

NOT FOR PUBLICATION

Appendices A and B contain exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 as the appendices relate to the financial and business affairs of the Council and a third party.

Report to: **Executive**

Date: **6<sup>th</sup> February 2020**

Title: **Purchase of a Commercial Investment Property**

Portfolio Area: **Cllr David May – Place and Enterprise**

Wards Affected: **ALL**

Urgent Decision: **Y** Approval and clearance obtained: **Y**

Author: Chris Brook                      Role: **Director of Place and Enterprise**

                 Lisa Buckle                      **Director of Strategic Finance (S151 Officer)**

Contact: [chris.brook@swdevon.gov.uk](mailto:chris.brook@swdevon.gov.uk)  
[lisa.buckle@swdevon.gov.uk](mailto:lisa.buckle@swdevon.gov.uk)

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**Recommendations: That the Executive:**

1. Note the purchase of a commercial investment property under the delegated authority granted to the Chief Executive and the Section 151 Officer in consultation with the Executive (Minute CM 26/19).

**1. Executive summary**

- 1.1 This report outlines the recent purchase of a commercial investment property in Dartmouth.
- 1.2 In September 2018, the Council adopted a Commercial Investment Strategy (which was subsequently updated in December 2019).
- 1.3 This purchase is in line with the Commercial Investment Strategy.

## **2. Background**

2.1 The Council's adopted Commercial Investment Strategy has multiple objectives as stated below:

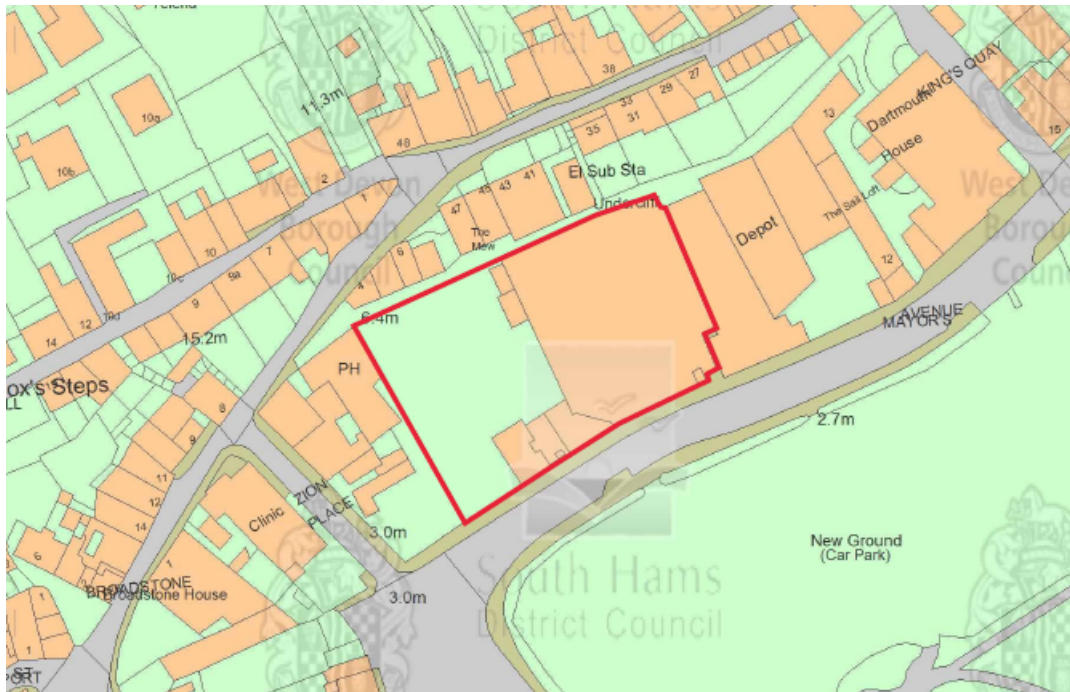
- i) To support regeneration and the economic activity of the District, the LEP area and the South West Peninsula (in that priority order)
- ii) To enhance economic benefit & create business rates growth
- iii) To assist with the financial sustainability of the Council as an ancillary benefit
- iv) To help the Council continue to deliver and/or improve frontline services in line with the Council's adopted strategy & objectives.

2.2 This property acquisition was assessed against the Council's multiple objectives and the criteria which are set out in the Strategy. Additionally, the Council will only acquire properties where the running cost does not require Council subsidy. This acquisition satisfied these requirements.

2.3 An investment opportunity was presented to the Council that met the Strategy. After initial consideration and assessment by officers, the opportunity was presented to the Executive for approval to make an offer for the property, which was given. Following a period of negotiations, terms were agreed for the Council to purchase the property.

2.4 Legal, Technical and Property due diligence was undertaken on behalf of the Council by external professional advisers. No material issues were highlighted during the due diligence process. Following confirmation from the Leader of the Council, Chief Executive and S151 Officer, that they were happy to proceed, contracts were exchanged to purchase the property on the 6<sup>th</sup> December, with completion on the 20<sup>th</sup> December.

## Photograph and Plan of the Property



### **3. Outline of the business case**

3.1 The property purchased is located in Dartmouth and therefore in the South Hams, this complies with the geographical requirement of the strategy.

3.2 The purchase price was £4,700,000 plus acquisition costs of approximately £300,000.

3.3 The purchase was funded through long term Public Works Loans Board borrowing with both the principal and the interest being repaid fully over the 50 year life of the asset.

3.4 The due diligence costs were in-line with the expectations set out in the adopted strategy (within 7%).

Full details of the investment can be found in the Exempt Appendices, key points as follows:

- 12,575 sqft retail store plus eight flats (all within one lease to the tenant, the flats are sub-let)
- Net Income Yield 1.17%
- Net income ~£60k
- The lease expires in 2031
- Good tenant covenant

### **4. Options available and consideration of risk**

4.1 This purchase presented the Council with a good opportunity to acquire a property that fitted the adopted strategy.

4.2 Should the Executive have decided not to progress this opportunity, others were likely to have arisen, but due to the constraints of the strategy, particularly geographically, the timeframes for further suitable opportunities presenting themselves were unknown.

4.3 As with the purchase of all investments there is a level of risk. This opportunity was selected as the risks are within the accepted levels in the strategy, further details are within the Business Case Template (Appendix A).

### **5. Proposed Way Forward**

5.1 The Council will now manage the property alongside the existing managed estate and other investment property.

5.2 The Council will continue to explore other commercial investment opportunities within the South Hams as they arise.

## 6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		<p>Since there is commercially sensitive information in the Appendices regarding financial information, there are grounds for the publication of the Appendices to be restricted, and considered in Exempt session.</p> <p>The public interest has been assessed and it is considered that the public interest will be better served by not disclosing the information in the Appendices. Accordingly the Appendices to this report contain exempt Information as defined in paragraph 3 of Schedule 12A to the Local Government Act 1972 (financial and business affairs of the Council and / or a third party).</p>
Financial Implications to include reference to Value for Money		<p>The investment provides a financial return in-line with the requirements of the adopted strategy. The Net Yield is 1.17%, Net income ~£60k</p> <p>The professional fees and stamp duty costs incurred in the purchase were in-line with the expectations in the adopted strategy (within the 7% of acquisition costs).</p>
Risk		<p>i) There is a risk that the tenant may fail. Due diligence was undertaken on the tenant to mitigate this risk. The Property is in an area that should appeal to other new tenants. The Property is currently over-rented and therefore the same rental level is unlikely to be achieved if the tenant failed in the short/medium term.</p>

		ii) There is a risk of unforeseen capital expenditure. Due diligence was undertaken to mitigate this risk and the portfolio has a reserve to assist in these circumstances.
Comprehensive Impact Assessment Implications		
Equality and Diversity		N/A
Safeguarding		N/A
Community Safety, Crime and Disorder		N/A
Health, Safety and Wellbeing		N/A
Other implications		N/A

### **Supporting Information**

#### **Appendices:**

EXEMPT - Appendix A – Business Case Template

EXEMPT – Appendix B – Cashflow and Annuity Estimator

#### **Background Papers:**

Commercial Investment Strategy – December 2019

<b>Process checklist</b>	<b>Completed</b>
Portfolio Holder briefed	<b>Yes</b>
SLT Rep briefed	<b>Yes</b>
Relevant Exec Director sign off (draft)	<b>Yes</b>
Data protection issues considered	<b>Yes</b>
If exempt information, public (part 1) report also drafted.	<b>Yes</b>