

**Estates Strategy**

**For**

**Non-operational property**

**2014 - 2018**

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## **PURPOSE OF THE STRATEGY**

### **1.0 PURPOSE**

- 1.1 The strategy is intended to provide:
- An overview as to the non-operational land and property (the 'Let Estate') held by Bury MBC.
  - A Framework for analysing (valuing), and categorising the individual land and property assets within the Let Estate and identifying those which are no longer fit for purpose within a balanced portfolio.
  - An overview of the type of portfolio that the Council should be holding in the future.
  - Policies governing how land and property is held, evaluated, acquired and sold, in order to achieve the desired future portfolio.
- 1.2 The Strategy aims to provide a means to manage the Council's Let Estate until 2018 and beyond.
- 1.3 The Strategy is intended to be a working document that will sit alongside:
- The Investment Property Acquisition Strategy (2014-18)
  - The Corporate Asset Management Plan (adopted 2012).
- 1.4 The Strategy shall be reviewed on an annual basis in response to performance monitoring, stakeholder feedback and changes in the wider economic and political context.
- 1.5 It will also seek to raise awareness of the role of land and property as an essential resource within the Council and the need to ensure that the property interests are well balanced in terms of risk, use, investment and strategic potential.
- 1.6 Objective decision making over the target composition of the Let Estate will also be enhanced by:
- Obtaining specialist internal and external advice as and when required.

- Regular consultation with stakeholders (including Members, senior Officers, service managers and external bodies such as tenants and agencies).

## **2 STRATEGIC MISSION STATEMENT**

- 2.1 To ensure that Bury Council's non-operational land and property assets effectively contribute to the Council's corporate aims, objectives and priorities and using best practice to deliver a high quality, cost effective service.

## **3 BACKGROUND AND CONTEXT**

### **3.1 BACKGROUND**

- 3.1.1 As is the case for most large organisations, property assets play a crucial role in achieving the Council's corporate objectives. Expenditure on land and property is invariably second only to spend on staffing.
- 3.1.2 The Council effectively holds two types of property:
- The first is the property required for its own use (commonly referred to as the 'Operational Estate'). The Corporate Asset Management Plan outlines how the Council manages its operational land and property.
  - The second is property that is not occupied by the Council itself and which is instead mainly held for non-operational purposes (known often as the 'Let Estate', or sometimes as the 'Investment Estate').
- 3.1.3 This Strategy seeks to detail policy and objectives in respect of the Let Estate.
- 3.1.4 For the purposes of this Strategy, references to 'property' will also include reference to land.
- 3.1.5 Historically the Council has acquired land and properties for a wide variety of reasons. Some of those reasons remain valid whilst others have now been satisfied, are no longer relevant, or of no significant priority.

3.1.6 Buying and selling property is however a relatively slow and potentially costly process and, as such, decisions which lead to the buying, selling or where appropriate physical refurbishment of property require long term planning, careful consideration and proper assessment of detailed appraisals.

## 3.2 Current portfolio

3.2.1 The Council has a significant non-operational portfolio of land and property interests. In total there are currently almost 950 different non-operational property interests ranging from simple ground leases through to multiple occupied offices and business parks.

3.2.2 The existing portfolio for the Let Estate can be broken down into three main categories:

- Commercial and industrial properties
- High volume lettings
- Non-operational properties managed by Property and Asset Management on behalf of other Council services/departments.

Further detail on these three categories is provided below. All other properties owned by the Council comprise the Operational Estate, which is not dealt with by this Strategy.

3.2.3 The rent roll for the Let Estate is currently circa £4.48m per annum.

3.2.4 Commercial and Industrial Properties

<b>Category</b>	<b>No of properties</b>	<b>Income £,000 p.a.</b>
Industrial and Commercial Properties	102	900
Offices	27	64
Commercial and Industrial Land (including the Millgate)	176	557
Advertising Sites	15	39
Gas easements and Electricity Substations	91	5
Shops	17	175
Residential	3	9

Investment properties	3	426
Bury Market	136	881
<b>Total</b>	<b>571</b>	<b>3056</b>

### 3.2.5 High Volume Lettings

<b>Category</b>	<b>No of properties</b>	<b>Income £,000 p.a.</b>
Gardens	160	19
Grazing	18	17
Farm Businesses	3	2
Non statutory allotments	28	4
Garage colonies (Under Property and asset management Budget)	45	22
Ground rents	1	0
<b>Total</b>	<b>255</b>	<b>66</b>

### 3.2.6 Non-operational Properties Managed on Behalf of Other Services

<b>Category</b>	<b>No of properties</b>	<b>Income £,000 p.a.</b>
Leisure	37	34
Strategic Housing	4	11
(Former) Children's Services	9	202
Culture	6	170
(Former) Adult Care Services	10	144
Borough Engineers	2	1
Environmental Services	1	0
Operational services	2	618
<b>Total</b>	<b>71</b>	<b>1180</b>

3.2.7 The key objective of the Let Estate is to generate revenue that will contribute to the cost of providing other services.

3.2.8 There are of course other reasons why the Council will hold non-operational property and these are covered more fully in Section 4 below.

### **3.3 Management of the Let Estate**

- 3.3.1 The majority of the Let Estate is managed by the Council's Regeneration and Estates section within the Property and Asset Management Division.
- 3.3.2 Day to day management of the Let Estate is generally undertaken by a small team of Chartered Surveyors, supported by Centre Managers for the Bradley Fold Industrial Estate and Bury Business Centre.
- 3.3.3 As well as undertaking the day to day management of the Let Estate, the Regeneration and Estates section provides specialist property advice and skills. It is also responsible for all property based acquisitions and disposals as well as for regeneration projects.
- 3.3.4 All non-operational property negotiations and transactions relating to property used for any Council service is undertaken through, or with advice from, this team.
- 3.3.5 The size and diversity of the existing Let Estate portfolio, together with other calls upon the service, has resulted in its management being largely reactive over recent years. However, this is inefficient and not sustainable given ongoing reductions in staffing in budgets.
- 3.3.6 This Strategy is designed to ensure that a much larger proportion of future property management tasks are undertaken in a proactive and planned manner. This will provide the Council with greater certainty as to both income and expenditure, subject to the vagaries of the wider property market.
- 3.3.7 It is envisaged that the move towards greater pro-activity in property management will be achieved by the Council having a smaller (in terms of the number of properties), but more focused, portfolio and with a greater emphasis on performance.
- 3.3.8 All properties identified for disposal will be disposed in line with the Council's recently approved disposals policy.

## 4.0 Ideal portfolio

4.1 The ideal portfolio for the Let Estate would consist of a balanced range of property interests with different qualities. The following qualities of particular relevance to the Council have been identified:

- high yield
- high growth
- low management
- highly relevant .

4.3 The ideal portfolio will also support the wider objectives of the Council in a way that is sustainable, cost effective and environmentally responsible.

4.4 Outlined below is a brief synopsis of each of these elements:

### 4.5 High yield

4.5.1 The yield is, in simple terms, the financial return that is received on an investment.

4.5.2 For property that is to be held for investment purposes, the yield is most simply shown as the revenue received from the property in comparison to the capital invested in the property.

4.5.3 A high yield property will therefore give attractive returns on the capital invested.

4.5.4 Yield is invariably in direct proportion to risk, so high yielding investments also tend to be relatively risky. A balance therefore needs to be sought between the two which is compatible with the Council's wider financial strategy.

### 4.6 High Growth

4.6.1 Property is said to possess high growth if it has the potential to achieve increases in either its capital value and annual income, or both, over and above predicted market norms and other similar types of investments.

### 4.7 Low Management

4.7.1 The amount of management that each property requires, in terms of time and cost, is generally proportional to the income that the

property generates. However, low management properties will not require a significant amount of management time and cost in comparison to the income they produce.

- 4.7.2 The ideal property holding will have simple and predictable demands on management resources, which increases the ability to manage proactively.
- 4.7.3 The potential need for capital investment into properties over time also needs to be factored into the assessment. For example, properties need repairs and refurbishment, which can have a significant impact on both capital and management time.

#### 4.8 **High Relevance**

- 4.8.1 Certain properties will enable the Council to achieve ancillary benefits and outcomes. For example, investment property may contribute to economic development, regeneration or facilitate future business growth. This category would also apply to properties situated in locations where their control has an important strategic or political dimension.

#### 4.9 **A Balanced Portfolio**

- 4.9.1 Achieving a balance of different types of property will reduce risks that may be associated with individual property sectors. While a specific investment type might currently outperform others, nonetheless it is not wise to put all our 'eggs in one basket' if over exposure to a single risk is to be avoided. The Council's approach should therefore mirror that of investment or property funds in managing their stock portfolios in this regard.
- 4.9.3 The ideal portfolio would consist of a balance of properties from each of the four categories described above. However, the notion of an 'ideal portfolio' is something of an aspiration as it is very difficult to achieve and maintain in practice.
- 4.10 The overarching objective is to ensure that the Council holds a Let Estate which is fit for purpose. In order to achieve that objective, the Council will first need to objectively assess the characteristics of its current portfolio and then alter its composition. This would be done through releasing underperforming stock and acquiring higher performing replacement assets.
- 4.11 This strategy therefore needs to be read in conjunction with the Investment Property Acquisition Strategy (2014-18).

## 5 THE STRATEGY

5.1 Implementation of the Strategy is split into three stages.

- Analysis
- Holding Policy (categorisation)
- Review and reporting

### 5.2 Analysis

5.2.1 The first stage involves undertaking a property by property analysis, where each is assessed against the aspirations of the ideal portfolio as outlined in Section 4 above.

5.2.2 Appendix 1, attached to this Strategy, includes a Portfolio Analysis Toolkit which will be used to undertake these assessments.

5.2.3 The Toolkit will also be used in comparing potential acquisitions against each other and also against the existing properties in the existing Let Estate portfolio. The Investment Property Acquisition Strategy (2014-18) includes the specific criteria and processes to be applied when the Council is looking to acquire investment properties.

5.2.5 The aim of the analysis tool is to objectively establish an indexation value for each property. Initially the lowest scoring properties will be those which will be disposed of as a priority, but over time an absolute 'pass mark' will be adopted.

5.2.6 Outlined below are two examples (both theoretical) of how the may be applied in practice.

Example 1 – a new office building situated in an attractive area which has a strong record of high occupancy levels to good quality tenants on long term leases subject to upwards-only rent reviews might achieve the following score:

*Rent 6 points x Management Ease 6 points x Growth Potential 3 points x Strategic Importance 2 points x Management Cluster 3 points = 648 points.*

and would therefore be categorised as an "Investment" property (see Section 5.3.3 below).

## Example 2

A run-down standalone building in an inaccessible location on the outskirts of town which is unoccupied and has no redevelopment potential might achieve the following score:

*Rent 1 point x Management Ease 2 points x Growth Potential 1 point x Strategic Importance 1 point x Management Cluster 1 point = 2 points.*

and would likely be categorised as an "Interim" property, which has no current investment or strategic qualities and would be scheduled for disposal.

### 5.3 **Categorisation**

5.3.1 Following the analysis of each property, or cluster of properties (the Chesham Industrial Estate, for example), the Council will then apply the retention criteria.

5.3.2 The criteria seek to ensure that the Council only holds those properties which provide the most advantageous financial returns against risk, or those that have true strategic value.

5.3.3 Once analysed, properties will be allocated to one of three distinct categories:

Investment	Properties held for predominantly investment purposes (i.e., for revenue generation and potential revenue/capital growth).
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Strategic	Properties held for demonstrable strategic purposes, such as economic development or regeneration. To qualify for this category, ownership of the property must be deemed a key factor in terms of achieving the strategic objectives of the Council.
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Interim	Properties which, based on the score achieved in the analysis, are found to have no continuing investment or strategic purpose and which are therefore
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considered to be held on an interim basis prior to disposal.

5.3.4 Through applying the holding policy the Council aims to :

- Transform the nature of the existing portfolio (i.e the properties that it holds), through a programme of acquisition and disposal, towards the ideal portfolio. This however will take a number of years to achieve.
- Reduce the total number of properties owned by the Council enabling a more proactive approach to property management.

5.3.5 This will only be achieved by regular review and constantly challenging the perceived reasons for holding property

#### 5.4 **Property Management priorities**

5.4.1 Once a property has been allocated to one of the above categories it will be managed in line with that categories main purpose. Properties held as:

- Investment - will seek to maximise and maintain the revenue return and its financial value.
- Strategic - will prioritise the use of the property in delivering the strategic purpose.
- Interim - will be managed with a view to minimising ongoing expenditure and maximising the ability to sell

#### 5.5 **Implementation and Review**

5.5.1 The initial analysis and categorisation of the Let Estate in accordance will be undertaken as a rolling programme.

5.5.2 In the first year it is proposed that circa 50% of the existing portfolio will be analysis and categorised with the remainder in the year. The intention is that following the initial analysis and categorisation approximately 10-20% of the Let Estate is then reviewed each year.

- 5.5.3 Selection for the ongoing review could be determined by a number of factors. For example, properties on the fringes of a particular category could be selected for review more often and random selections could also be made. This would ensure that the Council's categorisation techniques remain objective and consistent.
- 5.5.4 It is proposed that an update report, together with any recommended changes to the Strategy, will be submitted annually to the Property Strategy Group for consideration.

## Appendix 1 Property Analysis Tool

The use of this tool will allow the performance of each property in the Let Estate to be measured, initially to provide relative comparisons with the other properties in the portfolio. Over time performance will be measured against an absolute 'pass mark'.

The indexation value of a property is calculated as:

$$\mathbf{A \times B \times C \times D \times E}$$

Where,

### **A = Rent**

Scored as follows (based on the annual rental income):

- £500 or less = 1 point
- £501-1,000 = 2 points
- £1,001 – £5,000 = 3 points
- £5,001 – £10,000 = 4 points
- £10,001 - £25,000 = 5 points
- Over £25,000 = 6 points

### **B = Ease of management**

This takes into account both time and cost spent managing a property and the complexity of management involved.

This is a more subjective area and is based on the professional opinion of the estates managers, including aspects such as the need to review the simplicity / complexity of the title(s) to the property and the terms of any leases applicable to the property, the age and construction characteristics of the property, the nature of any occupational tenancies and any likely future issues / events.

Scored as follows:

- High levels of management time/cost = 2 points
- Average management time/cost = 4 points
- Low management time/cost = 6 points.

## **C = Growth potential**

This is based on the potential for both revenue and capital growth and will take into account factors such as location, lease terms, breaks and rent review dates and certainty of income (e.g. through the availability of security deposits or guarantees).

The growth score to be attributed to a property will look at the individual characteristics of the property that will provide growth potential in comparison to the average property in the wider property market.

Scored as follows:

- Low growth potential = 1 point
- Medium growth potential = 3 points
- High growth potential = 5 points.

## **D = Strategic importance**

This takes into account aspects such as location, political and social importance, proximity to regeneration schemes and the need to control through ownership. The score given to a particular property will be particularly guided by Council policies and the background political spectrum at the particular time of assessment.

Scored as follows:

- Low strategic importance = 1 point
- Medium strategic importance = 2 points
- High strategic importance = 3 points.

## **E = Management cluster**

Whilst this is linked to the Ease of Management score (Category B), that score relates only to the assessment of a property individually. However, when there a property forms part of a cluster of properties, such as an industrial estate, this in itself must confer an additional value to that property. Managing individual properties with a cluster would reduce the time and cost involved for each. The score to be applied for a cluster is therefore as follows:

- Stand alone property = 1 point

- Within an estate / cluster of less than 5 units which will bring management benefits = 2 points
- Within an estate / cluster of 5 or more units which will bring management benefits = 3 points.