

Committee: Investment Board
Title: UDC Property Portfolio Q4 Report
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Summary

1. This report sets out the position of the commercial portfolio for the quarter ending 31 March 2021

Recommendations

2. The report is noted

Financial Implications

3. All financial information is included in the budget and MTFS

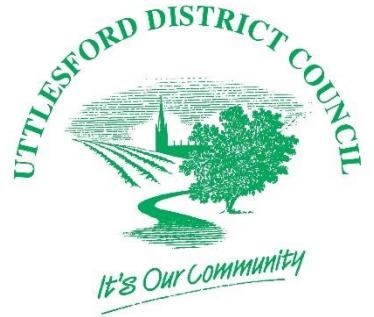
Background Papers

4. The following papers were referred to by the author in the preparation of this report and are available for inspection from the author of the report.

None

Situation

5. The following report sets out the quarterly performance for the Council portfolio. Also attached is the full valuation report.



Uttlesford Property Portfolio Q4 Report 1 January 2021 – 31 March 2021

Prepared by: The Asset Management Team – July 2021

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Portfolio Assets – Quarterly Update

Chesterford Research Park

The Council has loaned Aspire (CRP) Ltd a total of £61,841,000 for the acquisition and further development of the Park. As far as the Council Portfolio is concerned the 'asset' is the loan which the company makes repayments on each year. However, in this section additional information is provided with regards the value of the investment.

Property Statistics

The key property data for Chesterford Research Park as at 31 March 2021 is as follows:-

Vacant units

Property Name	Lease Name	Unit Description	Current Rent	ERV	Sq. Ft.
Building 300	Vacant		£0.00	£1,394,900.00	41,325
Garden Cottage	Vacant	Suite 1	£0.00	£5,000.00	150
Garden Cottage		Suite 2	£0.00	£5,670.00	165
				£1,405,570.00	41,640

Building 300 is currently vacant and being re-developed into four 10,000 Sq.Ft units.

Valuation

Building	June 2020	September 2020	December 2020	March 2021
Mansion House	2,700,000	2,700,000	2,670,000	2,780,000
Science Village	11,250,000	12,200,000	12,650,000	15,950,000
Nucleus	-3,570,051	-3,534,354	-3,497,647	-3,533,541
Garden Cottage	171,200	171,100	171,100	171,000
Older perm buildings	2,420,000	2,480,000	2,480,000	2,480,000
Older temp buildings	26,600	23,700	20,300	16,800
Building 60	11,900,000	17,300,000	19,950,000	23,200,000
Building 200	14,300,000	14,350,000	15,150,000	17,450,000
Building 300	7,410,000	7,410,000	9,400,000	13,050,000
Building 400	4,680,000	4,680,000	4,670,000	5,250,000
Building 600/700	34,350,000	34,350,000	36,150,000	38,900,000
Building 900	8,230,000	8,220,000	9,720,000	10,550,000
Building 50	6,900,000	6,910,000	6,920,000	7,870,000
Miscellaneous	1,470,000	1,470,000	1,470,000	1,470,000
Estate S/C Shortfall	-4,037,292	-4,017,491	-3,956,101	-3,894,335
Development Land	3,500,000	3,500,000	3,500,000	3,500,000
Total	101,850,000	108,350,000	117,550,000	135,350,000

As can be seen from the valuation figures the park is currently valued at £135,350,000 which gives a value per investor of £67,750,000 which means for the first time the investment value exceeds the outlay (£59,816,500). It should also be noted that the value will increase further when Building 300 is complete and fully let.

Top 10 Tenants by Rent

	Rental Exposure pa	% of Total Contracted Rent
Charles River Discovery Research Services Ltd	£1,740,000	25.2
Lonza Biologicals plc	£909,000	13.2
Astrazeneca Ltd	£637,500	9.2
Domainex Ltd	£600,000	8.7
Cambridge Epigenetix Ltd	£376,850	5.5
Diagnostics for the Real World (Europe) Ltd	£173,136	2.5
Isogenica Ltd	£147,296	2.1
Oxford Nanopore Technologies Ltd	£141,921	2.1
Microbiotica Ltd	£131,538	1.9
Oncologica UK Ltd	£122,315	1.8
	£4,979,556	71.9

Rent Paid

100% of rent due was paid on time on the March quarter date. 93% (one debtor) of the Service Charge was paid on time. The debtor was new to a building in the park and queried the charge, this has now been resolved and payment is expected imminently.



Skyway House Parsonage Road Takeley

QUARTERLY REPORT – JUNE 2021

	COMMENTS		
PROPERTY (ADDRESS)	<p>Skyway House Parsonage Road Takeley Bishop's Stortford Herts CM22 6PU</p> <p>(HQ office building)</p>	<p>Tenant: Lease Term: Passing Rent: Next Rent Review Date: Basis of Rent Review:</p>	<p>Weston Homes Plc</p> <p>FRI 25 years from 30.6.20 (24 years 1 month unexpired)</p> <p>£1,128,000 p.a exc</p> <p>30.6.2025</p> <p>Fixed Review to £1,276,228 p.a exc on 30.6.2025 13.14% uplift every 5 years</p>
DATE OF LAST PROPERTY INSPECTION	<p>21st April 2021 Next inspection due October 2021.</p>		
RENT COLLECTION	<p>The tenant pays quarterly in advance on the usual quarter days. The December quarters rent was paid on time.</p>		
INSURANCE	<p>UDC responsible, subject to recovery from WH. Zurich have quoted a premium of £11,466.02 for the year to 30.09.2021. ML have charged out and collected the premium.</p>		
SERVICE CHARGE	<p>N/A</p>		
MANAGEMENT ISSUES	<p>Cushman Wakefield confirmed that PC was achieved on 14th September 2020. Weston Homes have issued the Health and Safety information required under the terms of the contract within the Google Drive 'cloud' in line with terms of the contract.</p> <p>The Final BREEAM Post Construction Assessment Report and Certificate was issued in November 2020.</p> <p>ML have copies of the tenant's Risk Assessments and compliance certification and Health and Safety File.</p> <p>The tenant has installed an additional coffee station on the Ground Floor, as this is a non-structural alteration it is permitted under the terms of the lease without requiring the Landlord's consent.</p> <p>Weston Homes have implemented Covid Health & Safety measures. Weston Homes staff have now returned to the office. They currently have approx. 200 staff in the building allowing them to socially distance as this is below full capacity.</p>		
ASSET MANAGEMENT OPPORTUNITIES & GREEN INITIATIVES	<p>Weston Homes have an interest in approx. 220 acres of farmland to the rear of the property, including a 7 acre field at the rear of the building. The majority of the land is leased back to a local farmer. Weston Homes are in consultation with UDC planners regarding their proposals for residential development on the farmland and employment use on the 7 acre field.</p> <p>The Property has an EPC rating of A16 and BREEAM rating of very good. There is a grey water recycling system and all the lights are LED with most on sensors. There are 18 electrical vehicle charging points.</p>		



1 Deer Park Road Fairways Business Park Livingston

QUARTERLY REPORT – JUNE 2021

	COMMENTS		
PROPERTY (ADDRESS)	1 Deer Park Road Fairways Business Park Livingston EH54 8AF (Private Veterinary Hospital)	Tenant: Lease Term: Agreed Rent: Rent Commencement Date: Next Rent ReviewDate: Basis of Review:	Veterinary Specialists (Scotland) Ltd FRI lease 20 years from 10.9.2019 (18 years 3 months unexpired) £372,546 p.a exc 10.9.2023 10.9.2024 Fixed Review to £411,320 p.a exc
DATE OF LAST INSPECTION	28 th October 2020. Next inspection delayed to June/July 2021 due to Covid travel restrictions to Scotland.		
RENT COLLECTION	The tenant has a four-year rent-free period, so the rent commencement date is 10.9.2023. The Lease provides for quarterly payments, however, a side letter has been signed to allow the tenant to pay monthly on 1 st of each month.		
INSURANCE	UDC responsible, subject to recovery from tenant. Zurich have quoted a premium of £3,725.80 for the year to 30.09.2021. ML have charged out and collected the premium.		
SERVICE CHARGE	N/A		
MANAGEMENT ISSUES	<p>The building was constructed as an office building in 2002 and was converted (in 2019) to a Veterinary Hospital fully fitted and refurbished with up-to-date facilities. The Tenant only occupies the ground and a small part of the 1st floor. The majority of the second and whole of the third floors are vacant. VSS's architects are dealing with the final Certification required to complete the Building Warranty. The tenant has provided ML with copies of their Risk Assessments and compliance certification.</p> <p>Linnaeus Group have recently acquired Veterinary Specialist (Scotland) Ltd from Pets at Home. Linnaeus are part of the Mars group of companies. Although there is no need for an assignment of the Lease, as Linnaeus have purchased the company, the Tenant requested that the Lease is assigned to Linnaeus Veterinary Ltd. However, as under Scottish Law the Pets At Home Guarantee would fall away on assignment, and the lease permits the Landlord to refuse consent if the value of the Landlord's interest would be diminished. ML has advised that UDC will only grant consent for the assignment if a parent company guarantor is offered of equal or better financial standing as Pets At Home. ML liaising with Linnaeus to resolve.</p>		
ASSET MANAGEMENT OPPORTUNITIES & GREEN INITIATIVES	VSSL have sustainability policy and there may be an opportunity to work with the tenant in future to improve the buildings Green Credentials. Tenant to be encouraged to install electric charging points.		



Waitrose Distribution Centre

QUARTERLY REPORT – JUNE 2021

	COMMENTS		
PROPERTY (ADDRESS)	Waitrose Distribution Centre Matrix Park Western Avenue Chorley Lancashire PR7 7NB	Tenant: Lease Term: Passing Rent: Next Rent Review Date: Basis of Rent Review:	Waitrose Ltd FRI Lease 30 years from 30.4.2012 (unexpired term of 20 years 11 months) £2,271,254 p.a 30.4.2022 Higher of open market rent or RPI (cap & collar of 5% & 2% p.a compounded)
DATE OF LAST PROPERTY INSPECTION	27 th May 2021.		
RENT COLLECTION	Lease provides for quarterly payments. UDC agreed on a temporary basis that the Tenant could pay the rent monthly on 25 th of each month. ML have agreed that the tenant will revert to quarterly rent payments from the June quarter.		
INSURANCE	UDC responsible, subject to recovery from Waitrose. Zurich have quoted a premium of £43,364.08 for the year to 30.9.2021. ML have charged out the premium. Waitrose's cost consultant has questioned the risk rating attributed by Zurich. ML awaiting Zurich's response to the tenant's request to review the rating.		
SERVICE CHARGE	Matrix Park Management Company administer the service charge for the estate, the service charge year is 1 st June to 31 st May. UDC pay 44.27% of the total budget, Matrix invoice UDC quarterly and this is recharged to Waitrose. ML have invoiced Waitrose for the sums due since 1.12.20, the March quarter's payment has been fully paid. There is an outstanding dispute relating to historic service charge recovery. ML awaiting confirmation from JLL (the previous Managing Agent) that this has now been resolved and they will make final payment to Matrix. JLL to provide ML with a statement once finalised. ML chasing JLL to resolve the issue.		
MANAGEMENT ISSUES	Waitrose have sublet part of the 2 nd floor offices to Amey. ML have requested copies of the tenants Risk Assessments and Compliance certification. Waitrose have agreed a 5 year Distribution Service Agreement with XPO Logistics who will occupy the property. Waitrose are permitted in accordance with the lease to grant a Distribution Underlease to a Distribution Services Provider without the Landlord's consent. This has been checked by your solicitors.		
ASSET MANAGEMENT OPPORTUNITIES & GREEN INITIATIVES	There is approx. 2 acres of surplus development land on eastern side of site included in the lease to Waitrose. We understand that the land was intended for an incineration/recycling plant to be operated by Waitrose to provide energy to heat some areas of the building, but this has been abandoned due to environmental concerns and technological deficiencies. There may be an opportunity in the future to obtain planning for an additional unit on this land.		

Asset Valuation

The Council employ CBRE to provide a quarterly valuation of the Council owned assets. The full report is attached as Appendix One. In summary, as at the end of quarter 4 the position is as shown below

Property	Price paid (including future commitments)	Q3 2020	Q4 2020	Q1 2021
Colchester, Stane RP	£ 27,004,322	£ 7,500,000	£ 7,500,000	£ 7,975,000
Chorley, Waitrose RDC	£ 54,608,773	£ 54,600,000	£ 55,000,000	£ 56,700,000
Livingston, 1 Deerpark Road	£ 4,758,374	£ 4,800,000	£ 4,900,000	£ 4,975,000
Takeley, Skyway House	£ 20,000,000	£ 18,000,000	£ 19,500,000	£ 19,500,000
Gloucester, Amazon W/H	£ 42,692,000			£ 5,625,000
Tewkesbury, MOOG HQ	£ 35,000,000			£ 7,000,000
	£ 184,063,469	£ 84,900,000	£ 86,900,000	£ 101,775,000

When the loan to Aspire (CRP) Ltd is built in, and payments to date included, the total asset valuation is as shown below

Property	Price paid (including future commitments)	Amount paid as at 31 March 2021	Q3 2020	Q4 2020	Q1 2021
	£	£	£	£	£
Colchester, Stane RP	27,004,322	7,500,000	7,500,000	7,500,000	7,975,000
Chorley, Waitrose RDC	54,608,773	54,608,773	54,600,000	55,000,000	56,700,000
Livingston, 1 Deer Park Road	4,758,374	4,758,374	4,800,000	4,900,000	4,975,000
Takeley, Skyway House	20,000,000	19,500,000	18,000,000	19,500,000	19,500,000
Gloucester, Amazon	42,692,000	5,625,000			5,625,000
Tewkesbury, MOOG HQ	35,000,000	7,000,000			7,000,000
	184,063,469	98,992,147	84,900,000	86,900,000	101,775,000
Aspire (CRP) Ltd	59,816,500	59,816,500	54,175,000	58,775,000	67,675,000
Total Portfolio	243,879,969	158,808,647	139,075,000	145,675,000	169,450,000

Financing

The Portfolio is financed from three sources

1. Internal borrowing – when the Council has excess funds to invest
2. Repayment loan with
3. Borrowing from other local authorities

The split between 1 and 3 above varies on a week to week basis. Below is a snapshot of the external funding as at 22 June 2021 which totals £146,500,000 with another £65,000,000 arranged between now and September 2021. The latter amounts are primarily for the completion of Stane Retail Park.

Date	Lender	Amount (£)	Maturity	Rate
15-Sep-20	Lancashire County Council	20,000,000	14-Sep-21	0.35%
15-Sep-20	Portsmouth City Council	10,000,000	14-Sep-21	0.30%
02-Sep-20	West of England Combined Authority	10,000,000	09-Sep-21	0.30%
02-Sep-20	Barnsley, Doncaster, Rotherham and Sheffield Combined Authority	10,000,000	09-Sep-21	0.30%
02-Sep-20	Lancashire County Council	7,000,000	09-Sep-21	0.30%
25-Sep-20	Hampshire County Council	6,000,000	05-Jul-21	0.23%
25-Sep-20	Hampshire Fire and Rescue Authority	1,000,000	05-Jul-21	0.23%
25-Sep-20	Western Isles Council	3,000,000	05-Jul-21	0.23%
21-Apr-21	Hampshire County Council	3,000,000	20-Apr-22	0.13%
21-Apr-21	Devon County Council	2,500,000	20-Apr-22	0.13%
30-Apr-21	London Borough of Newham	5,000,000	29-Apr-22	0.13%
30-Apr-21	Brighton & Hove City Council	4,000,000	29-Apr-22	0.13%
20-Apr-21	West Yorkshire Combined Authority	3,500,000	12-Apr-22	0.12%
02-Jun-21	St Helens M.B.C	5,000,000	01-Jun-22	0.25%
07-Jun-21	Derbyshire County Council	11,500,000	06-Jun-22	0.35%
17-Jun-21	Newport City Council	2,000,000	01-Jul-21	0.02%
21-Jun-21	Middlesbrough Council	3,000,000	01-Jul-21	0.02%
18-Jun-20	Oxfordshire County Council	5,000,000	19-Jun-23	1.20%
30-Jun-20	Gloucestershire County Council	5,000,000	30-Jun-22	0.95%
24-Nov-20	Guildford Borough Council	3,000,000	24-May-22	0.45%
24-Nov-20	Spelthorne Borough Council	5,000,000	24-May-22	0.45%
05-Jul-17	Phoenix Life Ltd	22,000,000	05-Jul-57	2.86%
	Total borrowing as at 22 June 2021	146,500,000		
05-Jul-17	Phoenix Life Ltd	15,000,000	05-Jul-57	2.86%
14-Sep-21	West Midlands Combined Authority	10,000,000	13-Sep-22	0.20%
14-Sep-21	Crawley Borough Council	5,000,000	13-Sep-22	0.20%
14-Sep-21	East Sussex County Council	5,000,000	13-Sep-22	0.25%
14-Sep-21	Lancashire County Council	10,000,000	13-Sep-22	0.30%
09-Sep-21	West of England Combined Authority	10,000,000	08-Sep-22	0.12%
09-Sep-21	Newcastle Upon Tyne, North Tyneside Authority	10,000,000	08-Sep-22	0.12%
	Total forward borrowing as at 22 June 2021	65,000,000		

Risks

Likelihood Scores

Score	Probability
1 (Little Likelihood)	Less than 10%
2 (Some Likelihood)	10% to 50%
3 (Significant Likelihood)	51% to 90%
4 (Near Certainty)	More than 90%

Impact Scores

Score	Impact Level on Strategic Objectives
1	Minor impact/delay/difficulty
2	Small impact/delay/difficulty
3	Considerable impact/delay/difficulty
4	Extreme impact/delay/Difficulty

Each risk score for likelihood and impact is plotted onto a risk matrix to produce its score. A green score indicates risks which the organisation is most prepared to accept and red those which are less likely to be accepted.

		1	2	3	4
LIKELIHOOD	4	4	8	12	16
	3	3	6	9	12
	2	2	4	6	8
	1	1	2	3	4
		1	2	3	4
		IMPACT			

21-IB-01 LONG TERM BORROWING						
The council is unable to secure long term borrowing	Owner	Original Likelihood	Original Impact	Original Score	Current Controls	
	AW	2	4	8	Phoenix loan is secured	
		Current Likelihood	Current Impact	Current Score	Further Action	
		2	4	8	Widen the term for short term borrowing to mitigate short term fluctuations in availability of funding	
		Target Likelihood	Target Impact	Target Score	Action owner	Planned Completion date
1	4	4	AW	31.03.2022		
<u>Progress Update (July 2021)</u> - Work has started on obtaining a credit rating which will then be used to issue a bond probably in early 2022						

21-IB-02 INTEREST RATES						
Interest rates increase leading to a reduced net income	Owner	Original Likelihood	Original Impact	Original Score	Current Controls	
	AW	2	4	8	Phoenix loan is secured so part mitigation	
		Current Likelihood	Current Impact	Current Score	Further Action	
		2	4	8	Secure a bond issue as soon as possible	
		Target Likelihood	Target Impact	Target Score	Action owner	Planned Completion date
1	4	4	AW	31.03.2022		
<u>Progress Update (July 2021)</u>						

Work has started on obtaining a credit rating which will then be used to issue a bond probably in early 2022

Interest rates forecast to remain at current levels for several more years

21-IB-03 TENANT DEFAULT

Tenants default on rental payments either short term or because of business failure	Owner	Original Likelihood	Original Impact	Original Score	Current Controls	
	AW	2	4	8	Additional financial due diligence undertaken ahead of all purchases	
		Current Likelihood	Current Impact	Current Score	Further Action	
		1	3	3	Continuous monitoring of tenants both financial information and news channels	
		Target Likelihood	Target Impact	Target Score	Action owner	Planned Completion date
1	3	3	AW	31.03.2022		

Progress Update (July 2021)

Tenants passed the viability test and no adverse financial reports this quarter

21-IB-04 BUILDING LOSS

Loss of building due to fire/flood leading to no rent being received for duration of the repair/reinstatement	Owner	Original Likelihood	Original Impact	Original Score	Current Controls	
	AW	1	4	4	UDC fully insures the building and recharges the tenant Copies of fire safety procedures/test etc. held by agent	
		Current Likelihood	Current Impact	Current Score	Further Action	
		1	4	4	Monitor procedures as part of the inspection process	
Target Likelihood	Target Impact	Target Score	Action owner	Planned Completion date		

		1	4	4	AW	31.03.2022
Progress Update (July 2021)						
Discussions with all tenants on fire etc. safety. Inspections check for issues and ensure maintenance repairs etc. are undertaken						

21-IB-05 REPUTATION						
Actions of tenants affect the reputation of the Council	Owner	Original Likelihood	Original Impact	Original Score	Current Controls	
	AW	1	4	4	Tenants checked as part of initial due diligence	
		Current Likelihood	Current Impact	Current Score	Further Action	
		1	3	3	Continuous monitoring of tenants both financial information and news channels	
		Target Likelihood	Target Impact	Target Score	Action owner	Planned Completion date
		1	3	3	AW	31.03.2022
Progress Update (June 2021)						
All publicity this quarter has been positive including good news for Weston Homes £500m London Urban Village gains planning permission (ukreiiif.com)						

Summary

In February 2021, the Council adopted the Commercial Strategy and in so doing allocated a total of £300 million for commercial investment, including that already committed at Chesterford Research Park. To date £253,098,874 has been committed with an option for a further estimated £49,474,500 giving a total allocation just over the £300,000,000 target. It should however be noted that whilst the total commitment exceeds £300,000,000 there is several million pounds of contingency built into assets 5, 6, and 7 in the first table, not all of which will be needed. In addition, Stane Retail Park Phase 2 is an estimate of likely cost and the Council can acquire all/part/none of Phase 2 as viability and funds permit. Also, it will be several years before the Aspire (CRP) Ltd money is fully drawn down. The net yield of the committed portfolio is 4.76% and this remains the same when the option items are included. This yield reflects the risk appetite of the Council and the desire for well-known/established brands as tenants.

Portfolio Summary – Committed

Asset No.	Asset	Acquisition Price £	Rent p.a. £	Net Yield %
1	Loan to Aspire (CRP) Ltd	59,816,500	2,487,152	4.16
2	Skyway House, Takeley	20,000,000	1,128,000	5.64
3	1 Deerpark Road, Livingston	4,758,374	372,546	6.29
4	Regional Distribution Centre, Chorley	54,600,000	2,253,907	4.16
5	Stane Retail Park – Phase 1	30,424,000	1,784,024	5.86
6	Distribution Warehouse, Gloucester	43,000,000	2,253,200	5.24
7	Headquarters, Tewkesbury	40,500,000	1,757,700	4.34
	Portfolio	253,098,874	12,036,529	4.76

Portfolio Summary – Option

Asset No.	Asset	Acquisition Price £	Rent p.a. £	Net Yield %
1	Stane Retail Park - Phase 2	35,000,000	1,750,000	5.00
2	Future loans to Aspire (CRP) Ltd	14,474,500	602,139	4.16
	Total	49,474,500	2,352,139	4.75