

Corporate Affairs and Local Economy Overview and Scrutiny Panel

Commercial and Residential Property Annual Report

24 June 2021

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Commercial Property

Aims and objectives – a reminder

- To acquire commercial property within the District
- To secure economic development benefits and to make a return
- Original portfolio fund of £30M financed from reserves and borrowing (Public Works Loan Board)
- The Property Investment Panel comprises the Chief Executive, Chief Finance Officer, Executive Head Housing & Governance, Portfolio Holder Finance and Chairman of the Corporate Overview & Scrutiny Committee.
- Panel meets regularly. Its terms of reference are to receive reports, provide governance and decision making in respect of real estate assets made under the Council's Asset Investment Strategy and the commercial property portfolio held by the Council more broadly.
- The Panel's remit also includes operational real estate development.

Commercial Property Strategy Investment Target

- Overall pot of **£30M** to apply within the District pursuant to the Strategy.

| | Existing Employment Site £M | Development Site (Crow Lane) £M's | Total £M's |
|------------------|-----------------------------------|---|---------------|
| 2018/19 | 2.20 | - | 2.20 |
| 2019/20 | 2.75 | 2.23 | 4.98 |
| 2020/21 | 3.26 | - | 3.26 |
| Total | 8.21 | 2.23 | 10.44 |
| Remaining | | | 19.56 |

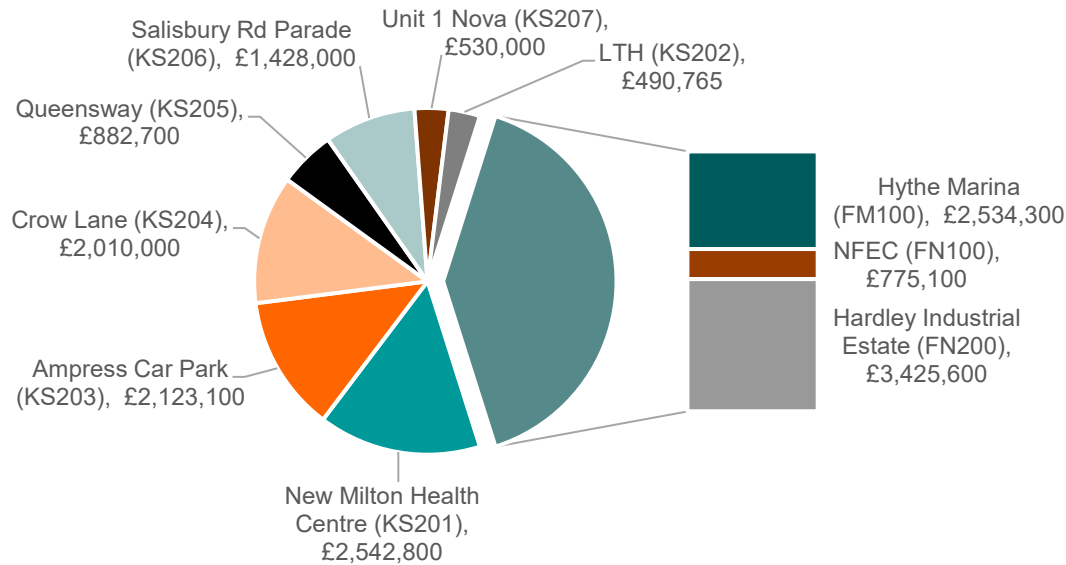
Commercial Property Net Income Target

The Medium Term Financial Plan provides a cumulative net income forecast for Commercial and Residential Property with new income forecast from 2022/23.

| Annual Budget | 2019/20 £'000's | 2020/21 £'000's | 2021/22 £'000's | 2022/23 £'000's | 2023/24 £'000's |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Within General Fund Budget | -100 | -162 | -397 | -397 | -397 |
| <i>Commercial: Forecast Assumption in MTFP</i> | | | | -270 | -390 |
| <i>Residential: Forecast Assumption in MTFP</i> | | | | -130 | -260 |
| TOTAL CUMULATIVE | -100 | -162 | -397 | -797 | -1,047 |

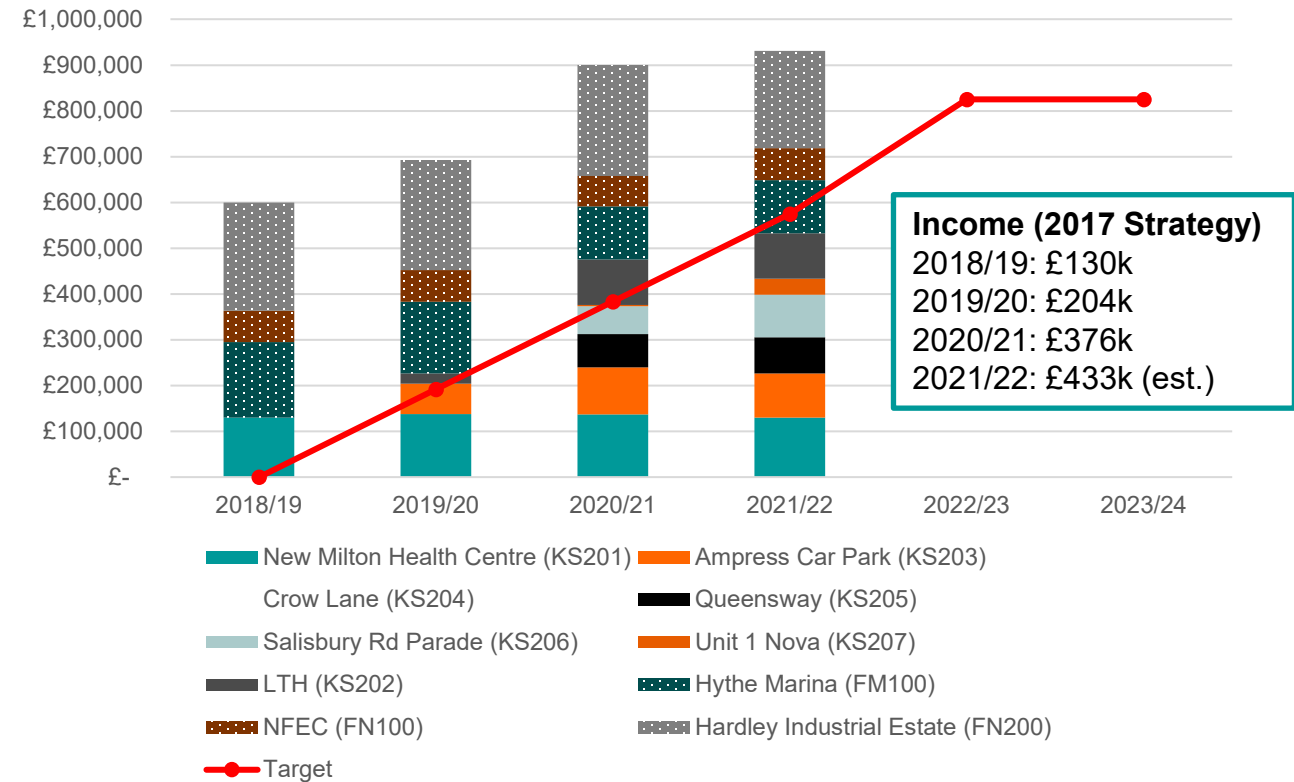
Financial Dashboard: Book Value & Rental Income, Strategy Acquisitions (Commercial Properties)

**Balance Sheet Value: 2020/21
(All Investment Properties)**



Total Value (all properties) = £16,742,365
Total Value (pursuant to 2017 Strategy) = £9,516,600
Total Spend (inc. fees) = £10,437,124

**Operating Income
(All Investment Properties)**



What we did in 2020/21 (Purchases)

Salisbury Road Parade Totton

- Completed June 2020;
- Freehold purchase;
- A parade of 14 retail and office units;
- Adjacent to Council car park and residential development site;
- Supporting local employment and providing local amenities.

Queensway Stem Lane Industrial Estate New Milton

- Completed June 2020;
- Freehold purchase with a single tenant, tenancy expires November 2022;
- Offices plus vehicular repairs and maintenance depot.

Nova Business Centre Gore Road Industrial Estate New Milton

- Completed February 2021;
- Freehold purchase with a single tenant, tenancy expires 2030;
- Use: Plumbers' merchant and bathroom showroom;
- Supporting local employment and supply chains.

What we did in 2020/21 (Operational)

Hardley

- Potential new depot site;
- Planning permission granted for the depot, inc. buildings, storage and vehicular layout;
- Building contractors agreed terms relating to temporary use of part of site for works compound;
 - Temporary licence for occupation of Western Storage area being progressed, expected to be in by the end of June for about 6 months, with potential for a further extension for Phase 2 works;
 - As part of licence agreement, licensee will undertake works on site to create a new fencing and gate to the entrance.

Operational Depot Strategy

- Consultant appointed to report on optimisation of Council depots for delivery of operational services;
- Depot tour and walkovers undertaken 5th May;
- Report due end June 2021.

Commercial Property

Current activities

- Drive Thru & Café Unit, Totton
 - New development, new employment opportunities and providing local facilities
 - Construction almost completed
 - Freehold purchase with an immediate lease to operator
- Crow Lane development activities
 - Development site acquired for employment and office use
 - Planning for 16 light industrial units and 8 offices
 - Some site infrastructure complete, spine road, services in place
 - Leading technical consultants appointed for the project
 - Construction tenders issued 4th May 2021
 - Returns due by 12th July 2021
 - Council decision September 2021
 - Target delivery October 2022
- Approximately £7M other commercial real estate presently under consideration

Appletree Property Holdings Limited

Aims and Objectives

- To operate as a commercial enterprise, offering market rental properties in the District to people with a local connection.
- Aim to be a “landlord of choice” in this market
- To secure in the region of 40 properties over a 3-year period
- £10M in the pot, financed by NFDC through equity and loans at a commercial rate of interest
- Loans secured by legal charge
- At present a £4M funding tranche made available
- A General Fund, not a Housing Revenue Account, project

Selecting Properties and Tenants

- Seeking modern lettable properties in the District
- 2- and 3-bedroom houses in good condition and in areas of high demand.
- The tenants are credit checked for affordability and there is a preference for those with a local connection
- Tenancies are short term 7-12 months.

Appletree Property Holdings Limited

Property purchases to date

- By the end of the FY 2020/21, 7 properties acquired
- Since then, 2 more properties acquired
- 10th property under offer
- The 9 properties acquired are located: one in Lymington, three in Totton, two in Ashurst Bridge, two in Blackfield and one in Calmore
- 4 x 2 bed properties, 5 x 3 bed properties
- Loans from Council to the Company secured by legal charges
- Of the 9 purchases 4 were newbuild properties

Financial Summary

Appletree Property Holdings Limited

| Year | Acquisitions | Total Cost £ | Monthly Rent £'s | Annual Rent £ |
|--------------|--------------|------------------|---------------------|----------------|
| 2019/20 | 2 | 505,975 | 1,770 | 21,240 |
| 2020/21 | 5 | 1,566,354 | 5,710 | 68,520 |
| 2021 to date | 2 | 546,900 | 1,900 | 22,800 |
| TOTAL | 9 | 2,619,229 | 9,380 | 112,560 |

NFDC

| Year | Equity £ | Debt £ | Interest rate (% over BE) | Return £ (full year) | Blended Yield % |
|--------------|----------------|------------------|------------------------------|-------------------------|--------------------|
| 2019 | 201,700 | 304,275 | 4.75 | 14,453 | 2.86 |
| 2020/21 | 342,600 | 1,223,754 | 4.75 | 58,128 | 3.71 |
| 2021 to date | 113,900 | 433,000 | 4.75 | 20,568 | 3.76 |
| TOTAL | 658,200 | 1,961,029 | | 93,149 | 3.56 |

Summary

Appletree Holdings Summary

- Presently approval has been given for £4 million of the £10 million pot to be invested in the project.
- Expenditure to date is £2,619,229 with a further £274,600 committed - totals £2,904,065.
- Income % return in line with strategy forecast.
- The Property Investment Panel gave support to release of an additional £2M tranche of shareholder funds (10/06/21); total £6M released.

Commercial Property Summary

- £10M commercial property acquired through strategy
- Properties acquired all within the District helping to sustain local employment
- Income is tracking expectations and exceeding treasury management returns
- 5 potential acquisitions presently under negotiation

Recommendation

- Panel asked to note performance to date in the delivery of the commercial and residential strategies and the continuation of both projects.