



STOCKPORT
METROPOLITAN BOROUGH COUNCIL

Scrutiny Review Panel

The Councils Property Portfolio – The Next
5 – 10 Years

Operational Estate

21/03/2022



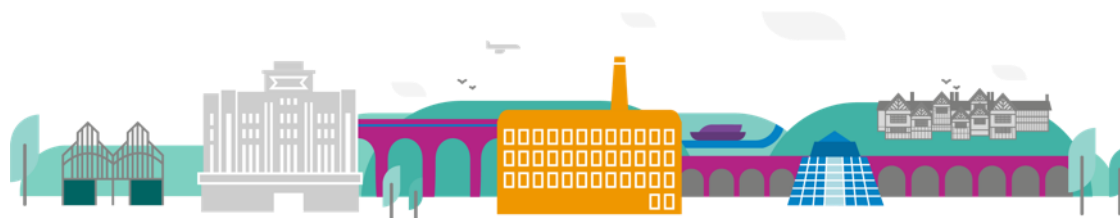
Key Priorities

- The role of the Estate & Asset Management team is to support and maintain the delivery of safe and sustainable high quality commercial, investment and regeneration estate to support the delivery of key council objectives for benefit both residents, members and colleagues.
- The operational estate must be considered through 3 key lenses Commercial Suitably, Capital and Revenue Cost, Climate Action Now (CAN) Objectives
- **Commercial suitably** – is the asset of the correct type and in the right location to deliver the best outcomes for the organisation when related to the reason it is held (market failure, investment, regeneration).
- **Capital and Revenue Costs** – does the asset fit within modern budget profiles. Does it represent efficient use of resources. What are the future financial commitments related to the asset.
- **CAN Objectives** – what is the carbon footprint of the property. What actions can reasonably be taken to move the asset towards net zero.



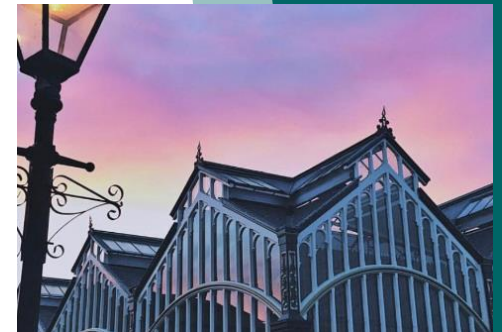
Existing TNRP Portfolio

Asset Type	Number	Capital Value (Asset Report 19/20 £)	Current Rental Income £
Commercial Ground Lease	204	49,000,000	2,865,879
Industrial Unit	28	2,254,000	185,000
Retail Unit	58	4,441,000	437,203
Misc Commercial Premises	38	25,578,000	2,976,746
Agricultural	22	810,000	32,018
Residential Chief / Ground Rents	488	n/a	1854
Misc Minor Lettings	474	n/a	177,300
Total	1312	82,100,000	6,676,000



Purpose and Nature of the TNRP Portfolio

- The portfolio includes assets which provide a stable and relatively secure income stream.
- Others are more sensitive to economic forces and require greater management by the Council as landlord.
- The nature of the asset can however expand its role into other areas of Council activity beyond income generation.
- Commercial property is leased in a variety of formats depending on their purpose.



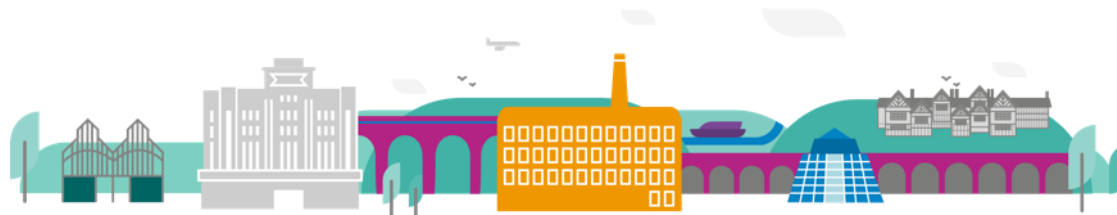
Commercial Ground Leases (CGL)

- These leases are of a significant duration commonly 125 years.
- Older agreements can be of shorter and many of these are now reaching a life where tenants are seeking an extension or their renewal as the shorter the lease the less security they offer particularly for loan security purposes.
- GCL offer a secure income stream secured on the buildings which are often constructed on the sites.
- In addition to the rental income the Council can obtain further revenue from lease re gearing whereby a lease is extended on payment of a single capital sum or premium.



Industrial units

- The Council has two estates of nursery units located on the fringes of the town centre.
- The units are occupied by a variety of small businesses who require smaller 'nursery units' particularly where they are new enterprises beginning to get established.
- Due to the nature of the tenants these estates can require significant management and the recent economic situation has seen rent arrears and the liquidation of companies increase.
- The two estates are now approaching 50 years old and a lack of historic investment
- The units do offer valuable space to businesses seeking to get established in the borough providing employment opportunities and additional non domestic rating revenue.



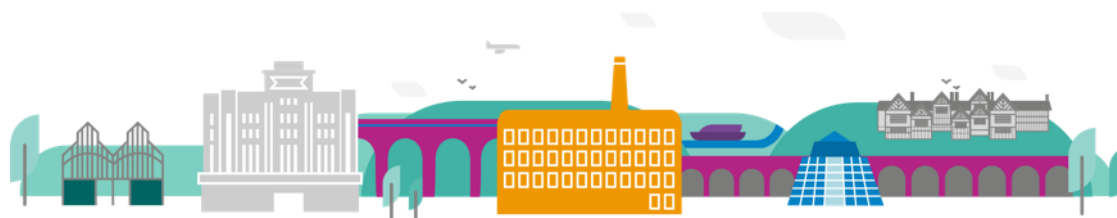
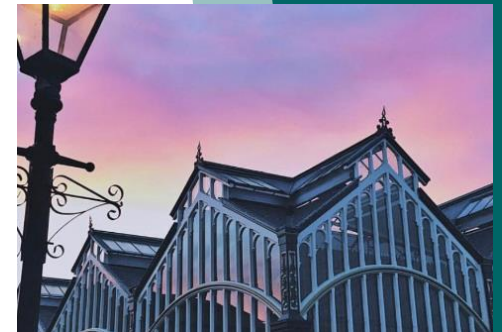
Retail Units

- The Councils retail units are located across the borough in a mixture of small parades and a single precinct.
- Typically the units have residential space on floors above which are managed separately by Stockport Homes Limited.
- Changes in shopping practices have impacted on the viability of these premises and in certain locations the parades have been redeveloped to provide new residential accommodation.
- The retail units are largely occupied by local retailers rather than national or regional businesses.
- Retail units can require significant management to address issue such as rental arrears but voids or empty units remain low as many tenants have been established for some time.



Misc. Commercial Premises

- These assets comprise a range of uses including sports facilities, and children's day nurseries amongst others.
- Some of the facilities are associated with other Council buildings such as the day nurseries with schools and the sports grounds whilst managed by commercial tenants provide facilities to the wider community.
- Certain of the assets are tenanted by larger enterprises including the hospitality & leisure sectors as well as the telecommunications industry however the majority are small businesses.



Agricultural

- The Council has a limited range of agricultural assets comprising one farm in Reddish Vale and land let on an agricultural tenancy in Cheadle.
- Other land comprises individual holdings which can be single fields ranging from an acre in size to larger areas which are let for grazing typically horses.
- The grazing licences provide a modest income but provide a valuable function in ensuring that the Council's land is maintained and is not subject to unauthorized use or encroachment.
- Much of this land is contained within the Green Belt and its retention within the Council's ownership does provide a degree of protection against development which may be contrary to the Council's policies.



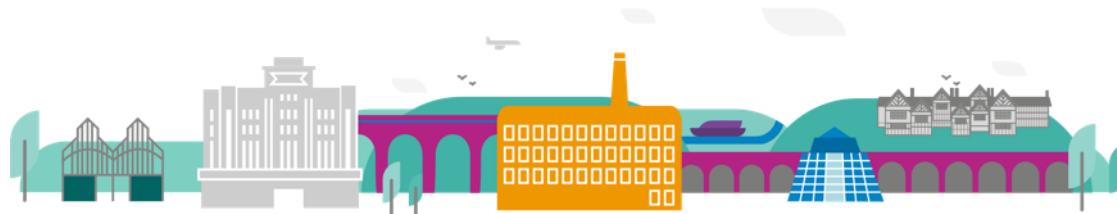
Residential Chief / Ground Rents

- SMBC hold approximately 488 Ground Rents and Chief Rents
- The total income derived from Chief and Ground Rents is £1,854 per annum
- Rent Charges Act 1977 Chief Rents were given a life of 60 years meaning that they expire in 2037
- The Act also made provision for the Chief Rent payer to redeem or purchase their Chief Rent for a multiple of the sum which they pay annually.
- Ground Rents differ in that they are payable on properties which are held leasehold.
- Ground Rents are not covered by the same legislation as Chief Rents but for practical purposes they are treated as the same for the purposes of this report
- The cost of raising an invoice and collecting payment far exceeds the income generated.
- The Councils portfolio does not present the same negative characteristics which have been the subject of media interest recently and do not have the ability to be increased.



Issues facing the TNRP portfolio

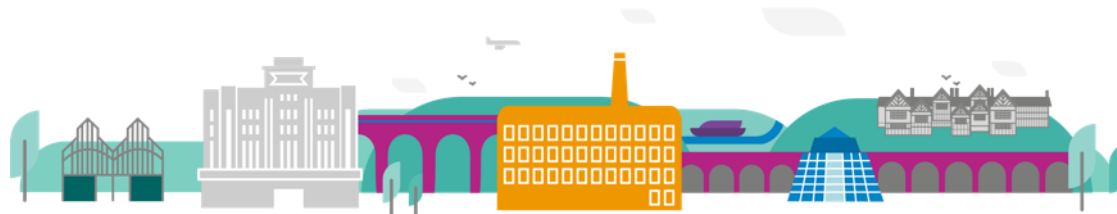
- **The Age of the Assets –**
 - Mix of lease structures – Full repair and insuring
 - Lack of landlord's investment
 - Low rents vs high capital costs
- **Income vs Invoicing and Management Costs –**
 - Income may be fixed
 - Assets may be complex in nature
 - We may have chosen to suppress rents
- **The reason for their retention –**
 - Maintain control
 - Address market failure
 - Support local business and residents



Investment and Development Account (I&D)

Asset Type	Number	Capital Value (Asset Report 19/20 £)
Total	24	93,450,000

- Support delivery of SMBC investment strategy including financial return, regeneration and risk
- Deliver and hold Regeneration projects
- Allow strategic land acquisition/land assembly



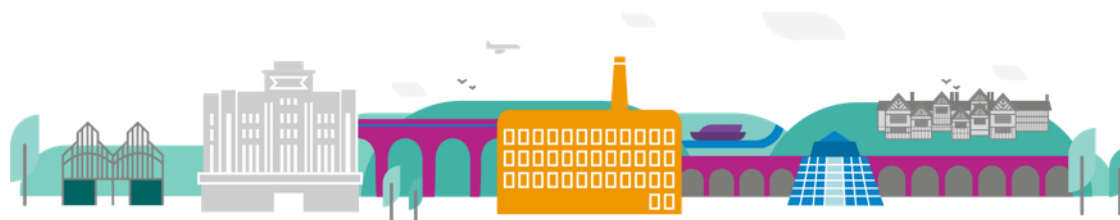
Funding

- All of the I&D assets have individual borrowing attached which needs to be serviced in line with the associated business plan under which they were acquired or developed.
- The portfolio nature of the I&D means that we can take a blended risk approach across a variety of sectors.
- This allows the council to undertake challenging projects where we have seen market failure across the asset classes.
- The current assets are at varying degrees of maturity and a number still require further stabilisation
- As the assets in the fund mature
 - TNRP account as long term holds or
 - Dispose of the assets in the market to recycle the capital



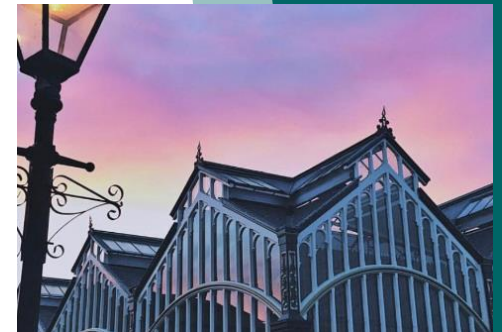
Key Assets

- Merseyway Shopping Centre
- Redrock
- Grand Central
- Aurora
- Stockport Exchange (various Phases)
- Edgeley Park
- Underbanks (inc White Lion & Winters Café)
- MDC Assets



Reporting

- The operational performance is reported to relevant boards
- MDC Board, Merseyway Board
- The boards will monitor the day to day performance relating to the assets, review the due diligence relating to key decisions and formulate the strategy that governs the future direction of the assets.
- The overall performance of the account and the future direction of investment, divestment and overall Development and Regeneration Strategy is overseen by the Growth and Infrastructure Board and The Capital Investment Board.



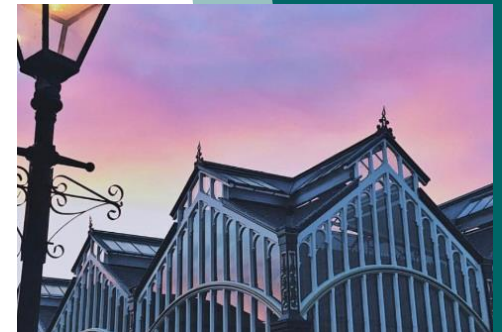
General Estates Issues - Management

- Current software does not allow effective management
- System does not allow the lease events to be brought forward.
- The link to finance and SAP systems is inadequate which creates debt issues
- Action is being taken to add additional staff support to this area.



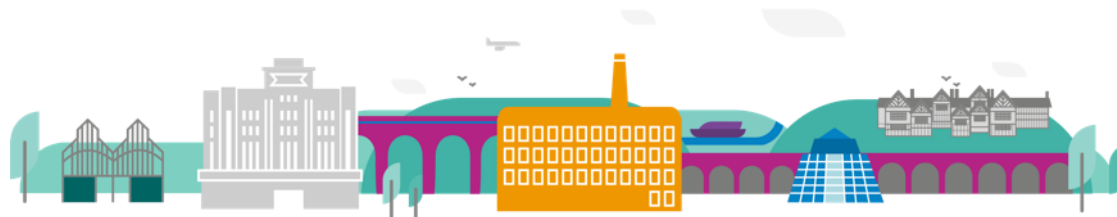
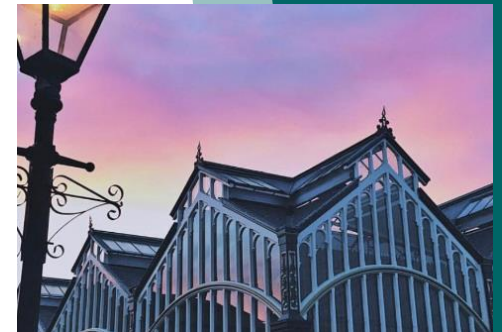
General Estates Issues - Economic

- Coronavirus Act – Suspension of Commercial Rent Arrears Recovery (CRAR)
- Extension was from June 2021 to the 25th March 2022.
- Commercial Rent (Coronavirus) Bill. Covid restrictions for the period March 2020 and July 2021
- Unfortunately during the period a number of Council tenants have gone into liquidation as a consequence of the pandemic.
- TNRP is £ 1.16m (excluding individual debts of below £ 1k).
- The arrears are owed by 189 tenants.
- Some 32% of the arrears are owed by two individual tenants and the Council are in the process of resolving these debts.



The Next Steps

- Identify and acquire software to provide a modern property management system
- Work with the Councils Finance Team to improve rent collection and minimise arrears
- Introduce additional staff with the relevant skills to improve the ability of department to meet the demands of managing the portfolio.
- To establish whether any short term measures can be introduced to deal with any back log of current work streams
- Work in conjunction with the Councils Legal Department to establish the feasibility of dealing with the Chief and Ground Rents.
- Continue to interrogate the portfolio to identify assets which may be felt to be underperforming and identify their suitability for disposal.
- Implement the Govt legislation being introduced to deal with rent arrears accrued during the pandemic



Recommendations

- 1 - Note the contents of this report.
- 2 - Endorse the implementation of the Next Steps as set out in the report





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