TORBAY COUNCIL

tda group

Report Title: Torbay Council Investment Portfolio – KPI Dashboard

To: Overview and Scrutiny Board **Date:** 11 October 2023

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1. Introduction

The Torbay Council £212m investment fund has been in place for several years now, with the first investments in 2017. The purpose of this investment fund is to generate income which can then be used to help fund local services. Since the creation of the fund a diverse range of investments in a range of different sectors and locations have been acquired by the Council.

The KPI Dashboard is maintained to continually review the performance of the portfolio which will assist in informed decision making.

2. Current global economics and market conditions:

The wider global economy continues to face challenges that cumulatively contribute to cost inflation, interest rate changes and consumer confidence thereby resulting in a more volatile transactional market. This volatility coupled with changes in debt costs, will have a direct impact on pricing as yields continue to evolve, and this results in the falling capital values that we are currently experiencing within the investment portfolio.

3. Key Performance Indicators:

3.1. KPI 1 - Total Annual Rental Income

The total annual rental income as at 1st July 2023 is £13,507,461 p.a., with the total annual rental income when fully let at £13,532,461 p.a.

At acquisition the total annual rental income across the portfolio was £12,711,207 p.a. This represents a gross rental growth of £796,254 p.a., with the logistics and distribution sector performing exceptionally well against falling rents within the office and retail sectors since acquisition.

3.2. KPI 2 – Rental Arrears 3+ Months

The current debt across the portfolio that is greater than 3 months old stands at £59,821 as at July 2023 and this relates to non-paid rent by Wincanton due to the sum owed being in dispute. We expect to resolve this shortly.

This level of debt accounts for 0.4% of the total annual rental income received.

Through careful management of the debt, sums previously owed by Amazon, Travelodge and Odeon Cinema have been recovered in full.

3.3. KPI 3 – Occupancy Levels

Across the portfolio there are 21 ‘lettable units’, of which 1 is vacant. This equates to a 99.8% occupancy level.

The letting of Unit 2 Wren Park to Cancer Research has reduced the voids to 1 and contributed towards current income levels. The single vacant unit is a ground floor retail shell of a unit which formed part of the Travelodge development in Chippenham. The estimated rental value is £35,000 p.a. and we are actively seeking temporary uses to reduce void costs in the interim.

3.4. KPI 4 – Voids Length

The single void is the ground floor retail unit within the Travelodge development in Chippenham. This unit has been vacant for in excess of 12 months.

3.5. Asset Management Reserve Balance

The Council maintains an asset management reserve with funds for this reserve generated from rental income. The asset management reserve is ringfenced for use in managing the investment assets with future lease events, potential void costs, reductions in rental income due to market conditions prevalent at the time and other likely future costs associated with the assets.

The asset management reserve balance has increased from year to year and stands at £3,011,000 as of 31st March 2023.

Projections on the asset management reserve over the next 5 years with known significant lease events and reductions in rental income in mind, suggest that the reserve is insufficient and by March 2028 the reserve will be in negative figures. Notable lease events over the next 5 years which we project will require substantial drawdown from the reserve include:

- Gadeon House – 3 floors becoming vacant in 2024, loss of rental income and void costs plus incentives to attract new tenants.
- Wren Park – Units 1 & 4 lease expiries in 2024 and 2026 – both are considered to be over-rented currently and lease renewals will involve incentives.
- Woodwater House lease expiry Nov 2025 and the tenant will likely wish to remain, but to downsize.
- Wincanton lease expiry Dec 2026 – lease renewal is considered probable but the tenant may require incentivising.
- Booker, Didcot lease expiry Jun 2027 – lease renewal is probable but the tenant will need incentivising and the unit is currently considered to be over-rented.
- Twyver House break clause 2028 – in the event the tenant terminates the lease the building will require either sub-dividing so it is capable of multi-occupation, or more likely, re-developing.

3.6. Capital Value

The total capital value for the investment portfolio is £174,521,000 as at 31st March 2023, this is compared to £212,046,125 on acquisition.

Capital values have fallen since acquisition due to a number of factors but principally the effect of COVID on the office market, the poor performance of the retail market and this year in particular, through the effects of wider global economics.

Current global economics have created a more volatile transactional market and this has directly affected yields, resulting in falling capital values across the various property sectors.

3.7. Yields

The portfolio as a whole is operating at a 7.6% average as at 31st March 2023 compared to 6.0% on acquisition. This links back to current global economics and the effect on the transactional market across the sectors and ultimately a softening of yields.   The strongest performing assets sit within the industrial or logistics sector, with office and retail performing generally less well.

At 16.6% Gadeon House represents the highest risk for the Council in terms of return, this is a consequence of the lease events affecting the building, with EDF reducing their occupation to just 1 floor towards the end of the calendar year, resulting in impending voids within the remainder of the building. A national agent has been appointed to secure new tenants and on letting the space the yield will harden substantially resulting in a materially higher capital value.

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