

Bolsover District Council

Executive

3rd December 2018

Corporate Commercial Property Performance Update

Report of the Leader and Portfolio Holder for Overall Policy and Strategic Planning

This report is public.

Purpose of report

- To provide Executive with a detailed analysis of the performance of the Council's non-housing property stock.

1. Report Details

- 1.1 At its meeting on 5 November, Executive considered a report concerning the development of an Investment Strategy for the Council. As an outcome of that meeting, a request was made to provide a report which provides an update with regards the performance of the existing commercial property portfolio.
- 1.2 This report sets out to inform Executive of the mix of property within the existing non-housing property stock, focusing on its overall performance, supply and demand, occupancy and vacancy rates, as well as the management tools and controls implemented to reduce the ongoing financial risk to the authority.
- 1.3 The strategic objectives of the existing commercial property portfolio are characterised by the larger investments, Pleasley Vale Mills and The Tangent Business Hub which were aimed to provide appropriate commercial accommodation to support local small businesses to develop and grow. This strategy is supported by flexible and short lease terms.
- 1.4 The management of the properties are undertaken by Property & Commercial Services including the maintenance and capital investment, advertising and marketing of vacant properties; the negotiation of new lease agreements and lease renewals; the tenancy management, including tenant covenants and obligations; as well as the maximization of income, both in terms of income generation and recovery (such as rent, services, electricity).

The Properties

- 1.5 The Council currently has a non-housing property portfolio with a value of almost £7m. Appendix A lists the portfolio that is considered within this report and managed by the Property and Commercial Services Team. Generally, the non-housing property and land portfolio in table 1 can be categorized in to five key sectors:

- Business Parks – multiple managed workspaces contained within one site
- Industrial / Storage – for industrial / warehousing / storage spaces
- Office
- Retail
- Miscellaneous – In general, property which at one time was utilized by the Council to deliver services such as small storage garages, the former contact centre buildings, etc.

Key sites

- 1.6 The majority of the commercial property portfolio is at two key sites, Pleasley Vale Business Park and The Tangent Business Hub. Together they comprise of a mixture of industrial warehousing, storage units, workshops and offices. These sites serve to meet the needs of a wide variety of end user, offering a range of workspaces within a managed service environment. They are offered on 3-year 'easy-in – easy-out' lease agreement which includes for a rolling 3-month break clause option. Within the commercial property market, there is little supply from the private sector for this type/size of accommodation on similar 'easy-in – easy-out' lease arrangements due to the low financial security for a private investor. Therefore, it often falls to the public sector to supply this type of accommodation on such lease terms to offer business growth opportunities for small and medium sized enterprises, facilitating growth opportunities within the local economy.
- 1.7 The acquisition of The Arc as the Council Offices provided an opportunity to co-locate with partners following the principals of One Public Estate. As a result the site hosts a number of tenancies including the NHS, Derbyshire County Council, Alliance Electronics and Breedon House Nursery. The letting strategy at The Arc targets secure, long-term lease arrangements and co-location with partners.
- 1.8 Outside of the above sites, the remaining properties are located across the District, which are smaller in size and vary in their use, offering workshop and storage space to small and medium sized enterprises (SMEs), as well as retail units in Bolsover and Clowne. For example, the former Contact Centre buildings in both Clowne and South Normanton are now let to a veterinary practice and the Salvation Army respectively, whilst the Contact Centre in Bolsover has a lease agreement with the Department for Work and Pensions.

Occupancy and Vacancy Rates

- 1.9 When calculating occupancy rates, there can be great disparity depending on how the occupancy rate has been calculated. For example, at Pleasley Vale, if the occupancy rate is calculated based on the number of units occupied, the percentage occupancy would be 65%. However, this can be misleading as it is largely influenced by the size of the unit. Undertaking the same exercise using the amount of floor space let gives a figure of 80% occupied. Historically, reporting of occupation levels has been based upon floor area, therefore for consistency the same approach is taken in this report.

1.10 The table below shows the occupation data.

Site	Number of Units	Units Occupied	Units Under Offer	Occupancy based on units	Occupancy (Based on Floor Area)
Pleasley Vale	197	129	0	65%	80%
Tangent Business Hub	40	30	2	75% (80% including under offer)	81% (87% including under offer)
The Arc	5	5	0	100%	100%
Other	20	18	1	90% (95% including under offer)	Not known

- 1.10 **Pleasley Vale Business Park** is made up of 333,580 sq. ft. of lettable accommodation, over 204 individual units housed within 3 former textile mills. It sits within a wider site of 74 acres, which includes car parking / loading areas, extensive surrounding woodland, mill ponds and access/service roads. Of the 204 available units, 197 are in a lettable condition with only 7 being void due to their state of disrepair (totaling 3,544 sq. ft.). 129 units, totaling 268,834 sq. ft. are currently occupied under lease / license agreements. There are 68 vacant units totaling 63,255 sq. ft. currently available for let on the open market.
- 1.11 At the **Tangent Business Hub**, there is a total of 40 units totaling 26,212.15 sq. ft. of lettable floor space, comprising offices, workshops, and the recently constructed industrial units. 30 units are currently occupied with negotiations currently underway to secure a letting for 2 further units. There are 8 units currently vacant. The occupancy rate (including the 2 units under offer) for The Tangent is 87.47%* let. (*81.64% let without the 2 units under offer). The current vacancy rate at The Tangent Business Hub can be attributed to three tenants recently vacating their units to move to new larger premises, and a fourth going in to voluntary insolvency. The four companies occupied 6 units between them, and all vacated within 4 weeks of each other. These units will now be advertised and let in the coming months.
- 1.12 At the **Arc**, there are 5 available workspaces which are all leased out. Within the main building, the 2nd floor is occupied by Derbyshire County Council, whilst the former Chamber Suites 1 & 2 have recently been let to the NHS Derbyshire Community Health Service. The former construction block is fully occupied, and there is a land lease in place for Breedon House nursery. This site has no further capacity for additional occupation, and is 100% let.
- 1.13 For the '**Other**' properties, the portfolio is varied, and as such there is not a definitive sq. ft. of lettable floor space available for the purposes of an occupancy schedule. However, of the portfolio listed in Appendix 1, there are only 2 properties which are available to let at present. Oxcroft House and the Old Booking Hall, Station Road, Clowne. Oxcroft House has been advertised for letting over recent years, and whilst there has been interest, the Property and Commercial Services Team have consciously chosen not to progress a letting with the interested parties,

to ensure we were able to meet strategic objectives for the wider Former Sherwood Lodge site redevelopment. The Old Booking Hall in Clowne came back on to the market in July 2018, and already has third party interest, who is consulting planning for a change of use prior to lease negotiation.

Debt Write-offs

- 1.14 Property and Commercial Services have worked hard over recent years to introduce measures which protect the Council from exposure to the financial risk of third parties. Over the last 3 years, the lettings process has been strengthened and as a result, the team are able to assess the quality of the tenant, understand their operational activities, and undertake credit/background checks on individuals and / or companies prior to any lease completion. The business parks standard lease has also been strengthened, with the covenants protecting the Council as Landlord, as well as surety, condition schedules, and deposits all being implemented as standard practice. A summary of the write offs in recent years can be found below:
- 1.15 Over the period April 2014 – date, there has been a total of £17,685.17 written off as unrecoverable debt at Pleasley Vale Business Park. This is a total of 0.57% of the total recovered income of £3,097,359.
- 1.16 Over the period April 2014 – date, there has been a total of £1,006.56 written off as unrecoverable debt for the ‘Other’ properties. This is a total of 0.27% of the total recovered income of £373,610
- 1.17 Over the period April 2014 – date, there has been a total of £2,726.42 written off as unrecoverable debt for The Tangent Business Hub. This is a total of 0.39% of the total recovered income of £700,452.
- 1.18 There was no debt written off for the Tenants at the Arc for the total recovered income of £482,093
- 1.19 The debt which has been written off is predominately as a result of tenant companies going into liquidation. In previous years, there have been 2 tenants (1 at Pleasley and 1 at the Tangent) who have entered liquidation, and this has been unrecoverable from the liquidators due to the lack of assets. However, this risk has been reduced by holding a minimum of one month’s rent deposit, which can be used to settle any outstanding balance on the account at the time of the company being liquidated / ceasing trading. Whilst every effort is made to prevent write offs, the economic development led strategy to commercial letting as outlined in 1.3 does increase the risk of rent arrears and write offs as the aim is to support small and new businesses.

Financial summary

- 1.20 The financial management of the non-housing property and land portfolio is monitored throughout the year, with a half-year financial budget reviews in October to re-profile. Due to the expenditure often being incurred before the income recovery, it can be difficult to report financial performance part way through a financial year.
- 1.21 The table below outlines the financial performance of the commercial premises over recent years. It considers all income (rent, service charges, utilities), NNDR,

maintenance, capital works and staffing to provide a net position for the portfolio.

Year		Pleasley Vale	The Tangent	Other Properties	Staffing Costs*	Net (Profit)/cost
2015/16	Net Revenue	(252,236)	(20,397)	(45,175)		
	Capital Programme	143,976	0	9,321		
	Final Position	(108,260)	(20,397)	(35,854)	92,472	(72,039)
2016/17	Net Revenue	(162,719)	(19,938)	(78,489)		
	Capital Programme	187,947	0	8,755		
	Final Position	25,228	(19,938)	(69,734)	92,472	28,028
2017/18	Net Revenue	(191,130)	(39,876)	(60,121)		
	Capital Programme	54,777	7,889	29,052		
	Final Position	(136,353)	(31,987)	(31,069)	92,472	(106,937)

*staffing costs are at the 2018/19 salary rates and are calculated using the percentage of time/resource allocated by staff members of the Property and Commercial Services Team to these properties. They do not include a proportion of salary costs of the Senior Management Team or other department costs.

** Net revenue is the recovered income (rent, service charge, recharges for services and utilities) minus overheads (repairs and maintenance, contractors, security, cleaning, utilities, insurances, NNDR etc).

2. Conclusions and recommendations

- 2.1 The non-housing property stock consists of a variety of properties which the Council has, over years past, either acquired or changed the use of in order to generate additional income or acquired/developed to meet economic development needs, which the private sector fails to deliver.
- 2.2 The properties are currently generating a net profit to the Council, and whilst the margins are small, the income generated covers both the repairs and maintenance and the capital investment required to maintain the portfolio whilst making a return.
- 2.3 It should be noted, however, that due to the age and condition of the property portfolio, there is a continued requirement to invest in capital improvements. The capital programme is reviewed each year and investment is made based on site-to-site management. Pleasley Vale however, carries a greater risk for the requirement of substantial investment in the future due to the condition of the properties at the site.
- 2.3 There is currently a good occupation level of all the properties, with strong interest in the workshop / storage and industrial sectors as and when units become available. This can also be seen by all 7 of the new industrial workshops being let, 4 of which were 6-12 months ahead of forecast.
- 2.4 The review of the standard template lease, as well as additional measures, has strengthened the Landlord position in relation to tenant responsibilities, as well as

minimising the risk of financial exposure through the introduction of deposits, condition schedules, financial checks, and surety guarantors.

3. Consultation and Equality Impact

3.1 This report is for information purposes only and has no consultation or equality impacts arising.

4. Alternative Options and Reasons for Rejection

4.1 The purpose of this report is to provide the Executive with a detailed analysis of the performance of the Council's non-housing property portfolio. It is for information purposes only and does not include alternative options for consideration. Any work resulting from this report will be considered in further reports as required.

5. Implications

5.1 Financial and Risk implications

5.1.1 The purpose of this report is to provide the Executive with a detailed analysis of the performance of the Council's non-housing property portfolio. It is for information purposes only and does not include any new financial or risk implications. Any work resulting from this report will be considered in further reports as required.

5.2 Legal Implications including Data Protection

5.2.1 The purpose of this report is to provide the Executive with a detailed analysis of the performance of the Council's non-housing property portfolio. It is for information purposes only and does not include any new legal or data protection implications for consideration. Any work resulting from this report will be considered in further reports as required

5.3 Human Resource Implications

5.3.1 There are no human resource implications arising from this report.

6. Recommendations

6.1 Members note the information provided and determine how this can be used to assist the formulation of an investment strategy.

7. Decision Information

<p>Is the decision a Key Decision? A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: <i>BDC: Revenue - £75,000</i> <input type="checkbox"/> <i>Capital - £150,000</i> <input type="checkbox"/> <i>NEDDC: Revenue - £100,000</i> <input type="checkbox"/> <i>Capital - £250,000</i> <input type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i></p>	No
<p>Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)</p>	No
<p>Has the relevant Portfolio Holder been informed</p>	Yes
<p>District Wards Affected</p>	All (indirectly)
<p>Links to Corporate Plan priorities or Policy Framework</p>	All

8 Document Information

Appendix No	Title
Appendix A	Non-housing leased properties / assets
<p>Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)</p>	
<p> </p>	
Report Author	Contact Number
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Appendix A – non-housing leased properties / assets

Asset Description	Valuation*	Classification
Old Booking Office Station Road Clowne	£50,000	Office
Depot Bolsover	£265,000	Industrial / Storage
3 & 4 Vernon Street Shirebrook	£103,500	Industrial / Storage
Mill 2 Pleasley Vale	£597,000	Business Parks
Mill 3 Pleasley Vale	£1,385,000	Business Parks
Mill 1 Pleasley Vale	£1,018,000	Business Parks
Coach House Pleasley Vale	£46,500	Business Parks
Gardeners Lodge Pleasley Vale	£16,950	Business Parks
42 Market Place Bolsover	£40,750	Retail
8 Cotton Street Bolsover	£40,500	Retail
Oxcroft House Bolsover	£177,250	Office
2 Station Road Clowne	£27,500	Office
47 Rectory Road Clowne	£10,500	Miscellaneous
Garage R/O Hill Top Bolsover	£42,500	Miscellaneous
Ground Rent Patchwork Row Shirebrook	£21,000	Miscellaneous
Store The Square Whitwell	£36,250	Miscellaneous
11 Town End Bolsover	£145,000	Miscellaneous
Workshop Units The Arc	£425,000	Business Parks
Site of Nursery The Arc	£223,500	Business Parks
Store Clowne Market Place	£31,500	Miscellaneous
207a Main St Whaley Thorns	£46,000	Retail
207b Main St Whaley Thorns	£54,000	Retail
3 Cotton Street Bolsover Surplus	£169,000	Office
9 Church Street Clowne	£120,250	Miscellaneous
124a Market St South Normanton	£97,750	Miscellaneous
7a Rotherham Road New Houghton	£55,500	Miscellaneous
8a Cavendish Walk Bolsover	£49,000	Retail
The Tangent	£425,000	Business Parks
The Arc Investment	£734,500	Business Parks
The Tangent Industrial Units	£545,000	Business Parks
Total Property Portfolio Value*	£6,999,200	

* based on latest valuation data held