

Agenda Item No:

Report To: Cabinet

Date of Meeting: 19th October 2023

Report Title: Property Annual Performance Report 2022/23

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Portfolio Holder: Cllr. Simon Betty

Portfolio Holder for: Portfolio Holder for Economic Growth & Investment



Summary: This report includes market update, revenue, and asset performance during the financial year 2022-2023, as well as the ongoing activities by Property Officers to ensure positive progress for the next financial year and onwards.

The report identifies progress on the delivery of the Corporate Asset Management Strategy 2020-2024 and provides a summary of how the council's main commercial assets are performing. As stated in the Strategy, the key features for good property asset management include:

- Good planning and programming;
- Efficient and effective delivery;
- Explicit review of performance aimed at operational and financial excellence;
- Appropriate organisation, structure, capacity, capability and resource, both corporately and in the wider Property and Projects service;
- Leadership from the top, empowering staff across the organisation to provide good property asset management;
- Communication across the organisation to ensure that property supports services, that there is clarity of the message, and that good property asset management practices are employed.

To ensure that the council achieves its aims through its property portfolio, the following objectives are followed:

- Invest prudently
- Achieve long-term value for money (income generation and cost efficiency)
- Ensure assets are fit for purpose and are statutorily compliant
- Support the Council's Net Zero Carbon Objectives

Achievements of 2022-23 include, but not limited to:

- Income revenue of c. £ 4.3 million
- Land enquiries Capital Receipts and professional fees at £119,000
- Garage disposals achieved c. £380,000 in capital receipts
- Commercial Asset occupancy rating of useable floor space has increased from 82% to 92% to date (October 2023) and therefore reduction in associated void costs.
- Revenue collected at 94%
- Outstanding rent debt at a manageable £273,500
- 33 vacant units/suites with 20 under negotiation/planned occupancy and the remaining is actively being marketed
- Introduction of Green Leases
- RICS standards adopted for best practice
- Services being brought in-house therefore generating additional revenue as well as reduction in outsourced costs

Key Decision: NO

Significantly Affected Wards: None

Recommendations: **The Cabinet is recommended to:-**

- I. Note the performance of the Council's corporate property portfolio during the financial year 2022/2023 as set out in the Corporate Property Income Schedule at Appendix 1**
- II. Note external factors affecting the commercial market conditions**
- III. Continue to support the implementation of new processes and procedures in line with 'Best Practice' suggested by the Royal Institution of Chartered Surveyors (RICS) in particular Green Leases**
- IV. Authorise the Solicitor to the Council and Monitoring Officer to negotiate, finalise and complete all necessary legal agreements and other documents to give effect to the above.**

Policy Overview: Corporate Asset Management Strategy 2020-2024

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

Legal Implications: The Report sets out the Council's approach to managing assets, monitoring performance and managing risk. It also identifies a commitment to environmental issues through the introduction of green lease clauses. This is important in ensuring compliance with minimum energy efficiency standards (MEES) as well as legislation imposing energy efficiency requirements in connection with new and existing buildings.

Text agreed by Mildred Pountney, Principal Solicitor (Property and Projects) on 3rd October 2023

Equalities Impact Assessment:	Not applicable because this is a monitoring report.
Data Protection Impact Assessment:	Not applicable.
Risk Assessment (Risk Appetite Statement):	The risks relating to each property decision are assessed in the context of every transaction. Costs and benefits are considered, with opportunities balanced against potential consequences. All decisions are made in line with the agreed Corporate appetite for risk.
Sustainability Implications:	This is reviewed, in line with ABC's Corporate Plan, as part of the wider Asset Management Strategy for the whole portfolio and when decisions are made to acquire or dispose of assets.
Other Material Implications:	None
Exempt from Publication:	<p>YES</p> <p>Appendix 1 – EXEMPT - Corporate Property Income Schedule 2022/2023</p> <p>Appendix 2 – EXEMPT – Park Mall and Elwick Place service charge savings</p> <p>Not For Publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.] and the public interest in maintaining the exemption outweighs the public interest in disclosing the information</p>
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Report Title:

Introduction and Background

1. The purpose of this report is to provide Cabinet with an update on the annual progress of the council's non-residential and non-operational asset portfolio. It includes details of proposed amendments to the current action plan and seeks approval to instigate such changes. The report includes a market update, and revenue, and asset performance during the financial year 2022-2023, as well as the ongoing activities by Estates Officers to ensure continued progression for the next financial year and onwards.
2. The Council holds a diverse portfolio and continues to grow with more recent purchases. The 'Asset Management Strategy, 2020-2024' is currently being reviewed to include greater focus on improving the management with sustainability. Estates Services continue to follow the guidance and standards set by the Royal Institution of Chartered Surveyors ("RICS"). These include Service Charge procedures, managing vacant units, marketing lettable space, and managing occupied premises. Processes and procedures are regularly monitored and reviewed in order to meet best practice and reduce the risk of unnecessary costs, claims, complaints and damages. These include ensuring that tenants carry out their liabilities in accordance with their lease obligations such as repair, maintenance during the lease term and dilapidations at the end of their lease. Client care is also a priority and as such routine face-to-face and group tenant liaison meetings are arranged.

Achievements

3. Estates recognise their important contribution in supporting the Council's environmental commitments. Estates are introducing and negotiating green lease clauses to ensure that the Council has the ability to exercise their rights, if and when required, as well as work collaboratively with tenants. Green Leases ensure that the Council's assets are managed in an environmentally sustainable way seeking to reduce and minimise carbon footprint and move away from negative environmental impacts. The Council are evolving by adopting new approaches in line with upcoming statutory changes. It is also important for the Council to lead by example and reaffirm its strong social and environmental responsibilities.
4. Following a review of whether outsourced services are fit for purpose and value for money, the Property Management services of Elwick Place and Park Mall have been brought in-house. An additional (management) revenue is generated to the Council and the financial savings achieved benefit both the Council and their tenants. This also allows the opportunity to further review the terms of the existing service contracts. These benefits are outlined in **Appendix 2**. The Council is also able to work more closely with its tenants improving services and relationships. This will reduce potential risk of increasing vacancies and complaints being received.

5. Subsequent to the recommendations that were approved following last year's Annual Report, Estates have introduced Legal and Professional fees and non-refundable deposits being paid by tenants. As a result, Estates have generated income of £119,000 during 2022/23 which consists of capital receipts also for land enquiries. More importantly it has removed the non-productive enquiries which reduce unnecessary pressure on limited resources.

6. Performance

- There are a total of 393 non-residential assets (not including Garages) under the General Fund **Appendix 1** provides a detailed property list.
- There are currently 33 vacant units/suites considered to be lettable space and are actively being marketed both in-house and/or with Estate Agents.
- 20 of the vacant units/suites have either plans to be occupied, new lettings are being negotiated and the remaining vacant units/suites are actively being marketed using both local and national agents to ensure as much marketing channels are used and target as many audience by advertising on both local and national marketing platforms.
- Introduction of Green Leases to strengthen its social and environmental responsibilities while still being commercially aware
- The remainder of assets are let out under a form of legal agreement
- The council achieved a total revenue of c. £ 4.3 million in the year 2022-2023, as shown in **Appendix 1**.
- The predicted revenue for the year 2023-2024 is c. £4.2 million. This accounts for rent free periods on new lease agreements and also due to loss of large tenants such as Wilkos.
- The outstanding rent debt for 2022/23 was £273,500 (this doesn't include arrears for previous years that are being proactively managed)
- Percentage of income collected stands at 94% as of the end of Q4 2022-23
- Service charges will be demanded, and works will be carried out on communal areas where there are multiple tenants/occupiers
- The property portfolio is worth more than £134 million based on Wilks Head & Eve LLP, 'Summary of Value' for 2022-2023
- The KPIs that are currently measurable indicate the following performance: -
 - Less vacant units
 - Increased revenue, to include capital receipts, management fees and surveyors fees
 - debts/arrears owing to the Council continue to be manageable
 - Savings identified
 - Additional revenue identified

7. In order to effectively manage and monitor the weaknesses, successes and achievements of the property portfolio key performance indicators (KPI) are monitored and reviewed annually under Estates own KPI and processes which reflect the information captured in **Appendix 1**. Estates performance indicators clearly identify areas of success and areas that need attention. The KPI results are reviewed and agreed, to improve the management and value of the Council's assets.

Market Conditions

8. Retail

Retail demand on sold material goods is low but there is a consistent high demand for experiential leisure venues such as the Food, Beverage, Leisure, and Beauty sector over the last quarter. This is evident from the interest received for Elwick Place, Park Mall and other parades of shops outside of the Town Centre. There are currently 5 vacant units within Elwick Place and Estates have received offers for 4 of these units. Despite the additional challenges of attracting new tenants on a short lease, Park Mall is still popular with independent and new businesses. Retail units outside of the town centre, such as our tertiary shop parades are fully occupied. Estates observation is supported by Ashford based commercial Chartered Surveyors Stafford Perkins who advise that, *'the local Retail Market, whilst still being fairly buoyant in respect of independents taking the smaller High Street units that have a rateable value around the threshold of Small Business Rate Relief is still reasonably strong, unfortunately the covenant strength of the majority of the prospective occupiers is not that great. The majority of the proposed uses is for instant gratification products that cannot be obtained via the internet for example tattoos, nail parlours, coffee shops and vaping products. There is still interest from some of the national chains for the larger High Street properties that are capable of fitting their branding requirements; however, these are frequently catered for in the main high street and County Square scheme. There has also been an increase in multicultural convenient stores.* Estates have sought to mitigate the risk against poor covenant strength by introducing higher rental deposits and seeking guarantors where possible.

9. Office

Office demand is lower than the pre-Covid-19 levels and at the end of 2022 enquiries were only coming forward on high spec (Grade A Class) office accommodation such as Commercial Quarter where the Council leases two floors. Commercial Quarter was 79% let in 2022/23, it is currently 95% let with the potential to reach 100% in due course if current negotiations on the remaining suite prove successful. There is a high turnover of tenants and a change of demise areas to meet tenant's changing demands. The Council are currently conducting a feasibility study to ascertain whether the under-utilised Civic Centre could be suitably relocated to vacant suites within International House to maximise occupancy benefit from irrecoverable service charge outgoings. Stafford Perkins have also advised that the Office Market is now picking up. *'The majority of private sector employers are seeking to return to the office'. 'Having received very few office enquiries throughout the two years of the pandemic, several offices are now under offer. Much of the interest is for suites under 2,000 to 3,000 sq.ft. Demand for office space still revolves around quality (Grade A Class) to include good broadband connectivity, car parking ratios and high office specification'.*

10. Industrial

Industrial demand remains strong within the Borough including the council owned Ellingham Industrial Estate and Carlton Road Business Park. Both locations are regularly fully let. New lettings have been agreed across the portfolio and vacant units are filled relatively quickly. Industrial and logistic/distribution sectors have seen a relative upturn in activity and strengthening rents nationally. Stafford Perkins comment on the Industrial market, *'continues to defy normal expectations, with rents for smaller new units. The larger units achieve lesser sums but expectations remain high. The lack of significant new stock means better specified older stock is attracting strong interest and achieving good rents. Freehold figures for new units have been exceeding £200 per sq.ft. by considerable margins, which is having the effect of increasing the value of older stock as well. At the moment the increase in interest rates only appears to be slowing the market for parties borrowing; self-financing purchasers are still paying full figures'*. As a result of the stable demand. Estates are reviewing existing stock and land with a view to potentially developing additional light industrial units.

11. Garages

The demand for storage remains high and interest for garage units remains consistent. Where garages are surplus, such as in areas of low demand or where the cost of works to bring them up to a lettable standard exceeds the potential revenue benefits, they are considered for disposal mainly through auction. Approximately £380,000 was achieved over the last year in capital receipts which are invested back into the garage blocks in higher demand to maximize revenue and to ensure compliance with regulatory standards. Consideration is also being given to demolishing garages that are in disrepair with the purchase of containers being added to the site for continued rental income for storage.

12. Overview

Estates are proactively working with agents with regards to marketing voids (empty units) and negotiating new lettings. Vacancies have reduced throughout the 2022-23 period and with that, the costs associated with vacant space has also reduced. There is a notable increase in demand for units from start-up businesses and independent operators opening and creating their own brands. However, there is a high level of uncertainty in the market with rising living costs, increased interest rates, and material and labour shortages being the main concern highlighted by interested parties. Following a challenging year in 2022, financial markets have, so far, shown signs of recovery in 2023. However, many of the root causes of recent uncertainty have not gone away, as inflationary pressure, elevated interest rates, mixed macroeconomic signals, and geopolitical concerns all persist. Following the Bank of England's latest interest rate increase on 3 August by 25bps to 5.25%, the chief economist argued tighter monetary policy has started to curb the risks of more persistent inflation becoming embedded in the UK economy.

As a result of this commercial property investment has been quieter throughout the first half of 2023, particularly owing to high interest rates and financing costs coupled with the broader economic uncertainty impacting pricing and activity. From an individual business perspective, rising interest affects turnover, as slower economic activity leads to lower demand for goods or services; businesses will face higher borrowing costs, further eroding their margins. Where businesses are not impacted directly, they may still experience second-hand effects of increased prices of goods from suppliers, which could push inflation higher, further eroding sales. Inevitably this will be adversely affecting many of the Council's portfolio tenants.

13. Estates continue to manage Rent Reviews, New lettings, lease renewals and Disposals. These are negotiated with the aim to achieve 'Market Rent' and 'Market Value'. The Council has a duty to ensure, so far as reasonably possible, that public assets are not sold or otherwise disposed of (including by a lease of 7 years or more) by public authorities at an undervalue without Secretary of State's approval when required. This is made clear under Section 123 of the Local Government Act 1972, which sets out the legal duty to obtain 'best consideration' achievable on the 'open market'. The purpose of this is to ensure that local authorities' sale proceeds reflect market changes and keep rental rates in line with the current values. It should be noted that the Secretary of State has given a general consent which allows disposals at an undervalue to be entered into when, at the time of decision, the decision maker determines that a disposal at up to £2 million less than the best consideration should be entered into because it will contribute to the economic, social or environmental wellbeing of the area – which can take into account value and community benefits, i.e. these can be considered to outweigh the potential financial returns when considering the overall outcome.
14. Much of the day-to-day estates management activities include formalising and reviewing agreements to ensure that they are fit for purpose. This allows the Estates Team to review best usage, alternative uses and identify opportunities to optimise space and value. Such actions include new lettings, restructures and review of lease terms and early lease surrenders. Estates manage contracts and regularly review the quality of services and ensure value for money.
15. The team have been proactively liaising with tenants with arrears to investigate and understand reasons behind the non-payment of rent, service charges and/or insurance rent and to pursue recovery wherever possible. Lease terms are reviewed to ascertain the options available to the council, which may include the use of rent deposits and pursuing guarantors. There are other alternatives to consider, depending upon the tenant's accounts, general market conditions and the current performance of their businesses. Each case needs to be looked at individually but receives the same general approach following our new Debt Recovery Procedures, which complement the process already in place by the Accounts Receivable team.

Proposal

16. N/A

Equalities Impact Assessment

17. None is required as this is a monitoring report.

Consultation Planned or Undertaken

18. N/A

Other Options Considered

19. N/A

Reasons for Supporting Option Recommended

20. N/A

Next Steps in Process

21. N/A

Conclusion

22. The Council continues to achieve significant income from its diverse commercial property portfolio. The Council's forward thinking approach to Green Leases will allow for improved and efficient management of environmental changes and commitments as well as strengthen its social and environmental responsibilities while still being commercially aware. Estates continues to protect the Council's interest through processes and procedures in line with best practice We will continue to ensure best consideration is achieved through Market Value and Market Rent whilst also seeking to support tenants through challenging market periods.

Portfolio Holder's Views

23. **Cllr Simon Betty Portfolio Holder for Economic Growth & Investment**
The UK commercial property sector continues to operate within the context of economic uncertainty, increasing costs of debt, high inflation and corporate demand volatility. It is pleasing that in view of these uncertainties, the Council's non-operational commercial property portfolio has remained largely resilient to these external pressures. The significant income generated from these assets continues to deliver the provision of important services for our residents.

It is good to see that the property management of Park Mall and Elwick Place has been brought back in house. In addition to generating management fee income for this service, it is important to note that Estates have also introduced and promoted professional fees and non-refundable deposits in certain cases to cover officer time which has resulted in additional income of

£119,000 during 2022/23. This initiative has removed the number of non-productive enquiries leading to a reduction in unnecessary pressure on limited resources.

I am extremely pleased that RICS best practice guidelines have been adopted, including the introduction of Green Leases, which has become the market norm for responsible corporate landlords. By adopting these standards, the Council has confirmed its commitment to follow best professional practice in the running of its commercial property portfolio.

Contact and Email

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