

#### Member Questions (2)

<b>1.</b>	<b>Question from Councillor Matt Babbage to Cabinet Member Finance, Councillor Rowena Hay</b>																																			
	Please could you provide an updated summary of the council's investment property portfolio, including breakdown by property type and industry/commercial sector.																																			
	<b>Response from Cabinet Member</b>																																			
	<p>Thank you for your very appropriate questions during this time which formed part of a useful discussion at the Audit, Compliance and Governance Committee last week.</p> <p>I trust that the responses will help reduce any concerns Members may have but as I am sure everyone is aware, these are very uncertain times.</p> <p>Here is the breakdown of our 'investment' portfolio:</p> <p><b>General Fund</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #ffff00;"> <th style="width: 60%;">Address</th> <th style="width: 20%;">Property type</th> <th style="width: 20%;">Further simplification of pro</th> </tr> </thead> <tbody> <tr> <td>75 Priors Road</td> <td>Takeaway/ restaurant</td> <td>Food and beverage</td> </tr> <tr> <td>77 Priors Road</td> <td>Takeaway</td> <td>Food and beverage</td> </tr> <tr> <td>79 Priors Road</td> <td>Hair dressers</td> <td>Retail</td> </tr> <tr> <td>Regent Arcade - CBC Lease (Freehold - Land)</td> <td>Retail (Leasehold)</td> <td>Leasehold</td> </tr> <tr> <td>Cheltenham Enterprise Centre (multi let units)</td> <td>Industrial Park</td> <td>Industrial Park</td> </tr> <tr> <td>211 High Street</td> <td>Retail</td> <td>Retail</td> </tr> <tr> <td>Sainsbury's, Prior Road</td> <td>Supermarket</td> <td>Retail</td> </tr> <tr> <td>53-57 Rodney Road (multi let unit)</td> <td>Office</td> <td>Office</td> </tr> <tr> <td>Ellenborough House (multi let units)</td> <td>Office</td> <td>Office</td> </tr> <tr> <td>Delta Place aka 127 Bath Road</td> <td>Office</td> <td>Office</td> </tr> </tbody> </table> <p>Overview of the General Fund Investment portfolio: 2 Food and Beverage, 3 Retail, 1 Leasehold, 1 Industrial Park (this comprises 4 occupied units, and a further 3 units are nearing completion), and 3 offices.</p>			Address	Property type	Further simplification of pro	75 Priors Road	Takeaway/ restaurant	Food and beverage	77 Priors Road	Takeaway	Food and beverage	79 Priors Road	Hair dressers	Retail	Regent Arcade - CBC Lease (Freehold - Land)	Retail (Leasehold)	Leasehold	Cheltenham Enterprise Centre (multi let units)	Industrial Park	Industrial Park	211 High Street	Retail	Retail	Sainsbury's, Prior Road	Supermarket	Retail	53-57 Rodney Road (multi let unit)	Office	Office	Ellenborough House (multi let units)	Office	Office	Delta Place aka 127 Bath Road	Office	Office
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## Investment HRA

Address	Property type	Further simplification of pro
1 Rowanfield Exchange	Dry Cleaners	Retail
6 Rowanfield Exchange	Betting Shop	Retail
11 Rowanfield Exchange	Cash for clothes	Retail
12 Rowanfield Exchange	Community use	Community use
18/19 Rowanfield Exchange	Supermarket	Retail
24 Rowanfield Exchange	Takeaway	Food and beverage
52 Windermere Road	Pharmacy	Retail
93 Tewkesbury Road	Post Office	Retail
94 Tewkesbury Road	Takeaway	Food and beverage
95 Tewkesbury Road	Off Licence	Retail
96/97 Tewkesbury Road	Betting Shop	Retail
8 & 10 Hesters Way Road	Supermarket	Retail
16-18 Hesters Way Road	Community use	Community use
3/4/5 Lynworth Exchange	Supermarket	Retail
19 Lynworth Exchange	Beauty Salon	Retail
20 Lynworth Exchange	Takeaway	Food and beverage
21 Lynworth Exchange	Hair dressers	Retail
34 Grasmere Road, Hatherley	Takeaway	Food and beverage
35 Grasmere Road, Hatherley	Dental surgery	Health Service
266 High Street	Tanning salon	Retail
272/282 High Street (freehold land)	Retail	Retail

Overview of the HRA investment portfolio: 4 Food and Beverage, 14 Retail, 2 Community Use, and 1 Health Service.

HRA properties are mainly small units forming parts of parades in the heart of residential areas (not town centre). Town Centre units are considered prime retail, town centre fringes are considered to be secondary units, therefore these units would be considered as tertiary units.

What is evident from even a quick glance is that we have an extremely diverse investment portfolio.

<b>2.</b>	<b>Question from Councillor Matt Babbage to the Cabinet Member Finance, Councillor Rowena Hay</b>
	What assessment has been made of the risks to and valuations of the council's investment property portfolio?
	<b>Response from Cabinet Member</b>
	<p>The Council's surveyors who are responsible for the Asset Valuations and act on behalf of the Council as Portfolio advisors have been working very closely with the finance team in regards to the reporting of Asset Valuations in light of COVID 19. We have been in communication and have been following guidance issued by both CIPFA (Chartered Institute of Public Finance) and the RICS (Royal Institution of Chartered Surveyors) in terms of reporting and tracking risks to the values of the Council's investment portfolio. It is generally accepted that we are currently in a period of 'Valuation Uncertainty' and until markets start to act more normally, this will remain the case in the short term. Values are linked to income, so in order to assess the risk we continue to track and monitor incomes, not just within our portfolio but in the Cheltenham's commercial market place.</p> <p>We are acutely aware of the positions of other Councils and some of the difficulties they are being faced with, but we are <u>not</u> in the same boat as many Councils. The surveyors within the team have been in constant touch with local Agents in the Cheltenham commercial market place and tracking, as much as possible fluctuations and changes. For example one Agent reported that some of his Landlords were receiving less than 10% of their retail rental income in June 2020. Another agent reported that the majority of their Landlords with commercial portfolios were lucky to receive rents at greater volume than 30% of their normal income, during April, May and June 2020. All agents agree that Industrial is the strongest commercial market and is continuing to show signs of growth and secure income streams throughout the COVID shutdown and continues to do so. All agents have seen an increase in Landlords seeking advice in terms of disposals and redevelopment of typical commercial (mainly prime retail) premises. The residential market remains strong and the Agents assume that many retail (and possibly some office) buildings will look to convert to mixed use, to protect the Landlords investment value.</p> <p>Traditionally in retail markets Primary Retail Units have been considered the most desirable in terms of locality and income. Post COVID lockdown it is generally recognised that this may no longer be the case, and the most secure retail units in terms of income generation and value will be the tertiary units. As flagged in the answer to question one, the majority of the HRA investment portfolio is tertiary retail units. In fact the Council only really has one unit that could be considered as a Primary Retail Unit.</p> <p>The Office market is the least certain in terms of which way it is heading. There are still new leases being completed in terms of our own portfolio and in the market place, but enquiries have slowed and generally vacant office space is being considered more difficult to let. What is clear is that this market place may take a little longer to settle whilst companies and teams start to settle into a new norm.</p> <p>So how does all this relate to Cheltenham Borough Council? Our investment income during COVID has dropped by about ¼, however the majority of this will still be paid to the Council at a later date as the rent has only been deferred not gifted. The completion of the units at Enterprise Way has been delayed by COVID and therefore the additional</p>

income stream that was due to be generated from these units will commence from 1<sup>st</sup> February 2021 by way of an agreed pre-let. This will result in a 'new income stream'. What all of this tells us in relation to the Asset Valuations is that any impact to the value to the Assets should not be greater than 20% decrease (as the Assets currently not paying rent will resume), more likely around 10%, this is much, much better than for other Councils and the Cheltenham market place. We continue to actively engage with our own tenants and monitor for signs of risk to our income streams and actively work with our tenants to help to limit risk. We have a fairly robust portfolio and its diverse nature has help shield us somewhat to the more common market trends. We are actively seeking more income generating opportunities by exploring various options that move away from traditional market norms and this will also help secure and hopefully stabilise our portfolio in terms of its value. The values of our Investment Portfolio (indeed our entire portfolio) are under constant review and we continue to track the market and market trends for signs of danger and risk, to try to ensure we remain on the front foot, when the market place is more certain, reporting will be more conclusive and values less uncertain.