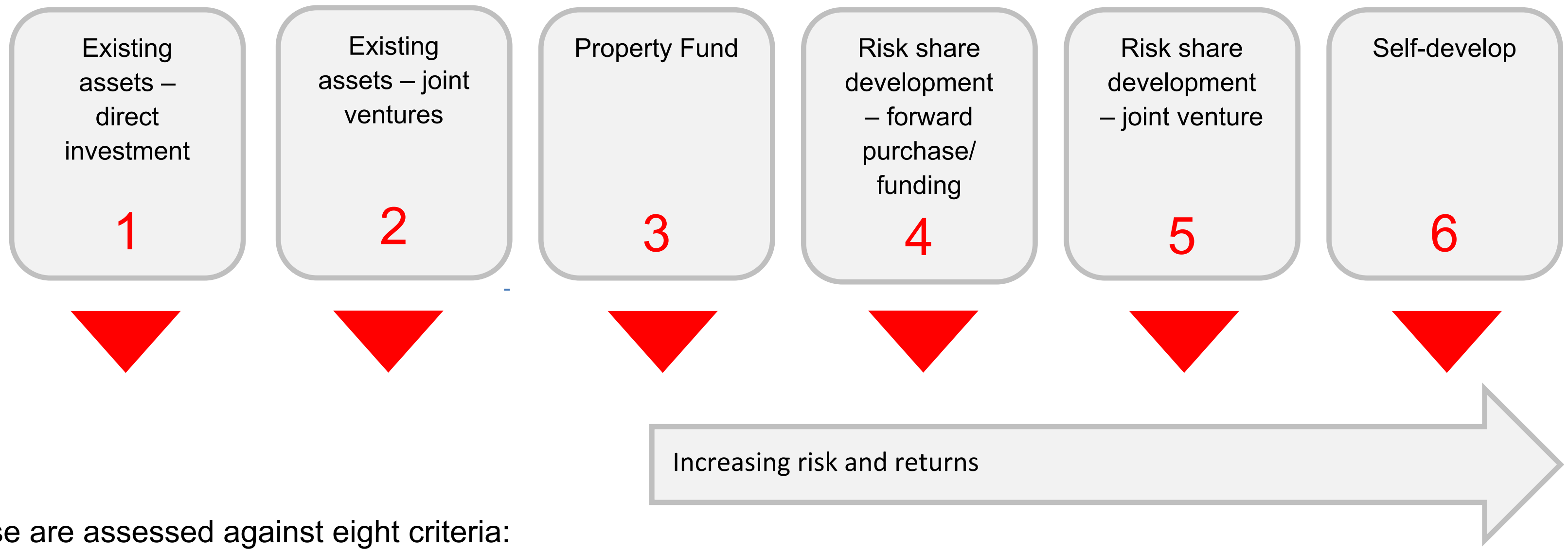
CHELTENHAM BOROUGH COUNCIL – PROPERTY INVESTMENT FUND

OPTIONS APPRAISAL

The Options Appraisal considers the relative benefits and limitations of six investment options as follows:



These are assessed against eight criteria:

- Corporate objectives
- Revenue generation
- Risk
- Control
- Liquidity
- Management oversight
- Performance
- Diversification

Existing Assets – Direct investment

What is it?
• The Council acquires and manages freehold or leasehold properties e.g. Delta Place.
How does it work?
• The Council uses property professionals to identify market opportunities. • After deciding on price and clearing appropriate internal approvals, bid for assets. • Using appropriate advisors (legal, surveying, valuation) undertake due diligence and complete legal acquisition documentation. • Establish ongoing management arrangements (internal or outsourced). • Regular asset reviews to determine business plan and exit strategy. • Process required on an asset by asset basis.

BENEFITS

Corporate objectives	Delivers CBC outcomes including economic or regeneration benefits
Revenue generation	Generates revenue from the time of the property acquisitions with the aim, depending on property type, of delivering a 5% annual return.
Risk	Low risk option.
Control	High level of control.
Liquidity	Reasonable liquidity, subject to usual property market timings.
Management oversight	Relatively light requirement – high involvement at key decision points (buying and selling).
LIMITATIONS	
Performance	Low return option and no competitive market position.
Diversification	Desired diversification unlikely to be achieved given current potential capital allocation.

Existing Assets – Joint Ventures

What is it?
• The Council acquires and manages freehold or leasehold properties together with a partner council e.g. Airport.
How does it work?
• The options are to approach this on a case by case basis or create a strategic relationship with a trusted partner. • The Council will wish to select a partner or partners on the basis of their demonstrated expertise and ability to co-invest with the Council (assume 50/50). • The Partner will identify market opportunities. • The JV will include governance allowing Council input on key decisions, including acquisitions and sales. • Establish ongoing management arrangements (internal or outsourced) with the partner. • Council rights to review business plan and exit strategy.

BENEFITS

Corporate objectives	Delivers CBC outcomes including economic regeneration benefits
Revenue generation	Generates revenue from the time of the property acquisitions with the aim, depending on property type, of delivering a 5% annual return.
Risk	Low risk option – JV partner risk added.
Control	Medium level of control.
Liquidity	Reasonable liquidity, subject to usual property market timings and governance of JV.
Management oversight	Light requirement – JV partner undertakes some of the direct acquisition, management and sales work.
LIMITATIONS	
Performance	Low return option and no competitive market position.
Diversification	Diversification improved given additional Partner capital contribution.

BENEFITS

Property Fund

What is it?
• The Council invests in property funds which own a range of diversified property investments.
How does it work?
• The Council will undertake a process of reviewing available fund options and the track record of the fund managers through its Treasury advisors. • Once capital is invested the entire responsibility for acquiring and managing the investments is delegated to and the responsibility of the fund manager. • The fund manager will report and pay distributions to the Council on a regular basis. • The fund documentation will set out the rights of the Council to redeem its investment and/or to sell it on the secondary market. The nature of these rights will vary depending on the type of fund.

Corporate objectives	Delivers CBC outcomes including economic regeneration benefits
Revenue generation	Generates revenue from the time of the fund investment – although performance should increase over the longer-term. Depending on fund type, is capable of delivering annual return above current interest rates. Worst performing funds currently achieving 6.9%.
Risk	Risk is determined by the nature of the fund. Additional risks relate to the fund structure, principally the performance of the fund manager.
Performance	Returns are related to the specific investment strategy of the fund and manager performance.
Diversification	Fund investment can spread risk over a large number of underlying assets.
Control	High level of control of fund interest.
Management oversight	Low return option and no competitive market position.

LIMITATIONS

Liquidity	Unlisted investment funds generally have a low level of liquidity particularly in market downturns.

Risk Share Development – Forward Purchase Funding

What is it?
• The Council enters into an agreement with a developer to fund part of the development cost and/or acquire a development on completion.
How does it work?
• The Developer will identify a market opportunity (although it may come from the Council) and carry out the development functions. • The Council will be able to determine the risk profile it wishes to take on in entering the arrangement with the developer (e.g. after planning permission has been secured and construction packages have been tendered). • During the construction stage the Council will likely require monitoring rights. • Post development completion (as per direct investment):

BENEFITS

Corporate objectives	Delivers CBC outcomes including economic regeneration benefits
Revenue generation	Should deliver a premium to pure investment activity, so at least a 6% income return dependent on property type.
Performance	A higher level of performance than investment activity.
Risk	The risk of development is highly mitigated by the forward purchase/ funding arrangements.
Control	High level of control.
Management oversight	Moderate level once the transaction is agreed.

LIMITATIONS

Revenue generation	Revenue can accrue to the investment when funded, but this will only occur during or at the end of the development period.
Diversification	Desired diversification unlikely to be achieved given currently contemplated level of investment.

- Establish ongoing management arrangements (internal or outsourced)
- Regular asset reviews to determine business plan and exit strategy.

Liquidity	Low liquidity during the development period, thereafter as per the general property market.

Risk Share Development – Joint Venture

What is it?

- The Council enters into a JV agreement with a developer/partner to carry out a specific development e.g. potentially Municipal Offices.

How does it work?

- The Developer will identify a market opportunity (although it may come from the Council) and carry out the development functions.
- The risk of the development will be shared 50/50 between the Council and the Developer/partner.
- The Council will be involved in key decisions during the development period.
- Post development completion (as per direct investment):
  - Establish ongoing management arrangements (internal or outsourced).
  - Regular asset reviews to determine business plan and exit strategy.

BENEFITS

Corporate objectives	Delivers CBC outcomes including economic regeneration benefits
Performance	A higher level of performance than investment and forward purchase/fund development activity.
Risk	The risk of development is mitigated by careful partner selection and development stage oversight.
Control	Strong level of control through JV documentation.
Management oversight	Meaningful level of oversight required.

LIMITATIONS

Revenue generation	Should deliver a premium to pure investment and forward purchase/ funding, so at least a 5% income return dependent on property type. Revenue will only accrue once the development is completed and leased (or sold).
Diversification	Diversification improved given Developer 50% capital contribution, but still unlikely to be at desired level.
Liquidity	Low liquidity during the development period, thereafter as per the general property market.

Self-Development

What is it?

- The Council undertakes a development itself, appointing a development manager e.g. potentially shop-fitters site.

How does it work?

- The Development Manager will identify a market opportunity (although it may come from the Council) and carry out the development functions.
- The risk of the development will be taken 100% by the Council.
- The Council will be involved in key decisions during the development period.
- Post development completion (as per direct investment):
  - Establish ongoing management arrangements (internal or

BENEFITS

Corporate objectives	Delivers CBC outcomes including economic regeneration benefits
Performance	The highest level of performance – the Council retains all development profit.
Risk	The risk of development is mitigated by appointment of expert development manager and adoption of thorough risk management strategy.
Control	Complete control with the Council.

LIMITATIONS

Management oversight	High level of oversight required.
Revenue generation	Should deliver a premium to pure investment and forward purchase/ funding, so at least a 5% income return dependent on property type. Revenue will only accrue once the development is completed and leased (or sold).

outsourced).
- Regular asset reviews to determine business plan and exist strategy.

Diversification	Desired diversification unlikely to be achieved given the currently contemplated level of investment.
Liquidity	Low liquidity during the development period, thereafter as per the general property market.