

Performance of Major Property Acquisitions

Summary:

The purpose of this report is to update Members on the performance of the Council's major property acquisitions.

Portfolio: Leader

Wards Affected: All

Recommendation

The Performance and Finance Scrutiny Committee is advised to note and comment on the contents of this report.

1. Resource Implications

- 1.1 As this report is for noting only there are no resource implications arising specifically from this report. The financial performance of the Council's principal property acquisitions is included within this report together with any issues that may have potential resource implications in the future.

2. Key Issues and other information

- 2.1 The Council's property investments fall into two groups in line with the Council key priorities. These are as follows:

Place All town centre properties which have been acquired with the primary purpose of supporting the regeneration of Camberley town centre and in particular the London Road Site.

Prosperity Those properties acquired in order to support economic growth through the retention of key employment sites as well as delivering an income to support continued delivery of Council services.

- 2.2 In terms of the more strategic aspects of property ownership, there is always a balance between risk and control. Local authorities up and down the country are taking the driving seat in relation to the regeneration of their town centres, including being more active in terms of the retail market, rather than reactive. This is also in line with current Government thinking whereby borrowing is used to support economic growth.

- 2.3 Income and capital values can of course go up or down as with any investment and Councils are not immune to these risks, however unlike some private investors the Council is able to consider its investment for the medium to longer term, whilst balancing the need to service the debt at the same time.

Properties to support the key objectives under “Place”

- 2.4 The Council holds a number of properties within Camberley Town Centre in order to support its regeneration and place shaping aspirations. The acquisition of these properties in 2016 constituted a significant investment by the Council in the town centre and has given it the ability to move schemes forward more quickly, such as the redevelopment of the London Road frontage, which had been blocked for years due to land owner issues.
- 2.5 In order to achieve the vision set out in the Annual Plan and the Five Year Strategy, the Council has a number of projects which are being delivered concurrently in order to create an environment that demonstrates that Camberley is indeed looking to the future. Although some of these schemes are self-funding and others have benefited from grants, it is likely that the Council will be called upon to make further significant investments in the future, possibly involving some more financial risk, in order to bring the vision to reality. Indeed this need for future investment to support a 10 year plan to regenerate Camberley was made to Members at acquisition in 2016
- 2.6 This report will now give an update on each of the Council major property investments in Camberley Town centre in turn.

Ashwood House

- 2.7 Ashwood House consists of the office block next door to Main Square Car Park together with the retail units underneath. After a full tender process the Council awarded a contract to Berkeley Homes to convert the building and to that end a Development Agreement for both Ashwood House and Pembroke House was exchanged. ;
- 2.8 The Council carried out the various enabling works, such as the moving of bus stops and street furniture as well as the car park ramp demolition. Berkeley Homes has now commenced the actual building conversion to create 116 new flats and this is proceeding to schedule. Berkeley's have already set up a website to market the flats and just before lockdown a marketing suite had been opened. It is worth noting that had the Council not taken the decision to acquire Ashwood House then in all likelihood it would still be empty, as had been the case for many years, and not contributing to the town centre.
- 2.9 The former BHS is currently empty as it was required to allow enabling works in the for the benefit of the development above, the property has now been returned to the Council. Officers are working with the Executive to identify the best use for the space and in conversation with a number of interested parties.
- 2.10 As part of the High Street Public Realm works the canopy outside BHS, and other properties in Princess Way, will be removed and the area's street scene will be updated using funding already committed through grants and Community Infrastructure Levy (CIL). This will make the environment much more open and enable new lighting to be installed.

Camberley Town Centre Properties

- 2.11 The Council purchased a number of properties in the town centre in November 2016. These comprised of the Covered Mall and a number of properties on the London Road and High Street together with the House of Fraser store. Since then the Council has sought to acquire further properties on the London Road Site in order to

consolidate its ownership. The Council is actively seeking to purchase the remaining properties to complete the London Road Development.

- 2.12 Retail has been going through a difficult time nationally with a number of large names, having considerable financial difficulties resulting in a number of tenants seeking Creditors Voluntary arrangements (CVA) which can impact rents. Whilst the centre vacancy rate has remained low for us in Camberley, rents have remained under pressure. However, the Council has taken steps to try to mitigate this trend by refurbishing the centre, thereby making it more attractive as well as sponsoring a series of events throughout the year targeted at various groups to stimulate trade. These activities have generated secured rent and lease renewals.
- 2.13 Although the results for the whole year are still being finalised, according to the Council's agents, rent invoiced by them for the town centre properties totalled £5.7m which gave a net return of £2.4m before interest and debt repayments.
- 2.14 In light of changes wrought by Covid-19 Officers have been tasked by the Executive to bring forward plans for delivery of Phase 2 of the refurbishment which comprises the Cambridge Square and linkages with the car park. Dealing with the House of Fraser site separately, although within the overall vision for the town.
- 2.15 The 2019 Business Plan prepared by Montagu Evans indicates that rents and hence income can be expected to continue to fall with the lowest point being reached in 2020. Whilst some recovery is expected in 2021 it could take until 2023 for the income to reach what it was in 2017/18. Of course, the effect of Covid-19 will now have to be reflected in the business plan with a revision to reflect the new reality. Despite the current difficult times it should not be lost sight of that Camberley remains a good town in one of the most affluent parts of the country and that the Council has received national acclaim for its positive approach to investment in its own Town Centre.

London Road Development Site

- 2.16 Since 2010 it has been the Council's number one priority to redevelop the London Road Site to provide an attractive gateway to Camberley as well as enhancing the town centre offer. The Council completed its detailed procurement this year in accordance with the agreed objective and has appointed Kier PLC as its development partner. Work is ongoing to finalise the Development Agreement and Kier has already started work on the Planning Application which will be required for this significant development. As mentioned above, there is an ongoing programme to acquire the remaining properties on the site privately thereby eliminating the need for a Compulsory Purchase Order. Ongoing discussions on the Development Agreement were delayed during the year, followed by the rise of the Covid-19 pandemic which halted the process, recently discussions have restarted.

Land East of Knoll Road – LEKR

- 2.17 For many years the Council has had an ambition to redevelop this site. The potential development could include the Council Offices, Library, Theatre, Portesbury School, Knoll Road car park and Disability Initiative. This was subject to alternative sites being found for the services displaced and cooperation with Surrey County Council, the other principal landowner.

Properties to support the key objectives under “Prosperity”

- 2.18 The Council has invested in a number of industrial estates and offices in or near the borough in order to safeguard key employment sites. There is pressure from landlords to turn commercial sites into housing leading to a shortage of such sites and high demand for the units. The Council is keen to keep such units as employment sites so as to maintain employment within the borough. The Council has to act prudently and so these investments were purchased on the assumption that they would deliver a positive financial return after all financing and operating costs had been accounted for. 100% of this return is then used to support the delivery of Council services which would otherwise have to be cut due to the loss of Government funding.

The properties held are as follows:

St Georges Industrial Estate

- 2.19 This industrial estate is based in Wilton Road Camberley and consists of 23 units all of which are let. Actual rent received in 2019/20 was £573k, against a budgeted expectation of £553k.

Albany Park

- 2.20 This retail and industrial park in Frimley consists of 9 units. The budgeted rent for 2019/20 was £1,077k. Unfortunately a tenant of one of the larger units, Travelex, ended its lease in September 2019. The actual rent received was therefore £957k.

Trade City

- 2.21 This industrial park in Lyon Way, Frimley consists of 9 units. It was acquired in May 2018. During 2019/20 £643k was received in rent which compares with the £613k anticipated in the original business case.

Vulcan Way

- 2.22 This industrial estate in Sandhurst consists of 37 units. This was acquired in October 2018 and has generated £902k in rent in 2019/20 against a budget of £816k.

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- 2.23 This comprises an office building in Lyon Way Frimley which was acquired late in March 2019. The first year of ownership yielded £920k in rent none of which had been budgeted as the property hadn't completed at the point of setting the budget.

Other potential acquisitions

- 2.24 During the year 37 other properties have been considered for acquisition. However they have not been pursued due to location, weak covenants, short leases, vacancies, high price or low returns amongst other reasons.
- 2.25 In future each property considered is subject to due diligence via the Property Investment Working Group who will recommend to The Executive whether to proceed, with exception of purchases to assemble the London Road site, where authority has been delegated to the group to make the purchases after due diligence

and within the agreed budget. The Chief Executive no longer has delegated authority to purchase property.

Interest and debt repayment

- 2.26 During 2019/20 interest on property purchases of £3.6m was budgeted for based on a notional interest rate of 2%. Based on the advice of the Council's treasury advisers Arlingclose a combination of long, short and internal borrowing was used during the year resulting in a true interest charge of £2.3m. The £1.3m saving will be used to cover shortfalls in rent on vacant units and future increases in interest rates via the interest equalisation reserve.
- 2.27 Under the prudential regulations the Council is required to make a transfer out of revenue each year so as to ensure that any debts are repaid over the life of the asset which is being funded. This "Minimum Revenue Payment" or MRP amounted to £2.1m for the year and has been used to repay debt.

Impact of Covid-19 Epidemic

- 2.28 Although this report is mainly concerned with the performance of our assets in 2019/20, it should be noted that the Government led response to the Covid-19 epidemic has, unsurprisingly, had a major impact on economic activity at the start of 2020/21.
- 2.29 The Council has had a policy of assisting our tenants by, when approached:
 - Agreeing deferrals of the first quarter rental, and
 - Spreading payment of the deferred rent over the remainder of the year, or
 - Agreeing monthly payment rather than quarterly in advance, and
 - Not actively chasing late payment of the March quarter, although it should be noted that once businesses reopen we will be seeking agreed terms to clear these debts.
- 2.30 These agreements have an impact on our cashflow in the short term. We need to also consider the economic impact on our leases and the likely increase in bad debt as some businesses struggle to relaunch after the lockdown.

3. Corporate Objectives And Key Priorities

- 3.1 The acquisition of the town centre supports Key Priorities 1 and 2 relating to Place and Prosperity.

4. Risk Management

- 4.1 Professional management of the Square is essential if its potential is to be realised both in terms of income and its part in delivering the vision for Camberley. The Council recognises that it does not have all the skills in these areas and so has retained a team of professional advisers to assist them with this task.
- 4.2 The Council, the Jersey Property Unit Trust (JPUT) and Montagu Evans are working together to ensure that improvements can be delivered as quickly as possible. Officers will need to keep under review the capacity and resilience in order to ensure that the town centre and its associated projects can be delivered to time.

- 4.3 The Council will need to consider any implications for internal resources or additional costs as matters progress.
- 4.4 Commercial Property Investment can by its very nature be risky in that market values can rise and fall, tenants leave or not pay, etc. However the Council has taken steps to mitigate these risks as follows:
- It is the Council's intention to hold the property it has purchased for the long term. This means although values can fall over the short term driven by wider economic factors these are not realised as the property is not sold. It is anticipated that over the longer term property values should overall increase, despite these short term fluctuations.
 - The Council works closely with its professional advisers to ensure that units are let in a timely manner. Managing agents have been appointed to ensure that rent is also collected in a timely manner.
 - All property purchased must achieve a minimum return in line with the Property Acquisition Strategy. This means that even if rents do not meet expectations in the short term, the Council is unlikely to find itself in a cash loss situation.
 - Detailed due diligence is required before any purchase is made. This is based on the advice of professionals within the property market.

5. PR And Marketing for our Town Centre Assets

- 5.1 Branding, marketing and advertising are key if footfall is to be driven up and retailers attracted and retained. The "Camberley Be" campaign has been very successful and forms an umbrella brand for all the projects and activates that Camberley has to offer.
- 5.2 It is essential in this difficult trading environment that marketing and promotional activity is maintained so as differentiate our offer from other towns and to maintain the image that Camberley remains an attractive place to work, shop and play.
- 5.3 A comprehensive programme of events took place during last year and further more are planned for the coming year. Each one is targeted at a particular sector so as to maximise the opportunity to appeal to a broad range of potential customers during the year.

6. Recommendations

- 6.1 The Performance and Finance Scrutiny Committee is advised to note and comment on the contents of this report.

Background Papers None

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