



SURREY HEATH BOROUGH COUNCIL

PROPERTY ACQUISITION AND DISPOSAL STRATEGY

March 2023

Surrey Heath Borough Council
Knoll Road, Camberley GU15 3HD



I. Purpose of this document

This report sets out Surrey Heath Borough Council's ('SHBC') strategy for the acquisition and disposal of property for the purposes of economic development, regeneration, protection of local employment opportunities and the sustainability of town centres within the Borough of Surrey Heath.

The strategy accords with the Medium Term Financial Strategy and the wider goals of the Council's Five Year Strategy and will assist in the aim of achieving financial stability to deliver high quality services to the residents and businesses of the Borough.



2. Policy and statutory background

Acquisitions may be financed through prudential borrowing within the parameters laid out in the CIPFA Prudential Code and following the revised guidance from HM Treasury regarding commercial property acquisitions by local authorities.

Guidance issued by the Chartered Institute of Public Finance and Accountancy ('CIPFA') supports the s.151 officer and other Council officers in how property portfolios should be built by Local Authorities.

This guidance allows for Councils to acquire and dispose of property to support their regeneration and economic development aims and should always be in the interests of their residents and businesses. This means that any acquisitions should be within the Borough boundaries. In extremely rare and very exceptional circumstances, acquisitions within the immediate vicinity of the borough boundaries could be made, but they would have to be supported with a strong rationale of the benefit to residents and businesses within the borough.

Acquisitions may be financed through prudential borrowing within the parameters laid out in the CIPFA Prudential Code and following revised guidance from HM Treasury regarding commercial property acquisitions by local authorities.



3. Regeneration and economic development aims of SHBC

SHBC's Five year strategy approved on 27th October 2021, is based around the four key priorities shown in the diagram below



The acquisition and development strategy will contribute to these priority areas in the following manner:



Environment

- Carefully considering the environmental impact of new acquisitions and development activities.
- Bringing forward sites within the council's portfolio for housing delivery.
- Considering the acquisition of Suitable Alternative Natural Greenspace ('SANG') sites.

Economy

- Acquiring assets where the council can maximise their economic benefit to business and residents.
- Considering divesting of assets where private sector ownership may better serve the interests of residents and the community, for instance, where the buyer is a specialist operator or is more likely to be able to deliver the desired regeneration of those assets.
- Considering divesting of assets when the council's capital can be recycled into new assets which better serve the delivery of the priorities within the five year strategy.
- Considering acquiring assets which preserve certain key employment uses within the borough.
- Considering acquiring assets which can foster new businesses such as pop up shops or 'garage to industrial unit' start ups.



- Identifying sites across the Borough for the Council to acquire in order to deliver regeneration and community facilities.

Effective and Responsive Council

- Acquiring and disposing of property wisely after consideration of the key relevant factors including all foreseeable costs and the prospect of attracting further resources and investment into the borough.
- Acquiring and disposing of properties that on a portfolio wide basis contribute to the sustainability of SHBC's finances.
- Adopting an agile approach withing the bounds of the strategy in order to react to market opportunities and trends.

Health and Quality of Life

- Considering acquisition of properties which facilitate the growth of activities that promote health and quality of life.
- Considering the provision of accessible transport as part of acquisition and disposal activities.
- Considering the acquisition of residential properties under the Local Authority Housing Scheme or similar schemes where funds are provided to SHBC
- Considering the acquisition of sites suitable for Gypsy and Traveller pitches.



- Undertaking careful analysis of health and safety issues as part of the acquisition process.

4. Key objectives of the strategy

- To acquire and dispose of property for regeneration purposes or economic development in accordance with CIPFA guidance.
- To build a balanced property portfolio to minimise risk of overexposure to single sectors of the market.
- To achieve an even balance of risk and return through portfolio diversification.
- To identify and appropriately manage risks through the acquisition and disposal process.
- To acquire a suitable grade of properties which possess the characteristics required to retain liquidity and preserve capital (notwithstanding market movement) over the period of ownership.



5. Core principles of the strategy

- Acquisitions are to be made only in direct real estate (i.e. not into equities or debt instruments).
- Properties are to be located within Surrey Heath.
- Properties are to be held freehold or long leasehold where a peppercorn (or very low) ground rent is payable.
- No speculative development.

Acquisitions in areas classed as being within flood zone 3 or with a high land contamination risk would need an exceptional justification.

One of the most important underlying principles is that the strategy and the portfolio should be able to flex in the required way to react to market conditions, whilst maintaining governance for sound decision making and transaction execution.



To achieve the objectives of the strategy, over the medium term, a balanced property portfolio will be created, appropriately managing risk by portfolio profiling and asset diversification.

Portfolio profiling consists of analysing the existing portfolio, including by type and value of each property to assess exposure to different categories of property.

Asset diversification is required to limit risk arising from factors such as location performance, single asset risk or the risk of exposure to a particular occupier or type of occupier.

Portfolio profiling will be undertaken as part of the council's annual plan process.

6. Acquisition and disposal criteria

The acquisition and disposal criteria will change according to the specific needs of the portfolio and the economic and regeneration needs of Surrey Heath at any given time. From a strategic point of view and at the outset of building property portfolios it is generally considered to be most advantageous to have criteria as wide as possible to identify the most suitable properties. This is particularly true in strong market conditions when demand for good quality, income producing assets is very high.



7. Portfolio valuation

The non-operational property portfolio is externally valued every year in accordance with the RICS Red Book and the International Valuation Standards.

Annual valuations are important not only for regulatory purposes but also to enable individual assets and the portfolio to be benchmarked against the wider performance of the commercial property sector. The estimated rental values within the valuations set the target rents for business planning.

The leisure and community properties are typically valued on a rolling programme of five yearly valuations, typically on a depreciated replacement cost basis with the exception of car parks which are valued based on the net profit that they produce.

8. Acquisition and disposal process

All acquisition and disposals of property will follow the rules and procedures of the Council's constitution and scheme of delegation and be compliant with procurement rules and other relevant regulations.



The acquisition process will typically proceed as follows:

- Potential properties to be acquired are introduced directly by vendors, vendors' agents or by property agents seeking to act for Surrey Heath Borough Council.
- An initial review of the acquisition opportunity will be undertaken by the officer team led by the Head of Investment and Development to see whether the potential acquisitions meet the prevailing investment criteria. At this stage a decision is made to either reject the property or to instruct the agent to provide their initial advice. The opportunity will then be shared with the Property Investment Working Group ('PIWG') to gather its views using the Acquisition Evaluation Form at Appendix I.
- Following consultation with the PIWG, the Head of Investment and Development may submit a non-binding offer.
- If the Council's bid or offer is accepted, the transaction will be submitted to executive or full council as appropriate depending on the budget and level of cost involved.
- For relatively straightforward transactions, the recommendation may suggest that exchange and completion of contracts is delegated to the head of Investment and Development in consultation with the Portfolio Holder for property acquisitions and disposals and the approval of the Monitoring Officer.
- For more complex or higher value properties, the recommendation will be brought back to executive following the completion of due diligence work, to seek approval to exchange contracts.



- An RICS Red Book valuation will be submitted to Executive or Full Council as appropriate with the recommendation prior to completion.
- For the due diligence work, external solicitors will be appointed by the Council's Monitoring Officer or the Head of Investment with the approval of the Monitoring officer.
- Further expenditure will be required prior to exchanging contracts on environmental, physical condition and measured surveys.

The disposal process will typically proceed as follows:

- Any potential community and leisure properties which have become surplus to requirements will be identified by the relevant officers and Portfolio Holder.
- All potential disposals will be identified as part of the annual business planning process following consultation with the Property Investment Working Group
- A selling agent will usually be appointed to act for SHBC following council procurement rules.
- A sales brochure will usually be prepared with key information which will require some up front expenditure on compiling key legal and building condition information.



- Similarly to acquisitions, the agent's fee is usually only payable in the event of a sale, however should the process not reach a conclusion there will be abortive legal costs.
- Should the Portfolio Holder for property acquisitions and disposals consider that it is in SHBC's best interests to accept any of the offers received following a reasonable period for marketing, then a recommendation will be produced to the executive or full council.
- Any proposed sale below the prevailing RICS Red Book valuation would need a clear justification.





Appendix I



Acquisition Evaluation Form			
Ref:		Date:	
Known as:			
Address			
Lead Officer			
Agent/Source		Agent Fees	1%
Tenure	Freehold	Area Sq Ft (M ²)	Building:
Portfolio	Select from list		Land:
Location			
Sector	Office (multi-occupier)	Reason for purchase	
Financial Information			
Asking Price		Purchaser's Costs @6.5% <i>Revenue risk if acquisition does not complete</i>	£ -
Gross Annual Rental Income <i>(Potential Rent if fully let)</i>		Gross Yield <i>(based on asking price)</i>	0.00%
Annual Revenue Cost of Borrowing <i>(Annuity method @ x%)</i>	£ -	Additional Income	
		Annual Revenue Costs <i>(eg management)</i>	
Surplus after Interest & Minimum Revenue Provision	£ -	Yield after Interest & Minimum Revenue Provision	0.00%
Due Dilligence			
Background			
Tenants/ Covenant Strength/Lease Term/Breaks			
Incentives <i>(rent-free etc.)</i>			
Condition/ Delapidations			
Planning History <i>(i.e. approved development, use and any enforcement)</i>			
Current Planning Status			
Restrictive Covenants			
Income Profile			
Risk			
Additional Due Diligence required			
Strategic Objectives			
Next Steps <i>(with costs and resource implications)</i>			
Comments			
Recommendation (instructions on way forward)			
Priority Score <i>(1=High, 3=Low)</i>			



