

PROPERTY INVESTMENT ESTATE

REPORT OF THE DIRECTOR OF ECONOMIC DEVELOPMENT

AGENDA ITEM: 2

PORTFOLIO: LEADER (ECONOMIC DEVELOPMENT AND PARTNERSHIPS)

Reason for this Report

1. To update Cabinet on progress made with the property investment estate.

Background

2. The investment estate is a portfolio of non-operational property held by the Council for the purpose of generating income to support the Council's revenue budget. The estate has been acquired and built up over a number of years and currently includes a wide range of property types of variable commercial quality. The estate comprises 247 properties producing a gross rental income of £3.7 million. As a result of rent review and lease renewals carried out in 2015/16 the rent has increased by 2.7%.
3. Historically the approach to the management of this estate was ad hoc, there was no defined governance and assets fell under the responsibility of various departments. In addition little investment was being made into the estate that resulted in an unsustainable approach with sub-optimal management and creating long term maintenance backlog issues.
4. Following an independent review by property Consultancy John Lang La Salle a new approach to the investment estate was approved by Cabinet on 12th November 2015 recommending:
 - All commercial income producing property be held corporately, managed by Strategic Estates, with associated budgets realigned.
 - The establishment of a new investment estate governed by a newly formed investment board.
 - Capital receipts generated from the sale of investment estate assets be reinvested to improve the yield in existing properties within the estate or used to purchase better quality and better yielding assets.

5. In November the PRAP Scrutiny Committee received an update on the Investment Estate. The Chairman of the Committee asked that regular updates be provided to Scrutiny.

Issues

6. Earlier this year the Council appointed Jones Lang Lasalle (JLL) to review the Investment Estate and to provide ongoing commercial advice. JLL's initial review identified some issues that needed to be addressed as a priority:
 - Property data for all assets were held in a number of different IT systems. This includes information such as lease details, tenant details, rent and capital value.
 - Income producing properties were vested with a variety of different service areas resulting in sub optimal management of the estate.
 - There has been no defined rationale or governance to effectively manage the estate.
 - Investment to modernise the estate has been sporadic and reactive rather than proactive.

Progress to Date

7. A new comprehensive master property schedule has been produced to include all lease information, rental income, capital values and a flagging system to highlight upcoming rent reviews and lease renewals. This schedule will save on officer time and ensure the information is easier to manage and interpret.
8. All income producing commercial properties are now directly managed by Strategic Estates and budgets have been realigned. This is mainly properties held by Parks and Tourism Culture and Events.
9. The previous Cabinet report recommended that an external property advisor be appointed and Jones Lang La Salle (JLL) have been appointed in this regard and they will be consulted on all property transactions affecting the estate.
10. A Property Investment Board has been established to make decisions regarding the estate and comprises officers from Strategic Estates, Capital and Service Accountancy and representatives from JLL. The board meets monthly and decisions made are reported to Asset Management Board, chaired by the Chief Executive for further approval. The Cabinet member with responsibility for the investment estate is consulted as part of this process.

Strategic Aims and Objectives for 2016/17

11. The corporate objectives for the investment estate will focus on the following priorities:

Objective (A) – Review entire portfolio and RAG (red, amber, green) status each asset with a view to retain it, remodel it or release it.

Objective (B) – Increase rental income to meet set income budget targets.

Objective (C) – Dispose of underperforming assets.

Objective (D) – Invest in existing assets where rental levels and ultimately yield can be improved.

Objective (E) – Purchase new high yielding investment properties (Subject to approved business case and funding being available).

Objective (F) – Consider land assembly opportunities for future development. (Subject to approved business case and funding being available).

Objective (G) – Consider the purchase or development of business starter units to promote inward investment. Also consider other opportunities where wider council objectives can be met in terms of social and economic angles. (Subject to approved business case and funding being available).

Objective (H) – Review opportunities within the estate and the Council's operational estate to generate additional rental income.

Timescale for objectives

Short Term	Medium Term	Long Term
Objective A		
Objective B	Objective B	Objective B
Objective C		
Objective D	Objective D	
Objective E	Objective E	Objective E
		Objective F
Objective G	Objective G	
Objective H	Objective H	

Performance Management and Monitoring

12. Progress will be kept under constant review and a report to Cabinet will be prepared on an annual basis. In addition to this, Strategic Estates will prepare a Corporate Investment Estate Plan which will provide a 3 year strategy for management and rental growth.
13. The investment board will consider council objectives, for example protecting future opportunities to preserve quality of life in Cardiff and maintain the city liveability profile.

Reason for Recommendations

14. To keep the cabinet informed of progress with the investment estate.

Financial Implications

15. The Council generates revenue income from the investment estate as part of the Council's budget. In accordance with the Cabinet recommendation, any proceeds from the disposal of the investment estate are retained to meet the objectives set out in the report in the form of capital receipts. Re-investment up to this limit can take place which would make the management and operation of the estate on a more sustainable and commercial footing. Where disposal results in a loss of revenue income, it is essential that any funds are re-invested to generate at least equivalent return in order to avoid an adverse impact on the Strategic Estates Revenue budget.

Legal Implications

16. The Council has an underlying fiduciary duty to ensure value for money from the acquisition management and disposal of its public assets.

RECOMMENDATION

The Cabinet is recommended to:

1. Note the content of the report and the current position with regard to the Investment Estate.
2. Note that a future report outlining the Corporate Investment Estate Plan will follow to November Cabinet meeting setting out a strategy and targets for the next 3 years.

NEIL HANRATTY

Director

21 July 2016