



**ARTICLE NO: 2C**

**CORPORATE & ENVIRONMENTAL  
OVERVIEW & SCRUTINY  
COMMITTEE**

**MEMBERS UPDATE 2013/14  
ISSUE: 4**

---

**Article of: Assistant Director Housing and Regeneration**

**Relevant Managing Director: Managing Director (Transformation)**

**Contact for further information: Rachel Kneale (Extn 2611)  
(E-mail: [rachel.kneale@westlancs.gov.uk](mailto:rachel.kneale@westlancs.gov.uk))**

---

**SUBJECT: THE COMMERCIAL PROPERTY PORTFOLIO**

---

Wards affected: Borough Wide

## **1.0 PURPOSE OF ARTICLE**

- 1.1 To provide Members with a commentary on the Council's Commercial Property Portfolio advising of the performance of property assets and determining future trends and demand.
- 

## **2.0 BACKGROUND**

- 2.1 Council has a significant portfolio of commercial properties that are held for investment purposes. These properties are occupied by third parties and provide rental income of circa £1.7 million per annum. The budgeted costs associated with these properties are on average £1.1 million per annum resulting in a £600,000 surplus, over the last three years (2010/11, 2011/12, 2012/13).
- 2.2 Surpluses generated from the commercial portfolio are used to supplement other Council funds in supporting service delivery. As with any investment, the ownership of commercial properties carries with it various risks and obligations. Any number of factors including the economy, market demand and stock condition will play an important role in the level of return that the Council will receive from its property assets. The purpose of this report is to appraise Members of the portfolio held by the Council and its performance over recent years. The report outlines anticipated future trends and actions planned to both maximise the return to the Council and minimise any risk associated with holding these assets.

### 3.0 THE HISTORY AND BENEFITS OF ACQUISITION

3.1 The Council has, over a number of years, acquired an array of commercial premises that now forms its commercial investment portfolio. The first of these holdings were the CRA portfolio – the Community Related Assets Balancing Package. These income generating assets transferred to the Council from the Commission for New Towns to balance the cost of maintaining the liabilities also transferred to the Council. Primarily the properties are held as income generating assets and the surpluses generated can be used to support Council service areas. Local shopping centres such as those at Sandy Lane and Digmoor provide a focal point for the local community and provide a range of valuable services not only in the retail sector but voluntary agencies as well. Prudent estate management and development of services on offer have ensured that the Council has an effective mix within these centres, which contributes to the well being of the local community.

3.2 In the case of the Langtree Portfolio and Investment Centre, these aspects were added to the Council's Portfolio in 2003 and 2004 respectively. The surpluses are ring fenced, by the terms of the funding arrangements, so that these resources can only be used to fund specific areas of activity. However, aside from the income generation aspect of the portfolio the premises also contribute to the Council's key objectives in terms of sustainable regeneration and growth and caring for our Borough. For example the small industrial premises are important in that they provide space for new business ventures. Flexible terms can enable business development, create new jobs and boost the local economy.

3.3 In 2012 the Council commissioned an independent report by DTZ to examine how its assets were managed and their performance. This report commented on the performance and benefits of these Centres as follows: -

*“At the time Council housing estates similar to those in Skelmersdale were built, local residents were far more dependent on shops within walking distance..... More recently such premises have had to adapt to serve as convenience stores and other local support services. Demand has fallen considerably in comparable centres and many are now obsolete or struggling to trade profitably.*

*This problem is been exacerbated in the current economic climate which has reduced consumer spending..... In this context, the vacancy rates within the Digmoor and Sandy Lane centres are extremely low. The centres are clearly performing an important function in providing amenity to the respective local communities and the Council's continued intervention is seen as an important factor in sustaining a local retail offer in the absence of private sector interest. This is particularly relevant in areas where there are high levels of deprivation in terms of unemployment, health problems, income levels and low car ownership.”*

34 The economic and social benefits the portfolio of properties provide, run parallel to income generation and officers ensure that all lettings reflect market terms and conditions and that rental income is maximised wherever possible. This does not preclude a flexible approach to lettings: rent free periods and break

clauses can be agreed where premises are difficult to let or require expenditure by an incoming tenant to bring into a lettable condition.

3.5 Maximising income not only increases revenue available to the Council, but also enhances the capital value of the asset. Aside from market conditions, rental and consequently capital growth will only be achieved by investing in the properties both in terms of planned maintenance and capital investment.

3.6 There has been a noticeable increase in the uptake of industrial units below 3000 sq ft and, subject to the usual churn, it should be noted that there are no vacant units of this size.

#### **4.0 ISSUES**

4.1 A review of the portfolio has recently been undertaken and, a number of issues have been identified which are detailed in the following paragraphs.

4.2 Delf House has historically provided a significant proportion of the total income from the commercial portfolio, and negotiations for a new lease have been taking place.

4.3 The Langtree portfolio provides significant rental income of around £250k which is ring fenced to spending on the redevelopment of business/employment sites. The surpluses generated have helped fund several major capital projects including the re-roofing of units at Gorsey Place and the CCTV scheme at Burscough and is being utilised to partially fund the Greenshoots project. Use of Langtree money across the Council's commercial portfolio releases other revenue and capital streams that would otherwise be used to fund repairs and maintenance.

4.4 Overall, the Council's Commercial Property portfolio is currently performing steadily. DTZ reported that the portfolio was performing extremely well, compared to similar properties, however also recommended that an upgrading of the tired units be commenced with the possible acquisition of more long term leases to further balance the portfolio. Where appropriate, consideration has been given to the disposal of individual assets especially when management and maintenance costs increase and hence reduce net income. However the poor returns achievable on cash deposits together with the low capital receipts being achieved by secondary property in the market mean that a sale is not a prudent option at the present.

#### **5.0 ACTION**

5.1 In order to continue to manage the portfolio to the benefit of the Council the current priorities are:

- A programme of marketing the vacant units at Gorsey Place to secure new tenants.
- Negotiations with the tenant of Delf House to complete the new lease.

- Remodelling of projects (particularly Greenshoots) to increase desirability and increase income.
- Investment on our retail parades.

## **6.0 SUSTAINABILITY IMPLICATIONS/ COMMUNITY STRATEGY**

- 6.1 Income received from the Council's commercial property portfolio contributes to a number of service areas, assisting the long term sustainability of Council services.
- 6.2 Effective management and a programme of planned maintenance and capital investment will ensure the most effective and sustainable use of the Council's non operational commercial property.

## **7.0 FINANCIAL AND RESOURCE IMPLICATIONS**

- 7.1 The historic vacation of the units by Vivalis (formerly Constance Carroll) occurred at an unfortunate period of the economic cycle. Whilst some units attracted tenants the majority remain vacant. Three new manufacturing enterprises have just taken up occupation and it is hoped that these businesses will grow and expand. Greenshoots has seen the most unattractive and obsolete terrace of four units (18 – 24 Gorsey Place) being demolished and proposals for the site to be remodelled to provide accommodation which will meet modern day requirements. External funding options will be explored to reduce the investment required by the Council whilst the project is being progressed.
- 7.2 The Council's commercial property investments have, historically, shown steady rental growth and provide a significant contribution to the Council's revenue streams which could not be matched in the present money markets.
- 7.3 Effective use of the Langtree reserves will continue to maintain and enhance the revenue generating potential of the portfolio and contribute to other Council projects and provide the opportunity to lever in external match funding. Use of these reserves will also enable Council budgets otherwise used to support the commercial property portfolio to be diverted elsewhere.
- 7.4 The commercial portfolio is presently producing gross returns of between 2.52% and 26.49%.
- 7.5 Opportunities to secure external funding where possible are pursued.

## **8.0 RISK ASSESSMENT**

- 8.1 The Council's property portfolio is presently performing extremely well considering the general poor state of the UK economy, as confirmed by the independent report.

8.2 There have been several incidences where businesses operating from Council owned premises have failed and this has had a detrimental effect on the financial return of the investment portfolio as the number of bad debts has increased. Estate Management on these cases and other businesses judged to be vulnerable in the down turn has been, and continues to be intensive and where appropriate the Council's bailiffs have been instructed to act. This always acts as a deterrent to other business who may be considering defaulting on their rental payment. In addition the Estates team has a number of cases with Legal Services which have court dates in the near future.

## **9.0 CONCLUSIONS**

9.1 The commercial property portfolio continues to provide a significant source of revenue for the Council and offers the potential for releasing considerable capital resources should market conditions become favourable.

9.2 The properties also contribute to other Council objectives such as economic and community development support.

9.3 Continued effective estate management and implementation of the recommendations contained within this report should ensure the future effectiveness and performance of the Councils commercial property portfolio.

9.4 After a period of some vacancies the smaller (less than 3,000 sq ft) units have attracted occupiers indicating growing commercial confidence in the area and now are fully let, revealing an unmet demand for properties in this size band.

---

---

### **Background Documents**

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

### **Equality Impact Assessment**

The Article is for information only and does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

### **Appendices**

None.