

Resources and Transformation Overview and Scrutiny Panel

Commercial and Residential Report July 2023/24

July 2024

Summary areas

- Commercial Property report 2023/24
 - Aims and Objectives
 - Governance
 - Overview of 2023/24
 - Investment and Income Summary
- Residential Property Company report 2023/24
 - Aims and Objectives
 - Structure and Governance
 - Overview of 2023/24
 - Investment and Income Summary
- Summary and Panel Recommendation



Commercial Property – aims and objectives

- To acquire commercial property within the District
- To develop commercial property within the District
- To promote the local economy and secure broader economic development benefits and to make a return
- Original portfolio fund of £30M financed from internal cash and reserves
- Council approved (12 Dec 2022) a revised and updated asset investment strategy with a further £20M available financed from internal cash and reserves and supplemental borrowing (Public Works Loan Board) when required



Commercial Property – governance

- The Commercial Property Panel (CPP) comprises the Chief Executive, Strategic Director Corporate Resource and Transformation (Chief Finance Officer), Monitoring Officer, Portfolio Holder - Finance & Corporate and Chairman of the Resources & Transformation Overview & Scrutiny Panel.
 - CPP meet 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 CPP's remit also includes an overview of operational real estate development



Overview of 2023/24



Platinum Jubilee Business Park

- To the end of March 23, we have secured 9 new tenants, employing in the region of 80 people. The occupiers are a diverse range of businesses ranging from an individual commercial artist to an ICT infrastructure supplier.
- Since Practical Completion of the development in May 23, we have been working with our tenants and contractor to progress the snagging, which is now close to completion.
- Agreed the final contract sum with our contractor Amiri.
- Annual Income generation currently £488,000 per annum.

Salisbury Road Arcade - £150k refurb

- Appointed a professional team and progressed a redesign of the arcade.
- Planning application was submitted in March and secured in June 24
- Currently out to tender. Refurb expect to complete by end of 2024

Queensway

- Tender process completed for undertaking the dilapidation works. Contractor due to start imminently and conclude by early 2025.

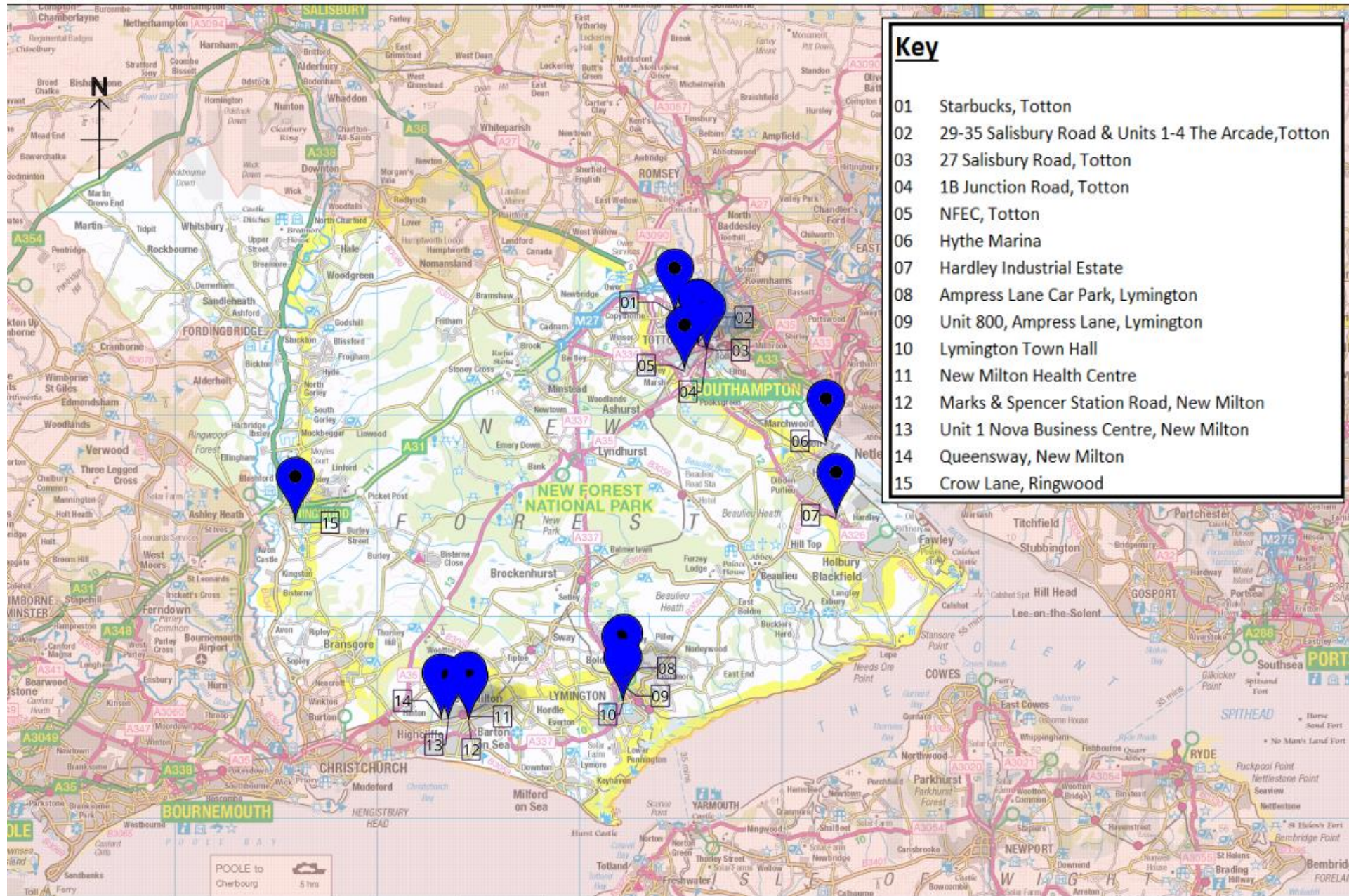
1B Junction Road – new letting secured to a local tenant at a rent of £12,500 per annum.

Commercial Property – investment summary



	Existing Employment Site £M's	Development Site (Platinum Jubilee) £M's	Total £M's
2017/18	2.20	-	2.20
2018/19	0.25	-	0.25
2019/20	2.53	2.25	4.78
2020/21	3.26	0.17	3.43
2021/22	3.27	2.53	5.80
2022/23	7.75	5.01	12.76
2023/24	0	0.11	0
Total	19.26	10.07	29.23

Commercial Property - locations



Commercial Property – net income summary



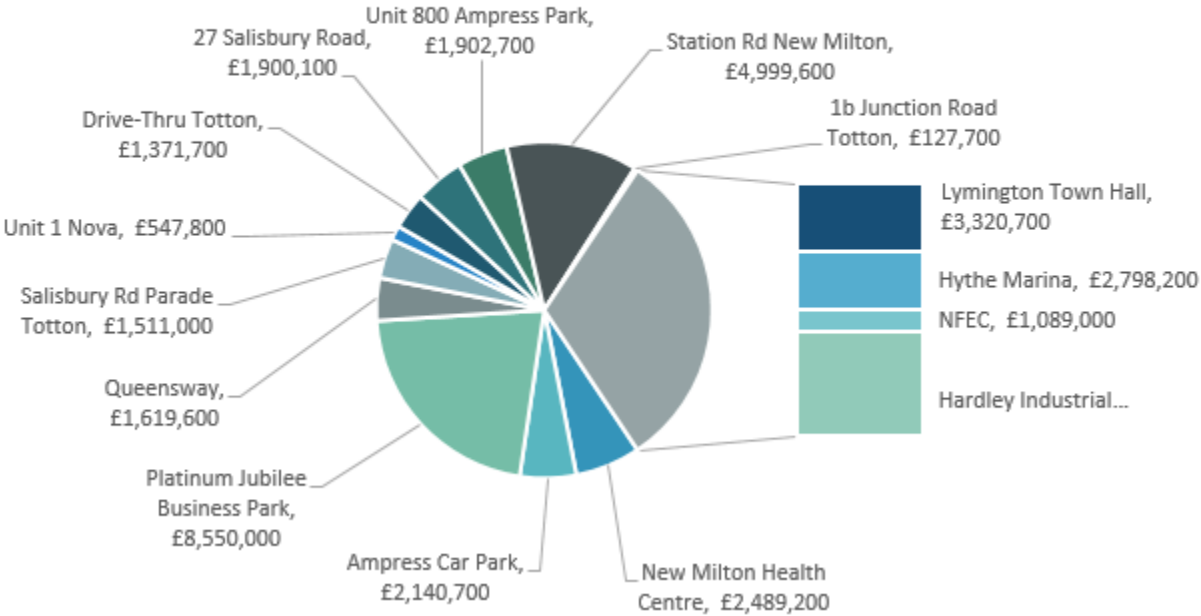
The Medium Term Financial Plan allows for the net income (after costs and MRP) from investments made to date, and a target based on additional net income to be achieved over the next 2 financial years.

Annual Budget	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's
Within General Fund Budget	-100	-62	-166	-165	-470	-375	
Forecast Assumption in MTFP							-200
TOTAL CUMULATIVE	-100	-162	-328	-493	-963	-1,338	-1,538

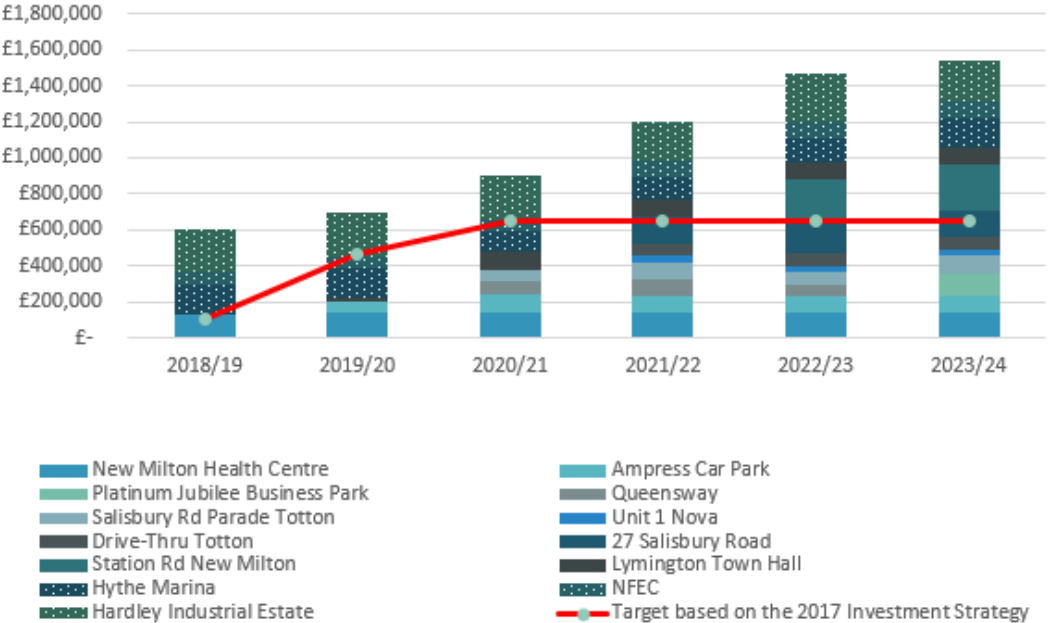
Commercial Financial Dashboard – balance sheet value and operating income – March 2024



**Balance Sheet Value at 31 March 2024
(All Investment Properties)**



**Operating Income
(All Investment Properties)**



- New Milton Health Centre
- Ampress Car Park
- Platinum Jubilee Business Park
- Queensway
- Salisbury Rd Parade Totton
- Unit 1 Nova
- Drive-Thru Totton
- 27 Salisbury Road
- Station Rd New Milton
- Lymington Town Hall
- Hythe Marina
- NFEC
- Hardley Industrial Estate
- Target based on the 2017 Investment Strategy

Financial Dashboard – annual rate of return



Property	Purchase price	Balance Sheet Value at 31/03/24	Net Income 2023/24	Annual Rate of Return at 31/03/24
Hythe Marina		2,798,200	164,963	5.90%
New Forest Enterprise Centre		1,089,000	89,260	8.20%
Hardley Industrial Estate		5,137,800	227,291	4.42%
Lymington Town Hall		3,320,700	96,590	2.91%
		12,345,700	578,103	4.68%
<u>2017 Investment Strategy</u>				
New Milton Health Centre	2,100,000	2,489,200	137,200	5.51%
Ampress Car Park, Lymington	2,100,000	2,140,700	96,752	4.52%
The Parade, Salisbury Road, Totton	1,450,000	1,511,000	95,806	6.34%
Unit 1 Nova Business Park, New Milton	530,000	547,800	34,949	6.38%
Drive-Thru, Salisbury Rd, Totton	1,245,429	1,371,700	66,310	4.83%
27 Salisbury Road, Totton	1,850,000	1,900,100	152,463	8.02%
85 Station Road, New Milton	5,100,000	4,999,600	249,752	5.00%
Unit 800 Ampress Park, Lymington	1,971,000	1,902,700	94,650	4.97%
	16,346,429	16,862,800	927,882	5.50%
Platinum Jubilee Business Park *	10,073,622	8,550,000	488,000	5.71%
Queensway, New Milton (vacant in 23/24)	1,100,000	1,619,600	-	
1b Junction Road, Totton (vacant in 23/24)	235,000	127,700	-	
	11,408,622	10,297,300	488,000	

*projected annualised income for let units

Purchase price excludes fees

Appletree Property – 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
- £10M in the pot, financed by NFDC through equity (up to 40%) and loans at a commercial rate of interest
- Loans made by NFDC to Appletree Property are secured by legal charges
- At present a £8M funding tranche has been 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
- Company offers tenancies typically 7-12 months.

Appletree Property – structure and governance



- Appletree Property Holdings Limited is a private limited holding company whose sole shareholder is NFDC.
- The company has 2 subsidiaries, Appletree Property Lettings Limited and Appletree Residential Developments Limited.
- The Board comprises 4 Directors - 2 Officers and 2 Members, the Chairman being Cllr Alan O’Sullivan.
- Board meetings are held about every 3 months, considering in particular the Property Manager’s business update report to the Board.
- the Annual General Meeting is held in October each year, including the annual presentation to the shareholder.
- The Company’s annual accounts are prepared by external accountants.
- The Company has no employees, The Council’s Property Manager is the day to day manager of the lettings business, supported by the Council’s Property Management Officer, all reporting to the Service Manager, Estates & Valuation and through to the Board.

Appletree Property Holdings Limited

What we did in 23/24

Acquisitions

- Acquisitions programme paused since June 2023 due to interest rate rises

Lettings

- 6 re-lets, providing good quality homes for 14 people with a local connection
- Void times for re-lets averaged 57 days (increased from previous year's average of 26 days due to defects work required at a new build property before re-let)

Finance

- Rental income increased to £240,108pa (as at 31/03/24). Rents increased by £6,300pa from re-lets
- Board of Directors agreed for rental increase of 5% to be applied to existing tenants in 2024



Appletree Property Holdings Limited

Investment Activity and Steady State Annual Rent 19/20 to 23/24

Year of purchase	Acquisitions	Total Cost £	Monthly Rent £'s	Steady State Annual Rent £
19/20	2	505,975	2,290	27,480
20/21	5	1,566,354	6,130	73,560
21/22	5	1,521,885	5,854	70,248
22/23	4	1,481,654	5,735	68,820
TOTAL	16	5,075,869	20,009	240,108

Appletree Property Holdings Limited

Return to NFDC 19/20 to 23/24



Year	Equity £	Debt £	Interest Return £ (full year)	Mgmt Fee (@6%) £	Return on overall investment %
19/20	201,700	304,275	16,735	1,577	3.62
20/21	342,600	1,223,754	59,352	4,414	4.07
21/22	376,600	1,145,285	57,763	4,079	4.06
22/23	441,800	1,039,855	61,101	4,129	4.40
TOTAL	1,362,700	3,713,169	194,951	14,000	4.12

No new acquisitions during 23/24 so no additional 23/24 row

Appletree Property Holdings Limited

Vacancy Periods



Acquisitions		
Year	No of Properties acquired	Average Void Periods (days) per year
19/20	2	68
20/21	5	82
21/22	5	85
22/23	4	125
23/24	0	n/a

Re Lettings		
Year	No of Properties relet	Average Void Periods (days)
21/22	2	47
22/23	6	26
23/24	6	57

No new acquisitions during 23/24

Summary and Recommendations



Commercial Property

- £29.22m commercial property spent to acquire or construct in line with strategy
- Properties acquired all within the District helping to sustain local employment viability and vitality
- Income yield is tracking expectations, with net income ahead of strategy due to being fully internally funded to date
- Platinum Jubilee Business Park has been completed with estimated 150-200 direct jobs being supported once fully let
- Further commercial property investments presently “on pause” save for exceptional opportunities
- **RECOMMENDATION – Note the annual update and provide any feedback**

Appletree Property Holdings

- Presently approval has been given for £8 million of the £10 million pot to be invested in the project
- Opportunities are being considered but still unlikely to meet required returns
- Expenditure to date is £5,075,869.
- Income yield in line with strategy forecast
- **RECOMMENDATION – Note the annual update and provide any feedback**