fund and the market situation.
- 3.3. Investment decisions would be taken on commercial grounds only based on advice from external professionals. This is similar to the existing Essex Pension Fund property portfolio.
- 3.4. Whilst Essex properties will be considered, the purpose of the fund is explicitly only for return on investment. Over 95% of property transactions are not within Essex and therefore, it is probable that investments will be in non-Essex properties. It should also be noted that commercial property investment in Essex carries with it a greater impact in the event of business failure. In this scenario, both rental and business rates income would be at risk if the business failed.

4. Progress to date:

- 4.1. The Council have invested c. £34m to date from the initial £50m fund approved by Cabinet in July 2017, purchasing an office block in Watford (November 2017), a retail park in Keighley (March 2018), Yorkshire and an industrial site in Guildford (July 2018). All purchases have followed the strict investment guidelines put in place in the original fund through a risk based approach in partnership with Lambert Smith Hampton Investment Management advisors (LSHIM).
- 4.2. The original target yield of the programme (and each site) was within the tolerance of 5% to 7% as set out in the initial fund, which has subsequently been updated to a tolerance of 4.5% to 7% due to changing market conditions (Decision: FP/194/07/18 20th July 2018). The current portfolio is returning a yield of 5.7%.
- 4.3. Current Net income to the MTRS in 2018/19 from these purchased properties is **£1,045,466** (or which 50% is placed in the Commercial Property reserve), this is net of interest costs of borrowing. New accounting guidelines have been introduced from 2018/19, which have changed the approach to our ability to borrow for property. The original strategy had assumed the programme would be funded by borrowing from PWLB which is currently under review.
- 4.4. The investments follow the evidence around appropriate yield, risk, capital price – it is agnostic to place, although a geographic spread around the country mitigates against the risk of any one place suffering an economic downturn.
- 4.5. It was proposed to acquire only UK commercial property across different sectors as shown below:
- 4.6.

Portfolio split	Current Portfolio (based upon £50m)	Current Portfolio (based upon £100m)	Target (Average) %
Office	23%	12%	33%
Retail	31%	15%	33%
Industrial	14%	7%	28%
Alternative	0%	0%	8%
Total	68%	34%	100%

4.7. The fund so far has considered in detail twelve properties since October 2017 scrutiny, the table below shows how these twelve have progressed:

	Not suitable / Off Market	Bid placed, but owner decided not to sell	Currently being considered	Purchased	Withdrawn	Total
Office	-	-	-	1	-	1
Retail	1	1	-	1	-	3
Alternative	2	-	-	-	1	3
Industrial	2	1	1	1	-	5
Total Sites Considered	5	2	1	3	1	12

5. Future Plans

5.1. £26m of the original £50m fund remains available for further investment opportunities.

5.2. The council has received advice from an independent advisor (Hymans Robertson) not to expand the commercial property programme at this current time due to the current market conditions including the unknown impact of BREXIT. This decision will be reviewed further in the summer 2019/20 along with the portfolio split to assess whether the approach needs to be altered.

6. List of Background papers

Decision: FP/855/06/17

I approve the above recommendations set out above for the reasons set out in the report.	Date
Councillor Louise McKinlay, Cabinet Member for Resources	

In consultation with:

Role	Date
Executive Director for Corporate and Customer Services (S151 Officer)	
Margaret Lee	
Monitoring Officer	
Paul Turner	

