

To: Cabinet
Date: 19 December 2019
Report of: Executive Director - Development
Title of Report: Commercial property portfolio investment strategy

| Summary and recommendations | |
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| Purpose of report: | To agree the council's commercial investment portfolio strategy. |
| Key decision: | Yes |
| Cabinet Member: | Councillor Ed Turner |
| Corporate Priority: | <p>A vibrant and sustainable economy</p> <p>Income derived from the commercial property portfolio is deployed to support the delivery of council services and where possible to support the economic growth of the city of Oxford.</p> <p>An efficient and effective Council</p> <p>The proposed strategy will support the effective and efficient management of the property investment portfolio. It further seeks to reduce/mitigate risk, adopt a prudent approach to raising capital and to raise income above that currently received.</p> |
| Policy Framework: | Asset Management Plan 2016-2020 |
| Recommendations: That Cabinet resolves to: | |
| <ol style="list-style-type: none"> 1. Agree the overarching property investment strategy contained in the confidential appendices; and 2. Note that the Leader will delegate the authority for the decision in relation to individual property transactions to the Cabinet Member for Finance and Asset Management. | |

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| Appendix 1 | EXEMPT SCHEDULE CONFIDENTIAL AND NOT FOR PUBLICATION Proposed Commercial Property Investment Strategy |
| Appendix 2 | EXEMPT SCHEDULE CONFIDENTIAL AND NOT FOR PUBLICATION Jones Lang LaSalle analysis of the Oxford City Council Investment Portfolio dated October 2019. |
| Appendix 3 | EXEMPT SCHEDULE CONFIDENTIAL AND NOT FOR PUBLICATION Risk Register |

Introduction and background

1. Oxford City Council's commercial property portfolio provides an essential revenue stream that supports the council's core activities. The portfolio's successful performance is critical to supporting the Council's Medium Term Financial Plan and key to delivering social and economic benefits across the city.
2. The majority of the portfolio is a legacy from historic ownerships spread across the city and comprises assets in the retail, office, hotel and industrial sectors. It also includes agricultural land, moorings, operational buildings, community centres, the covered market and depots. The opportunity has presented itself to undertake a review of these ownerships and seek a strategy that can future proof this income stream.
3. The portfolio now produces around £12m of revenue per annum, up from £8m over the past decade. This increased contribution has in part been due to Oxford's prevailing economic strength and its resilience to macro-economic influencers. However its future success is not guaranteed and new trends and economic instability threaten its continued success.
4. Significant structural changes must be employed within the portfolio to mitigate these risks. This includes diversification away from the over exposure to the retail market, adopting a robust future investment strategy and developing key performance monitoring to support efficient asset management.
5. Supporting these measures will ensure the portfolio can continue to deliver a strong revenue stream to support the council's wider aspirations. A fundamental review has therefore been undertaken to support the council as it navigates its path through increasingly difficult national economic and social challenges.
6. Jones Lang LaSalle Incorporated, (JLL), a leading global professional services and investment management firm specialising in real estate, were instructed to carry out a review of Oxford City Council's (the council) commercial property investment portfolio. JLL has undertaken detailed analysis of the individual assets and the make-up of the portfolio against the objectives below:
 - To provide a long term, secure and independent source of income (primary objective).
 - To provide the council with the potential to exert strategic influence in respect of major policy objectives and place making.
7. JLL has subsequently made a number of recommendations to support a short to medium term strategy.

8. The review has highlighted several risks and opportunities for the council. The full report is attached at confidential Appendix 3.

Key findings

9. The overall investment portfolio provides a solid platform from which a large proportion (40%) of the income is secured against long term leases or ground rents.
10. The portfolio is heavily exposed to one sector with 81% of the capital invested in retail properties. This imbalance provides a high degree of risk and exposure to increased rental voids and negative revenue growth over the short to medium term.
11. The portfolio structure is highly granular with 246 properties generating a rent of £11.3m p.a. (April 2016). Two of these properties account for 31.88% of the income.
12. Just 18.07% of the income is derived from 182 tenants (70%) making the portfolio highly management intensive.
13. To reduce risk and generate long term rental growth it will be necessary to reduce the exposure to retail and diversify the capital distribution into other property sectors. Dependent on market opportunities this strategy can be designed to invest in employment uses such industrial and offices in Oxfordshire and the surrounding counties.
14. The portfolio has historically had the benefit of being relatively shielded from the national economic fluctuations and trends within the retail sector. However, it is clear that the retail sector is undergoing a period of significant change, including a move to more on-line retailing, which is making retail real estate less secure.
15. The council has the option of selling parts of its retail portfolio to balance this risk. However, it also has the opportunity to expand its portfolio into other sectors, which should bring in additional income, while also diversifying the portfolio away from a concentration on retail uses and therefore mitigating its risks.
16. JLL has made a number of suggestions and recommendations to address these key findings. As these recommendation focus on a range of commercially sensitive investment decisions, they are set out in the confidential Appendix 1 to this report. This includes the detail of the proposed future investment strategy to mitigate identified risks that should help to ensure the continued future success of the portfolio.

Financial implications

17. These are set out in the confidential Appendix 1 to this report.

Legal issues

18. These are set out in the confidential Appendix 1 to this report.

Level of risk

19. Further discussion on risk management and mitigation is set out in the confidential Appendix 1 to this report. A confidential risk register is attached as Appendix 3 to this document.

Equalities impact

20. This is an investment property strategy and equalities impact is not relevant.

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Background Papers: None