

**Agenda Item No:** 8

**Report to:** Cabinet

**Date:** 28<sup>th</sup> October 2021

**Report Title:** Corporate Property Performance Annual Report 2020/21

**Report Author:** David Kemp Estates Manager

**Portfolio Holder:** Cllr Illife, Portfolio Holder for Corporate Property and Projects.

**Summary:** The revenue generated by the Council's corporate property portfolio contributes significantly to the Council's income. The income generated for the financial year ending March 2021 is shown in the Corporate Property Income Schedule attached at Appendix 1.

This report provides a summary of how our main commercial assets are performing and the work the Council is undertaking to improve or maintain such performance

**Key Decision:** No

**Affected Wards:** None specifically

**Recommendation:** That Cabinet is asked to:

- a) note the revenue performance of the Council's corporate property portfolio during the financial year 2010/2021 as provided for in the Corporate Property Income Schedule attached at Appendix 1 and;
- b) note the current position with a major commercial assets particularly in light of the impacts of the coronavirus pandemic.

**Policy Overview:** The Council's investment in commercial property and development opportunities is crucial to delivering "*a viable and sustainable replacement for Formula Grant*". This is one of the underpinning parts of the council's Corporate Plan.

**Financial Implications:** The financial implications are detailed in the Corporate Property Income Schedule attached at Appendix 1.

<b>Legal Implications:</b>	None
<b>Other Material Implications:</b>	There are none.
<b>Risk Assessment</b>	<p>The portfolio is risk assessed on a regular basis, prior to any acquisition, potentially with disposals and during the budget monitoring updates.</p> <p>The risks relating to each property are assessed at the time of acquisition and disposal as part of the insurance renewal process and where the tenants change. This report considers an assessment of the potential threats that the coronavirus pandemic may have on income from commercial assets and longer term implications.</p>
<b>Equalities Impact Assessment:</b>	Not applicable.
<b>Appendices:</b>	<b>Appendix 1 – Corporate Property Income Schedule 2020/2021</b>
<b>Background Papers:</b>	Annual reports are presented to Cabinet each September.
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**Report Title:** Corporate Property Performance Annual Report 2020/2021

**Purpose of the Report**

1. This report, which comes to Cabinet annually, reports on the revenue performance of the Council's corporate property portfolio during the financial year 2020-2021. It also advises of the work undertaken to increase and maintain the profitability of the portfolio and investment activity during the past twelve months and going forward.

**Background**

2. In March 2015 the Government produced a four year financial settlement for Local Government, the net effect of which was to reduce revenue support grant funding to zero by 2019/20. The Council, having been aware of the impending changes for some time, had taken steps to mitigate against the impact of this to ensure the uninterrupted delivery of Council services. This approach included the acquisition of property for investment purposes which can bring with it the additional benefits of borough wide regeneration. Disposals of assets have always been a part of the strategy but will now have a greater focus in assisting to replenish capital reserves.

**Financial Implications**

3. The income generated from the Council's corporate property portfolio during the period April 2020 to March 2021 is shown in the Corporate Property Income Schedule attached at Appendix 1 and has been reported previously in the council's end of year outturn. The return is calculated in respect of the historical cost of the asset (the purchase price). The surplus for this period (before internal recharges) is approximately £1.9m on a total income of approximately £5.0m.
4. The surplus for 2020-2021 is approximately £500k lower than 2019/2020. This decrease has primarily been caused by a decrease in income from Elwick Place along with increased costs at a number of other sites.
5. Contained within the Corporate Property Income Schedule attached at Appendix 1 "rent income from general fund" distinguishes the rents collected from third parties to those rents charged to other Council services. Internal recharges are overheads and expenses apportioned pro-rata to each asset. The inclusion of internal recharges results in a more accurate calculation of return on investment.
6. It should also be borne in mind when considering the income generated by the Park Mall shopping centre, that it was not acquired as an investment but rather for regeneration purposes and to reinvigorate the town centre.

**Performance & Asset Update**

7. Over the previous twelve months a number of activities and initiatives have been undertaken with a view to improving the management and profitability of the real estate portfolio including the purchase of a number of new assets. Further details are provided below.

### **Asset Management**

8. The Corporate Property Service will soon have completed the development of the asset management system (Abavus) which will enable the service to manage and maintain its assets using a corporate property shared central asset database. This will assist with identifying asset specific compliance and condition assessments together with efficient and consistent property management and reporting.
9. Abavus is a multi-channel, modular and fully configurable platform currently used by other services also. This system will provide readily accessible information on assets such as basic property data and attributes, safety related information such as statutory compliance data as well as documentation and plans related to assets.
10. The garage commercialisation strategy has been developed and is now being implemented. Several garage blocks have been auctioned off with more to follow. The capital receipts from these sales will be invested in remaining garage block areas and will see improvement works such as refurbishment, demolition and rebuild where appropriate. Decisions as to which options will be implemented have been derived from previous condition surveys. As part of the digitalisation agenda the service has also introduced the online 'estate agents' which customers wishing to rent a garage can use to express their interest thus reducing time consuming record keeping.
11. Corporate Property has embarked on a programme to undertake stock condition surveys across its portfolio of assets to order to begin the development and implementation of a planned maintenance programme. This will reduce the ratio of responsive repairs to planned works in line with the Asset Management Strategy which will be reviewed in coming months.
12. Whilst the number of property acquisitions is increasing there are considerable maintenance liabilities which will be require funding over the coming years and decisions will need to be made on how these will be prioritised.

### **Elwick Place**

13. In December 2018 the council took possession of Elwick Place, a new retail and leisure development on Elwick Road. Built on the site of the old Ashford market the development is intended to grow the night time economy in Ashford and become a destination in its own right.

14. The development comprises of a hotel and cinema with the two anchor tenants of Travelodge and Picturehouse and 10 retail units.
15. The 2020/2021 financial year has seen the second full year of operation since the council took possession. However the pandemic led to significant disruption across the site with all units being forced to close at the outset of lockdown. Macknade were able to offer a food collection service as the first lockdown proceeded but were still significantly impacted by reduced trade during this period.
16. Travelodge and Picturehouse were even more affected by the pandemic with both closing throughout the whole year and not re-opening until May 2021. The impact on Travelodge was so significant that they were forced into a Company Voluntary Arrangement (“CVA”) under Part 1 of the Insolvency Act 1986. The CVA was approved by shareholders and creditors in June 2021. Under the terms of the CVA Travelodge have received a phased rent concession covering the period from the start of lockdown until the end of 2021 at which point full rent payment will recommence.
17. Picturehouse and its parent company Cineworld faced very similar issues as Travelodge. Whilst not undertaking a formal CVA they followed a similar procedure, making concession proposals to all their landlords. Following negotiations with Picturehouse agreement has been reached and the necessary legal agreement to enforce the agreement is being drawn up.
18. However, against this background, the council and its development partner, Stanhope plc, have been in negotiations with a number of parties interested in taking up leases within the development. Whilst the pandemic has slowed down discussions it is pleasing to be able to report that leases on all the units at Elwick place have now been agreed.
19. Units 1 to 5, 7c and 8 are open and trading whilst fit-out work continues with units 7a and 7b. Whilst the retail sector was already suffering significant challenges before the pandemic, with the pandemic and lockdown the retail sector has suffered even further. However it is hoped that over the next few years the new tenants at Elwick Place will be able to successfully establish themselves and help revitalise that part of the town centre.

### **International House**

20. International House continues to perform well and is currently operating with an occupancy level of approximately 95%, a very similar level to the previous year.
21. However, as reported last year, the office sector has not been immune to the pandemic. Now that the previous restrictions have been lifted companies are reviewing their use of office space and whether they can downsize or even stop using fixed office space due to the perceived success of homeworking. There are a number of tenants reviewing their office occupancy at International House and it is expected that we will see

a number of tenants wanting to reduce the amount of office space they utilise or leave altogether.

22. Whilst the above is undesirable it is possible that there will be some positive outcomes from companies reviewing their office usage. Those companies based in or around London may decide that they no longer need a permanent presence (or such a large one) in London and we could see companies moving from London and creating regional hubs which provide office space at a reduced cost but at the same time easy access to London.
23. With Ashford's location and transportation links into London it is possible that we will see an increase in interest in office space over the next few years which may off-set any reduction in office utilisation at International House.

### **Park Mall**

24. The council purchased the long term leasehold of Park Mall in 2015. The purchase was made to support the council's long term aspirations to develop and regenerate the town centre and, as such, was not made as a commercial investment. At the time of purchase approximately 30% of the units were vacant with those that were occupied being predominately charity shops.
25. Since the purchase the council has worked hard to develop the shopping centre and encourage traders to move to it. There is only one charity shop now in the centre and the occupancy rate for Park Mall is approximately 80%. However, as with Elwick Place, Park Mall was significantly impacted by the pandemic.
26. The majority of tenants at Park Mall are small independents and whilst they were able to take advantage of government support as well as rent concessions from the council a number of tenants have had to endure long periods of closure leading to a significant loss in income. This has inevitably led to rent and service charge arrears growing.
27. The council has and is working proactively with tenants in an effort to support them however it is not clear at this time whether all our tenants will be able to continue trading in the short to medium term.

### **Commercial Quarter**

28. In 2016 the council reached agreement with Quinn Estates to lease approximately 18,000 square feet of office space across two floors in the new Connect 38 office development on Dover Place. The lease of the two floors helped improve the viability of the scheme and helped ensure the delivery of the first phase of the council's ambitious plans to develop a commercial quarter near to the International Station, one of the council's big 8 projects.

29. By the end of 2020-2021 we had successfully let approximately 14,200 square feet leaving just 3,800 square feet left available to let. However during the pandemic we have had only a few enquires none of which have moved forward at this time.

## **Garages**

30. The Council's garage holding of approximately 1500 garages makes a significant contribution towards the Council's income each year. The garage commercialisation strategy has been developed and is now being implemented. Several garage blocks have been auctioned off with more to follow. The capital receipts from these sales will be invested in remaining garage block areas and will see improvement works such as refurbishment, demolition and rebuild where appropriate. Decisions as to which options will be implemented have been derived from previous condition surveys.
31. As part of the digitalisation agenda the service has also introduced the online 'estate agents' which customers wishing to rent a garage can use to express their interest thus reducing time consuming record keeping. As part of the garage commercialisation strategy the council has been undertaking structural and asbestos surveys to feed into the planned maintenance strategy that is being implemented.
32. As a result of this the council has been able to introduce more targeted maintenance interventions focused on extending the life of the better performing garage areas which should secure longer term revenue.

## **Carlton Business Park**

33. Carlton Business Park was completed and passed into council ownership towards the end of 2018. Lettings of the units had been slower than originally anticipated due to a mixture of concerns surrounding Brexit and the sites operating hours. However since the confirmation that the UK would be leaving the EU there has been a significant rise in market interest and resulting leases.
34. During the financial year 2020/2021 five new leases were completed to add to the units already occupied. Since then a further four leases have been completed and Heads of Terms have been agreed on a further two units and are currently going through the legal team for completion.
35. In addition to leasing activity the council has sold the freehold interest in two units and are in legal discussions for the sale of another with Heads of Terms almost agreed for the sale of a fourth unit.
36. Taking into account units sold and those let on commercial terms the occupancy rate at Carlton Business Park is now approximately 61%.

## Risk Assessment

37. The portfolio is risk assessed on a regular basis through internal monthly reviews and the quarterly budget monitoring cycle. However, as has been mentioned throughout the report, the council could still face pressures during the financial year due to the ongoing impact of the coronavirus pandemic and its impact on both the retail and office market sectors. Currently the industrial warehouse market has shown resilience in the face of the pandemic.
38. In order to support our tenants throughout the Council's Property Portfolio, the Economic, Regeneration and Investment Board ("ERIB") agreed that officers should consider how the council could support tenants facing financial difficulties due the pandemic. The council has received a number of request from tenants for support and these have been considered by ERIB alongside regular updates on the impact of the pandemic.

## Conclusion

39. The Council continues to achieve significant income from its commercial property portfolio that helps to support the council's budget and the services it provides. However, as has been noted in this report, the impact of the coronavirus pandemic has had an impact on council revenues from its commercial assets and will lead to companies reviewing their use of office space.

## Portfolio Holder's Views

40. *"I commend the hard work and efforts of officers in their management of the Council's corporate property portfolio through what has been an unprecedented year. The portfolio is varied and includes many complexities. Officers have done a sterling job managing the Council's assets and tenants throughout the last 12 months. The income the Council achieves through the portfolio is significant to supporting the Council's budget and services it provides to residents. The coronavirus pandemic has had an impact on income from some the Council's commercial assets. Despite this, the Council continues to achieve significant income from the commercial property portfolio, although there has been a drop of approximately £500,000 in surplus during 2020-21 compared to 2019-20. Given the impact the pandemic has had on tenants, the decrease in income at some Council sites and an increase in costs at others, the Department and officers have worked hard to ensure the drop in surplus has been as limited as possible".*

Cllr Nathan Iliffe.

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## Appendix 1 - Corporate Property Income Schedule 2020/2021

2020/21 Corporate Property Income Schedule	Commercial Quarter	Court Wurtin	*Industrial Estates	*Garages	Carlton Road	Elwick Place	Stanhope Shops	Wilkinson 1 Park Mall	Park Mall	*Bockhanger Com Props & Centre	*Brookfield Com Prop	International House	Matalan	*Civic Centre	Tenterden Gateway	Sustainable Energy Project	Minor Land Holdings	Conningbrook Barn & Cottage	138 Beaver Road/140 Beaver Lane	*Minor Holdings	Total
Total income	452,074	24,620	465,331	631,275	47,202	77,275	97,034	314,000	434,111	34,916	49,730	1,640,304	365,000	115,066	49,470	58,081	19,837	38,286	5,093	63,216	4,918,704
Total expenditure	(415,582)	0	(22,176)	(179,772)	(188,577)	(197,723)	(1,840)	0	(591,338)	590	(730)	(761,286)	0	(576,621)	(74,565)	(262)	(38,512)	(1,119)	84	(39,547)	(3,049,428)
<b>Surplus/Deficit</b>	<b>36,492</b>	<b>24,620</b>	<b>443,155</b>	<b>451,502</b>	<b>(141,375)</b>	<b>(120,447)</b>	<b>95,194</b>	<b>314,000</b>	<b>(157,226)</b>	<b>35,506</b>	<b>49,000</b>	<b>879,018</b>	<b>365,000</b>	<b>(461,555)</b>	<b>(25,095)</b>	<b>57,819</b>	<b>(18,675)</b>	<b>37,167</b>	<b>5,177</b>	<b>23,669</b>	<b>1,869,276</b>
Historical Cost	0	0	2,780,000	2,820,200	7,128,954	36,950,639	1,032,000	3,560,000	823,500	217,000	467,200	7,900,000	5,030,939	202,900	0	185,000	0	0	0	1,045,700	
Return	0.0%	0.0%	15.9%	16.0%	(2.0%)	(0.3%)	9.2%	8.8%	(19.1%)	16.4%	10.5%	11.1%	7.3%	(227.5%)	0.0%	31.3%	0.0%	0.0%	0.0%	2.3%	
Less internal recharges	(982)	(46)	(115,493)	(16,944)	(3,366)	(2,960)	(163)	0	(62,660)	(7,547)	(26,927)	(66,836)	(12)	565,726	(8,756)	(332)	(10,978)	(16,184)	0	(27,162)	225,540
Rent income form GF	0	0	0	0	56,293**	0	0	0	24,000	0	0	0	0	0	0	0	0	0	0	0	80,293
<b>Net income after recharges</b>	<b>35,510</b>	<b>24,574</b>	<b>327,662</b>	<b>434,558</b>	<b>(88,449)</b>	<b>(123,408)</b>	<b>95,031</b>	<b>314,000</b>	<b>(195,886)</b>	<b>27,959</b>	<b>22,073</b>	<b>812,182</b>	<b>364,988</b>	<b>104,172</b>	<b>(33,851)</b>	<b>57,488</b>	<b>(29,653)</b>	<b>20,983</b>	<b>5,177</b>	<b>(3,493)</b>	<b>2,175,109</b>
Return on investment including recharges	0.0%	0.0%	11.8%	15.4%	(1.2%)	(0.3%)	9.2%	8.8%	(23.8%)	12.9%	4.7%	10.3%	7.3%	51.3%	0.0%	31.1%	0.0%	0.0%	0.0%	(0.3%)	
* Based on 2007 Historical value																					
Civic Centre costs based on 15% of overall costs																					
** internal income from Aspire and ABC Electrical at Carlton Road																					