Public Sector Consultancy

Review of Cardiff City Council Investment Property Portfolio

December 2014

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Appendices

Key Recommendations

Renewal of the Councils Investment Asset Strategy

1. The corporate property strategy to be submitted, setting out the vision for the asset base and how each classification of assets would be treated.

2. We propose streamlining the existing investment portfolio and a future growth agenda focused upon improving the quality and quantity of the portfolio.

3. We recommend that there is a future focus upon acquiring prime assets which fit the growth agenda of Cardiff, a "Core City" at the heart of the Cardiff Capital City Region.

4. The Council to leverage it's position through land ownership, marriage value and planning to create value. However, efforts must be made to ensure that private sector development and investment is encouraged and does not perceive the Council as a "blocker".

5. The investment mandate to be informed by a detailed gap analysis.

Categorisation of the Existing Assets

6. We recommend the disposal of the following categories of properties:

   - Rack Rent Shops (84 No)
   - Workshop Estates (9 estates)

Note: the sale of workshop schemes at Douglas Buildings and Royal Stuart Workshops to be held in abeyance pending the outcome of the Cardiff Bay Master plan.

7. We recommend the selective sale of property assets from the following categories, but only where there is a strong business case:

   - Ground Rent Shops
   - Pubs and Clubs
   - Industrial Ground Leases
   - Other Properties

8. We recommend that alternative modals of ownership or management are explored for the following categories:

   - Community Assets
   - Central Market

9. All other properties, including the majority of those assets referred to in recommendation 7, to form the nucleus of the re-engineered investment portfolio.

Agreement of Implementation Plan

10. We recommend agreement upon a disposal register and target timescale for disposal.

11. We recommend a three month window be agreed for a short sharp asset management programme to include:

- Clean legal title
- Resolution of outstanding lease events
- Planning/development opportunities
- Collation of technical reports
- Production of Energy Performance Certificates
- Clearance of rental arrears
- Minor repairs and dilapidations
- Other management issues

12. A decision will need to be made on whether or not to offer freeholds to tenants. Our recommendation would be to avoid such tenant sales except where there is an isolated property/ground lease.

13. We recommend primary consideration be given to the following methods of sale:

- Auction
- Informal tender
- Private treaty

14. In terms of lot size, our recommendation is to consider larger portfolios or estate sales rather than individual property sales. This is likely to be by way of informal tender or private treaty with auction offering a solution for standalone properties.

15. The Council needs to consider whether to pursue a joint venture or asset backed vehicle. Our view is that this is likely to prove more attractive for development or regeneration rather than for asset realisation.

Operational Management of the Estate

16. The proposed streamlining of the portfolio set out above should bring significant operational benefits to the Estates Department and in the medium term, free up their time to offer more proactive management of the core portfolio.

17. Our recommendation would be to create transparency of the estate management costs and benefits by combining responsibility for lettings and day to day management of investment properties in one department.

18. There is the opportunity to investigate a new model of estate management with a public/private model for outsourcing.

1 Instructions

JLL is instructed to provide a high level strategic overview of the Council's non-operational (investment) property estate.

By way of background, it is envisaged that the Council will be subject to significant financial pressures over forthcoming years. This will be a key driver towards ensuring that the Council makes the best use of its existing assets and re-assesses income earning opportunities from the let estate to generate additional income and investment value.

The main focus of this report is to consider the above issues. However we are also instructed to provide a broad-based 'gap analysis' of employment sites and buildings in Cardiff and consider new models of ownerships for the ownership and strategic management of the investment estate. Finally, we have reviewed the Council's estate management function which will include their work in relation to both the investment and operational estate.

This report seeks to build upon the internal review already undertaken in 2012 which set out a framework and rationale for the investment portfolio. The outcome of this review will be used to inform a new 'Property Strategy' which the Council intends to publish in October 2014.

We are grateful for the time and cooperation received from the Estates team.

2 Market Overview

2.1 General Market Overview

There has been an overall improvement in the property market in 2013-14 as we have seen the UK economy move into a period of economic recovery. As the outlook has improved, so there has been rising demand from both investors and occupiers for good quality buildings and sites in Cardiff.

With limited speculative development over recent years, there are now gaps in the supply of new and modern stock in both the office and industrial sectors. There has been a welcome return to speculative development in the office market over the past twelve months with the two dominant developers being J R Smart (Builders) Ltd and Rightacres Developments Ltd. These developers are bringing forward schemes at Capital Quarter and Central Square respectively.

In the retail sector, the City has now adjusted to the £675 million extension to St David's shopping centre which opened in 2009. The extension is now almost fully let and the arrival of John Lewis' first store in Wales and the overall quantum of floorspace in St David's 2 has changed the dynamics of the retail centre. The prime shopping location has now shifted southward toward The Hayes and fringe locations on Queen Street have had to readjust their focus with the arrival of local supermarkets, health and leisure and other convenience stores.

There has been little or no new development in the industrial sector although Viridor has completed a new £150 million waste to energy power generation plant at Trident Park, Ocean Park. In addition, Pinewood Studios Wales has acquired the 177,000 sq ft former G24i plant at Wentloog, Cardiff. This has added further to the strong creative industries cluster that has emerged within the City, most notably the relocation of the BBC Drama Village to Roath Basin.

2.2 Cardiff Capital City Region

Cardiff has a population of 346,000 (2011 Census) which represents an increase of 12% (36,000) since 2001. The City has a relatively young population with the smallest proportion of over 65s (13%) of any Council area within Wales.

Cardiff accounts for 32% of total employment in South East Wales and its economy is considered to be relatively strong and buoyant in a UK context. Cardiff's employment workforce totals nearly 189,000 with 88% of jobs being in the service sector (source: Deposit Local Development Plan).

Cardiff and the Vale of Glamorgan generate 22% of the Welsh GVA (Gross Value Added). Unemployment in Cardiff was 4.5% in March 2013. The recession has caused the loss of approximately 4,700 jobs in 2008-2010, however Cardiff has one of the highest percentages of high growth firms in the UK in 2002-2010.

The Capital City forms the focal point of the Cardiff Capital City Region which combines the ten Local Authorities of South East Wales, ranging from the Severn Bridges in the east to Swansea in the west and northward to the Heads of the Valleys Trunk Road.

Cardiff provides the administrative, political and commercial centre for the City Region with the linear nature of the valleys and coastal belt helping to reinforce the 'hub' nature of the City Centre in a regional context. Cardiff has recently joined as the tenth member of Core Cities UK .

There are a number of emerging policies in Wales which take a wider perspective and which will put Cardiff at the centre of economic development policy in the years to come. The emerging policy of 'City Regions' has seen a board appointed to consider matters of governance and investment priorities. The Sir Paul Williams review on local Government reorganisation set out recommendations in January 2014 for a reduction in the number of Local Authorities from the current 22 to 10-12 Councils, with a proposal that Cardiff merges with The Vale of Glamorgan Council.

Additionally, we have seen an on-going programme of planning reform which seeks to establish a National Planning Framework (NPF) as well as a Strategic Development Plan (SDP) for the Cardiff Capital City Region (together with SDPs for Swansea Bay and the A55 corridor).

Other national policy frameworks including The Wales Infrastructure Investment Plan (WIIP) and Dr Grahame Guilford's independent review of EU structural funds 2014-2022, which recommended the development of an 'economic prioritisation framework' for Wales.

The EU Assisted Areas were revised in July 2014 and these have been extended within Cardiff to include a greater portion of the City Centre. This was agreed because the Central Cardiff Enterprise Zone had been established over 140 acres of the City Centre, located both north and south of the Central Train Station.

There are significant infrastructure works proposed over the next 10 years with the most important being:

- **Main Line Rail Electrification** – the UK Government has committed to the electrification of the main line between London Paddington and Cardiff Central, although it has been reported in the press that the price has recently increased from c.£1 billion to £1.6 billion. In addition, there has been agreement to extend electrification westward to Swansea and northward into the Valleys although there remains a dispute as to who will eventually pay for this additional investment.

- **Metro** – allied to the electrification of the Valleys lines, the Metro project has been developed as a transport and regeneration project. This report outlined how an integrated transport network could help create a cohesive City Region and looks to provide an enhanced network using rail, light rail, trams and bus rapid transport to encourage higher density development and regeneration around Metro stations.

- **M4 Relief Road** – in November 2013, the Brynglas Tunnels were identified by the Prime Minister as a "… foot on the windpipe of the Welsh Economy" and funding powers were granted to Welsh Government of c. £500 million. In July 2014, the Business Minister announced that the 'black route' had been chosen with construction due in the period 2018-2022. There has been a lobbying campaign against this route and it is possible that an Inquiry will be required to confirm the route.

- **Extension to Peripheral Distributor Road (PDR)** – the contract has been placed for the construction of a one mile stretch of the PDR between the Queen's Roundabout at the southern end of the Central Link Road and the Docks entrance adjacent to the heliport. This will remove congestion within Ocean Park but will highlight the need for further investment to complete the eastern bay link in order to complete the PDR.

All of the above infrastructure projects will be of significant benefit to Cardiff, with mainline electrification and the M4 Relief Road having the most impact in terms of growing economic development within Cardiff. By contrast, the Metro is all about improving communications and spreading wealth within the city region. It is therefore a project which should take place after the improvement to external communications as it will not necessarily be as impactful in terms of improving GDP.

2.3 Investment Market Overview

The last twelve months have seen a significant improvement in the investment market for commercial property. In part this has been fuelled by an increase in available funds for investment and also a shift away from London and the South East, which is now considered by many property investors to be overheated and not offering the same value as stronger regional markets.

The office sector has been the strongest performer in Cardiff with c. £200 million of transactions undertaken in the past twelve months. Cordea Savills acquired Helmont House, Legal & General acquired Hodge House and Fidelity bought Fusion Point II. There has also been an influx of overseas capital with Crickhowell House acquired by Kuwait investors and Willcox House, Celtic Gateway sold to Hong Kong based investors.

Prime yields remain stable at 5.75.-6.5% whilst good secondary yields are in the region of 7.5-9% with secondary/tertiary yields at 10%+.

In the retail sector, we have seen a strong level of demand for well let retail investment properties in Cardiff City Centre with, for example, the TK Maxx investment on The Hayes selling at 5.75% net initial yield and 63/77 Queens Street (Topshop, Topman, Zara and River Island) sold at 5.6% net initial yield.

The hotel and leisure sector has also been active over the past 18 months with investors looking for alternatives to the core property sectors due to competition, the lack of traditional stock and the availability of longer term lease commitments, often with index linked rent reviews. For example, the leisure complex on Mary Ann Street (including Cineworld and Gala Casinos) sold for £19 million reflecting 6.89% whilst Novotel on Atlantic Wharf and the Ibis Hotel on Tyndall Street sold for 6.5% and 5.5% respectively.

In summary, the weight of money from institutional investors remains strong and this should support pricing for the next six months. However, the UK General Election may create some uncertainty in this regard. To date, there has been a substantial risk premium between prime and secondary investments however, this margin should reduce over the next two years as the outlook improves.

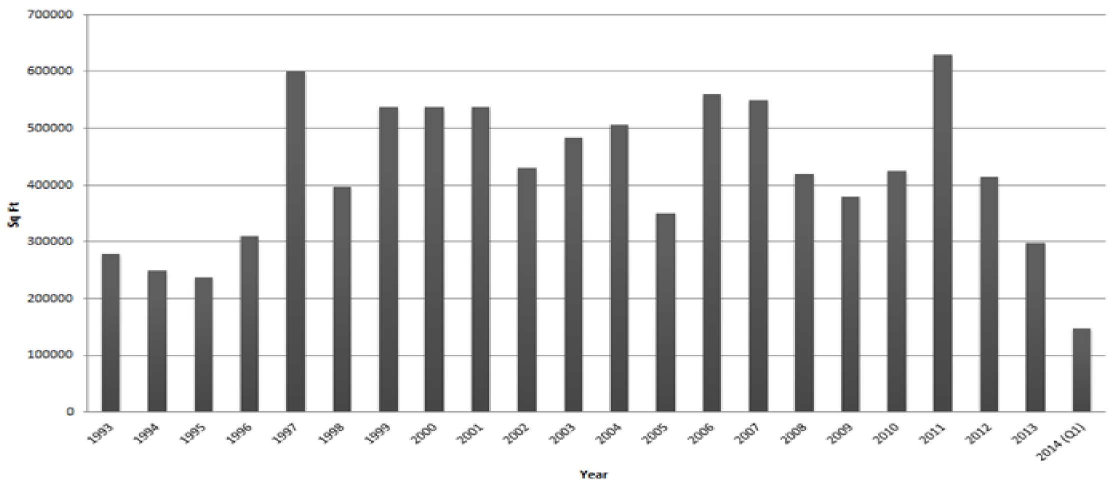
Alternative investment sectors, including student accommodation, healthcare and hotels have all grown in popularity however; the key criteria remain the investment fundamentals of covenant, lease length and rental.

2.4 Occupational Markets

There has been some concern that the occupational markets have lagged behind the investment markets.

Offices: - Cardiff office take-up was strong in Q1 2014, in part due to a disappointing year end in 2013. It is, however, unlikely that 2014 will see take-up see the long term average of 400 sq ft per annum.

<u>Office Take-Up – Cardiff 1993-2013</u>



The key Grade A transactions relate to ITV and Welsh Government's Life Science Hub, who collectively acquired 23,000 sq ft at 3 Assembly Square. In October 2014, Alert Logic moved into No.1 Capital Quarter whilst Finance Wales and Balfour Beatty were other occupiers to be attracted to this building.

JR Smart has announced plans to construct a further 85,000 sq ft at Capital Quarter whilst Rightacres has confirmed the speculative development of 135,000 sq ft at The Central Square scheme, fronting the River Taff. BBC Wales has confirmed Capital Square as its preferred location for a new 150,000 sq ft headquarters building which will involve a very significant IT fit-out. The other occupier enquiry which has dominated recent news coverage is that of Deloitte which may confirm the transfer of 500 back-office jobs from London to Cardiff, mirroring a similar announcement recently made in favour of Belfast.

There remains a critical mass of occupier enquiries for Central Cardiff Enterprise Zone combining both inward investment projects and relocation requirements, including Legal & General, Blake Morgan and Geldards.

Industrial: - In the industrial markets, there has been relatively little activity over the last 7 years due to the economic downturn. However, there is now increased demand across the distribution and manufacturing sectors together with related sectors including trade counter and energy.

In the distribution sector, Aldi stores have secured Planning Consent to develop a 450,000 sq ft Regional distribution centre (RDC) on 35 acres of land acquired by them in 2005 on Capital Business Park, Wentloog.

There has also been an upturn in interest from parcel carriers and other internet related businesses. In 2012, UPS acquired 45,000 sq ft in Wentloog (the former Maskreys warehouse) whilst DHL and Smiths News both upgraded their premises elsewhere along the M4 corridor. DPD Geopost has an outstanding requirement for an 80,000 sq ft cross dock distribution warehouse and is currently considering a site in Wentloog.

As previously noted, Viridor has completed a waste to energy incinerator plant in Trident Park which has the capacity to handle 350,000 tonnes of commercial and domestic non-hazardous waste whilst Pinewood Studios Wales acquired the Wentloog Energy Centre.

At the smaller end of the market, occupancy levels remain high on multi-let industrial estates in both private and public ownership. There is certainly latent demand for additional accommodation, particularly with flexible lease terms and cost effective rents.

3 Planning Context

3.1 Policy overview

Cardiff City Council has reached the final stages of adoption in the preparation of the statutory development plan. The Deposit Local Development Plan (LDP) (September 2013) is timetabled to be reviewed in the Examination Hearings with the Planning Inspectorate for January 2015. The expected adoption date for the Deposit LDP is late May 2015. Therefore, for the purposes of this report, the portfolio of assets identified for disposal or alternative uses would be assessed using the Deposit LDP.

The Vision

The Deposit LDP vision is: 'By 2020...Cardiff will be a world class European capital city with an exceptional quality of life and at the heart of a thriving city-region.'

Cardiff Council has set strategic outcomes that, if achieved would realise the above vision. The outcomes are:

- People in Cardiff are healthy;
- People in Cardiff have a clean, attractive and sustainable environment;
- People in Cardiff are safe and feel safe;
- Cardiff has a thriving and prosperous economy;
- People in Cardiff achieve their full potential;
- Cardiff is a great place to live work and play;
- Cardiff is a fair, just and inclusive society; and
- Cardiff has a thriving and prosperous economy.

The Cardiff Context

Cardiff has the Central Cardiff Enterprise Zone (CCEZ) (identified in figure 1 below) created to incentivise public sector investment, to entice and prioritise this type of investment to Cardiff.

Figure 1 – Central Cardiff Enterprise Zone (CCEZ)

Inward investment trends are improving but continue to trail other leading core cities. The city centre and Cardiff Bay remain the principal office locations complemented by out of centre sites. However, Cardiff lacks a large supply of Grade A office space and the Deposit LDP supports the on-going regeneration of the Bay Business Area, including Mount Stuart Square.

The total industrial stock in Cardiff is approximately 19.2 million square feet and mainly concentrated in the south/eastern area of the city. There is an impression of ageing portfolio with only 6.1% of the stock is less than 5 years old.

Cardiff city centre is the main shopping centre for South East Wales and is ranked the 6th top retail centre in the UK. The development of the extension to St. David's Shopping Centre has significantly boosted the service sector employment and helped achieve this ranking.

The leisure and tourism sector also generates significant economic and cultural benefits for the city. The aspiration is to provide a new conference centre within the city centre, demonstrates the Council's support to continue to develop this sector of the economy.

In summary, the strategic goals of the Deposit LDP are as follows:

- To respond to evidenced economic needs and provide the necessary infrastructure to deliver development;
- To respond to evidenced social needs;
- To deliver economic and social needs in a co-ordinated way that respects and enhances Cardiff's environment; and
- To create sustainable neighbourhoods that form part of a sustainable city.

Relevant Deposit LDP Policies

The core economic policies in the Deposit LDP that will deliver these strategic objectives are below:

Policy EC1 (Existing employment land) seeks to protect the city's existing employment areas, outside of the Central and Bay Business Areas, to be protected for B Use Class employment generating uses, together with ancillary or complementary uses referred to in policy EC2.

Policy EC2 (Provision of complementary facilities for employees in business, industrial and warehousing developments) sets out that the provision of open space, public realm, leisure, food and drink, and child-care facilities will be appropriate in office, industrial and warehousing developments, provided the facility is of an appropriate scale and nature, intended primarily to meet the needs of workers in the vicinity, therefore not attracting significant levels of visitor traffic into the area, or exacerbating existing traffic conditions.

Policy EC3 (Alternative use of employment land and premises) is extremely important when assessing alternative use of business premises. The following criteria must be addressed and met to be permitted:

"i. The land or premises are no longer well-located for business, industrial or warehousing use; or

ii. There is no need to retain the land or premises for business, industrial or warehousing use, having regard to the demand for such land and premises and the requirement to provide for a range and choice of sites available for such use; and

iii. There will be no unacceptable impact on the operating conditions of existing businesses."

Policy EC4 (Protecting offices in the Central and Bay business areas) states that the alternative use of offices in the Central and Bay business areas will only be permitted where it can be demonstrated that there is no need to retain the site or premises for office use, having regard to the demand for offices and the requirement to provide a range and choice of sites available for such use.

3.2 How the portfolio can meet the strategic goals of the LDP

The Council is to effectively respond to the role as capital city of Wales, where National Government sits, providing a range of economic opportunities to drive forward the prosperity in the region.

The Deposit LDP identifies that the city centre must remain the major retail and cultural destination as a place to work, visit and live. In addition, the regeneration of Cardiff Bay must continue, maximising opportunities for commercial and other forms of development.

The Deposit LDP has identified the following specialist sectors and research & development to be promoted:

- ICT;
- Energy and environment;
- Advanced materials and manufacturing;
- Creative industries;
- Life sciences; and
- Financial and professional services.

The policies contained within the Deposit LDP seek to provide a range and choice of employment land / premises to create growth and attract inward investment.

Recommendations

In order to deliver and meet all of the strategic objectives and policies of the Deposit LDP, Cardiff Council Economic Development Department should have a mechanism in place to consult with Strategic Planning Policy and Development Control officers, prior to disposing of any Cardiff Council owned assets.

It is also recommended that for assets of significant importance that a planning brief would be prepared to assist developers / purchasers and to ensure that the aspirations of the Deposit LDP are met.

A joined up approach, with good communication between all relevant departments is vital in meeting the vision of the Deposit LDP.

4 Portfolio Review

4.1 Methodology

Following our appointment, a project initiation meeting was held with the Council on 19th September to discuss the proposed methodology and establish the property data required. Present at the meeting were Messrs Neil Hanratty, Charles Coates and Steven Watkins from the Council and Chris Sutton, Martin Little and Paul Tarling from JLL.

We agreed the broad scope of the review and the materials/information that would be required. The Council subsequently provided a number of spreadsheets detailing the properties within the portfolio from which we have produced a composite version for the purpose of the review.

We were also provided with a copy of a review of the non-operation estate that the Council prepared in 2012:

- A copy of a review produced by Savills in 2013 in respect of the workshop estate;
- A chart detailing the Council Senior Management structure dated 1st April 2014;
- A document detailing the structure of the Economic Development Service Area; and a plan showing the location of the assets.

As agreed in the initial meeting, the first week was spent in assembling and reviewing the available information to categorise the properties in order to produce a definitive schedule. Martin Little and Paul Tarling also met with Steven Watkins again on 22nd September in order to better understand aspects of the estate management structure.

Chris Sutton held a separate meeting with the Leader of the Council on 25th September to listen to his perspective on the issues.

In the second week, Martin Little and Paul Tarling viewed a representative sample of the properties within the portfolio and we completed a desk top study of the available information.

Chris Sutton, Justin Millett, Martin Little and Paul Tarling met with Steven Watkins and Steven Myers from the Council again on 6th October to review the property categories and discuss our initial thoughts. The remainder of this week was spent reviewing our initial conclusions and finalising our recommendations.

We began compiling the report the week commencing 13th October with several iterations being necessary in the light of additional information received with regard to the base property data.

4.2 The composition of the portfolio and sector categorisation

The investment portfolio is a legacy estate rather than one which has been consciously constructed as part of a proactive investment strategy and is typical of most local authority property assets. It comprises 565 properties (including 143 industrial units on 9 workshop estates) which the estates team divide into 10 generic classifications.

Tables showing a breakdown of the classifications are set out below and a copy of the composite schedule and summary data can be found at Appendix 1-8.

Generic Classification	Number of Properties	Outstanding Rent Reviews *	Outstanding Lease Renewals*
Rack rent shops	84	34	19
Ground rent shops	51	10	1
Commercial Properties (mainly city centre)	18	3	0
Pubs and Clubs	25	7	2
Hotels	6	1	0
Industrial Ground Leases	96	24	2
Workshops	143 units on 9 estates	0	15
Community Assets	54	23	10
The Central Market	1	0	0
Other Properties	83	21	16
Total	**561**	**123**	**65**

For the purpose of the review we have broken these generic classifications down into 25 separate sub categories as follows:

Sub Category	Number of Properties	Outstanding Rent Reviews*	Outstanding Lease Renewals*
Advertising	2	2	0
Agricultural	4	3	1
Army Cadet facility	1	0	1
Arts, performance and entertainment facilities	4	3	1
Car parking	12	1	1
Care homes and hostels	15	6	2
Church and associated premises	5	2	0
Community centre	9	2	2
Education and training	6	0	1
Garage	4	2	3
Heliport	1	1	0
Hotel	6	1	0

Sub Category	Number of Properties	Outstanding Rent Reviews*	Outstanding Lease Renewals*
Indoor Market	1	0	0
Land	11	5	2
Licenced and Leisure	25	7	2
Light Industrial	89	21	1
Museum	1	0	0
Offices	11	1	1
Residential	13	0	0
Retail (including mixed use)	143	46	20
Scout associated land and buildings	19	10	5
Small business workshop	143 units on 9 estates	0	15
Sport associated facility	22	6	4
Storage Premises	2	1	1
Utilities associated buildings and infrastructure	12	3	2
Total	**561**	**123**	**65**

* It should be emphasised that the apparently large number of outstanding lease events (rent reviews and lease expiries) is not untoward and there are often similar levels of outstanding events in private sector portfolios.

There are many reasons why events are not actioned which will include properties where the rent is already in excess of current market value with little prospect of an uplift or where only a minimal increase can realistically be expected. We have examined the circumstances of each event and while there are a number that need to be resolved we are satisfied that there are good reasons for the majority.

In these circumstances it is often prudent to leave the event outstanding in lieu of future negotiations. It should also be noted that many of the outstanding events relate to community type assets which we understand are considered by the Council to be a low priority in view of the availability of resources.

The key data and our observations in respect of the various components of the portfolio are set out below:

Rack Rent Shops

Location/Property Type	The majority of these properties are post war retail parades in suburban locations serving residential estates.
Tenant Profile	The tenants are predominantly independent traders. There is limited prospect of increasing the quality of the tenant mix or attracting national multiples with voids and empty rates liability likely to be an ongoing problem.
Number of Properties	84
Rental Income	Gross = £493,636 per annum Net = £61,025 per annum
Annual Expenditure	£382,851 (business rates, maintenance and security)
Maintenance Backlog	£883,900
Outstanding Lease Events	34 rent reviews 19 lease expiries
Other Management Issues	The shops are all let on internal repairing leases with the Council retaining responsibility for external repairs. These properties account for the majority of the estates department annual maintenance budget and are in need of significant investment. The nature of the tenant profile and the leasehold structure requires a disproportionate amount of officer time to deal with management issues, relative to the amount of rental income received.
Market Context	Generally secondary/tertiary, multi-let neighbourhood shopping parades, let to smaller local businesses on tenant's IRI leases. Potentially saleable but management intensive and with a current high level of irrecoverable costs. Gross income is £493,636 pa with a net income of only £61,025 pa, however value will in some instances be underpinned by vacant possession value. A period of intensive asset management and preparation (say, 3-6 months) required prior to marketing to present the properties in their best light and to identify/understand any redevelopment potential. To achieve best value it may be necessary to demonstrate that a higher level of net rent is achievable. Target purchasers are often more difficult to identify for this type/quality of retail stock.

	Recommended methods of sale would be private treaty, auction or a portfolio sale, in whole or part. Whilst owner-occupier sales could be considered, this would be management and time intensive. It would lead to split ownerships in parades, creating future management issues. We recommend that the minimum lot size is individual parades unless there are special circumstances. If sold, restrictions could be placed on the tenure in terms of future use or redevelopment, with claw-back or profit share provisions, but this is likely to impact on value.
Conclusions	Attached as an Appendix is a copy of a JLL report that forms part of an ongoing retail research programme - the Retail 2020 Study. "The New Retail Rulebook: 5 Key Lessons from the Future" is the latest release from the study, launched in May 2010 with the aim of identifying key trends that are rapidly changing the global retail landscape. The report covers all factors expected to impact the retail sector by 2020, across the full spectrum of economic, technological, demographic and cultural changes. The findings have been shaped by numerous client and retail industry meetings including expert interviews, data-mining and a top table Think Tank. We draw your attention to remarks on pages 18-20 regarding weak secondary and tertiary retail locations which are, in effect, becoming obsolete. In our view, the rack rent shops fall within this category. They are a deteriorating asset and a significant drain on management time and resources. Notwithstanding this, we appreciate that there will be political concern regarding the need to support "convenience" retail for the benefit of local communities in some locations. However; in the face of changing market dynamics we do not believe that there is sufficient justification for retaining these assets as part of an investment portfolio with the exception being those properties identified within the schedule as being part of a proposed redevelopment scheme (e.g. Beechley Drive and Maelfa). Where market requirements and conditions permit however, consideration could be given to the development of 'investment quality' convenience retail facilities which are more appropriate to modern needs.
Recommendations	Sell these assets - with exceptions for regeneration purposes only.

Ground Rent Shops

Location/Property Type

These properties are a mixture of suburban retail parades and individual shop units, some of which are mixed use with residential accommodation above.

Within this category are a number of city centre properties.

Tenant Profile

The tenants are predominantly independent traders but there are also a number of good quality national multiples including Lloyds Pharmacy, Greggs, William Hill and BHS.

Number of Properties

51

Rental Income

Gross = £52,326 per annum
Net = £33,154 per annum

Outstanding Lease Events

10 rent reviews
1 lease expiry

Other Management Issues

None.

Market Context

Ground rents are, generally, highly sought after investments. Investors consider ground leases to provide very secure income with the prospect of a significant reversion on expiry, with values enhanced where there are regular ground rent reviews.

Very marketable interests in their current form and would achieve strong capital values, albeit there is a range of prime to tertiary properties which influences value.

The longer these assets are retained the higher the capital value, however long leasehold ownership dis-incentivise tenants for investing in their property as their unexpired lease term erodes.

Recommended methods of sale would be private treaty or auction and the properties would be suited for a portfolio sale in whole or part. These are however long term interests and a considered, strategic approach can be taken to any sales programme.

Lease restructuring to provide revised (e.g. widened user provisions) or longer lease terms in return for a rebased ground rent or a premium can also be considered.

If sold, restrictions could be placed on the tenure in terms of future use or redevelopment, with claw-back or profit share provisions, but this is likely to impact on value.

Conclusions	With the exception of one property, all are let on long term leases. They require very little in terms of management resources or capital expenditure and therefore represent a good passive investment.
Recommendations	Retain – consider individual disposals on a case by case basis.

Commercial Properties

Location/Property Type	These properties are predominantly located in the city centre and comprise office, retail, mixed use premises and car parking.
Tenant Profile	The tenants are generally of high quality including strong retail covenants such as Marks & Spencer, Boots, Tesco and Toys R Us together with major investor/developers including Land Securities and Capital and Regional.
Number of Properties	18
Rental Income	Gross = £1,368,620 per annum Net = £1,363,101 per annum
Outstanding Lease Events	3 rent reviews
Other Management Issues	Other than lease events management input is minimal.
Market Context	Core strategic assets predominately in the city centre and include offices, retail, mixed use premises and car parking. Generally prime to secondary assets, with secure income, which are readily saleable and would create strong investor interest. There is minimal management or irrecoverable costs. These assets are a strategic hold unless there are special circumstances, or a significant capital receipt is required. Recommended methods of sale would be individual private treaty or a portfolio sale in whole or part. If sold, restrictions could be placed on the tenure in terms of future use or redevelopment, with claw-back or profit share provisions, but this is likely to impact on value.
Conclusions	These properties represent the strongest assets in the portfolio both from an income perspective and in terms of their strategic location.
Recommendations	These properties should be retained as a strategic investment.

Pubs and Clubs

Location/Property Type	The majority of these properties are in suburban locations or on arterial roads and vary widely in age and type of building. Three properties are located in the city centre.
Tenant Profile	Most pubs are let to established national pub operators such as S.A. Brain, Greene King, Eldridge Pope and Punch Taverns, all of whom are good quality tenants with a strong covenant. The remainder are mainly let to local sports clubs and private members clubs.
Number of Properties	25
Rental Income	Gross = £370,934 per annum Net = £362,510 per annum
Outstanding Lease Events	7 rent reviews 2 lease expiries
Other Management Issues	Other than lease events management input is minimal.
Market Context	A mixture of ground leases and occupational leases. Good secondary to tertiary units let to a mixture of national and local operators. Some management obligations but relatively low irrecoverable costs and these assets are a good, strategic hold unless there are special circumstances, or the Council requires a capital receipt. Recommended methods of sale would be individual private treaty, auction or a portfolio sale in whole or part. There are a number of active occupational requirements in leisure sector at it may be possible to improve the strength of tenant line-up. Given the location and age of some of these assets they could be suitable for redevelopment either for the existing or alternative, higher value uses and this would require careful consideration. If sold, restrictions could be placed on the tenure in terms of future use or redevelopment, with claw-back or profit share provisions, but this is likely to impact on value.
Conclusions	Only three of these properties are strategically important in terms of location being city centre premises however, as a portfolio, they

	represent a strong investment proposition requiring minimal management input.
Recommendations	Retain – selective sales where a strong business case can be established and/or where development opportunities arise.

Hotels

Location/Property Type	All but two of these properties are strategically important in terms of location being city centre premises. The remaining two are in suburban locations.
Tenant Profile	All tenants are recognised national or international brands such as Holiday Inn, Marriott or Ibis.
Number of Properties	6
Rental Income	Gross = £273,774 per annum Net = £271,450 per annum
Outstanding Lease Events	1 rent review
Other Management Issues	These are all held on long leasehold interests and, other than lease events, management input is minimal.
Market Context	Good quality prime/secondary hotel ground rent investments that would be highly sort after. These properties offer secure income with the prospect of a significant reversion on expiry, with values enhanced where there are regular ground rent reviews. Marketable interests in their current form and would achieve strong capital values. The longer these assets are retained the higher the capital value. However long leasehold ownership potentially dis-incentivises tenants from investing in their property as the unexpired term erodes. Recommended methods of sale would be private treaty or auction and the properties would be suited for a portfolio sale in whole or part. These are however long term interests and a considered strategic approach can be taken to any sales programme. Given the age of the buildings and unexpired lease terms these are prime sites for redevelopment either for existing or alternative uses. Individual sales to tenants could be explored and lease restructuring to provide revised (e.g. widened user provisions) or longer lease terms in return for a revised ground rent or a premium can also be considered. If sold, restrictions could be placed on the tenure in terms of future use or redevelopment, with claw-back or profit share provisions, but

	this is likely to impact on value.
Conclusions	We view these properties in the same category as the 'commercial properties' and for the same reasons we regard them as a good investment proposition.
Recommendations	Retain.

Industrial Ground Leases

Location/Property Type	The industrial ground leases are not strategically important in terms of location and mainly comprise multi-unit clusters in the Hadfield Road area although there are also some isolated sites.
Tenant Profile	There is a mix of local and national covenants as tenants. There are however a significant number of national companies including Jewson, Evans Halshaw, Hyder, Speedy Hire, Robert Price, ATS Euromaster, Booker Cash & Carry and Railtrack.
Number of Properties	96
Rental Income	Gross = £966,699 per annum Net = £937,070 per annum
Outstanding Lease Events	24 rent reviews 2 lease expiries
Other Management Issues	These properties require a relatively low management input however; many of them are on a 5 yearly review pattern so an efficient letting strategy with timely management of lease events is essential to maintain the quality of the income stream.
Market Context	Ground rents are, generally, highly sort after investments. They provide secure income with the prospect of a significant reversion on expiry, with values enhanced where there are regular ground rent reviews. Very marketable interests in their current form and would achieve strong capital values, albeit there is a range of prime to tertiary properties which influences value. The longer these assets are retained the higher the capital value, however long leasehold ownership does potentially dis-incentivise tenants for investing in their property as their unexpired lease term erodes. Recommended methods of sale would be private treaty or auction and the properties would be suited for a portfolio sale in whole or part. These are however long term interests and a considered strategic approach can be taken to any sales programme. There is less rationale for industrial ground rents to be aggregated together for future strategic goals and therefore individual sales could be considered. Consider lease restructuring to provide revised (e.g. widened user

	provisions) or longer lease terms in return for a rebased ground rent or a premium can also be considered. If sold, restrictions could be placed on the tenure in terms of future use or redevelopment, with claw-back or profit share provisions, but this is likely to impact on value.
Conclusions	These ground leases represent a strong investment portfolio however consideration should be given to actions which would reduce the level of management input required. This can be achieved by offering longer leases either in exchange for a premium payment or with fixed rental increases to RPI or CPI indexation, or by widening the review periods in exchange for a higher rent or premium.
Recommendations	Retain – selective sales where a strong business case can be established and/or where development opportunities arise.

Workshops

Location/Property Type	The majority of these estates comprise purpose built estates consistent with this type of use and are of reasonable quality. Douglas Buildings, Royal Stuart and Ely Brewery Workshops are however former warehouse and industrial buildings which have been subdivided to create work shop space. Douglas Buildings and Royal Stuart Workshops have been provisionally identified as strategically important sites as part of an ongoing master planning study for Cardiff Bay. The Willowbrook estate, St Mellons offers modern technology workspace / office premises and, in our view, represents the best of the workshop portfolio.
Tenant Profile	These properties are predominantly let to local and regional businesses and start-up businesses.
Number of Properties	9 estates comprising 143 units
Rental Income	Gross = £585,492 per annum Net = £395,796 per annum
Annual Expenditure	£174,719
Maintenance Backlog	£351,100
Outstanding Lease Events	15 lease expiries
Other Management Issues	The management of the workshop estate is somewhat convoluted as a result of the division of responsibility between Estates and Economic Development. We appreciate that this structure has evolved to accommodate internal budgetary requirements however, from a management perspective it is unsatisfactory. Good estate management practice requires transparency in regard to property budgets where the relationship between income and costs can be fully considered. The arrangement that currently exists provides Economic Development with all the benefits in terms of the net income while Estates are left with all the liabilities including a substantial maintenance burden as the workshops are let on internal repairing terms.
Market Context	Generally good secondary/tertiary multi-let estates which provide smaller (- 5,000 sq ft), starter industrial/workshop units, predominantly let to smaller local businesses. Saleable but management intensive and with a relatively high level of

irrecoverable costs. The gross income is £585,492 per annum against a net income of £395,796 per annum; however the value will be underpinned by vacant possession value.

A period of intensive asset management (3 months) is recommended prior to marketing to present the properties in their best light and to identify/understand any redevelopment potential.

To achieve best value it would be necessary to demonstrate that a higher level of net rent is achievable.

There are a number of active investor requirements for multi-let industrial investments. Recommended methods of sale would be private treaty or auction and the properties would be well suited for a portfolio sale in whole or part.

Whilst owner-occupier sales could be considered this would be management and time intensive and would lead to split ownerships on estates, creating future management issues and having a negative impact on investment value. We recommend that the minimum lot size is individual estates unless there are special circumstances.

Across South Wales, there is a track record of public sector industrial estates being sold with the WDA asset sales of the 1990's to the likes of Ashtenne, IO Group, TBI and Hodge Properties involving over fifteen million sq ft of floor space. In addition, local authorities have sold off all or part of their workshop estates including RCT Council to Valad and Caerphilly to Ashtenne.

There has been no significant impact upon job creation as the private sector purchasers have worked hard to maintain full occupancy. The key aspect I terms of job creation is the initial development of the scheme and, arguably, if the Council KPI was job creation then the most effective route forward would be to sell the existing workshops and recycle the money into new schemes.

The sales programmes above have however highlighted the risk of estate fragmentation in terms of a purchaser selling off individual units with a detrimental impact on estate management. This can be avoided by disposals on a ground lease basis which would also protect against redevelopment (e.g Gabalfa Workshops).

Conclusions	We note the Council offers workshop units as a facility for start-up and small business occupiers as part of the economic development remit. In our opinion, the subject units would still be available in the market if sold to the private sector and this is, therefore, not a justification for retaining the status quo.
Recommendations	Sell these assets – except Douglas Buildings & Royal Stuart Workshops pending Cardiff Bay review.

Community Assets

Location/Property Type	The properties that fall within this classification are diverse comprising such assets as community centres, scout halls, care homes and sporting facilities.
Tenant Profile	There are no tenant names identified for these properties within the schedule but their specified use indicates the nature of tenants which are in the main community groups or organisations that serve this purpose.
Number of Properties	54
Rental Income	Gross = £107,838 per annum Net = £91,861 per annum
Outstanding Lease Events	23 rent review 10 lease expiries
Other Management Issues	The large number of outstanding lease events clearly indicates that there are management issues in dealing with these properties. This is probably exacerbated by the sensitivities of dealing with non-commercial tenants for which we would expect there to be significant political interest.
Market Context	Community related properties including scout huts, sports facilities and community centres. These are unlikely to have significant commercial value in their existing use, however if suitable for redevelopment, significant capital receipts could be achieved. We have not recommended that these assets are sold to investors or developers unless there are special circumstances. Please refer to our section on alternatives methods of ownership. Recommended method of sale would be auction or private treaty once the alternative use potential has been fully explored. If sold, restrictions could be placed on the tenure in terms of future use or redevelopment, with claw-back or profit share provisions, but this is likely to impact on value.
Conclusions	These are clearly not investment quality assets from a commercial perspective and their inclusion within the investment portfolio is difficult to justify from this viewpoint. Nevertheless, the socio economic role that they play within the life of the city is not something that can easily be dismissed. We have considered very carefully whether divesting these assets would be a rational decision but it is difficult to see how they could

	be owned by anybody other than the public sector or possibly a third sector body or organisation. The contribution to net rent is not insubstantial although the management of lease events is clearly an issue which may be attributable to the fact that they are "community assets" and therefore a low priority when it comes to the pursuit of rental increases? The classification of a property as a community asset should not preclude the recovery of rent or pro-active management of lease events on market terms. If rents were ring-fenced for return to community benefit then it is entirely possible that the management of this element of the portfolio could be self-financing. Consideration should be given to an alternative structure for holding and managing these particular assets which reflect their unique position, possibly through a community asset transfer, community trust or similar venture.
Recommendations	Retain due to community benefit. Consider alternative ownership model such as a community asset transfer.

Central Market

Location/Property Type	Central Market is a late Victorian building located in the city centre.
Tenant Profile	There are no tenant names identified for the individual stall holders however we assume that the nature of this property means that they will all be independent traders.
Number of Properties	1
Rental Income	Gross = £209,000 per annum Net = £161,960 per annum
Maintenance Backlog	£176,100
Outstanding Lease Events	There are no tenancy agreements.
Other Management Issues	Indoor markets often represent a difficult challenge from a management perspective primarily due to the landlord/tenant relationship which is often fractious requiring a disproportionate amount of officer time. We understand that the Council has recently commissioned an independent study into the operation of the market that will examine the issues and serve as a "health check". Of particular concern is the fact that there are no regular tenancy agreements, an uncomfortable position for the Council to be in as a landlord.
Market Context	Very management intensive and with a relatively high level of irrecoverable costs. The gross income is £209,000 per annum with a net income of £161,960 per annum. There are likely to be politically sensitivities however, if declared surplus, we anticipate that there would be demand from specialist operators as a going concern. The recommended method of sale would be targeted private treaty. If sold, restrictions could be placed on the tenure in terms of freehold/ground lease or claw-back or profit share provisions. These measures would however impact on value.
Conclusions	Central Market represents a unique asset in terms of the retail offer for the City however it requires significant investment and management issues are understood to be time consuming and a significant drain on resources.

	The management of market premises is a specialist discipline and consideration should be given to outsourcing the running of the market to a private management company on terms which would encourage capital investment. Steps should also be taken to regularise the position in respect of tenancy agreements and bring all stall holders into a modern tenancy structure, which is conducive with good management practice.
Recommendations	Retain – consider alternative management arrangement.

Other Properties

Location/Property Type	The properties within this part of the portfolio are those that don't fit comfortably within the generic categories set out above and include some of the more unusual assets such as advertising, electricity sub stations, gas governors and agricultural type properties.
Tenant Profile	There are no tenant names identified for the individual properties within the schedule.
Number of Properties	83
Rental Income	Gross = £230,621 per annum Net = £203,896 per annum
Outstanding Lease Events	21 rent reviews 16 lease expiries
Other Management Issues	We understand that the Council is currently in discussion with a private sector company regarding the leasing of advertising space throughout the city. As such this warrants a specific sub category as it will undoubtedly form an important component of the strategic investment portfolio in the future.
Market Context	A mixture of miscellaneous property which does not fit the generic categories including advertising, electricity substations, gas governors, agricultural properties, car parking residential units and care homes. Some of these assets have limited commercial value. A high level of irrecoverable costs. The gross income is £230,621 per annum with a net income of only £203,896 per annum. Care Homes/Hostels – A mixture of occupational and ground leases. Would have commercial value to operators or investors. Recommended method of sale would be auction or private treaty. A sector specialist may be required to advise on sales with vacant possession or subject to occupational leases. Residential – Predominantly ground leases which could be sold readily as a portfolio or to individual tenants unless there is any rationale for a strategic hold. Given the location and age of some of these assets they could be suitable for redevelopment either for the existing or alternative, higher value uses and this would require careful consideration. If sold, restrictions could be placed on the tenure in terms of future use or redevelopment, with claw-back or profit share provisions, but

	this is likely to impact on value.
Conclusions	As with community assets, many of these properties are such that they should stay within public sector ownership. However, some including a number of residential properties and garages, contribute little to the overall net rent serving no strategic purpose and may be considered for disposal on a case by case basis. The utilities type assets including sub stations, way leaves and gas governors etc are a specialist property type and as such we would recommend that any outstanding or future rent reviews are outsourced to a consultant with the requisite experience to ensure that appropriate levels of rent are being paid. Residential care homes are also a specialist property asset and again we would recommend that external advice is sought in respect of any outstanding leave events.
Recommendations	Retain – consider disposals on a case by case basis. Specialist advice to be sought in areas such as care homes and utilities.

4.3 Management Review

Properties under management

By it's nature a local authority estate often contains a number of high quality income producing properties balanced against a number that are not prime investment quality. The latter may be held for economic regeneration purposes, community benefit or as a legacy of operational need such as gas governors, way leaves and electricity sub stations etc. These types of property often represent a significant burden in terms of management time and/or financial resources. This is a particular problem in view of the current constraints on local authority budgets and therefore part of the rationale for this review.

The investment portfolio within the ownership of Cardiff City Council is therefore typical of local authority estates, combining a range of property across the main commercial sectors together with other specialised uses.

The management of the investment portfolio is the responsibility of the valuation section of the Strategic Estates team. We understand that some management functions, primarily the letting of the workshop units, is dealt with by a different service area which falls under the remit of the Economic Development team. This division of responsibility only relates to lettings with day to day management being the responsibility of "Estates" once a tenancy has been agreed.

It is not unusual to find this type of arrangement in local authority structures where property has a regeneration purpose however; efficient property management is usually achieved through a single management team or structure and we would question the efficiency of this arrangement in relation to the workshop estate.

Structure of Property Management

We have been provided with details of the Strategic Estates team structure which currently comprises a Principal Valuer, two Senior Valuers, two Assistant Valuers, one part time Valuer, one Development Valuer and one Estate Management officer together with a number of support staff.

The team has recently lost two valuers as a result of a reduction in staff and budgetary constraints and this has inevitably put the team under pressure in terms of dealing with the estate, some elements of which are particularly demanding in terms of staff time. Consequently the majority of the Estates team work can be viewed as reactive rather than proactive which is not conducive to maximising the potential of the assets.

Lease Events

The existing team undertake the day to day management as well as professional work. We have noted from the data provided that a large number of lease events appear to be outstanding within the portfolio.

There are 65 outstanding lease expiries on the schedule with a total income in excess of £207,875 per annum. There are 123 outstanding rent reviews (which may also include properties with expiries) with a total income in excess of £1,195,742 per annum. We have commented above on the reasons for many of the outstanding events still being shown as 'live', such as political sensitivity or no prospect of rental uplift. In our experience, it is often pragmatic to leave certain events outstanding in lieu of future negotiations when there is little prospect of any meaningful settlement and the estates team will also be mindful of sensitivities surrounding certain property categories particularly where there is a community interest.

For clarity we have sought to break down the lease events from 2014 until 2019 on a 2 year basis:

- In 2014 and 2015 there are 23 rent reviews (total income £728,570 pa) and 18 lease expiries (total income £75,801 pa).
- In 2016 and 2017 there are 10 rent reviews (total income £214,126 pa) and 6 lease expiries (total income £43,310 pa).

- In 2018 and 2019 there are 16 rent reviews (total income £253,046 pa) and 14 lease expiries (total income £88,741 pa).
- There are therefore 49 rent reviews and 38 lease expiries being a total of 87 events (ignoring outstanding lease events before 2014).

The above lease events include the full spectrum of uses and lease types which are managed by the estates team. In addition there will be potential asset management opportunities.

Estates surveyors deal with general management and professional work which places different priorities on them. We expect that professional work may potentially be put to one side where resource is required on day to day management. If surveyors continue to operate on this basis then it is preferable to allow specialism of particular sectors/uses. This may work where there are clusters of similar property e.g. industrial ground rents or rack rent shops so that surveyors have ownership of their area and have comprehensive knowledge, enabling efficient resourcing internally.

There are particular properties/uses where leases may be better dealt with externally. Where specialist properties are dealt with internally there may not be the required expertise or available market data required to efficiently deal with the lease event or maximise the income. In addition a third party maybe more detached in terms of decision making.

We have not had access to the internal estates database but from our discussions with the estates team it would appear that the systems currently in use do not automatically flag up events as a forward action which would go some way to explaining the problem. However, we suspect that there are also probably insufficient staff resources available for dealing with rent reviews and lease renewals in house.

This is not unexpected as these matters can be extremely time consuming and often require a level of market intelligence on specialist sectors such as pubs, hotels or utilities that would not be readily available to the Estates team. Most private sector property managers would not deal with lease events themselves but would instruct specialist lease advisory consultants.

We know from our own experience that the Council sometimes do this but we recommend this as a standard to achieve the best terms, which maximises the value of the portfolio. Nevertheless, it does require an appropriate level of budget to pay for it and the management systems need to be in place in order to identify the events as they arise.

General Management

The Council retains responsibility for maintenance in respect of a significant number of properties within the investment portfolio however, on the basis of information provided it is clear that there is insufficient budget for this purpose. Other than essential or re-active maintenance there appears to be no ongoing asset enhancement. Consequently those elements of the estate where the Council retains responsibility for repairs will inevitably deteriorate affecting asset value, lettings and consequently income generation.

The procurement of facilities management services also appears to carry an inherent burden in the form of a 12% internal management fee, additional to the contractor's fees of 20%.We question what benefit the estates team derive from this arrangement as direct procurement of services under the control of a single management structure would seem to be a more transparent and efficient route.

Disposals

The marketing (advertising) of vacant property is an area of concern as we are told that there is no specific budget allocated for this particular purpose although disposal costs can be charged against a future receipt where the timing is certain. An appropriate marketing budget is an essential requirement of good agency practice and most landlords would normally outsource this type of work.

The inability to carry out a comprehensive marketing strategy with appropriate collateral or to offer financial inducements (other than rent free periods) will obviously impact on the ability to let properties in a timely fashion to the best possible tenants on the most advantageous terms. The consequence is a high level of voids with loss of potential income and an empty rates liability. We understand that the Council currently has an empty rates liability in the region of £75,000 per annum, which would more than offset a useable marketing budget.

Conclusion

The inevitable conclusion of these observations is that the estates team is under-resourced to deal with the investment portfolio effectively and the current arrangements for dealing with the letting of vacant property are not efficient.

We understand that the estates department is tasked with raising £3.5m per annum from the portfolio with derived income used to support the Council's revenue budget. The exception is income from the workshops which is retained by Economic Regeneration and receipts from disposals below £10,000 which are retained by Estates to support operational budgets.

Receipts arising from disposals are used to support the capital programme however, any consequential loss of income must be offset against the remainder of the portfolio as the income target remains the same despite the fact that capital receipts are not reinvested. We believe this situation to be unsustainable in the medium to long term. Without reinvestment of capital receipts, or other injection of investment capital, the portfolio is simply operating as a drawdown facility and will slowly deteriorate over time. To expect to maintain a fixed level of income on this basis into the future is totally unrealistic.

4.4 Gap Analysis

We have not been afforded an opportunity to carry out a detailed study of the availability of development sites and buildings in Cardiff, which would have necessitated a qualitative and quantitative survey of all available sites and buildings together with a workshop with the Planning Department. We are aware that the draft Local Development Plan (LDP) is now close to being adopted. Therefore, the following commentary seeks to provide an overview of gaps in supply.

a) Employment Sites

The key gap in Cardiff is a lack of available employment land which can be brought on-line within a relatively short timescale. There is little, or no, employment land available for business park, science park or general industrial use. The lack of a network of existing attractive strategic sites undermines the efforts of Cardiff to attract mobile projects, particularly in value added industries.

Outside the City Centre, the existing employment offer is dominated by Ocean Park and Wentloog, to the south east of the City Centre together with a number of motorway related business parks. Ocean Park (formerly East Moors) provided the growth location in the 1990s and early 2000s whilst Wentloog has seen significant development over the past 15 years. Whilst land remains available for development at Wentloog, there are issues of access and technical matters relating to flood plain.

There remains demand within Cardiff for a significant employment site or sites, combining business park and industrial estate, to be located on the western side of the City with proximity to both the M4 and The Vale of Glamorgan, (where many business owners live). The business case was made, a decade ago, for an 'international class' business park at

Junction 33 of the M4. The key attributes of such a business park were considered to be scale (minimum 100 acres), the highest quality communications (access to motorway and airport links), University links and a strong physical and environmental appeal.

In the Cardiff Capital City Region, there is also an identified opportunity to create a bespoke science park. This would need to have proximity to Universities and other leading educational institutions. We are aware that there is a cluster of science based businesses, including Reneuron, emerging at Pencoed and it may be that this location is seen as the best fit.

There is the opportunity for special category sites with a provision for specialist uses where the property requirements of that sector are unlikely to be met on other types of sites. We have seen a media cluster emerge at Roath Basin with the BBC Drama Village and the more recent Gloworks building. There is the opportunity to build upon this sector demand, working with the "creative industries" panel of Welsh Government.

There is also a clear opportunity for a bespoke distribution park to be located on the eastern side of the City, between Cardiff and Newport and with strong communication links. The growth in e-commerce has generated increased activity from parcel carriers and other internet businesses. There is the opportunity to capture new investment from parcel carriers, internet fulfilment centres, click and collect stores and even 'dark stores' (so called, supermarkets for internet pickers). Such a distribution park would need to be located away from residential areas to facilitate 24/7 working.

At the more functional end of the market, there is a need for further local industrial estates, typically suited to a smaller/local operation and located in a mixed environment within close proximity to existing built up areas. There is demand in Cardiff for new local industrial estates in all parts of the City although it is recognised that these are often not the most attractive land uses. Within the City Region, but outside Cardiff, there may be more appropriate locations for such industries. However, as areas around Dumballs Road, Penarth Road and Newport Road become still more attractive to alternative use redevelopment, so relocation sites are required for some of the lower order uses that would be displaced. During the period that Cardiff Bay Development Corporation operated, secondary estates were created in Tremorfa and, to an extent, the back land in Ocean Park. However, these estates are full and there remains additional demand.

b) Employment Buildings

The core employment location is the City Centre, which offers the most sustainable location in terms of re-use of brownfield land and use of public transport. The Central Cardiff Enterprise Zone has provided an additional focus upon this area and the key schemes of Central Square, Capital Quarter and Callaghan Square are now ripe for redevelopment and c.300,000 sq ft or new speculative development is proposed across these sites.

The availability of a balanced portfolio of new floor space (completed or under construction) will allow existing and emerging businesses to be attracted to Cardiff and, therefore, private sector developers should be encouraged to bring forward speculative schemes potentially through Property Development Grant, if appropriate.

The out of town office market is perhaps the employment market which suffered greatest during the downturn as there had been a significant wave of speculative office development aimed at owner occupiers acquiring through a SIPP Pension Fund. However, after seven years the market has recovered although developers lack confidence to move forward with new schemes and it is likely that this will be the case for some years to come. Land remains available at Cardiff Gate and St Mellons Business Park although there are few opportunities to the west of Cardiff.

In the industrial market, developer J R Smart constructed c.800,000 sq ft of industrial and business unit accommodation, typically in terraces of 15-30,000 sq ft which was then available for sub-division according to demand. This floorspace was constructed over a period of 10 years ending in 2008 and two thirds was sold and one third leased. This floor space is virtually all occupied and vacancy level on smaller units in Cardiff is low. However, rental and capital values have not yet reached their peak and we are therefore probably 2-4 years away from any major speculative development of this nature.

As the property market improves, new development is likely to take place for those uses where there is little alternative in terms of existing second hand buildings. Therefore, new development is likely to be dominated by extensions to existing buildings and unusual or quirky building requirements, such as cross dock distribution, high eaves height or waste to energy type projects – these occupiers are unlikely to find a cost effective solution in an existing industrial shell.

4.5 Ethical Agenda/Policy

We have been asked to provide comment regarding the issue of an ethical lettings policy for the property portfolio. This is a subject that has recently become an area of concern for many Councils as they seek to address the social problems associated with pay day loan companies, betting shops and the sale of alcohol etc. Such uses tend to disproportionately affect low income families struggling to cope with the effects of the economic recession.

Property management is tightly controlled in terms of legal practice and robust professional guidelines which ensure ethical procedures from a business perspective. We would argue therefore that this is a political issue seeking to address a perceived social problem from an ethical perspective through management policy.

The issue is slightly at odds with the brief for this review which emphasises the need to drive efficiency and maximise returns from the portfolio in the face of increased financial constraints.

The challenge is to balance profit with social responsibility, something that we used to associate with the practices of the co-operative society which sadly now suffers from a tarnished reputation in this regard. This type of business model represents an approach that would require a completely different ownership structure and is one that would not necessarily fit with the objective except perhaps in relation to the management of community type assets and we have provided separate comment on this elsewhere in the report. We are also unclear as to the legal implications regarding the requirement for local authorities to achieve "best value" and would recommend taking further advice on this.

From a technical point of view it is a relatively simple matter to control or resist perceived "immoral uses" via user restrictions in leases which is standard management practice. To go beyond this and proactively seek to block a defined group of business types as a matter of policy could be problematic. From a commercial perspective it doesn't make financial sense and we would have to question whether it would have any real impact. Unless the Council were in control of all the property in the City then potential occupiers can always choose to lease alternative premises. In our opinion, the planning system is usually the most effective control for this purpose.

Notwithstanding the above comments there will be areas of practice within the management of the investment portfolio where it may be possible to actively encourage an ethical approach either in terms of the use of property or in the procurement of skills and services which would not necessarily be at odds with the objective of maximising efficiency and returns.

Meanwhile uses such as pop up shops that are run by charitable organisations or on a not for profit basis are an example of good practice in this regard and are often used by commercial landlords as a means of mitigating costs in respect of vacant property. Likewise, contractual covenants that ensure the delivery of training or apprenticeship places with building contractors, consultants and other service providers is a well-established concept within the public and third sectors which would not be viewed as onerous by the private sector.

At a more strategic level the Council is in a position to set the bar high when it comes to the quality, sustainability and energy efficiency of it's buildings which would act as a benchmark for future development. This will often come at an additional cost but as matter of policy it is something that the Council can take a view on.

Finally, we have commented elsewhere in this report regarding the strategy for those properties which fall within the category of "community assets" which we would advocate as being prime candidates for transfer to a community interest company. It is from within this part of the existing portfolio where perhaps there is the greatest scope for the delivery of a social or ethical agenda at a grass roots level which the Council can facilitate.

5 Future Strategy

5.1 Disposals

Regional investment markets in the UK, including Cardiff, have seen a sustained period of improvement over the past 12 to 18 months, with an increased appetite from investors, hardening yields and rising capital values. A lack of stock and strong competition for assets in London and the South East has led to investors looking to the regions in search of value and Cardiff has certainly felt the benefit.

Cardiff, as the capital city and the centre of government and commerce in Wales is leading the Welsh market. Prime and good secondary property in Cardiff across all sectors is on the shopping list for a broad buyer spectrum including institutions, property companies, trusts, private pension funds, syndicated investors, private investors and high net worth individuals. Some notable key market trends are:-

- **Yield gap** - There has been a substantial risk premium for secondary stock and the differential between prime and secondary has been at historically high levels. This margin reduced in 2014 with marked yield compression for good secondary assets. For properties with less secure or predictable rental income, the prospect of rising interest rates and uncertainty surrounding a general election has pushed yields higher, leading to a widening gap between different qualities of secondary stock.

- **Portfolios** – packaging assets into portfolios allows property investors to place large amounts of equity in a single transaction and to acquire a diverse range of assets thus spreading risk. This is currently a popular method of disposal and portfolios can command a premium value. Perversely, portfolios perceived as in “distress” often generate greater interest and can command a higher premium.

- **Lot size** – institutional purchasers and a number of active overseas investors are primarily seeking lots of £20 million plus. They have large volumes of capital to invest and only limited resources to make acquisitions, so their preference is to place a large volume of capital in fewer transactions. There is a broad range of sub-institutional investors however, these parties are often less aggressive. A challenging lot size is £3 - £5 million capital value, which tends to be too large for individuals and private investors whilst too small for properties companies and smaller institutional buyers.

- **Increasing availability of debt** – a range of the banks and other lenders have re-entered the market and therefore so have debt funded buyers. However, loan to value ratios remain at 50 - 60% and therefore bidders remain aggressive.

- **Overseas investors** – there is a continued emergence of well-funded overseas investors which have acquired a number of key assets in Cardiff over the past 12 months including Crickhowell House (occupied by Welsh Government) and Willcox House (occupied by Cardiff Council).

- **Occupational market** - there is still uncertainty around the health of the occupational markets and whilst this is improving for any recovery to be sustainable, investors will need to have confidence that there is tenant demand.

- **Irrecoverable costs** – Investors pay close attention to both income and costs. Purchasers prefer tenant’s full repairing and insuring leases and any irrecoverable expenditure in terms of building maintenance and repairs, service charge, insurance, letting voids, empty rates and other liabilities would be deducted from an investment’s gross income stream to provide a net rental income. Investors will be considering their “triple net” yield and the true net income is usually what an investor’s bid is based upon, unless the property value is otherwise underpinned by its vacant possession value.

- **Alternative investment sectors** – have continued to grow in popularity with a range of investors increasing their exposure to areas such as student accommodation, healthcare, renewables and hotels. The main driver is increasing competition for the limited pool of prime conventional assets with other attractions including longer-term, index-linked income streams and more diversified property portfolios.

- **Secure, long term income** – in terms of property investment fundamentals there remains a strong appetite amongst investors for long term income, with tangible prospects for rental growth, which is well secured to good covenants including government bodies such as local authorities. Whilst this might be more pertinent to the Council's operational portfolio, sale and leasebacks possibly on an "income strip" basis, would be very attractive to a variety of institutional and overseas investors and would present the Council with an opportunity to raise significant capital receipts.

5.2 Development Opportunities

The Council's non-operational portfolio is diverse and involves a broad range of properties across a wide spectrum of sectors. As such, it presents significant redevelopment opportunities. To ensure the Council achieves best value across their portfolio it is imperative that development opportunities are fully understood and explored, particularly as part of the due diligence for any proposed sale. This would involve brief discussions with the planning department and the potential for competitive marketing where an opportunity is identified.

Given the size/diversity of the portfolio, the Council's involvement in a number of large scale, high profile regeneration projects (e.g. Central Square, Cardiff Arena/Convention Centre etc.) and the management demands of their operational portfolio and rack rented assets (shops, workshops and central market), there is a risk that opportunities in the middle ground, across the remaining portfolio are not fully explored or are missed.

A clear focus is required to promote schemes and maximise opportunities. Where sites or buildings have a clear development angle then a ground lease disposal may be most appropriate or joint overage or sale with overage/profit share.

5.3 Alternative Models of Ownership - Public/Private Funding Solutions

There is a weight of private sector funding and expertise available for investment in public sector projects and joint ventures and for financing existing or proposed public sector infrastructure. Investors and developers are familiar with local authorities and how they operate and are financed and are willing to make investments and accept risk transfer in a number of ways, depending on the asset class and the nature of the investment required.

From early Private Finance Initiative (PFI) projects (particularly in local authority education and healthcare), the range of market opportunities has evolved and expanded to include joint venture participation for developments and investments and the availability of institutional financing for specific projects, generally supported by a local authority or other government covenant.

These instruments can work either discretely, as part of a wider series of initiatives or alongside the Council using its own prudential borrowing powers.

We provide below an outline of some of the structures that are working for a number of local authorities – to accelerate the delivery of identified objectives, streamline management and/or offer access to alternative sources of finance.

5.4 For development opportunities and investment portfolios

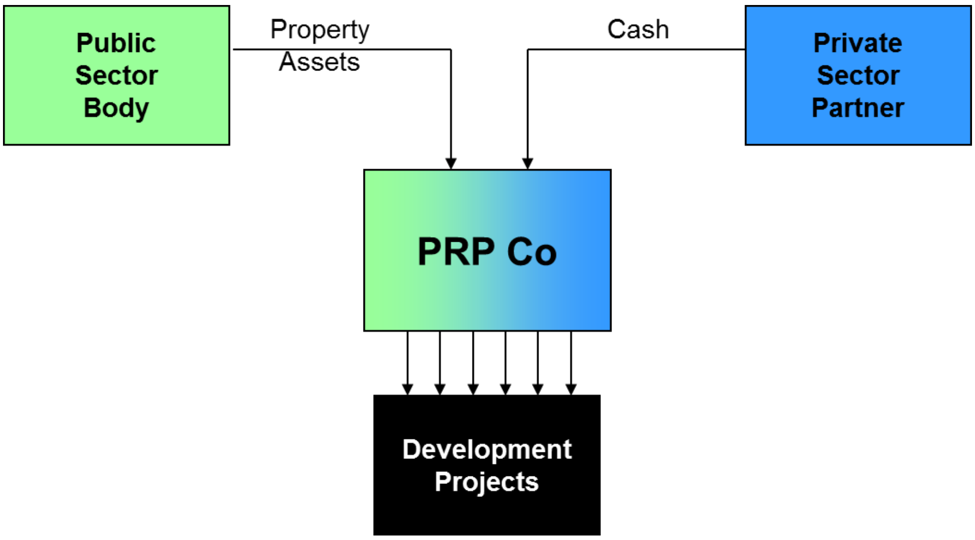
Joint Ventures

There are a number of examples, principally from local authorities or the recently dissolved Regional Development Agencies (RDAs), where public sector owned sites and/or income producing assets – offering development opportunities and/or providing an investment income stream from third party occupiers – have been transferred to joint venture vehicles to transfer and optimise management as well as accelerate the delivery of development, regeneration and other wider local authority objectives.

Principally structured as Local Asset Backed Vehicles (LABVs), the scope can be adapted to the circumstances of each opportunity but in essence:

- the Council would identify an opportunity or series of opportunities that it wishes to see delivered and identify sites (generally but not exclusively in its own ownership) that will enable the delivery of objectives;
- generally a business case process would be undertaken to test viability and engender stakeholder support;
- the opportunity would then be taken to market (generally but not exclusively through an OJEU-led procurement process) with a view to selecting a private sector delivery partner;
- private sector bidders would propose appropriate development solutions and offer to take development, funding, occupancy and other risks against a financial proposal;
- the basis of the financial proposal is the valuation of the assets the Council is making available to the LABV and this, on establishing the LABV, is reflected as the Council's equity shareholding in the partnership (and is cash-matched by the selected private sector partner, alternatively or in part, the Council may extract a capital receipt on establishment);
- LABVs are generally structured as 50:50 deadlocked joint venture vehicles, with the public and private sector partners having equal interests and management & decision making powers; the private sector partner will usually also be responsible for the delivery of management services and the performance of the joint venture.

The basic principles of a LABV are illustrated in the following diagram.



Examples in the local authority environment of development-led LABVs include the following.

Aylesbury Vale District Council (AVDC) – Aylesbury Vale Estates

AVDC established a LABV with Akeman Investment to manage a portfolio of council owned properties and undertake a programme of new developments. The council's commercial portfolio (comprising 292 units generating an annual income of £3.6 million) was transferred into the LABV and included a number of development sites.

The 50:50 joint venture set out to manage, improve and develop the commercial and tenanted properties over an initial vehicle life of twenty years. AVDC's assets were cash-matched by the joint venture partner on establishing the joint venture and the council shares in the rental and any capital returns to the joint venture over its lifespan.

Bournemouth Borough Council (BBC) – Bournemouth Development Company

BBC committed thirteen town centre development sites, all existing car parks, to its LABV, a 50:50 joint venture formed with private sector partner Morgan Sindall Investments Ltd. The joint venture is delivering facilities in support of the council's wider Town Centre Master Vision.

The LABV, established initially for twenty years, has an identified development programme valued at around £400 million. Early projects include the provision of a seven storey, 382 spaces, car park (to create capacity as other car parks are brought forward for development) and a £23 million student accommodation development for Arts University Bournemouth. These projects are part of a wider programme that will deliver a range of residential and mixed use developments, including leisure attractions and shops and offices.

Debt financing options

Local authorities have access to debt financing on attractive terms from the Public Works Loan Board (PWLB) and alternative funding sources rarely exhibit best value in comparison.

There are, however, credible alternatives, where a local authority is prepared to underwrite or guarantee income streams over the long term, from institutional investors offering long term financing products related to bond quality investments.

5.5 For the core operational portfolio

Although beyond the scope of the brief and potentially beyond the contemplation of the Council at this stage, it is appropriate to comment briefly on the potential for raising capital from the core portfolio.

There is a defined market interest, principally from a number of UK pension fund and other sub-institutional investors (UK and overseas based) for investment in government grade income streams. Depending on the exact scope and risk transfer, these can be characterised as public private joint ventures or annuity income arrangements.

The latter might be of interest to the Council if seeking to secure capital at economic rates to undertake capital projects or extract latent value from the Council's existing core occupied portfolio.

In essence, the Council could seek a financing partner to whom it could transfer a 25 year (or longer) leasehold interest in a key asset or assets with the Council as the leasing counterparty in return for an up-front capital receipt. The Council would then meet a "rental" payment stream (generally indexed to RPI) over the 25 year period with the assets returning to the Council at the end of the term.

We anticipate that a transaction of this nature on a good quality asset or portfolio and with the Council's covenant offered would attract an initial return in the range of 4-4.5%. We will be pleased to discuss options for this type of product further if it might be of interest to the Council, this opportunity would also be appropriate for a new build facility where the occupancy or rent roll is guaranteed by the Council.

5.6 Operational Review

With regard to the management of the operational estate, the Council might want to consider the option of outsourcing their estates management function or maybe set up a joint venture company as a means of driving efficiency savings. Any recommendation in this regard would require detailed investigation beyond the scope of this report and warrants a separate study to identify whether this approach would deliver tangible benefits.

As a brief example, Newport City Council recently agreed such a JV company with the Norse Group, who specialise in local authority partnerships of this nature. Newport were faced with similar problems and financial constraints as Cardiff and decided to take the JV route as a means of driving efficiency thereby delivering savings without compromising their existing staff.

Under this arrangement, around 200 council staff transferred to a joint venture company on the same terms and conditions as they had with the Council, which includes pensions. The company was awarded a 10 year contract to manage the council's property assets which includes cleaning and facilities management, building maintenance, management of the Indoor Market, and the provision of strategic property services.

6 Conclusions and Recommendations

This high level review of Cardiff City Council's non-operational (investment) portfolio has highlighted the impressive range and breadth of the property interests held by the Council. The portfolio ranges from the highest quality assets, such as the freehold of St David's shopping centre, to everyday properties, such as workshop units and lock-up shops, through to community assets including rugby clubs and scout halls.

The portfolio has evolved over many years and there are a wide range of reasons why properties have come to be owned by the Council. We recognise that public assets can make a central contribution to the delivery of public services in Cardiff and many properties in the portfolio are integral to the future growth and well being of the capital city.

Cardiff is the focal point of growth in the Cardiff Capital City Region and many of the emerging policies promoted by Welsh Government build upon this central role. These policies include the recommendations of the Sir Paul Williams review in terms of local government reorganisation, city regions growth policies, the establishment of a Strategic Development Plan for the city region and major infrastructure investment proposals in terms of rail electrification and 'The Metro'.

All of these emerging proposals suggest that Cardiff City Council will need to take a proactive role in encouraging investment and development, particularly in the city centre, and will need to allocate sufficient resources to these high level projects.

At the same time, the current era of public sector austerity has highlighted the political and economic imperative to manage assets on commercial terms and to reconsider the priorities of the Council. This streamlining of the portfolio affords the opportunity to provide a more strategic focus to the portfolio for the future whilst also allowing properties to be sold off to raise capital receipts and reduce management issues, including irrecoverable management costs.

Our recommendations fall under the following core headings:

6.1 Renewal of the Council's Investment Asset Strategy

The investment property asset strategy needs to be aligned with the organisational objectives of the Council as set out in the Council's asset management plan. This would set out the vision for the asset base, how each classification of assets would be treated and the overall financial framework in which this will be implemented.

Our recommendation would be set out a strategy for improving the quality and quantity of the investment portfolio. This would be through a focus upon prime assets and the delivery of new development and investment stock. Whilst it is important to encourage the private sector to invest in the city, there will be opportunities where the Council can leverage its position through its existing landholding, the provision of infrastructure and enabling planning to create value.

The new investment mandate could include the acquisition of additional properties specifically for the purpose of income generation, marriage value with existing holdings and to control both existing and new development. The investment mandate would also be informed by a detailed 'gap analysis' of employment properties and sites in Cardiff.

Recommendations:

1. The corporate property strategy to be submitted, setting out the vision for the asset base and how each classification of assets would be treated.
2. We propose streamlining the existing investment portfolio and a future growth agenda focused upon improving the quality and quantity of the portfolio.
3. We recommend that there is a future focus upon acquiring prime assets which fit the growth agenda of

Cardiff, a "Core City" at the heart of the Cardiff Capital City Region.

4. The Council to leverage it's position through land ownership, marriage value and planning to create value. However, efforts must be made to ensure that private sector development and investment is encouraged and does not perceive the Council as a "blocker".

5. The investment mandate to be informed by a detailed gap analysis.

6.2 Categorisation of the Existing Assets

In terms of the various classifications of properties examined in this report, we propose the following hierarchy of strategic value:

Generic Classification	No.	Strategic Value	Sale-ability	Recommendation
Rack rent shops	84	Low	Medium	Sell these assets - with exceptions for regeneration purposes only.
Ground rent shops	51	Medium	High	Retain – consider individual disposals on a case by case basis.
Commercial	18	High	High	Retain.
Pubs & Clubs	25	Medium/High	High	Retain – selective sales where a strong business case can be established and/or where development opportunities arise.
Hotels	6	High	High	Retain.
Industrial Ground Leases	96	Medium	High	Retain – selective sales where a strong business case can be established and/or where development opportunities arise.
Workshops (9 estates)	143	Low/ Medium	Medium	Sell these assets – except Douglas Buildings & Royal Stuart Workshops pending Cardiff Bay review.
Community Assets	54	Low	Low	Retain due to community benefit. Consider alternative ownership model.
Central Market	1	High	Low	Retain – consider alternative management arrangement.
Other Properties	83	Mixed	Mixed	Retain – consider disposals on a case by case basis. Specialist advice to be sought in specialist areas such as care homes and utilities.
Total	**561**			

Recommendations:

6. We recommend the disposal of the following categories of properties:

   - Rack Rent Shops (84 No)
   - Workshop Estates (9 estates)

   Note: the sale of workshop schemes at Douglas Buildings and Royal Stuart Workshops to be held in abeyance pending the outcome of the Cardiff Bay Master plan.

7. We recommend the selective sale of property assets from the following categories, but only where there is a strong business case:

   - Ground Rent Shops
   - Pubs and Clubs
   - Industrial Ground Leases
   - Other Properties

8. We recommend that alternative modals of ownership or management are explored for the following categories:

   - Community Assets
   - Central Market

9. All other properties, including the majority of those assets referred to in recommendation 7, to form the nucleus of the re-engineered investment portfolio.

6.3 Agreement of Implementation Plan

Once a disposal register has been agreed then there should be a concerted effort to prepare the identified assets for sale through a short sharp active asset management programme. This would include ensuring clean legal title, resolution of outstanding lease events, consideration of any planning gain opportunities and resolving maintenance backlog. There will be other matters to be considered including technical reports, production of Energy Performance Certificates and clearance of rent arrears and other management issues.

The method of sale will vary from classification to classification, and is explored in more detail in section 5.1 above. However, at an early stage there will need to a decision as to whether to progress tenant sales or not.

Our general advice would be to avoid tenant sales on occupational leasehold premises as this will be protracted and may become somewhat political. However, where there is a ground lease or isolated property then a sale to the tenant may extract a price higher than an open market disposal.

In other instances of public sector disposals of individual properties, we have seen a clear benefit in a sale by auction as this is classified as “best value”, avoids third party intervention and imposes a strict timetable.

There are however estates of workshops and parades of suburban shops which we recommend be sold either on a portfolio or ‘estate by estate’ basis. In considering the method of disposal, the Council should have regard to asset protection in terms of future management and also potential future planning gain. The introduction of overage provisions or long ground leases instead of freehold disposal would offer the Council an element of protection but would also impact upon pricing. Therefore, these measures would need to be considered on a case by case basis.

There is the opportunity to consider a joint venture or asset backed vehicles (LABV) with surplus assets being used to leverage match funding from private sector investment. However, our view is that this is more appropriate where there is a major regeneration project or area based project rather than a method of disposal. This type of vehicle is a development vehicle rather than investment or asset realisation project.

Recommendations:

10. We recommend agreement upon a disposal register and target timescale for disposal.

11. We recommend a three month window be agreed for a short sharp asset management programme to include:

    - Clean legal title
    - Resolution of outstanding lease events
    - Planning/development opportunities
    - Collation of technical reports
    - Production of Energy Performance Certificates
    - Clearance of rental arrears
    - Minor repairs and dilapidations
    - Other management issues

12. A decision will need to be made on whether or not to offer freeholds to tenants. Our recommendation would be to avoid such tenant sales except where there is an isolated property/ground lease.

13. We recommend primary consideration be given to the following methods of sale:

    - Auction
    - Informal tender
    - Private treaty

14. In terms of lot size, our recommendation is to consider larger portfolios or estate sales rather than individual property sales. This is likely to be by way of informal tender or private treaty with auction offering a solution for standalone properties.

15. The Council needs to consider whether to pursue a joint venture or asset backed vehicle. Our view is that this is likely to prove more attractive for medium to long term development or regeneration objectives rather than for short term asset realisation but we can explore this option in more detail subject to the outcome of our other recommendations.

6.4 Operational Management of the Estate

In the formulation of this report, we have been provided with an insight into the operational issues surrounding the management of the investment estate. We recognise the severe budgetary constraints that the Estates Department work under and the resourcing issues arising from staff shortages. We appreciate that there will be significant changes arising from the implementation of the new Corporate Property Strategy and this will undoubtedly bring substantial benefits going forward.

Our recommendations above seek to streamline the existing portfolio of properties to both raise capital and reduce the management burden and irrecoverable costs. This will create efficiency benefits for the team in the medium term however is likely to increase yet further the workload in the short term and time required to undertake the preparation for sale of identified disposal assets. This could, in part, be addressed through varying the terms of engagement for a selling agent to require that party to undertake the preparation for sale and active asset management in return for a higher than normal disposal fee payable upon completion and out of proceeds.

While not within the scope of this report, one area of further study for future consideration is to investigate a new model of management similar to that recently introduced by Newport City Council whereby a public-private partnership arrangement was agreed with the Norse Group (Norfolk Property Services). In this scenario, responsibility for the Estates team is transferred to the private sector company alongside a long term contract from the Council to supply management and other services.

Whether there would be any significant advantage to this type of arrangement for Cardiff Council is unknown as their property strategy is significantly different with different requirements. Given that the Newport model is in it's infancy we would recommend that this is something that should be evaluated once the model has been in place there for at least four or five years to determine whether the experience has delivered the expected outcomes and whether there would be any merit in Cardiff adopting a similar approach.

Recommendations:

16. The proposed streamlining of the portfolio set out above should bring significant operational benefits to the Estates Department and in the medium term, free up their time to offer more proactive management of the core portfolio.

17. Our recommendation would be to create transparency of the estate management costs and benefits by combining responsibility for lettings and day to day management of investment properties in one department.

18. There is an opportunity in the medium to long term to investigate a new model of estate management with a public/private model for outsourcing.

We thank the Council for the opportunity to provide advice in connection with this matter and we would be pleased to meet with you to address any queries you might have regarding our conclusions and recommendations.

Yours faithfully

Chris Sutton MRICS
Director
For and on behalf of
Jones Lang LaSalle Limited

Yours faithfully

Paul Tarling MRICS
Senior Surveyor
For and on behalf of
Jones Lang LaSalle Limited

JLL
Cardiff
One Kingsway
Cardiff
CF10 3AN
029 2022 7666
029 2037 3196

JLL
Cardiff
One Kingsway
Cardiff
CF10 3AN
029 2022 7666
029 2037 3196

Chris Sutton
Director
+44 (0)29 2072 6014
chris.sutton@jll.com

Paul Tarling
Senior Surveyor
+44 (0)29 2072 6012
paul.tarling@jll.com

www.jll.com