

## COMMERCIAL PROPERTY OPPORTUNITY

### 1. RECOMMENDATIONS

- 1.1 That the Cabinet approves the purchase of the commercial property as detailed in the Exempt Appendix to this report, subject to final legal due diligence and verification which will be authorised by the Executive Head of Financial & Corporate Services (Section 151 Officer) in consultation with the Finance, Investment & Corporate Services Portfolio holder.

### 2. INTRODUCTION

- 2.1 In February 2017 the Council adopted an 'Asset Investment Strategy' which included the following delegations:

*That the following delegation of powers be approved to make purchases and investments in accordance with the provisions of the Strategy:*

*(i) That the Chief Executive, the Executive Head Governance and Regulation, and the S151 Officer, in consultation with the Portfolio Holder for Finance and Efficiency and the Chairman of the Corporate Overview and Scrutiny Panel, shall have authority to make asset purchases and investments up to £5 million;*

*(ii) The Cabinet shall have authority to make asset purchases and investments above £5 million.*

- 2.2 The proposed acquisition is pursuant to the continued implementation of the Council's property 'Asset Investment Strategy'.

### 3. BACKGROUND

- 3.1 The seller offered the investment for sale on the open market following a competitive marketing period. After the close of best offers the Council has been selected as their preferred buyer and consequently 'subject to contract' terms have been agreed and due diligence has commenced. The Council's offer was made subject to pending Cabinet approval.

### 4. TERMS AND DETAILS OF THE COMMERCIAL ACQUISITION

- 4.1 Due to the details of this proposed acquisition being commercially sensitive, prior to the legal completion, it is therefore not for public publication. Any increased awareness of the details and negotiated purchase price of the property could jeopardise successful completion of the transaction. The details are consequently shown in the **EXEMPT APPENDIX 1** attached to this report.

### 5. OPPORTUNITIES AND RISK

- 5.1 **Opportunities**

This purchase secures an opportunity to support and promote the economic activity and sustainable new local employment within the district. The introduction of the commercial occupier to the town will promote a higher footfall and add to the viability and vitality of the high street and town centre.

5.2 The proposal enables the Council to secure improved income from its capital reserves (see **EXEMPT APPENDIX 1 2. FINANCIAL IMPLICATIONS**)

5.3 **Risk**

There is always an element of risk in commercial property purchases. The Covid 19 Pandemic has of course added to the risk. However, taking a long-term view pursuant to the adopted strategy, this purchase offers potential for the Council to help promote employment opportunities jobs within the district and offers an income stream at an assessed tolerable level of risk.

The incoming tenant of the commercial property has a financial standing as very low risk and has an excellent covenant.

The Asset Investment Strategy recognises potential risks that accompany the rewards generated from commercial property purchases. The property easily passes the matrix test set out in the strategy which is designed to initially eliminate propositions that carry an unacceptable level of risk:

<b>TOTAL SCORE</b>	<b>164</b>
Max Score	176
Percentile Score	<b>93%</b>
<i>Note: Minimum Acceptable Score = 106 (60%)</i>	

**6. CONCLUSIONS**

This commercial property acquisition is located within the district and promotes the economic growth, viability and vitality on the high street, and sustainable employment in the area, as well as being an excellent financial asset investment for the Council both in the immediate term, but also taking a strategic and longer-term view.

**7. FINANCIAL IMPLICATIONS**

7.1 Following a period of competitive marketing and submission of best and final offers, the Council has had its offer to purchase the freehold of the property accepted, subject to contract, due diligence, verification, and Cabinet approval.

7.2 The Investment Strategy indicates an average target yield for investments of 6.18% and assumed eventual borrowing of 80% required to finance the £30M Portfolio. To date, 9 projects have been completed at a total cost of £14M, with no external borrowing required. The strategy recognised that investments being those with: strong tenants; a minimum 10-year unexpired lease; fully let and a good quality building, are likely to generate lower yields, whereas shorter term tenancies in older premises, for example, provide a higher yield.

7.3 The accepted purchase price is within the parameters of the Council’s adopted Capital Strategy, and initially will be financed directly from internal cash balances with minimum revenue provision applied in line with agreed policy. As laid out in the Capital Strategy, if full Capital Programme delivery takes place in 2022/23, then

external borrowing may be required to support the financing of the Capital Programme as a whole.

- 7.4 The additional income to be receivable from rent supports the delivery of the Council's Medium Term Financial Plan.

## **8. CRIME & DISORDER IMPLICATIONS**

- 8.1 None

## **9. ENVIRONMENTAL IMPLICATIONS**

- 9.1 Detailed in 4. EXEMPT APPENDIX 1

## **10. EQUALITY & DIVERSITY IMPLICATIONS**

- 10.1 None

## **11. INVESTMENT PANEL COMMENTS**

- 11.1 The Panel fully supports this purchase, which is in the district and will promote a more attractive and vibrant high street, support local employment opportunities and will benefit other local businesses and economic activity.

## **12. PORTFOLIO HOLDER COMMENTS**

- 12.1 From the outset of its commercial property strategy this council has been clear about its objective to support the economy within the district as well as providing an income to help finance the delivery of services to our residents.

- 12.2 I am delighted that the proposal set out within this report is on course to fulfil those objectives and will contribute to the vibrancy and viability of one of our major town centres.

### **For further information contact:**

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### **Background Papers:**

**Asset Investment Strategy** (February 2017)