

# Resources and Performance Select Committee

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## Commercial Investment Portfolio update Land & Property

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# Overview

# Summary : impact of COVID-19

## UK investment market overview

- Less than 50% of tenants paid rent on time on June Quarter day
- Retail and Leisure sectors continue to be hardest hit, due to the national lockdown earlier in the year and ongoing restrictions which prohibit many businesses from trading fully
- In the Retail sector, collection rates 7-days post the Quarter day are still at only 42%
- For the year to date, 71 brands have declared insolvency; an increase of 58% against the whole of 2019

## Surrey response

- At the start of lockdown, we initiated a weekly governance meeting to assess and map the key risks to the portfolio, implementing strategies at local level to manage and mitigate risk, and navigate the portfolio through the pandemic
- Our proactive approach and by working collaboratively with our tenants has resulted in the investment portfolio achieving collection levels significantly above the national market average for a mixed-use portfolio, with June Quarter currently at a combined 74%
- The office market has proved to be resilient, with rent collection in the investment portfolio at 99% save for one significant tenant
- Generally, discussions with most tenants and operators have been productive; payment plans have been agreed with a small number of tenants to defer rental payments in the short-term
- The national moratorium to protect tenants from eviction due to non-payment of rent has recently been extended by the Government to the end of 2020 (originally due to end on 30 September)

# Trading vehicles

- Investments are held in three trading vehicles wholly owned by Surrey County Council:

## SCC

Within Surrey and which contribute to an economic outcome or provide for future service use

9 Assets

Value : £131m

Gross Inc. : £6.9m

## Halsey Garton Investment

Investment for income return and outside of Surrey

17 Assets

Value : £268m

Gross Inc. : £17.4m

## Halsey Garton Residential

Residential properties held for income return both inside and outside of Surrey\*

23 Assets

Value : £2.4m

Gross Inc. : £0.3m

\* Note: first assets only transferred August 2020 into HGR from SWT.

# Investment strategy to date

- 2013 : SCC Investment Strategy approved by Cabinet to :

## **"Enhance the council's financial resilience in the longer term"**

- Primary purpose to deliver an ongoing income stream
- Generated from a diversified and balance portfolio of investments
- Strategy also:
  - Provides the means to make investments that support economic growth in the county
  - Retains assets and invest to enhance income generation
- 2017 : Strategy reviewed by Cabinet who re-confirmed ambition to continue to grow the portfolio
- 2019 : Investment Strategy reviewed as part of Asset & Place review and Portfolio 'held' at current levels of investment
- Portfolio value will fluctuate annually due to the inherent size of the portfolio with leases coming to an end (reduction in value) to new leases being instructed (value increases)
- SCC book value has no impact on revenue returns

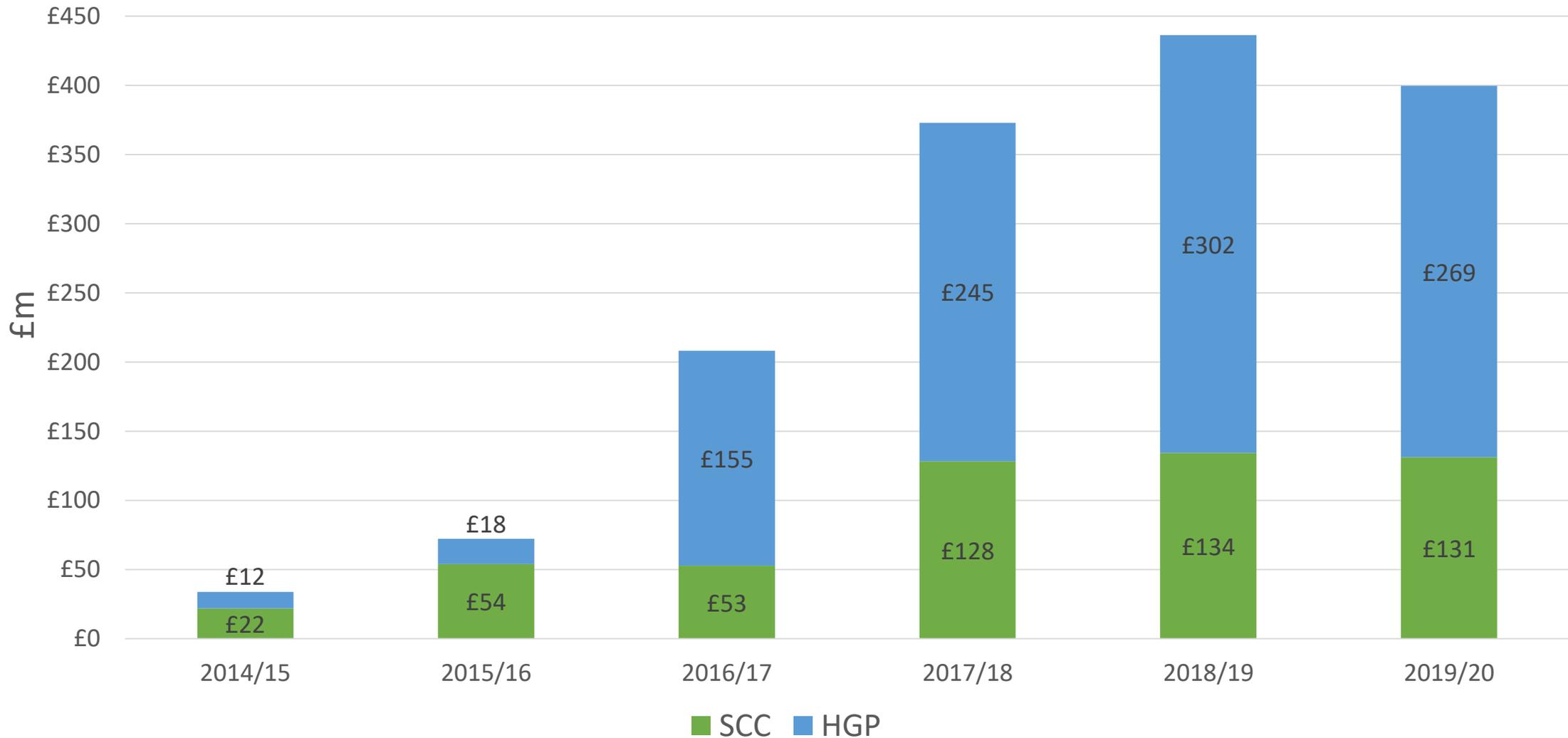
## **Combined portfolio generates :-**

- £11.6m revenue contribution to the council from the profit of the SCC portfolio (£3.1m) and loan arbitrage on the HGPI portfolio (£8.5m)
- In Council tax terms £11.6m would equate to £22.91 (1.5%) per year on the average Council Tax bill
- Based on the interest rates attributable to the funding, and the returns gained, the portfolio continues to contribute to the service delivery of the council at this time

## **Wider Land & Property actions**

- Targeting a refresh of the Asset & Place Strategy to Cabinet by Christmas 2020
- Strategy seeking to update and capture new wider corporate values and commitments
- Seeking to integrate multiple strategies into one key over-arching document

# Investment portfolio value

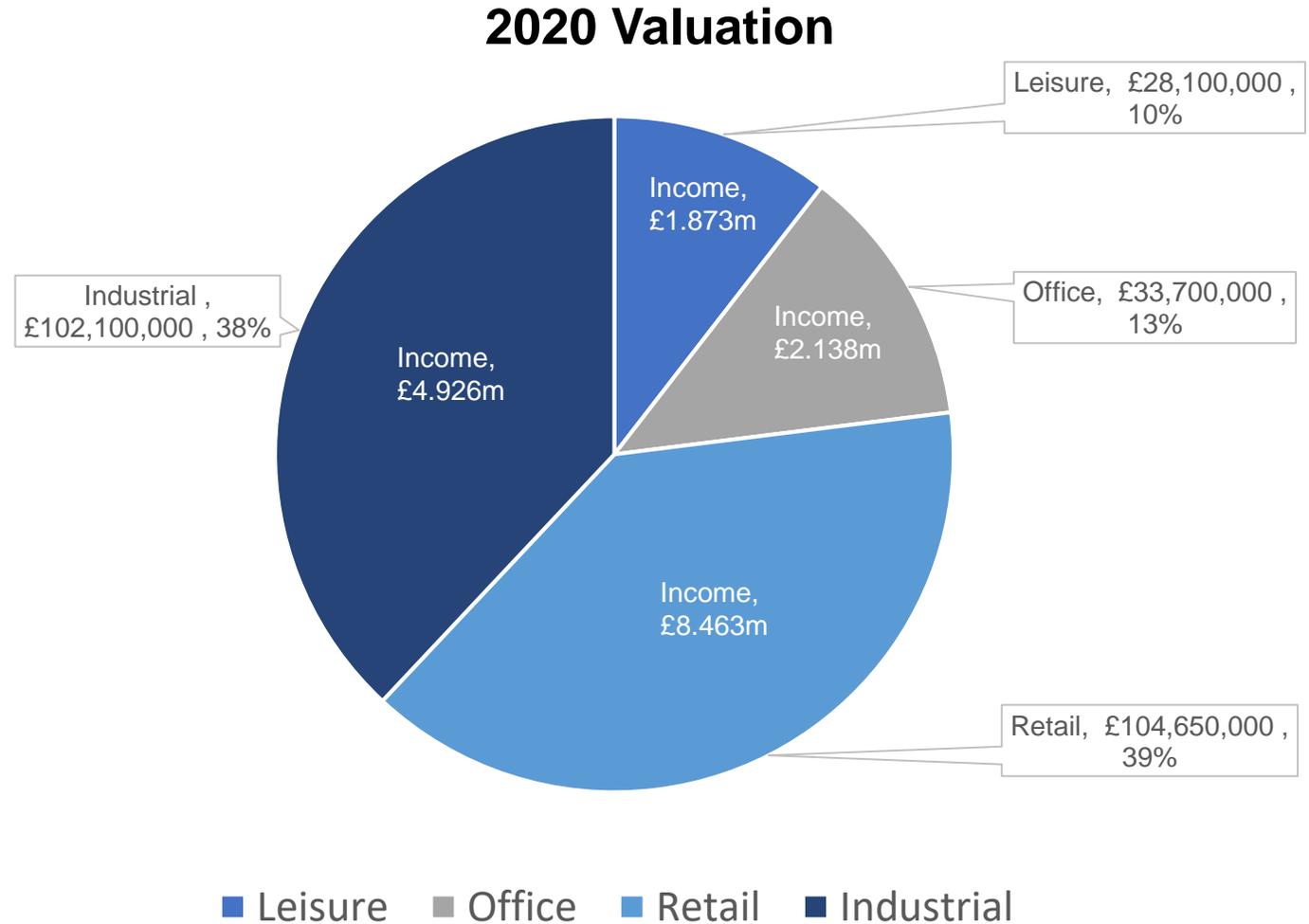


# **Halsey Garton Investment**

**(HGI)**

# Halsey Garton Investment

- 17 assets
- Total purchase price : £313m
- Current income : £17.4m



Property	Town	Purchase Date	Asset Class	Current Income	March 20 Value
Avon Rubber	Melksham	01/11/2015	Industrial	£813,700	£13,850,000
Blenheim Park	Nottingham	01/08/2017	Industrial	£586,049	£12,200,000
Hawkley Drive	Bristol	01/04/2016	Industrial	£495,000	£14,400,000
Wiggs House	Salford	01/07/2016	Industrial	£522,000	£8,900,000
Manton Wood Business	Worksop	01/05/2016	Industrial	£530,000	£8,450,000
Symphony	Barnsley	01/12/2018	Industrial	£1,980,000	£44,300,000
Aztec West	Bristol	01/06/2016	Office	£1,314,425	£19,700,000
Solaris Court	Milton Keynes	01/12/2018	Office	£824,499	£14,000,000
Debenhams	Winchester	01/03/2017	Retail	£738,381	£7,850,000
B&Q Statham Street	Macclesfield	01/12/2016	Retail Warehouse	£495,839	£5,650,000
Malvern Shopping Park	Malvern	01/09/2017	Retail Warehouse	£4,102,655	£45,000,000
Oakgrove Retail Park	Milton Keynes	01/12/2016	Retail Warehouse	£1,360,501	£26,250,000
Washford Mills	Redditch	01/03/2016	Retail Warehouse	£547,681	£6,450,000
Willowbrook Retail Park	Loughborough	01/11/2016	Retail Warehouse	£1,218,426	£13,450,000
Friar Street	Worcester	01/11/2016	Leisure	£777,742	£8,000,000
Travelodge	Stratford-upon-Avon	01/11/2016	Leisure	£538,893	£9,100,000
Travelodge	Hatfield	01/10/2018	Leisure	£557,350	£11,000,000
				<b>£17,403,141</b>	<b>£268,550,000</b>

## Retail

- In general, retail assets have reduced in value due to difficult retail market in the last 3 years
- Malvern Retail Park : £30m (40%) drop in value since purchase due to the deterioration of the retail market resulting in the properties now being over-rented.
- Winchester : Single let to Debenhams who have entered into a CVA. Value reduced by £8.1m (50%). Offers received for a range of alternative re-development options which aim to retain value and income

## Leisure

- Hatfield and Stratford-upon-Avon : let to Travelodge who have entered into a CVA. Values reduced by £1.125m (10%) and £100k (1%) respectively. Nine offers received on each property from alternative operators to break the Travelodge lease and re-let the existing property which will maintain or increase the current level of income

# HGI : Income impact due to COVID-19

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- Urgent SHIP governance weekly rent review meeting created to implement pre-active income recovery initiatives
- March Quarter rent collection : £3.75m (80%)
- June Quarter rent collection : £3.92m (81%)
- Proactive action from AM advisors to maximise Q2 rent payments
- Payment plans to defer rent agreed with multiple tenants to ease pressures of COVID-19 including whilst maintaining overall income
- Travelodge, New Look, Pizza Hut, Debenhams in CVA which is impacting on income
- Bensons for Beds in Administration

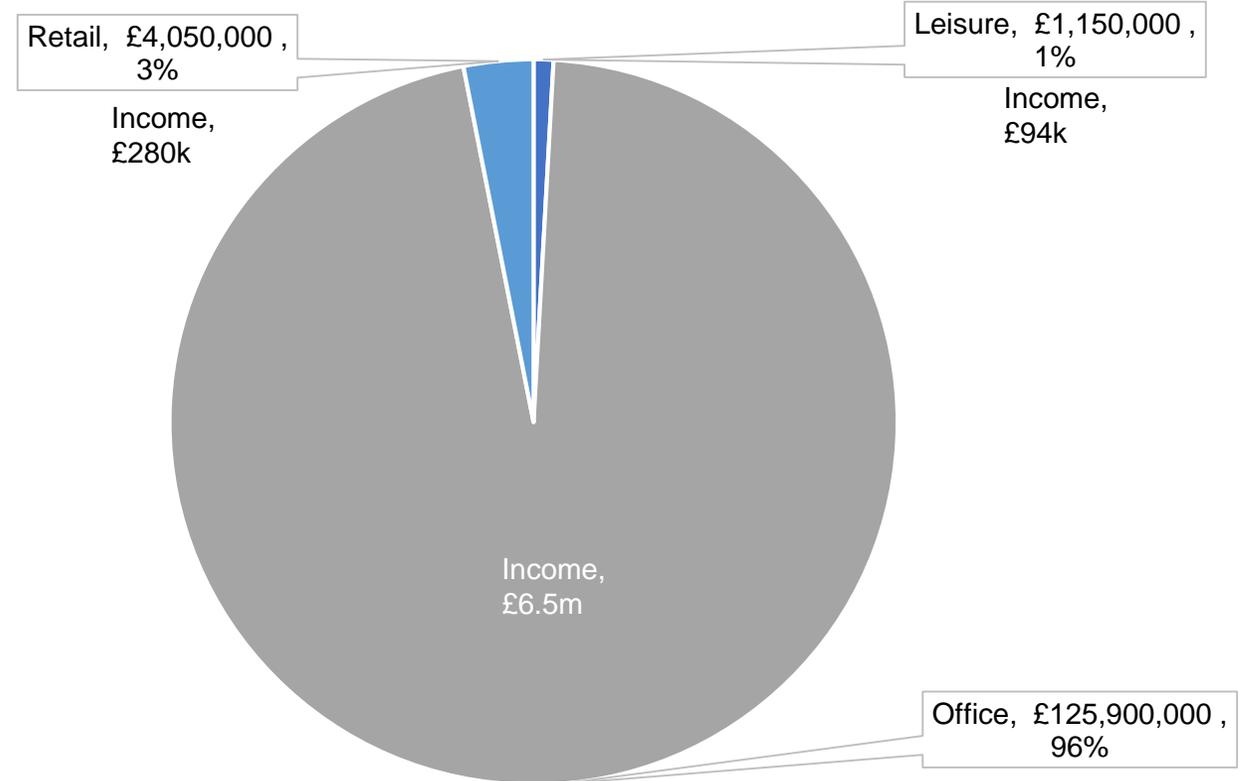
# **Surrey County Council**

**(SCC)**

# Summary : SCC

- Nine assets
- Total purchase price : £131m
- Current income : £6.8m

2020 Valuation



■ Leisure ■ Office ■ Retail

Property	Town	Purchase Date	Asset Class	Current Income	March 20 Value
Abbeymoor Golf Club	Chertsey	01/09/2012	Leisure	£93,936	£1,150,000
L3, 2 &3 Gatwick Road	Crawley	01/03/2014	Office	£2,571,000	£54,250,000
Nexus 4 Gatwick Road	Crawley	01/03/2014	Office	£479,254	£23,750,000
Aviva, Pixham Lane	Dorking	01/02/2016	Office	£1,993,000	£25,000,000
Park Lodge	Dorking	01/05/2018	Office	£215,612	£3,400,000
Ranger House	Guildford	01/04/2013	Office	£1,112,774	£18,000,000
Bridgehead House	Ashtead	01/12/2013	Office	£139,000	£1,500,000
61 High Street	Staines	01/04/2014	Retail	£200,000	£2,150,000
161-162 High Street	Egham	01/04/2013	Retail	£80,000	£1,900,000
				<b>£6,884,576</b>	<b>£131,100,000</b>

## Office

- Nexus, Crawley : 40% of the office space remains vacant since the building was completed. Valuation impact due to current voids
- Pixham end, Dorking : Valuation impacted by Aviva imminent lease end, however this is underpinned by redevelopment options

## Retail

- Staines : Valuation reduced by £500k (18%) due to HSBC lease end in October and no renewal agreed. Redevelopment options including offices above are currently being reviewed
- Kingfisher House, Egham : Valuation reduced by £200k (9.5%) due to vacant offices above and short lease let to Iceland. Potential re-gear to be agreed and redevelopment of office being reviewed

# SCC : Income impact due to COVID-19

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- Urgent SHIP governance weekly rent review meeting created to implement pre-active income recovery initiatives
- March Quarter rent collection : £1.1m (59%)
- June Quarter rent collection : £1.29m (59%)
- Payment plan to defer rent with L3 which totals £0.825m (41%)
- Net income has been impacted by landlord contribution to the service charge e.g. upgrade and repairs required outside of the scope of service charge resulting in landlord contributions

# **Halsey Garton Residential**

**(HGR)**

## TRANSFER 1

- Former Surrey Wildlife Trust leased properties transferred to HGR in August 2020
- 23 houses purchased on a 40-year lease for £2.243m
- 18 currently let and managed by local agents, Curchods
- 2 currently vacant
- 3 properties long-term void and awaiting re-development
- £1.2m ring-fenced to bring these properties up to decent homes standard over the next 5 years

## TRANSFER 2

- Residential Company Lets (RCL)
- Internal governance underway to support transfer
- Net Capital Receipt : £14.7m
- These are residential properties which are leased to occupiers under a company name for administrative purposes
- 85 properties in this portfolio, including:
  - 3 leasehold properties
  - 5 secure tenancies
  - 15 properties linked to schools

# In-house delivery : next steps

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## Batch 1 : Four sites yielding 46 homes

- HSBC, High St., Staines : residential conversion of upper 2 stories, resulting in 5 flats
- Iceland, High St., Egham : residential conversion of upper 2 stories, resulting in 10 flats
- Dene St., Dorking : residential conversion of Adult Learning Centre into 8 flats and 4 new-build houses
- Rockery Rd, Staines : new-build scheme of 19 flats

# Next steps

# Next steps

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- Currently prioritising value protection within the funds
- Practical approach to tenant rent requests. Payment plans to defer rent have been set-up with multiple tenants to ease the burden of COVID-19 in the short-term whilst protecting overall income
- Lease re-gears being pursued to increase term certain of the portfolio to reduce short-term risk
- Rent collection remains high, particularly considering the weighting of retail in the portfolio
- Options Appraisal being undertaken to review alternative options and initiatives to protect and add value. Each investment asset being assessed for alternative use/redevelopment.
- Working with external consultants including planning, architecture and investment advisory to generate contingency plans.
- Contingency plans created to underpin the value of the asset and prepare asset ready for implementation initiatives as and when required.
- Long-term strategy being implemented to avoid knee-jerk reaction to short-term, un-realised valuation losses and works towards increasing income and value over the next 5-10 years
- Exploring future housing delivery programme

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