

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

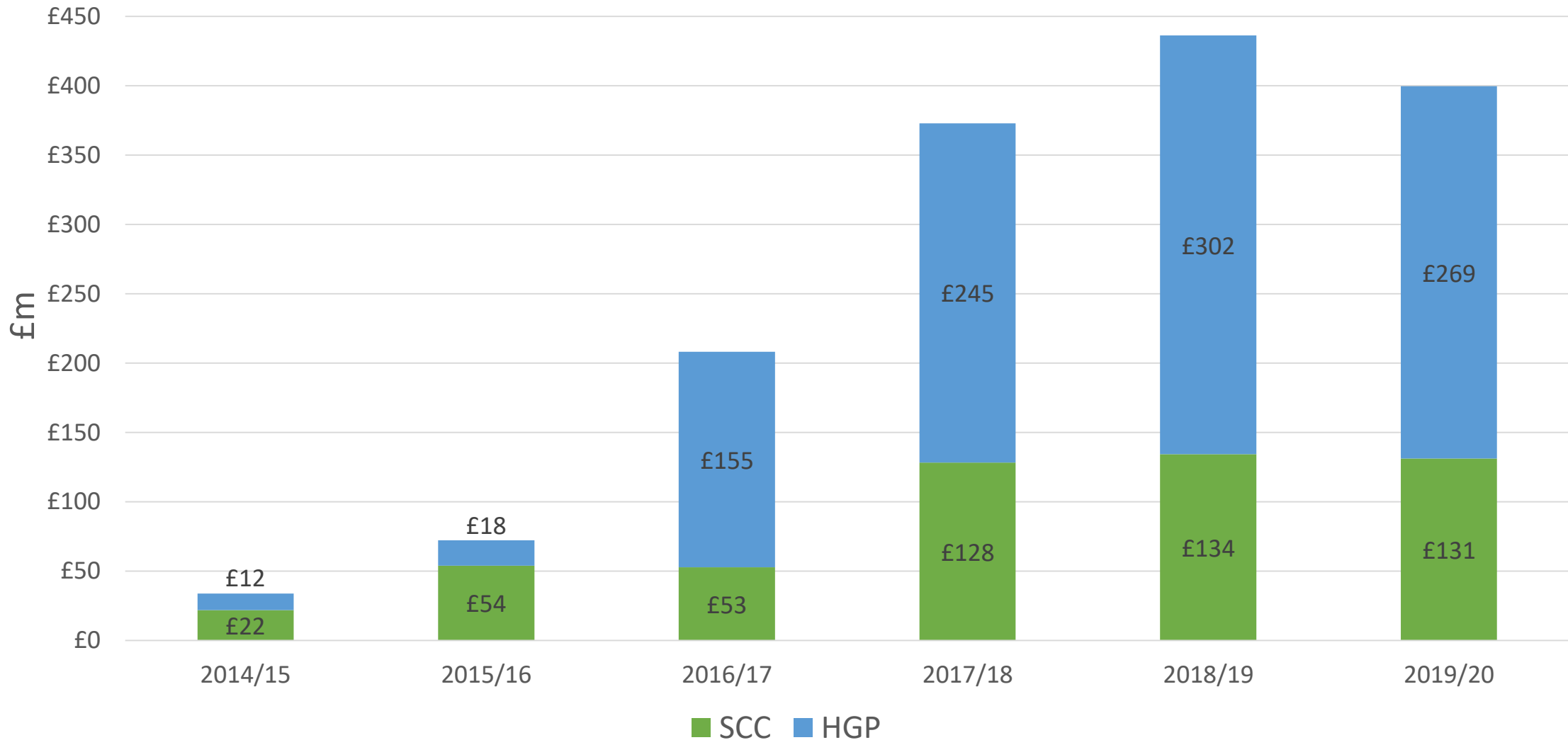
Combined portfolio generates :-

- £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

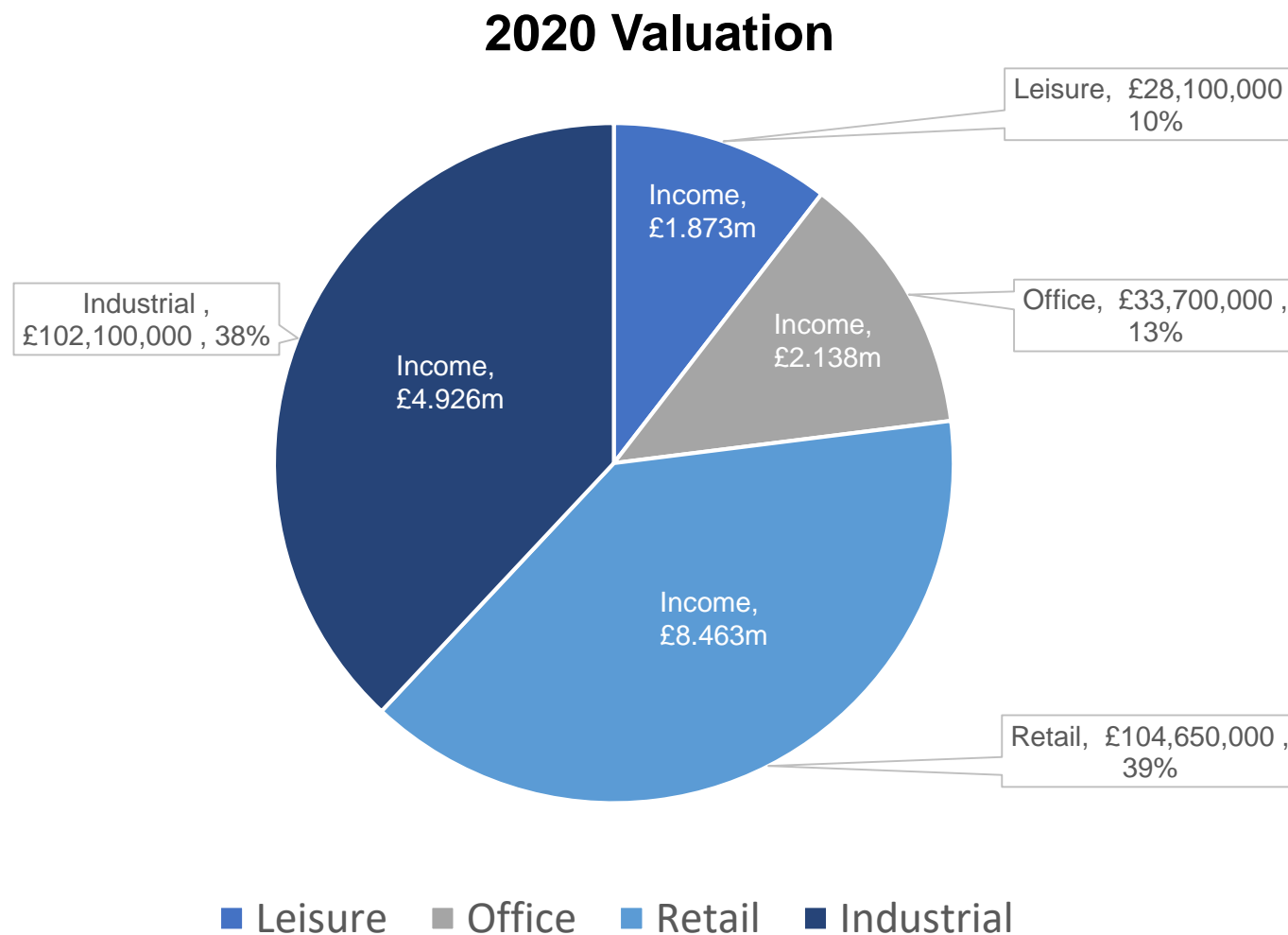


Halsey Garton Investment

(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
				£17,403,141	£268,550,000

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

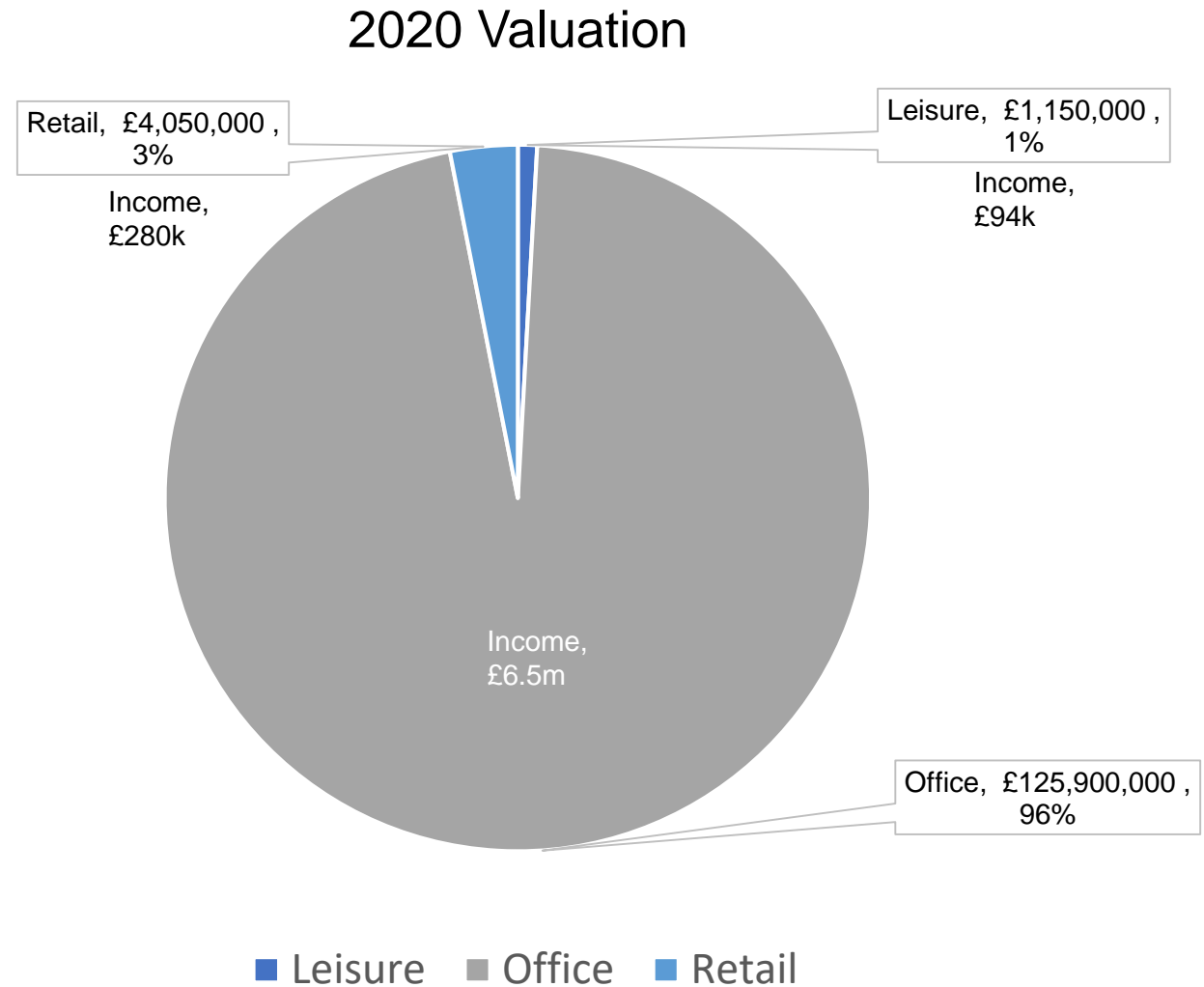
- Urgent SHIP governance weekly rent review meeting created to implement pre-active income recovery initiatives
- March Quarter rent collection : £3.75m (80%)
- June Quarter rent collection : £3.92m (81%)
- Proactive action from AM advisors to maximise Q2 rent payments
- Payment plans to defer rent agreed 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



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
				£6,884,576	£131,100,000

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

- 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

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

- 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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