

BRECKLAND DISTRICT COUNCIL

Report of: Councillor Paul Hewett, Executive Member for Property & Projects

To: Overview and Scrutiny Commission – 22 July 2021

Author: Ralph Burton, Assistant Director for Property & Projects

Subject: Commercial Property Update

Purpose: To provide Members with an update on the Council's Commercial Property portfolio and outturn for 20/21

Recommendation(s):

Members of the Commission are asked to note the contents of the report.

1. BACKGROUND

1.1 Members of the Commission last received a report and presentation on the Council's Commercial Property portfolio in October 2020. This report aims to provide Members with an update and outturn position for 20/21.

1.2 COMMERCIAL PROPERTY PORTFOLIO & SERVICE

1.2.1 The snapshot of the commercial property portfolio is as follows:

243	Commercial properties/land leases
210	Tenants / customers
£3.4m	20/21 gross income target
£45m	Capital value of commercial property portfolio

1.2.2 Except for two properties all the commercial property assets are in cost effective prime property commercial locations within Breckland, where we can offer up to 30% lower lease rental costs than our Norwich and Bury St Edmunds equivalents whilst still being above the market rental values.

1.2.3 The Council's Commercial property team provides a fast and professional service for current and prospective tenants and businesses looking to expand within Breckland and for those looking to invest and relocate into Breckland. The team's purpose is to provide good quality rented commercial property and excellent customer service. This has never been more important than during the unprecedented Covid-19 pandemic.

1.2.4 The Commercial property service aim is: "*To commercially manage the investment property assets owned by the Council to provide a financial return on investment*".

1.2.5 The Commercial property service objectives are:
1) *Ensure the investment asset portfolio is in repair, maintained, fit for purpose, safe and returns a net income as per set targets.*
2) *Review the asset performance and seek to improve performance through disposal, acquisition, investment or redevelopment with continual active management.*

1.2.6 Throughout the last year the service has undertaken its function differently due to Covid-19. The strategy ensured we focused on three key areas: innovate, communicate and improve and take a long-term approach. In doing so this has enabled the service to operate effectively and support many tenants through difficult periods of trading during the various lockdowns and uncertainties brought about because of Covid-19.

1.3 COMMERCIAL PROPERTY PORTFOLIO CURRENT POSITION & 20/21 OUTTURN

1.3.1 The 20/21 outturn position is detailed in the following tables using the 3 key indicators.

Indicator: Occupancy	18/19 Average	19/20 Average	20/21 Target	20/21 Average
Main portfolio	90%	97%	98%	98%
Business Centre Dereham	93%	94%	93%	92%
Business Centre Thetford	87%	84%	84%	84%

Indicator: Income (Gross)	18/19 Outturn	19/20 Outturn	20/21 Target	20/21 Outturn
Main portfolio	£2,704k	£2,990k	£3,063k	£2,504k
Business Centre Dereham	£154k	£157k	£155k	£152k
Business Centre Thetford	£168k	£177k	£174k	£182k
Total	£3,026	£3,324	£3,392k	£2,838k

Indicator: Yield (Net)	18/19	19/20	20/21
	8.0%	7.1%	6.1%

1.3.2 Despite the Covid-19 pandemic and the uncertainty faced by many businesses over the last year, the Council's Commercial Property Portfolio has performed well in 20/21. The strategy has been to take a long-term approach to help sustain businesses where possible. The service has offered rent deferrals where requested by tenants and a majority of these have been paid back and some have been extended. The service has also dealt with lease variations and company voluntary arrangements and lease surrenders where appropriate and best value to do so.

1.3.4 The arrears position has been challenging but currently at a better level than forecast. There are only a small number of tenants who are at the point requiring enforcement action albeit some of these are the larger tenants and there are ongoing detailed negotiations and discussions with each of those to resolve the position and secure a compliance situation. The increase in arrears is partly due to some of the larger tenants being unable to trade within the restrictions imposed, particularly in the retail leisure and hospitality sectors. The government business grants and the offered deferral have been a lifeline to some of the tenants. The temporary Covid rent collection legislation has been extended until end of June 2021. This prevents landlords from evicting tenants for non-payment of rent.

1.3.5 The following are some further highlights from the service for 20/21:

- 20 new lettings successfully completed.
- 20 lease terminations successfully completed.
- Additional £24k achieved above minimum rental level.
- 16 new Energy Performance Certificates obtained.
- £22k in national non-domestic rates savings on void units.
- Replacement door entry system at 2 x Business Centres creating a 3-4 year payback on investment through reduced contract costs of £10k per annum.

1.4 COMMERCIAL PROPERTY PORTFOLIO – ASSET DETAIL

1.4.1 The Commission has previously asked for detailed information on each commercial property portfolio owned and managed by the Council. The Council is a commercial property landlord and information regarding the commercial lettings is commercially confidential and if disclosed could prejudice the trading conditions of the tenant. The Commercial Property service manages each property individually however the performance of the commercial property is measured on a whole portfolio basis rather than at individual property level and via a number of performance measures that are available (see 1.3 of this report). This is to ensure overall the Council receives the total income and rate of return required. As part of the Transparency agenda the Council has to disclose some information about its property assets which can be found on the Council's website at <https://www.breckland.gov.uk/article/4246/Transparency>. Should any Member have a specific enquiry about any specific property for a specific purpose i.e. to assist a tenant,

requests can be made to the Strategic Property Manager or the Regeneration Manager to provide and signpost businesses to the relevant business support that is available.

- 1.4.2 To assist the Commission with its request Appendix 1 outlines some details of the annual yield exercise that was last undertaken in September 2020 to support decision making to meet the aim and objectives outlined in 1.2 of this report.

1.5 MARKET INTELLIGENCE

- 1.5.1 Locally, the industrial / warehouse market is outperforming other commercial sectors and there are generally low levels of supply of stock. This has been shown by the rapid take up of our industrial space when it becomes void. The retail, hospitality and leisure sector has been the hardest hit sector. The office market is in a state of flux with indications that there are low levels of supply with some healthy evidence of demand for small suites and more flexible space. Arrears remain at the levels expected and is a challenging situation for tenants and landlords.
- 1.5.2 Nationally, the situation is mirroring the local situation. Commercial property tenants are reported to have built up rent arrears of £4.2bn between March and December 2020 which is unprecedented. Many commercial landlords are still negotiating rents that was due in March 2020. The average rent-free period for retail deals has reached a record 6-9 months in 2020 plus shorter lease lengths. There are significant issues in the retail and hospitality sector on a national and international basis with many tenants seeking and achieving alternative support i.e. Company Voluntarily Arrangements. Retail warehousing is increasing in popularity and industrial demand that was previously reported as being strong is expected to stay stable with the faster and greater move to e-commerce assisting this shift.

2.0 OPTIONS

- 2.1 There are no decisions resulting from this report and the Commission are asked to note the contents.

3.0 EXPECTED BENEFITS

To support the Commission's terms of reference and workplan.

4.0 IMPLICATIONS

4.1 Corporate Priorities

- 4.1.1 Our Council - maximise the returns generated by the Council's commercial and operational assets.

4.2 Financial

- 4.2.1 The report contains information on the Council's Commercial Property portfolio which includes financial data.

5.0 WARDS/COMMUNITIES AFFECTED

- 5.1 All wards.

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Key Decision: No

Exempt Decision: No decision

This report refers to a Discretionary Service

Appendices attached to this report:

Appendix 1 – Commercial Property Yield Analysis – CONFIDENTIAL – BELOW THE LINE