

REPORT TO STRATEGIC SCRUTINY COMMITTEE

Date of Meeting: 6th June 2024

Report of: City Surveyor

Title: COMMERCIAL PROPERTY PORTFOLIO REVIEW

Is this a Key Decision?

Scrutiny is a non decision making committee

Is this an Executive or Council Function?

Executive

1. What is the report about?

This report advises on the nature, extent and impact of the Council's commercial property portfolio upon the operation of the City Council and its impact on the local economy.

2. Recommendations:

That the report be noted.

3. Reasons for the recommendation:

The report is for information.

4. What are the resource implications including non financial resources

No resource implications arise from the report

5. What are the legal aspects?

There are no legal aspects to report.

6. Report details:

The Commercial Property portfolio covers assets which are let to third parties (other than housing stock) such as retail units, offices, industrial units, car parks, etc.

The Council's commercial property portfolio has a capital asset value of £98.5 million and produces an annual income of £8,385,000 (2023/24). The

management of these assets is carried out by the Commercial Estates Team within Corporate Property with external expert assistance as and when required.

ROLE OF THE COMMERCIAL PROPERTY PORTFOLIO

Financial

The income produced by the portfolio is critical to the City Council in offsetting the revenue costs of many of its services. It consequently has the effect of minimising the need for raising finance through council taxes and other charges. The portfolio also represents a substantial asset base in terms of capital value which can be used to support the capital programme.

Strategic

Commercial property assets can also perform strategic functions by giving the Council ownership in areas with the potential for urban regeneration and gives a strong ability to reinforce planning powers by way of directing development in these areas. Wider socio-economic objectives of the Council can also be supported by commercial property ownership through strategic influence, control and occupational use where appropriate.

LEADERSHIP

With the commercial property portfolio such a key function the Council must be able to demonstrate value for money in continuing to retain these assets. Arrangements have therefore been put in place to drive improvement in the performance of the commercial property portfolio. However, driving performance improvement in commercial property is a continual and demanding process and leadership is critical in allowing these processes to succeed.

Member responsibility for the commercial property portfolio rests with the Leader of the Council who provides a strong commitment to the strategic vision and setting key required outcomes. This strategy sets out ways in which scrutiny of performance of the commercial property portfolio can also be kept under review. At Senior Management level the Director Finance is responsible for ensuring that the commercial property portfolio is linked to corporate goals and objectives and providing leadership in ensuring proper corporate management business processes are applied to commercial property portfolio management. The City Surveyor is responsible for managing the commercial property portfolio in accordance with the corporate framework and providing leadership in professional property management activities. The Corporate Property Service is established to facilitate this.

SUMMARY OF PORTFOLIO

The Council's extensive commercial property portfolio has been accumulated over many years through compulsory purchase, town clearance in the post-war era and planned and opportunistic acquisitions to support future growth and regeneration. It now comprises the Guildhall Shopping Centre, freehold interests producing ground rents from significant retail schemes in the City Centre (such as Princesshay), occupational rents from shops, offices and industrial properties, estate shops on housing estates and many miscellaneous properties including those let for community purposes. More detailed breakdown showing categories of properties and general management policies is given below.

STRATEGIC AIM AND VISION

The Corporate Property team's strategic aim is to ensure that the commercial property portfolio contributes towards the achievement of the Council's corporate objectives and that the portfolio's performance demonstrates justification for its retention. To do this we are looking to move from the historic legacy of ownership to a more balanced sustainable portfolio to meet the future financial and corporate objective needs of the Authority. This is a process of continual evolution over time.

STRATEGIC OBJECTIVES

The Corporate Property's strategic objectives are to:

Optimise the financial return to the Council both in revenue and capital growth terms; and to
Support the wider corporate objectives, in particular social and physical regeneration, economic development and safeguarding of strategic influence and control.

MANAGEMENT POLICY

Financial

The portfolio is managed in accordance with the Code for Leasing Business Premises England & Wales including Environmental Good Practice to:

Primarily generate income, but with performance being assessed in both income and capital growth terms;
Charge full market rents, unless a specific policy exists that determine otherwise;
Carry out timely lease renewals and rent reviews;
Maximise occupancy through appropriate marketing;
Minimise risk by ensuring tenants have adequate financial standing to meet their obligations;
Minimise rent arrears through timely intervention;
Undertake better planned maintenance based on condition surveys and ensure tenants comply with their obligations;
Regularly consult with tenants regarding user satisfaction;
Ensure all properties have up-to-date asbestos and legionella surveys, electricity and gas safety and energy performance certificates;
Improve performance through securing grant assistance, using property as match-funding in working in partnership with the private and voluntary sectors;
Reduce property outgoings and management costs, particularly through the more effective and efficient use of resources, review of procedures and use of technology;
Measure and improve the performance through the use of appropriate performance indicators.

Corporate Objectives

To:

Use the portfolio strategically to safeguard control and promote the use of land for regeneration, economic housing development and safeguard existing historic buildings and uses; and to

Where appropriate, to support economic development including the creation and protection of employment uses and community organisations through the occupational use of property.

PROPERTY ASSET CATEGORIES AND GENERAL MANAGEMENT POLICIES

Guildhall Shopping Centre

The Centre was acquired recently for the purposes of both ensuring the asset's critical role in the city centre and to generate surplus income that can be used to support city centre regeneration initiatives, most recently, for example, the demolition of the former bus station. The asset is managed by an external company under the direction of the City Surveyor. Recent initiatives such as the introduction of Boom Battle Bar and other occupiers has continued the successful renaissance of the Centre.

Offices (e.g. Senate Court)

These blocks generate significant rental incomes although there has been some challenges in maintaining this in the new world of work emerging since the pandemic. We are open to engagement with current and potential tenants to work with them to deliver the type of accommodation that fits these changing requirements.

Ground Leases - Major Shopping Centres (e.g. Princesshay , Exeter Retail Park)

These generally comprise shopping centres, retail parks or parades where head lessees sub-let the individual shops. Whereas we have seen significant investment in many of these areas in recent years, in some cases areas have fallen into disrepair as a result of a lack of investment by the head lessee. It is likely that if the freehold were to be sold to the head lessee there would be a risk of further deterioration and potentially the need to re-purchase as part of a redevelopment scheme. We do, however, consider propositions to re-gear such leases if the financial package is supported by a redevelopment or refurbishment scheme that will enhance the City.

Substantial investment has been evident in the major shopping centres in the City Centre in recent years. These have served as catalysts for major regeneration of the City Centre and will hopefully improve the financial performance of the City Council's investments in these areas. We are now looking to work with prospective developers to deliver the further redevelopment of the CityPoint site beyond St Sidwell's Point and the new bus station.

Ground Leases - Industrial (e.g. residual holdings on Marsh Barton Trading Estate)

A low rental income is received for most of this portfolio with infrequent rent reviews and an income growth potential limited. Leases are generally held by owner-occupiers who are more likely to wish to invest in the assets. However, funders are reluctant to use leases as collateral for business loans, particularly where unexpired terms are less than 40 years. Where it is no longer considered that there is a need to control the land use and retention is a barrier to economic development and business expansion as high levels of capital receipts can be realised relative to income loss, the Council will consider disposal of the freehold interest. If control of use is still required, the Council will consider restructuring

leases to generate capital premiums and/or improve ground rents to facilitate investment proposals by the lessees.

Ground Leases – Other (examples: Scout Huts, Doctors Surgeries)

These are primarily let to occupiers generally with community-based relevance which indirectly support corporate objectives.

Occupational Leases – Retail, City Centre Areas (examples: South Street shop units)

The Council owns retail units in secondary and tertiary shopping centres in the City Centre. As the retail market has developed these have become increasingly management intensive with, on occasions, significant void periods. We review these holdings to consider the justification for retention as well as opportunities for refurbishment and changes of use.

Occupational Leases – Housing Estate Parades

These parades are reviewed in conjunction with the Housing Service. If vacant shops are not needed to support the immediate residential community, we consider disposal either on the open market or options for conversion to residential.

Leases – Other Land and Property (examples: telecoms masts, advertising hoardings, etc)

We explore opportunities for rationalisation and additional income generation where appropriate.

Leases – Public Utilities (e.g. electricity sub-stations and gas governors)

These generally produce a low level of income. We consider freehold disposal as a package unless such action may be prejudicial, for instance in terms of potential redevelopment in the area.

Leases to the Community Sector (e.g. community halls, changing rooms, etc)

A range of commercial properties are used for leasing to the voluntary sector. We maintain a general presumption to retain ownership to support the voluntary sector, but will undertake reviews to assess condition, suitability and sufficiency and identify opportunities to advance more ambitious asset transfer opportunities where possible (e.g. St Nicholas Priory)

Surplus Land and Premises

This is a category for surplus, former operational assets transferred to commercial property for management and awaiting re-use or disposal, such as Clifton Hill.

Historic Listed Buildings

We maintain a presumption that these should be retained unless expenditure is required and its disposal would achieve a transfer to a responsible owners/body that can provide evidence of funding and ability to undertake works, manage use and maintain the building to a standard appropriate to its Listed status.

DISPOSALS POLICY

Assets that do not meet the performance tests and that are identified for disposal will be disposed of in accordance with the Authority's Disposal Strategy. Consideration will also be given to the sale or properties that are on the performance margin and where the capital receipts could be used to acquire better performing assets to achieve a more balanced portfolio in both financial and socio-economic benefit terms.

Where it is proposed to break up a number of poorly performing assets, i.e. disposal of freehold reversions on an industrial estate, we will look to retain the freehold in a property that can be demonstrated to have the potential to be the key to a redevelopment in the medium-term future.

Disposals will also be discussed with the Director Finance and a programme agreed as appropriate to support the Authority's revenue budget and capital programme needs.

ACQUISITIONS POLICY

Appropriate properties will be acquired periodically to improve the performance of the portfolio, i.e. where adjacent to existing ownerships or leasehold interests (where the authority owns a freehold reversionary interest and in both cases will benefit from the marriage value or where property can be used to support a regeneration) and to achieve a more balanced portfolio in both financial and socio-economic terms. Funding will be from reserves, capital receipts from assets sold or prudential borrowing as appropriate.

COMMUNITY ASSET TRANSFER

A separate strategy has been developed for the transfer of assets to the community, charities or other public bodies. Briefly, such transfers will only take place if they are supported by a robust business case, the transferee has sound long-term management and governance arrangements, the use of the property meets the authority's objectives and community strategy, there is an agreed times-scale within disposal is expected to be completed and certainty of funding.

THE CORPORATE PROPERTY ESTATES TEAM

The Estates Team within the Corporate Property Service comprises the City Surveyor and six professional surveyors with an additional property records /administration team of two. The service costs were £550,000 in 2023/24.

The team not only deals with the commercial property portfolio as described but also provides professional valuation and property advice to other services across the Council and to ECQT and the Exeter Business Centre.

In recent years it has proved quite challenging to recruit in this area and steps are being followed to improve internal development and retention in an attempt to address this area of concern

COSTS & INCOME

As set out above, the Property Estates team provide a wider Service to the Council than just managing the Commercial Portfolio. However, for the purposes of demonstrating the performance of the Portfolio, the costs are set out below.

Income derived from Commercial Portfolio	£8,385,000
Costs	
Property Estates Team	(£ 550,000)
Other Costs (e.g. Voids)	(£1,700,000)
Debt Servicing	(£1,869,120)
Net income to Council	£4,265,880
Less Income set aside for Regeneration – Guildhall	(£ 825,000)
Income to fund Council Services	£3,440,880

7. How does the decision contribute to the Council's Corporate Plan?

No decision has been recommended.

8. What risks are there and how can they be reduced?

No risks identified.

9. Equality Act 2010 (The Act)

11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.

11.4 No potential impact has been identified on people with protected characteristics as determined by the Act because the report is for noting only

10. Carbon Footprint (Environmental) Implications:

No direct carbon/environmental impacts arising from the recommendations.

11. Are there any other options?

The report is for information only.

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Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

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