Appendix B

South Norfolk Council

Commercial Property Asset Management Strategy

Contents

Commercial Property Asset Management Strategy

1 Introduction

1.1 Purpose and Scope of Strategy

The Local Government Act 1972 gives the Council powers to acquire any property or rights which facilitate, or is conducive or incidental to, the discharge of any of its functions. The Council owns a variety of commercial properties. These assets have been acquired over a number of years primarily to facilitate economic development and growth in the area with the secondary purpose of generating rental income as support to the Council's revenue budget. With continuing public expenditure restraint, it is important that the management of the commercial property portfolio is directed to generate long term rental income streams and capital growth to support future delivery of Council services by reducing dependence on government grant. This document presents the Council's Commercial property strategy for the medium term. It sets out: -

- The Council's rationale and objectives for holding commercial property.
- The criteria for identifying acquisitions and reviewing asset performance.
- The risks to the Council of such activity and how they might be managed.
- The governance arrangements covering management of the portfolio.
- Day to day principles covering the operation of the portfolio.

This strategy is the Council's second formal commercial property asset management strategy and as such much of the emphasis has been placed on articulating the Councils' objectives for the portfolio and its operating principles.

1.2 Overview of the Portfolio

The Council has a wide variety of commercial properties. These include 55 individual letting units, at 4 main business centres. The total commercial Portfolio has a value of circa £17,138 m and generates circa £869 k p.a. of gross income.

Property	No. of Units	Annual Rent (£) as at 7/3/2024	Value as at 31/3/2023 (£)
Crafton House	16	137,649	1,565,400
Roxburgh House	14	102,000	1,155,700
Trumpeter House & Cobb Lodge	13	72,300	988,800
Loddon Business Centre	12	37,940	494,400
Ella May Barnes	2	200,000	2,589,200
Retail units Diss	2	50,000	532,300
Others	1	0	296,200
Industrial	21	263,417	4,141,400
Garages	7	£3,340	240,300
Land for Rent - plots	10	£1,526	3,533,700

Caravan Site	1	£480	291,300
Land for development - sites	4	£50	1,309,800
Total		**£868,702**	**17,138,500**

Excludes Diss Business Centre, which comprises 34 units.

The figures above do not include the property assets that are held by the Big Sky Group, a set of companies wholly owned by South Norfolk Council. Within the Big Sky Group, Big Sky Property Management Ltd has a housing portfolio which at the 31st March 2023 was valued at £7.4 million. Although Big Sky Management Ltd is a commercial company and its property assets are commercial property, they are owned and managed by the company and as such are not covered by this Commercial Property Strategy. However, when considering the balance of the commercial property portfolio the value of the housing assets held in Big Sky Property Management should be taken into consideration.

1.3 Format and Content of Strategy

This section has set out the purpose and scope of the Commercial Property Asset Management Strategy. The remaining document is in four parts (Sections 2 – 5) with appendices containing supporting material.

- **Section 1 – Property as an Investment Class** – this provides an over-arching context about the approaches to using property for commercial purposes. It is intended as a brief context within which to understand and position the Council's current approach to its commercial property holdings.

- **Section 2 – Strategic Context** identifies the broad operating context in which the Council is operating and some of the key influences that may shape the Council's approach to managing its commercial property portfolio.

- **Section 3 – Understanding the Commercial Portfolio.** This provides summary data in order to fully describe the commercial portfolio. It is amplified by a schedule of assets within the portfolio given in Appendix A.

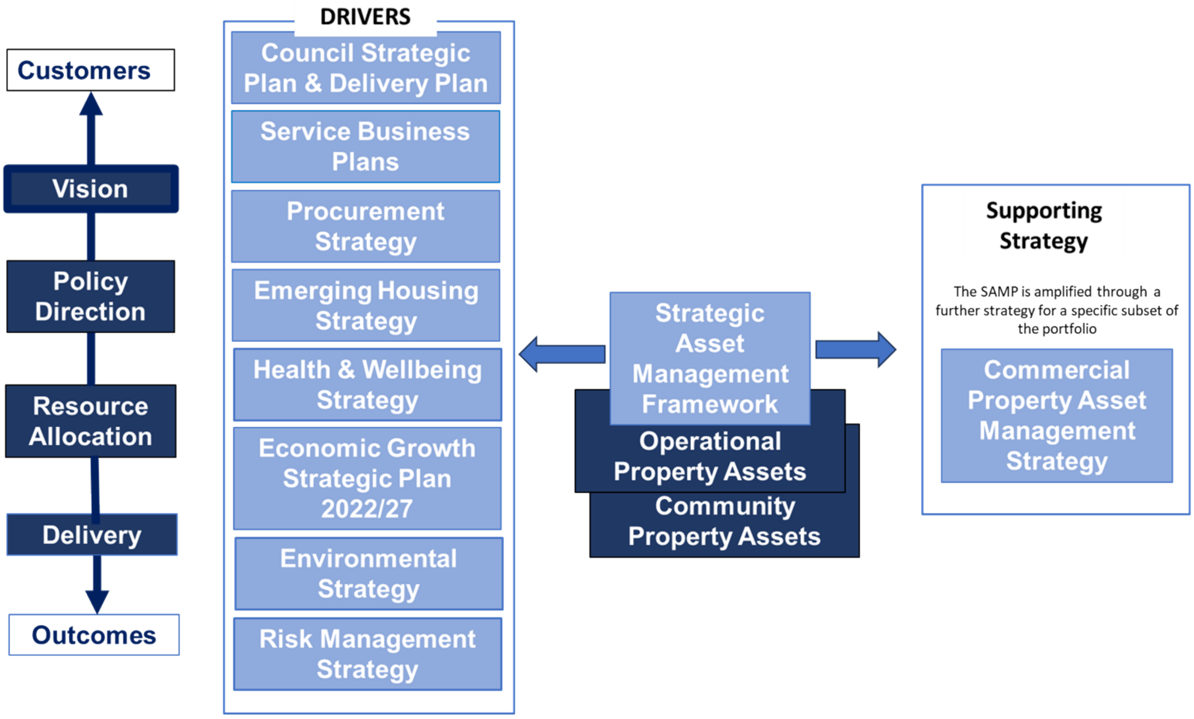
- **Section 4 – Managing the Portfolio** sets out the key aims and objectives with respect to the commercial portfolio, its governance arrangements and day to day operating principles. It also defines a set of basic performance measures for the portfolio.

- **Section 5 – Implementing the Strategy** identifies some key actions looking forward; discusses the Council's capacity and expertise in managing the portfolio over the longer term and identifies some of the risks associated with managing the portfolio.

1.4 Links to Other Plans and Strategies

This Commercial Property Strategy does not sit in isolation. It is related to the Council's wider corporate and service strategies and in particular the Council's medium term financial plan. The strategy is part of a wider set of documents relating to the overall management of the Council's property portfolio. The broad framework for this is articulated through the Strategic Asset Management Framework; whereas this strategy provides amplification of the framework through a specific dedicated strategy for the commercial assets the Council holds for commercial and investment reasons. This linkage is shown in the following diagram.

Diagram1 – Links with other Plans



2 Property as an Investment Class

2.1 Legal Framework

The Council has the legal power to acquire and hold both commercial and residential property for investment purposes. Commercial property can be acquired and operated directly by the Council providing that the clear purpose is investment rather than holding it to perform either a commercial or trading activity from it. If a trading activity from the property was the primary function then the commercial property acquired would need to be held in a company vehicle. Residential property can be acquired if the assets are being held and operated indirectly through a local authority controlled Special Purpose Vehicle.

Local authorities have broadly drawn powers allowing them to invest and to borrow, in each case either for purposes relevant to the performance of any of their functions or generally for the prudent management of their financial affairs (s1 & s12 of the Local Government Act 2003). They may also acquire property either inside or outside of their administrative area for the purposes of any of their functions, including their investment functions, or otherwise for the benefit, improvement or development of their area (s120 of the Local Government Act 1972). Lastly, they may also take any action (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions, which would again include their investment functions (s111 of the Local Government Act 1972).

The Council can also build and manage an investment portfolio under the general power of competence (set out in s1 of the Localism Act 2011). In accordance with this Act, the Council has all the necessary powers to purchase assets inside or outside the District (or the UK) and manage them for investment and commercial gain.

For South Norfolk Council the acquiring of Commercial Property Assets has been first and foremost for economic development and to encourage economic growth within the district. The development of business centres within the residential developments built by the Council's wholly owned development company Big Sky Developments Ltd were to enable people to live and work within the same locality. The building of Ella May Barnes on spec was to encourage growth and further development at Norwich Research Park and to offer grow on space for developing companies. The generating of rental income is therefore a secondary purpose, although an important one, in supporting the Council's revenue budget.

It should be noted that on 20 December 2021 CIPFA published revised Treasury Management and Prudential Codes, with formal adoption not required until the 2023/24 financial year. These together with The Treasury terms of borrowing from the Public Works Loan Board (PWLB) prohibits Councils from borrowing to buy capital assets purely and primarily for a commercial return. The Council's Treasury Management Strategy provides further detail in respect to this.

2.2 Risks and Returns

At its simplest, property is an investment in land and/or a building giving the investor a return as rental income and/or capital value growth. Capital growth may come over time by holding the asset or be driven by asset management initiatives. Risks and returns in property investment come both at a market level and from individual asset choice. The choice of location and the choice of property sector influences the risks and returns associated with any investment. High growth economies offer the potential of property values increasing in line with higher rates of growth in GDP, but they may also represent higher risk with anticipated future growth already factored into prices being paid. At an individual asset level, there are asset specific risks and opportunities. Asset specific events, such as the loss of an important tenant, illustrate such risks. The two components of property investment returns (rental income and capital growth) are very different.

- **Rental Income** - The bond-like rental income return tends to be stable and reliable showing little volatility. Over 25 years the rental component of the MSCI UK Monthly Property Index has never exceeded 10% per year or dropped below 5% per year. The Investment Property Forum (IPF) are currently predicting a 5 year average 5.6% per year total return. Rental income also has a linkage with inflation. In some leases, this may be expressed contractually with rents increasing with inflation (albeit with caps or collars to the increases). With others, triennial or quinquennial rent reviews will tend to follow inflation. In difficult economic times, rents tend to fall on re-letting. It is also expensive to hold empty property as, for example, there can be security costs or business rates may be payable if there are not any reliefs to mitigate these costs. Rental income can be more volatile in secondary locations with little tenant demand as landlords may tend to let them at whatever price they can to avoid the overhead of empty properties.

- **Capital Growth** - The equity-like capital growth component of property returns can be volatile. Property prices do not show rapid price fluctuations of quoted equities, but on a longer time scale, price movements can be just as severe. The IPF forecast the five-year annualised capital value growth at 0.7%, which takes into account the reduction in 2023 of 5% and forecasting 0.1% growth in 2024, returning to more expected growth figures of around 3% in 2025. Asset management and development activity can drive property returns in a manner less correlated with general property market/index returns, but such activity also involves an acceptance of greater potential risks.

In practice, property investments can be structured to create a range of different risk/reward profiles from stable bond-like annuity income performance to volatile equity-like development returns.

2.3 Approaches to Investing in Property

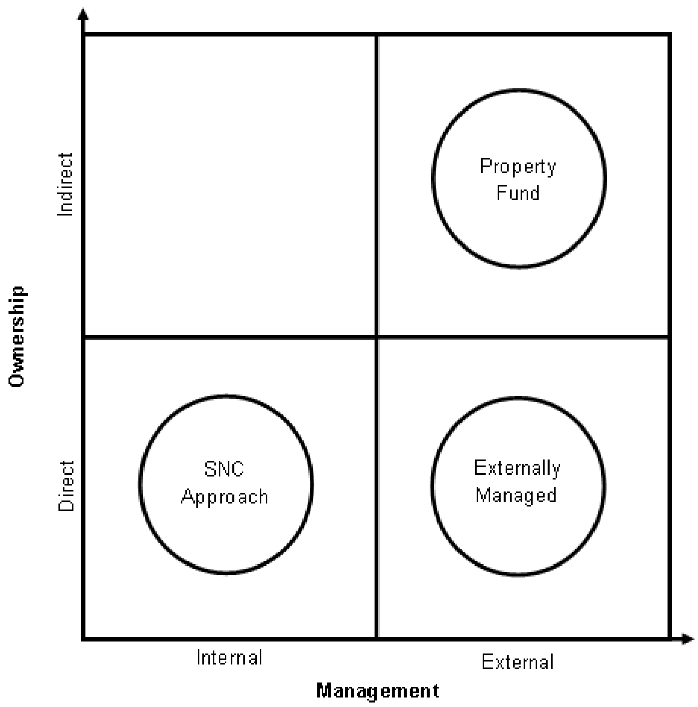
There are a range of approaches to investing in property assets – each with their own advantages and disadvantages. The simple framework below is intended to provide a framework for thinking about these based on two broad perspectives (ownership and management). The positioning of the Council is shown - which is based on both direct ownership and direct management, utilising the expertise in the Council's wholly owned Big Sky to manage investments properties. This is an explicit choice of the Council, and the respective pros and cons of this choice are identified.

Pros:

- Ownership of property assets
- Achieve direct returns
- Control over property decisions
- No fund management costs

Cons:

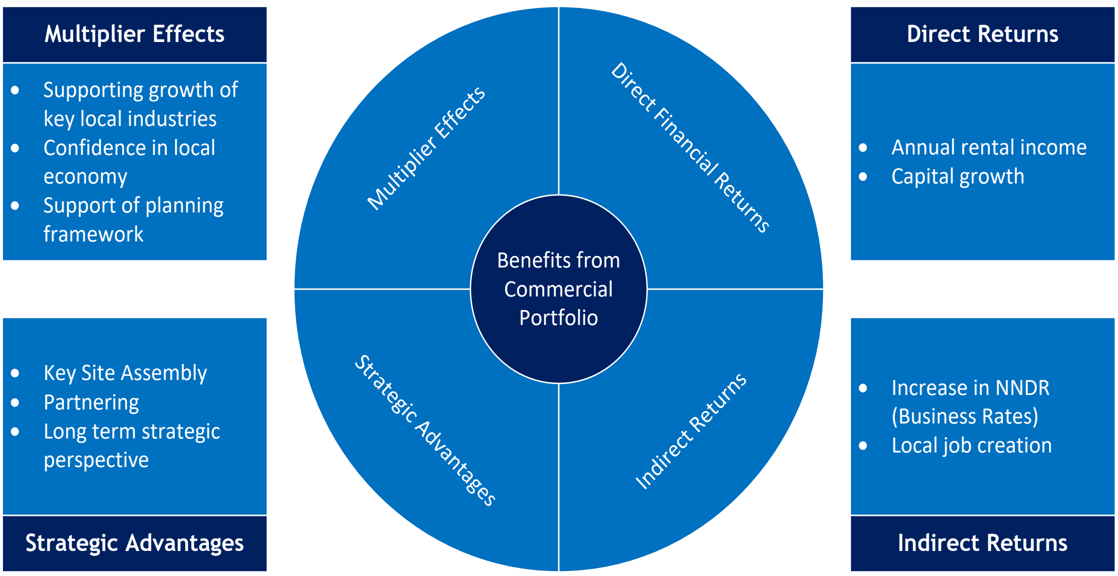
- Large Investment per property
- Reliance on own expertise
- Management time & expesne
- Relative lack of liquidity



The advantage of this approach is that the Council retains direct ownership of the assets with any returns coming direct to the Council. The Council in conjunction with Big Sky, also retains control over decision making on individual properties and the portfolio as a whole; including the flexibility over if, and when, to liquidate assets to generate capital. With this approach there are no fund costs associated with other parties holding and managing properties on the Council's behalf. Conversely it may require large incremental costs to participate in property investments (to acquire property) and requires a degree of capacity and expertise within the Council (or to have access to it) to manage the portfolio. There can be a large amount of staff time (and thus cost) tied-up in managing the portfolio and there is a relative lack of liquidity in comparison with other forms of property investment.

2.4 Benefits from Investing in Commercial Property

The range of benefits that can arise from the commercial portfolio are more than simple direct financial returns, for South Norfolk Council the economic benefits of providing commercial property is primary. The diagram below summarises the range of benefits that can be realised and the combination of these need to be born in mind when managing the portfolio. The relative priority given to these benefits needs to be considered as part of acquisition and review decisions on the portfolio. There is opportunity to strengthen the links between the council's commercial property portfolio and its economic development role.



3 Strategic Context

3.1 Changes to Operating Landscape for Local Government

Local government is re-inventing itself with the whole process of democracy, accountability and service delivery changing. There are a range of influences which may have an impact on how the Council manages its commercial portfolio.

- ***Financial Independence*** – Local Government continues to face financial pressure, as real terms funding decreases, especially with the impact of high inflation rates in recent years. There is still uncertainty over the long-term funding of Councils, especially around the retention of business rates scheme and New Homes Bonus. The sector continues to call for multiyear settlements to provide some level of certainty. Alongside a real terms reduction in funding, there has been an increase in demand for services especially following Covid and the impact of high inflation on households. It is imperative therefore that Councils find alternative income to mitigate the funding gaps in Councils medium term financial plans. This will require councils to continue be more innovative and commercial in how they generate funds to support local services and provides a strong impetus for the council to grow the income it secures from the commercial portfolio – both through improved management and acquisitions to enhance the portfolio.

- ***Formal Approach*** - The principle of using property returns to fund front line services is not new with many local authorities actively involved to a greater or lesser degree for many years. However, historically investment in commercial property investment by local government has not necessarily been on a structured or formal basis. However, with the changing operating climate and an imperative to increase income generation there will increasingly be a need to adopt a more formal approach to ensure compliance with financial statutes and a proper focus on the performance of the commercial portfolio.

- ***Capacity & Expertise*** – Constraints in public expenditure are inevitably meaning there are likely to be increasing pressures on the number of staff over the short to medium term. Managing the commercial portfolio requires some capacity and a specific sort of expertise which may be in short supply.

- ***Partnership Working*** – Increasingly councils will need to work with other public bodies to provide coherent services to the public whilst minimising ‘back office’ costs. This may provide the Council with an opportunity to offer its services to others from its cumulative expertise to date in managing the commercial portfolio. There may also be a drive to unify such expertise into a ‘shared service’ type model – particularly if similarly sized councils in the region are embarking on a similar approach to income generation through their commercial portfolios.

3.2 Market Outlook

National Outlook – commercial property returns tend to be linked to national economic performance and to the relative prosperity of the economy. UK commercial property investment volumes were subdued throughout 2023. However there are indications that 2024 will see confidence returning among investors. The following report from property experts CBRE are typical of the outlook across the property sector.

“Investment returns for real estate should improve in 2024, following 18 months of challenging market conditions. While the prospects for yield-driven capital growth appear limited, income returns will underpin an improvement in total returns, and a falling inflation rate increases the likelihood of positive real returns from property investments.

The divergence in performance across property types is likely to persist in 2024. The industrial and residential sectors are likely to benefit from better near-term prospects for rental growth and a greater investor appetite, while the office and retail sectors will continue to see polarisation based on the quality of assets.

Obsolescence of older office and retail assets will be a key challenge for the UK real estate market next year. The fall in values and rise in financing costs since mid-2022 will reduce opportunities to profitably refurbish or repurpose older stock until market conditions improve. This could impact progress towards more sustainable, lower carbon investment portfolios.

Real estate investment activity should increase in 2024 relative to 2023. However, investment volumes in cash terms will take more time to recover as investors trade at lower price levels in the wake of the downturn. Market conditions will provide investors with equity and the chance to execute counter-cyclical investment strategies.

Real estate debt markets will generate further headlines next year as more loans from the pre-pandemic period approach maturity. Higher interest rates will constrain how much lenders are prepared to lend at refinancing, and so some distress will emerge where existing loans cannot be replaced and more equity from the borrower is not available."[1]

The commercial portfolio does, however, need to be seen over this longer term as reacting to short term market changes can be expensive. In this context it will be important to balance a one-year budget cycle and the income required for this with the longer-term perspective that is required for managing the commercial portfolio.

The changing nature of the economy – globalisation; use of technology for mobile working and the trend to work from home following the lifting of the Covid restrictions have seen a reduction in the demand for larger accommodation but an increase in the demand for smaller accommodation. This is yet to fully work through existing agreements and is likely to change again as business continues to achieve a post-Covid normal. This is a good example of how unforeseen events can impact on the demand for different types of buildings. As business became more 'fleet of foot' it demonstrated a need for different types of occupying terms for companies to give them such flexibility whilst ensuring a suitable return.

Local Outlook

South Norfolk land use is mainly devoted to agricultural uses. There are more than 5,645[2] active businesses in the district with over 90% employing five or fewer people. Within the public sector there are some major employers including the Norfolk and Norwich University Hospital and Norfolk Constabulary Headquarters. The Council has worked closely in the past with the New Anglia Local Enterprise Partnership (NALEP) to secure inward investment to the local area and to promote the Cambridge Norwich Tech Corridor for businesses to bring inward investment to the area. The Council is focusing on continued development of high performing clusters; Agri-food and Life Sciences, Manufacturing and Engineering, Visitor Economy and Cultural Sectors. In addition there are growth clusters in Finance, Insurance and Professional Services, and Clean Energy and Technology which are being supported. The Council has identified a lack of warehouse space in the area and also move on space for startups and expanding businesses.

[1] UK Real Estate Market Outlook 2024 | CBRE UK Chapter 2 Investment 7 December 2023

[2] South Norfolk Council Economic Growth Strategic Plan 2022-2027 Summary https://www.southnorfolkandbroadland.gov.uk/downloads/file/5288/south-norfolk-council-economic-growth-strategic-plan-summary

3.3 Resource Context

Over the past years the Council has increased the return from its commercial property to reduce the impact of government funding reductions. Going forward, South Norfolk Council, likes most Councils, continues to face a funding gap over the medium term. The Council seeks to close this funding gap through a combination of additional income and costs savings as a result of productivity increases and use of technology. It is important that the current commercial portfolio performs to its optimum in relation to the income generated from rents. The five-year capital programme contains investment in two GP Surgeries that will not only provide a return to the Council but also provide much needed healthcare infrastructure. Any other investment in commercial property would need to be balanced against the Council's wider capital programme. It is therefore likely that any further investment in commercial properties would be as a result of reinvesting the proceeds from selling existing commercial property.

3.4 Looking Further Ahead

Given the operating and resource context identified above, it is important to have a medium perspective (5 years) for the commercial portfolio. Looking to the longer term, over and above this, raises some specific issues that may need to be considered as the commercial portfolio matures. These are identified briefly below:

- ***The ambitions of the Council*** – The Council needs to ensure its commercial property portfolio continues to deliver a healthy return that supports the Council's revenue budgets. Apart from two new GP surgeries that are to be delivered over the next five years, any further investment will be as a result of selling existing property to reinvest the proceeds to improve the return. There is a need for Big Sky to maintain the capacity and expertise to manage the portfolio.

- ***Geographical scope*** – whilst the current operating parameters for the commercial portfolio are restricted to the South Norfolk area and its immediate surroundings this may prove a limiting factor because of the available stock locally and likely returns from locally based assets in comparison with other areas when set against high expectations of the Council in terms of long-term -growth of the portfolio. There is likely to be a choice around 'investing in the area' or 'investing in property'. It is anticipated that the Council will maintain its position of investing within its own district rather than widening its scope of operation to, for example, the wider Norfolk and Suffolk area. Investing in commercial property beyond its own boundaries would only be considered if the opportunity was exceptional and contributed towards other Council priorities beyond making a good financial return.

- ***Portfolio balance*** – The current mix of property assets is a legacy of acquisition decisions over the past five years and taking opportunities which have arisen. With limited future growth in the size of the portfolio, the Council will need to undertake a re-appraisal of the portfolio mix to ensure the portfolio is balanced and mitigates the risk of having invested in singular asset types.

- ***Management arrangements*** – The Council has now been using Big Sky to manage its commercial portfolio for the last 6 years. The skills to manage a commercial portfolio are not abundant within the Council itself. There is a requirement to ensure adequate capacity, expertise, and resilience in managing the portfolio continues and from time to time this needs to be reviewed.

At the current time the commercial portfolio makes a significant contribution to the Council's revenue budget, however, with the exception of potentially two GP surgeries, there is limited investment in new properties contained with the Council's five-year capital programme that would also be classed as commercial properties. It is important that the portfolio is kept under review to take up any opportunities that arise to dispose of any properties and to reinvest the proceeds to improve the return on the investment.

4 Understanding the Commercial Portfolio

4.1 Financial Outturn

The financial income and expenditure profile covering the last three financial years below to 2022/23 is set out below.

3 Year Income and Expenditure Profile			
	2020/21	2021/22	2022/23
Gross Income	£490,567	£503,590	£558,807
Expenditure	-£118,435	-£76,496	-£90,323
Net Income	**£372,132**	**£427,094**	**£468,484**

4.2 Portfolio Balance

The units are a mix of asset types. These are briefly summarised in the table below. As can be seen there is a predominance of office units.

Sector	Number of Units	Rental Income p.a. (£)[1]	Portfolio Weighting by Income (%)	Capital Value (£)[1]	Portfolio Weighting by Value (%)	Yield
Industrial	21	270,000	48%	4,141,400	36%	6.5%
Office[2]	55	238,807	43%	4,204,300	37%	5.7%
Research[3]	2	0	0%	2,589,200	23%	
Retail	2	50,000	9%	532,300	5%	9.4%
Total		**558,807**		**11,467,200**		6.3%

Note 1 – Values as at 31/03/2023, please note these differ to the rents shown in 1.2 above due to the different dates.
Note 2 – EMB no income at 31/03/23

4.3 Rent and Lease Profile

The portfolio is also made up of a mix of leases in terms of the quantity of rent and the length of lease with a predominance of smaller rents per annum (because of the small unit sizes). As can be seen from the table below, there is a spread across the years, which assists with smoothing income volatility, increased void and re-letting costs. It is also likely that some of these leases will continue beyond their assumed expiry date, helping also to mitigate these risks. Longer lease terms contribute to higher capital values, however, so if portfolio churn is a desired way to realise financial returns, then the Council should consider securing longer lease terms compared to the profile presented below.

Rent per annum from leases with unexpired terms falling within the following bands (as at 05/03/2024)						
Less than 1 year	1 – 5 years	5 - 10 years	10 – 25 years	25 – 99 years	99 – 125 years	Over 125 years
£242,460	£249,129	£101,940	£200,000	£49,173	£26,000	£0

5 Managing the Portfolio

5.1 Aims and Objectives

Building upon the previous commercial property strategy it is relevant to reaffirm the Council's aims and objectives in having a commercial property portfolio. These are described in the table below.

Aim
To acquire and manage commercial investment properties (the commercial portfolio) primarily to support the Council's delivery of its priority in ensuring the economic prosperity and well-being of South Norfolk. Secondary to this is to provide an income to support the Council's revenue budget
Objectives
• Primarily to provide commercial property that contributes towards the economic growth and development of South Norfolk Council. Secondarily: • To acquire and hold properties that can provide long term income or capital growth. • To maximise returns whilst minimising risk through effective governance arrangements. • To prioritise investment towards properties that can provide strong stable long-term income. • To maintain and enhance the condition of properties to ensure long term income strength or income growth.

It should be recognised that the overall aim has a twin purpose – firstly to promote economic prosperity and local well-being and secondarily to create a financial return - and that from time to time these may be in conflict. The pursuit of the primary aim of socio-economic benefits (through, for example, supporting job creation) may in some cases dilute the pure financial part, however in these situations the primary aim has to take precedence and the long-term view has to be given consideration.

Acquisitions and disposals relating to the commercial portfolio, whilst needing to be consistent with the Council's financial standing orders, may also from time to time need to be taken quickly. This is likely to be in the case of acquisition where to secure a good investment asset may require timely intervention both to acquire the asset and to negotiate the best price.

The Development Director of Big Sky along with the Assistant Director of Economic Development, along with external consultant advice where appropriate, will undertake an options appraisal and business case assessment in order to make a recommendation to the Corporate Leadership Team (CLT) around an identified acquisition. Subject to this initial work and briefing, Big Sky will be given delegated authority to express an interest and negotiate subject to formal approval by the CLT and sign off by the Portfolio Holder and Cabinet. This will allow a timely response to identified opportunities for investment which may require action at short notice due to property market conditions. Given the timescales involved it is recognised that the Council may have to make use of its emergency decision making powers and process in some instances. In all cases an option appraisal and business case should be developed and considered prior to a legal commitment to acquire an asset.

5.2 Operating Principles and Criteria

To manage the portfolio effectively it is important to have a set of explicit operating principles; a clear rationale for holding each asset and an understanding of the expectations, (financial or otherwise) from managing it. To do this the Council has a set of basic operating principles as shown below and a simple framework for assessing the portfolio in terms of acquisition, performance and disposal.

Operating Principles
• The Council will retain direct ownership of all its commercial property assets. • The Council will utilise Big Sky to undertake the management of the commercial portfolio (as a landlord) • The geographical operating scope of the portfolio will be restricted to the South Norfolk administrative area. • The Council will seek to retain a 'balanced' portfolio through its mix of asset types and lease lengths with emphasis on industrial, office and retail uses. • Preference will be for full repairing and insuring (FRI) terms or FRI by way of service charge, meaning that all costs relating to occupation and repairs are borne by the occupier(s) during the lease term. • All assets will be reviewed periodically during their holding period to determine whether they are still contributing to the economic prosperity and well-being of South Norfolk, their performance and to allow for buy/sell/hold decision making.

In practice this will mean making judgements around the acquisition and disposal of assets; the portfolio structure; the holding period for individual assets; and the performance of the portfolio. A framework for assessing individual assets and the total portfolio, is given in Appendix B.

- Acquisitions & Disposals – The management of the portfolio will from time to time require some acquisitions and disposal of individual assets. These must be undertaken in accordance with the Council's financial procedures; but may need to be expedited quickly to take advantage of investment opportunities.

- Development – the Council will seek to invest in developing commercial investment property using its development company, Big Sky Developments Ltd or in partnership with other organisations, subject to a robust business case.

- Portfolio Structure – the Council will seek to create a balanced commercial property portfolio that provides long term rental returns and growth. A core portfolio of property assets will be sought with a view to diversification on individual assets by sector (industrial, offices and retail), location and risk.

- Portfolio mix – the Council will seek to maintain a balance between Office, Industrial and Retail assets with a guideline approach of maximum of 50% (by capital value) of any class except shops which is limited to 10% due to the current risk exposure around retail. The Council will seek to avoid investing in specialist asset types (such as hotel & leisure) or distressed property requiring extensive capital expenditure unless significant returns can be generated.

- Holding Period for Assets – The Council will determine a 'holding period' for each property at acquisition and periodic review. This is to counter any significant depreciation eroding the value and to ensure a formal periodic review of the rationale for holding and performance of individual assets.

- Measuring Performance – Individual assets and the portfolio as a whole, will need to be subject to periodic performance assessment.

5.3 Day to Day Portfolio Management

Effective day to day management of the portfolio is critical to its overall the performance. This management needs to happen at both a strategic and operational level. They key activities include:

At a strategic level

- Refresh of strategy and measurement of performance.
- Effective financial management including rent collection.
- Effective void management related to performance targets.
- Effective planned preventative maintenance programmes.
- Identifying new investment opportunities.
- Competitive portfolio management costs.
- Ensure there is a regime of planned maintenance and statutory compliance.

At a property level

- Preparation of strategies for individual properties.
- Identifying opportunities for improvements to property to add value.
- Identifying 'marriage value' arising from acquisition of adjoining properties.
- Identifying properties for disposal where performance prospects are poor.
- Ensuring premises are secure and safe.

5.4 Performance Criteria

Alongside the performance criteria below, the contribution towards the prosperity and well-being of South Norfolk also needs to reviewed at both an individual property level but also for the portfolio. This assessment will include a number of economic measures such as jobs, sector analysis and growth of businesses occupying the properties together with any social benefits.

The performance indicators for the portfolio should be based on industry benchmark standards. These should be measured at an individual property and whole portfolio level with indicative targets set for each.

Indicator	Target
Rate of Return	5%
Revenue Growth (over 5 years)	5%
Capital Growth (over 5 years)	10%
Rent Arrears as percentage of rental income	<10%
Management & Ownership Costs (as a % of gross income)	18%
Occupancy	85%

Note: These are an initial list of possible performance indicators, which will be defined more fully in use.

The Rate of Return is perhaps the single most important performance indicator, and this can be judged against MSCI indices (Morgan Stanley Capital Investment) which is generally considered to be the most authoritative benchmarking index. However, given that the Council's property investments are held to provide an investment return, it is important to also consider the opportunity cost of holding property assets instead of other types of investment (e.g. cash, bonds). There will need to be a balance between short and medium term perspectives of portfolio performance. Whilst there is a financial requirement for income in setting an annual Council budget, properties are longer term investments which can fluctuate in the short term due to specific circumstances but will tend to provide stable longer-term returns. A degree of judgement will need to be used in evaluating the response to portfolio performance.

6 Implementing the Strategy

6.1 Action Plan

Looking forward there are two planned buildings that will become part of the Commercial Portfolio once constructed. These are detailed in the table below. The actions are referenced to the Council's Corporate Plan priorities and are contained within the Delivery Plan. The anticipated funding implications and timing of these buildings are identified based on the current information available.

Actions	Links to Corporate Plan Priorities & Delivery Plan				Timing & Funding	
	Enhancing our Environment	Growing a prosperous economy	Enriching our communities	Moving with the times	Indicative Timing (completed by)	Funding Allocation (if known)
• Undertake a planned maintenance survey to identify the annual planned maintenance required to maintain the commercial assets which are not on a FRL. The surveys to cover a 25-year period				✓	2026/27	
• Undertake a strategic review once the cost of ongoing maintenance is known to establish what opportunities are available to improve both the socioeconomic benefits and the overall return from the portfolio. Taking into account the portfolio mix and balance				✓		
• Delivery of Diss Surgery			✓		2026/27	£4,000,000
• Delivery of Hethersett Surgery			✓		2026/27	£6,538,000

6.2 Capacity to Deliver and Risks

Effective management of a commercial portfolio in an entrepreneurial way requires a mix of skills including, but not restricted to buildings surveying, valuation, market intelligence, legal and financial and day to day operational management of buildings, including tenant liaison.

When considering the potential for the Council being active in the property investment market and managing its portfolio there are a number of key risks that the Council needs to be aware of:

- Acquisition – There is a likelihood as the market becomes stronger that there will be increased competitive activity for the relatively small pool of high-quality investment properties in the area. This means it is highly likely that the Council will be one of several bidders for any good-quality assets available in the area and that from time to time it is likely that the Council will be an unsuccessful bidder. The Council, both councillors and officers, needs to be aware of this possible outcome. Due to the nature of the property market, decisions may also need to be taken quickly in order to put offers forward. Of course, offers can be subject to conditions and due diligence before proceeding to instructing legal advisors.

- Costs - Abortive costs, including legal costs, survey fees, officer time, all may be incurred in abortive transactions including costs for initial feasibility investigations. There may also be a lack of suitable sites / buildings of the quality the Council may wish to acquire or to ensure balance in its portfolio.

- Market risk - Property is an inherently riskier asset than other asset classes because of its physical characteristics, which need to be managed and maintained. This is ideally compensated by increased returns. However, the property market is not a certain market, and the Council may not achieve its target returns if market conditions significantly worsen. Many investment transactions happen prior to ever coming to the market. Information is key and getting to know about properties for sale is important, this can be done through contacting property owners and agents in the area and also engaging a specialist investment agent to act on the Council's behalf from time to time.

- Liquidity - Direct property investment such as the Council's commercial portfolio is relatively illiquid compared with other investments such as gilts, equities and indirect property investments. The liquidity of direct property investment depends upon the quality of the investment, the lot size and the prevailing economic climate. During periods of economic downturn, prime properties tend to be more liquid and more resistant in terms of retaining their value.

- Opportunity - The availability of property stock for investment in the area is likely to be generally limited. It is likely as the Council seeks to review and turn round its portfolio it will from time to time be frustrated through a lack of, or lost opportunities. Part of the counter to this will be to seek out as many appropriate opportunities as possible, build relationships and communicate to the market the Council's requirement and ability to perform.

- Management – The management of a commercial portfolio requires specific skills, expertise and capacity, which will be met through the utilisation of Big Sky. The nature of the Council's portfolio of direct ownership and direct management means that it can be resource intensive. As the Council's commercial portfolio has grown so the nature of the management burden has also grown and will continue to grow if new properties are added to the portfolio. This specific issue along with knowledge of the local market opportunities is critical. Sometimes it is difficult to combine the more operational aspects of day-to-day management of the portfolio with the more strategic aspects of identifying potential investment opportunities within a single role. Big Sky have recognised this and have increased their capacity to manage the additional work that has come with the growth in the commercial portfolio.

6.3 Monitoring Arrangements

It is important to measure the overall progress in the management of the commercial portfolio. Whist the properties themselves are held for the medium to long term there needs to be monitoring over shorter timescales to reflect performance and the impact of any actions. The commercial portfolio will be kept under review by: -

- Corporate Leadership Team – to advise and seek agreement to decisions on specific actions prior to formal committee approval (e.g. acquisitions or disposals)
- An annual report on performance of the portfolio using the small number of performance indicators identified in 5.4.
- Formal review of each asset holding at least every two years using the acquisition and review criteria set out in Appendix B.
- Informal leader briefings as required.
- An update to this commercial property strategy on a periodic basis as the operating environment changes.

7 Appendix A

7.1 List of Commercial Property Assets

FAM asset ref	Asset Code	Asset Description	Op/Non Op	Asset Type	Valuation Basis	AMP Cat 2024	NBV at 31/03/23
646	NRP001A	Ella May Barnes Building - Land	Non Operational	INV PROP	EUV	Offices (Commercial)	776,760.00
647	NRP001B	Ella May Barnes Building -Building	Non Operational	INV PROP	EUV	Offices (Commercial)	1,812,440.00
216	COS020A	Dereham Road, Costessey Caravan Site	Non Operational	INV PROP	FV	Caravan Site	291,300.00
309	COS020B	Dereham Road, Costessey Caravan Site	Non Operational	INV PROP	FV	Caravan Site	-
217	DIC008A	Rectory Road, Dickleburgh - Agricultural Land	Non Operational	INV PROP	FV	Land for rent	1,347,500.00
257	DIS047A	Park Road Diss - Land - Bus Depot Diss	Non Operational	INV PROP	FV	Land for rent	52,400.00
300	DIS047B	Park Road Diss - Land - Bus Depot Diss	Non Operational	INV PROP	FV	Land for rent	-
290	DIS077A	13 Vincess Road, Diss	Non Operational	INV PROP	FV	Industrial	86,000.00
291	DIS077B	13 Vincess Road, Diss	Non Operational	INV PROP	FV	Industrial	129,000.00
292	DIS078A	9-11 Mere Street, Diss	Non Operational	INV PROP	FV	Retail	186,305.00
293	DIS078B	9-11 Mere Street, Diss	Non Operational	INV PROP	FV	Retail	345,995.00
294	DIS079A	Unit 5b Owen Road Diss IP22 4ER	Non Operational	INV PROP	FV	Industrial	44,600.00
295	DIS079B	Unit 5b Owen Road Diss IP22 4ER	Non Operational	INV PROP	FV	Industrial	66,900.00
296	DIS080A	15 Vincess Road, Diss	Non Operational	INV PROP	FV	Industrial	84,640.00
297	DIS080B	15 Vincess Road, Diss	Non Operational	INV PROP	FV	Industrial	126,960.00
298	DIS081A	9 Park Road Diss	Non Operational	INV PROP	FV	Land awaiting development	22,100.00
299	DIS081B	9 Park Road Diss	Non Operational	INV PROP	FV	Land awaiting development	-
341	DIS082A	Unit B17 Owen Rd Diss - now includes Unit B19	Non Operational	INV PROP	FV	Industrial	179,800.00
341	DIS082B	Unit B17 Owen Rd Diss - now includes Unit B19	Non Operational	INV PROP	FV	Industrial	269,700.00
342	DIS083A	Unit B19 Owen Rd Diss - now included in Unit B17 Valuation	Non Operational	INV PROP	FV	Industrial	-
342	DIS083B	Unit B19 Owen Rd Diss - now included in Unit B17 Valuation	Non Operational	INV PROP	FV	Industrial	-
258	GIS001A	Gissing - Residential Development	Non Operational	INV PROP	FV	Land for rent	278,100.00
219	HAR037A	Rushall Road, Harleston - Agricultural land	Non Operational	INV PROP	FV	Land for rent	1,738,600.00
335	HAR048A	Unit 18A Harleston	Non Operational	INV PROP	FV	Industrial	216,520.00
367	HAR048B	Unit 18A Harleston	Non Operational	INV PROP	FV	Industrial	324,780.00
343	HAR049A	Unit 19A Harleston	Non Operational	INV PROP	FV	Industrial	98,240.00
368	HAR049B	Unit 19A Harleston	Non Operational	INV PROP	FV	Industrial	147,360.00
220	KET003A	Ketteringham Depot-Unit 1 & 2 Station Lane	Non Operational	INV PROP	FV	Industrial	109,480.00
221	KET003B	Ketteringham Depot-Unit 1 & 2 Station Lane	Non Operational	INV PROP	FV	Industrial	164,220.00
369	LOD019A	Loddon Business Centre	Non Operational	INV PROP	FV	Offices (Commercial)	158,845.00
222	LOD019B	Loddon Business Centre	Non Operational	INV PROP	FV	Offices (Commercial)	335,555.00
500	LST061A	Cob Lodge - Maple Park - Land	Non Operational	INV PROP	FV	Offices (Commercial)	17,430.00
613	LST061D	Cob Lodge - Maple Park - Building	Non Operational	INV PROP	FV	Offices (Commercial)	40,670.00
612	LST061C	Trumpeter House - Land	Non Operational	INV PROP	FV	Offices (Commercial)	279,210.00
593	LST061B	Trumpeter House - Building	Non Operational	INV PROP	FV	Offices (Commercial)	651,490.00
264	POR003A	Crafton House Land	Non Operational	INV PROP	FV	Offices (Commercial)	469,620.00
519	POR003B	Crafton House - Building	Non Operational	INV PROP	FV	Offices (Commercial)	1,095,780.00
		Shotesham Road, Poringland - Commercial Development Land	Non Operational	INV PROP	FV	Land awaiting development	400,000.00
267	SWN001A	Garden Plot, Station Close, Swainsthorpe	Non Operational	INV PROP	FV	Land awaiting development	200.00
228	WYM094A	Wym - Ayton Road - A368	Non Operational	INV PROP	FV	Industrial	50,426.62
228	WYM094B	Wym - Ayton Road - A368	Non Operational	INV PROP	FV	Industrial	75,639.92
229	WYM095A	Wym - Ayton Road - A369	Non Operational	INV PROP	FV	Industrial	22,167.40
229	WYM095B	Wym - Ayton Road - A369	Non Operational	INV PROP	FV	Industrial	33,251.11
230	WYM096A	Wym - Ayton Road - A370	Non Operational	INV PROP	FV	Industrial	43,770.75
230	WYM096B	Wym - Ayton Road - A370	Non Operational	INV PROP	FV	Industrial	65,656.13
231	WYM097A	Wym - Ayton Road - A371	Non Operational	INV PROP	FV	Industrial	28,541.24
231	WYM097B	Wym - Ayton Road - A371	Non Operational	INV PROP	FV	Industrial	42,811.86
232	WYM098A	Wym - Ayton Road - A372	Non Operational	INV PROP	FV	Industrial	68,984.07
232	WYM098B	Wym - Ayton Road - A372	Non Operational	INV PROP	FV	Industrial	103,476.10
233	WYM099A	Wym - Ayton Road - A373	Non Operational	INV PROP	FV	Industrial	31,925.57
233	WYM099B	Wym - Ayton Road - A373	Non Operational	INV PROP	FV	Industrial	47,888.37
234	WYM100A	Wym - Ayton Road - A374 & A375	Non Operational	INV PROP	FV	Industrial	68,645.63
234	WYM100B	Wym - Ayton Road - A374 & A375	Non Operational	INV PROP	FV	Industrial	102,968.44
235	WYM102A	Wym - Ayton Road - A376	Non Operational	INV PROP	FV	Industrial	37,396.92
235	WYM102B	Wym - Ayton Road - A376	Non Operational	INV PROP	FV	Industrial	56,095.39
236	WYM103A	Wym - Ayton Road - A377	Non Operational	INV PROP	FV	Industrial	125,333.27
236	WYM103B	Wym - Ayton Road - A377	Non Operational	INV PROP	FV	Industrial	187,999.90
237	WYM104A	Wym - Ayton Road - A378	Non Operational	INV PROP	FV	Industrial	66,333.00
237	WYM104B	Wym - Ayton Road - A378	Non Operational	INV PROP	FV	Industrial	99,499.50
238	WYM105A	Wym - Ayton Road - A379	Non Operational	INV PROP	FV	Industrial	29,556.54
238	WYM105B	Wym - Ayton Road - A379	Non Operational	INV PROP	FV	Industrial	44,334.81
239	WYM106A	Wym - Ayton Road - A380	Non Operational	INV PROP	FV	Industrial	186,758.98
240	WYM106B	Wym - Ayton Road - A380	Non Operational	INV PROP	FV	Industrial	280,138.48
241	WYM113A	Eleven Mile Lane, Suton, Wymondham - Paddock Land	Non Operational	INV PROP	FV	Land for rent	25,200.00
270	WYM118A	Friarscroft Lane, Wymondham - Development Potential	Non Operational	INV PROP	FV	Land awaiting development	887,500.00
243	WYM122A	Former Wym Town Council, 14 Middleton St	Non Operational	INV PROP	FV	Offices (Commercial)	88,860.00
244	WYM122B	Former Wym Town Council, 14 Middleton St	Non Operational	INV PROP	FV	Offices (Commercial)	207,340.00
245	WYM153A	21 Penfold Drive, Gateway 11, Wymondham NR18 0WZ	Non Operational	INV PROP	FV	Industrial	77,440.00
246	WYM153B	21 Penfold Drive, Gateway 11, Wymondham NR18 0WZ	Non Operational	INV PROP	FV	Industrial	116,160.00
301	WYM156A	Friarscroft Lane, Wymondham - Garden Lane Rear of 23-37	Non Operational	INV PROP	FV	Land for rent	90,000.00
247	DIS030A	4 x Garages Thomas Manning Road	Non Operational	INV PROP	FV	Garages	60,700.00
310	DIS030B	4 x Garages Thomas Manning Road	Non Operational	INV PROP	FV	Garages	60,700.00
248	DIS072A	3 x Garages Chapel Street Diss	Non Operational	INV PROP	FV	Garages	59,450.00
311	DIS072B	3 x Garages Chapel Street Diss	Non Operational	INV PROP	FV	Garages	59,450.00
249	XXX003A	Plots in Long Stratton [11 plots?} not in use?	Non Operational	INV PROP	FV	Land for rent	1,900.00
312	XXX003B	Plots in Long Stratton	Non Operational	INV PROP	FV	Land for rent	-
684	ROX001A	Roxborough House - Land	Non Operational	INV PROP	FV	Offices (Commercial)	346,710.00
727	ROX001B	Roxborough House - Building	Non Operational	INV PROP	FV	Offices (Commercial)	808,990.00
						Total	**17,138,500.00**

7 Appendix B

7.2 Acquisition and Review Criteria for Commercial Property Assets

Criteria	Scoring					
	5	4	3	2	1	**Score**
	Very good	Good	Acceptable	Marginal	Poor	
Location	Major prime	Micro Prime	Major Secondary	Micro Secondary	Tertiary	1-5
Tenancy Strength	Single Tenant with strong financial covenant	Single Tenant with good financial covenant	Multiple Tenants with strong financial covenant	Multiple Tenants with good financial covenant	Tenants with unstable or poor financial covenant	1-5
Tenure	Freehold	Lease 125 years plus	Lease between 50 & 125 years	Lease between 20 & 50 years	Lease less than 20 years	1-5
Occupiers Lease Length	Greater than 10 years	Between 7 & 10 years	Between 4 & 7 years	Between 2 & 4 years	Less than 2 years or vacant	1-5
Repairing terms	Full repairing & insuring	Internal repairing – 100% recoverable	Internal repairing – partially recoverable	Internal repairing – non-recoverable	Landlord	1-5
Physical condition	'Fit for purpose'; well-maintained with no outstanding repairs	In a good condition with only limited repair issues	In a reasonable condition with limited repairs required	In a poor condition with some repairs required	In poor state of repair with significant maintenance liabilities	1-5
					Maximum Score	*30*

Note: This is an initial framework which will be updated and refined in use. The exact criteria and scoring approach is subject to review.

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