

<b>Report title</b>	<b>Q2 Investment Property report</b>
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<b>Department</b>	Assets and Regeneration
<b>Exempt?</b>	No

**Purpose of report:**  
**For information**

**This report updates the committee on the capital value of the investment property portfolio for the year ending 31st March 2024. The report outlines market conditions for the different sectors. Valuation of the portfolio is in line with CIPFA and RICS Red book regulations.**

**The report also sets out the quarterly monitoring information as set out in both the Asset Management and Capital and Investment Strategies which have now been separated from the Treasury Management reports to aid transparency and to bring more focus to our investment property performance.**

## 1. Context and background of report

- 1.1 Each quarter, the Council has been updated on the property portfolio performance as part of the treasury management committee reports. This year, considering the non-statutory best value notice, the property update is now presented within its own report to aid transparency by looking deeper at the performance of the property investment assets.
- 1.2 The Asset Management Strategy was approved by Full Council early in 2023 and this strategy outlines how we manage and deliver fit for purpose property assets, both operationally and for investment purposes, for the Council. The investment property portfolio plays an important part in the Council's capital and revenue strategies and a set of performance reporting measures was approved as part of both the Asset Management and the Capital & Investment Strategies. **(Appendix A Asset Management Strategy), (Appendix B Capital and investment Strategy)**
- 1.3 There are some significant priorities facing the business unit - these include working with MLCG, in respect of the Levelling-Up and Regeneration Act 2023, to work through capital borrowing along with our capital plans, looking at how we can reduce our borrowing, which in turn may mean commercial assets need to be sold to reduce the borrowing costs. In addition to this, we are in a period of economic downturn which has an underlying effect on the economic growth of our portfolio.
- 1.4 This report provides information on key performance indicators outlined in the Asset Management and Capital and Investment Strategies. We have in place benchmarking analysis from MSCI, a data service to which the Council has subscribed. This subscription allows us to compare our property investment portfolio with those of other investors, such as pension funds, banks, and property companies.

1.5 The data provided by MSCI offers a comprehensive analysis of our portfolio in comparison to an "all property investment benchmark." This data shows the key performance insights related to the investment property portfolio, covering trends, capital drivers, equivalent yield distribution, income return, and the overall performance of the portfolio over the previous year.

## 2. Existing Property Investment Portfolio

2.1 The Assets and Regeneration Team undertake the day to day running and maintenance of the Council's property portfolio which consists of operational and investment assets. The operational assets are used by our residents and the function of the team is to ensure a compliant and fit for purpose estate that delivers key services, whether it be statutory function or non-statutory function. This report primarily deals with the performance of the investment property portfolio.

2.2 There are currently 31 properties classified as investment assets. The current investment property portfolio was built up over a number of years mainly between 2015 and 2020, several of the assets have been held over the long term, a large proportion of the assets were purchased as part of the asset management strategy at the time. Within the investment property portfolio are two developments, Addlestone One and Magna Square, Egham which the Council have undertaken itself.

2.3 The majority of the property purchases were funded from borrowings through PWLB. In 2020 the availability of the PWLB funding became very stringent and more difficult to access. Funding was only available in certain circumstances, mainly for regeneration. The time of this change also happened to coincide with the Covid 19 pandemic. The Council has not undertaken any further purchases since.

## 3.0 Valuations

3.1 The investment property portfolio is valued annually in accordance with CIPFA rules, the latest valuation was undertaken in March 2024. In Autumn 2023 a new professional services contract for surveying work was procured which included the yearly investment property valuations.

3.2 Set out below is a schedule of the current valuations as at 31 March 2024. Due to the adoption of net valuations, costs associated with an asset such as purchaser costs, stamp duty are accounted for. The benefit of this approach is that it allows for accurate benchmarking against key investors, it further ensures the property portfolio is assessed fairly. Net valuation is becoming the preferred standard in the property sector.

### 3.3 Valuation Table March 2024

Property Name	Property Location	Valuation at Date of Purchase or cost of Construction	Valuation 2024	Sector
Lyne Farm	Chertsey	£300,000	£390,000	Other
Unither House	Chertsey	£6,550,000	£6,175,000	Office
Tudor Court, High Street	Egham	£1,900,000	£2,000,000	Mixed Use
AXIS One, Axis Park	Langley/Slough	£19,330,000	£8,700,000	Office
610 Chiswick High Road	Chiswick	£65,100,000	£36,000,000	Office

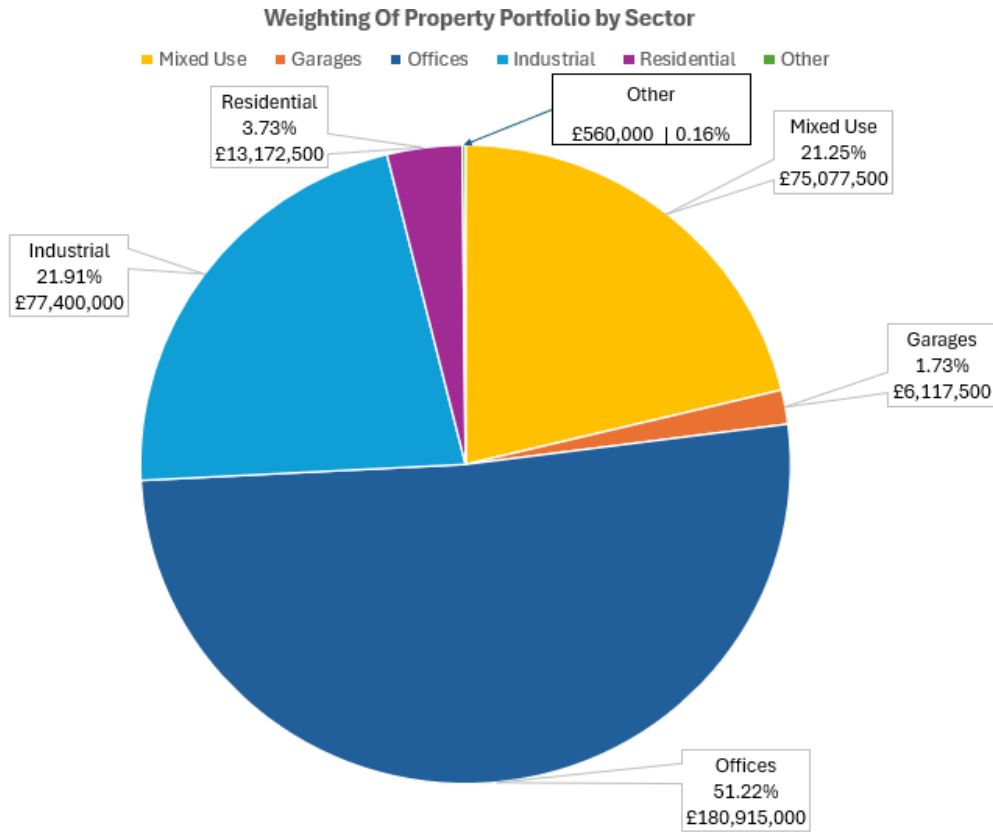
131-137 Station Road	Addlestone	£630,000	£625,000	Mixed Use
92 Station Road	Addlestone	£850,000	£660,000	Mixed Use
Abbey Groves	Chertsey	£9,721,000	£3,100,000	Office
World of Duty-Free Distribution Centre	Egham	£19,910,000	£17,725,000	Industrial
153-155 Station Rd (&1-5 Manton Ter)	Addlestone	£456,500	£595,000	Mixed Use
7, 9-12 High Street	Egham	£2,064,835	£1,755,000	Mixed Use
1-39 Egham Precinct	Egham	£8,060,000	£6,150,000	Mixed Use
Scandinavia House	Maidenhead	£12,000,000	£5,475,000	Office
New Globe House	Maidenhead	£16,700,000	£9,415,000	Office
Honeywell House	Bracknell	£31,959,674	£12,850,000	Office
Osprey House	Addlestone	£2,100,000	£780,000	Mixed Use
CarPark/Travelodge/Waitrose	Egham	£21,600,000	£18,925,000	Mixed Use
VW Financial Services HQ	Milton Keynes	£50,150,000	£37,400,000	Office
Addlestone One	Addlestone	£30,313,000	£25,230,000	Mixed Use
Egham Business Park	Egham	£27,904,172	£33,400,000	Industrial
Magna Square (Commercial)	Egham	£20,170,600	£19,187,500	Mixed Use
Royal Mail Egham	Egham	£4,905,000	£7,375,000	Industrial
Compass House	Chertsey	£25,050,000	£16,250,000	Office
Hitachi House	Egham	£10,100,000	£5,300,000	Office
Chertsey Business Park	Chertsey	£17,724,037	£18,900,000	Industrial
Sainsbury Centre	Chertsey	£5,430,000	£11,275,000	Mixed Use
Pine Trees Estate	Egham	£80,700,000	£40,250,000	Office
Surrey Towers Telecom	Addlestone	£375,000	£432,500	Mixed Use
Housing Garages (Various)	Various locations	£4,900,000	£6,117,500	Other
168 High Street	Egham	£912,859	£475,000	Mixed Use
51-53 Guildford Street	Chertsey	£170,000	£170,000	Other
55 Guildford Street	Chertsey	£130,000	£160,000	Mixed Use

3.4 Updated market summaries for each of the key sectors where we have investments are provided later in in **Appendix C**.

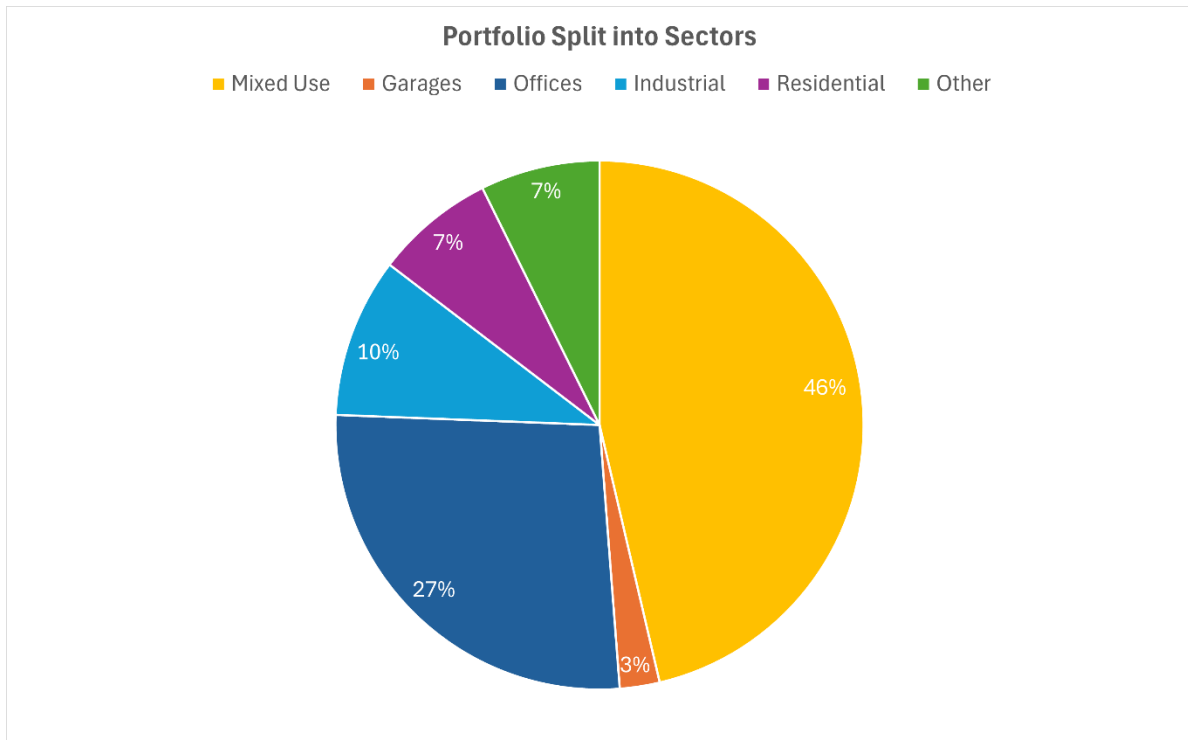
#### 4.0 Weighting of the Portfolio in Asset Class

The investment property portfolio has a variety of asset classes. The illustration below evidences the split of the investment portfolio by asset class, with a further illustration of how the investment property portfolio is broken down by capital value. As can be seen below, the portfolio is heavily weighted to offices by both number of properties and capital value, this shows the portfolio is not a traditionally balanced portfolio so is much more susceptible to changes within the office sector than a balanced portfolio might be.

### 4.1 Portfolio Weighting by Sector



### 4.1.2 Portfolio split by number of properties as a percentage in each sector



### 5. Key Performance Indicators

In line with our Asset Management Strategy (**Appendix A**) and Capital & Investment Strategy (**Appendix B**), we monitor 11 key performance indicators on a quarterly basis.

Previously included in the quarterly treasury management report, the property update is now presented separately and detailed below:

### 5.1 KPI001 Investment Property Income

In accordance with the Medium Term Financial Strategy the team report on any variances in respect of target income. For the first quarter of the financial year we are anticipating a betterment for the year of £401,000 in gross income over that budgeted for, due to updated assumptions for the year 24/25, however, this could change further during the course of the year to take account of any new leases or vacated properties.

### 5.2 KP002 Arrears

As part of the asset strategy one of the Key Performance Indicators reporting on the investment property rent arrears as a percent of the portfolio income on a quarterly basis. The table below gives the latest position of the arrears for the quarter July to September 2024. The actual percentage of our arrears for the investment property portfolio for Q2 2024-25 is 10.61%. This is higher than Q1 2024-25 (5.37%) which was in part driven by the quarter day falling on a Sunday and month end for reporting the next day. In addition there were payment delays following two rent review increases being applied to the council’s accounting system prior to the managing agent making the same adjustment and billing the tenant. . This is broadly comparable with the market average, noting that 5% - 8% is considered a good performance in the marketplace comparing ourselves with pension funds, external investors, property companies such as British Land, Crown Estate etc. This arrears percentage evidences that we are performing in line with the market average. The Committee should note whilst the garages are included an investment for valuation purposes, they are not included in the monitoring of the arrears in respect of the investment portfolio due to the occupancy and tenancy being managed by the Housing Team.

5.3 The Assets and Regeneration team continually review and ensure that arrears are kept at a minimum. There is always the risk that some tenants fail in the marketplace and in some instances “write offs” are required, those in excess of the delegated sign off are approved by Section 151 Officer. If the “write offs” require Committee approval a paper is brought to committee for approval at the end of the financial year noting that during the actual year the team have undertaken full due diligence to ensure that where possible they have recovered any debt and minimised the Council’s loss and risk.

### 5.4 Arrears Percentage for Property Investment Portfolio for Quarter July – September 2024

<b>Arrears For Quarter July – September 2024 (excluding garages)</b>	
Amount Billed For Quarter	<b>£6,660,194.86</b>
Debt for Quarter	£706,564.88
<b>Arrears Percentage</b>	<b>10.61%</b>

The council budgets for a % of bad debt each year for its investment properties based on anticipated gross rental income. For the 2024/25 financial year this is set at £1.372m.

## 5.5 KPI 003 – Vacancy Rates

This key performance indicator is in place to enable the team to monitor and assess opportunity to increase income within the portfolio at the same time as identifying problem assets where there is a theme of low occupancy. This KPI is achieved by totalling the overall income loss through vacancy in the investment property portfolio (not including the HRA garages), please note that two investment properties are currently under offer to be sold and therefore have been removed from the list. Therefore the total loss of income in the investment portfolio through vacancy last quarter was £455,060

5.6 The key vacancies in the portfolio are:-

- Building 5 Pine Trees
- Osprey House
- Various units in Addlestone One and Magna Square
- Charter Place

## 5.7 Tenant Retention KPI 004

Last quarter we had one break clause actioned one lease expiry and one repossession. within the investment portfolio. Therefore, in the last quarter July – September we did not retain three tenants. However, negotiations are progressing to let two of the units and consideration if being given to the third unit in line with the Asset Management Plan.

## 5.8 Income Return - definition investment income as a percentage of all general fund income KPI 005

The Investment Portfolio returned an income £27,999,744 last year (This figure is net of VAT). From the period 31<sup>st</sup> March 2023 to the 1<sup>st</sup> of March 2024.

5.9

Reference	Description	Metric
KPI 005	Income Return (Proportionality)	Investment income as a percentage of all general fund income 37%

## 6. Annual Indicators which form part of the Capital and Treasury Performance

6.1 The Capital and Investment strategy **Appendix B** agreed in February 2024 set out the responsibility and duties of councillors and officers allowing a framework for reporting and decision making on all aspects of investment management as part of the Investment Management Practices (IMPS) annual indicators in respect of the capital and treasury performance have been put in place.

6.2 In addition to the Revenue and Tenancy Management Performance of the portfolio there are 6 further Key Performance Indicators which we report on quarterly

## 7. KPI 006 Capital Values

This KPI tracks the annual changes in our capital values. Currently, we conduct yearly RICS Red Book Valuations of our investment assets. While there is a possibility of introducing a mid-year "desktop" valuation, this is still under review. The current status of this KPI is as follows:

Reference	Description	Metric
KPI 006	Capital Values	Difference in Capital Values, annually. £-186,065,800

8. KPI 007 Capital Appreciation/Reduction

Reference	Description	Metric
KPI 007	Capital Appreciation	Difference in Capital Values, since purchase £-173,148,554

9. KPI 008 Loan to Value Ratio

Reference	Description	Metric
KPI 008	Loan to Value ratio	Amount of debt compared to the total asset value. 134%.

10. KPI 009 Interest Cover Ratio

Reference	Description	Metric
KPI 009	Interest Cover ratio	The total net income from property investments compared to the total interest on associated borrowings 2.45%

11. KPI 010 Debt cover ratio

Reference	Description	Metric
KPI 010	Debt cover ratio	The total net income from property investments compared to the total annual MRP and interest on associated borrowings 1.83

12. KPI 011 Average return on Investments

Reference	Description	Metric
KPI 011	Average return on investments	Rental income divided by Capital Value 7.92%

The total income returned on the 2023/2024 investment portfolio was gross 7.92%. This does not take in to account bad debt or borrowing costs. When asking “what is a good return on rental property?” it can be challenging to define a clear-cut answer because a 'good' property return is not a standardised concept. It varies based on factors such as location, property type, and the letting model. As a general guideline, a gross rental return on an AST (Assured Shorthold Tenancy) rental agreement ranging from 5% to 6% is typically considered 'good,'

while anything surpassing 7% is deemed 'very good.' In our case, our return is 8%. Part of the next quarterly report, following the member training on property investment performance, we will be able to present more information on performance on the overall property portfolio.

### **13. Key asset management initiatives**

In addition to the Key Performance Indicators, the Assets & Regeneration team is actively pursuing several initiatives to manage the investment property portfolio. These initiatives, along with the processes and practices that will guide RBC's decision-making and analysis, aim to enhance asset value while safeguarding future value, particularly in response to market and economic conditions.

### **14 Monitoring performance of the investment assets**

14.1 Runnymede has a relatively large investment portfolio compared to other local authorities. To improve decision-making and analysis of property performance, the Council subscribed to MSCI, a property benchmark company, to track performance against other UK properties and specific sectors. As the portfolio is valued annually, performance measures are reviewed each year, with the latest benchmark based on the March 2024 valuations. Given the significance of property investment income to the Council's finances, a member training session was organised for 4th November 2024 via Teams. This session presented by an Executive Director from MSCI and Officers from the Assets & Regeneration Team explained how the portfolio is managed and how to interpret the benchmarking data.

### **15. Policy framework implications**

15.1 The Asset Management Strategy serves as a comprehensive tool for managing and delivering operationally and investment-efficient assets for the Council. Despite facing significant priorities such as navigating the Levelling-Up and Regeneration Act 2023 and the economic downturn, the Council remains committed to optimising its asset portfolio. This includes potential sales of commercial assets to reduce borrowing costs, ensuring a sustainable financial future

### **16. Resource implications/Value for Money**

16.1 As referred to in the Capital and Investment Strategy 2024-2028 and Asset Management Strategy 2023- 2027.

### **17 Legal implications**

17.1 The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 and associated Regulations. A local authority may borrow or invest for any purpose relevant to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs. The Regulations also specify that authorities should have regard to the CIPFA Treasury Management Code, the Government Investments Guidance and the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out their treasury management functions.

### **18. Equality implications**

18.1 None for the purposes of this report

### **19. Environmental/Sustainability/Biodiversity implications**

19.1 None for the purposes of this report



## **20. Risk Implications**

20.1 The risks associated with investment Property Portfolio are set out in the Asset Management Strategy.

## **21. Background papers**

- Held in Assets and Regeneration

## **22. Appendices**

- **Appendix A – Asset Management Strategy**
- **Appendix B - Capital Strategy**
- **Appendix C – Market Summaries**
- **Appendix D – Glossary of Terms**