



Haringey Council

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Agenda item:

Overview and Scrutiny Committee

on **27th October 2008**

Report Title: Commercial Property Portfolio

Forward Plan reference number (if applicable):

Report of: **Head of Corporate Property**

Wards(s) affected: **All**

Report for: **Key decision**

1. Purpose

1.1 To report to Overview & Scrutiny on the composition, management and performance of the Council's Commercial Property Portfolio and review if a further in depth scrutiny review is required.

2. Recommendations

2.1 To note the composition of the commercial property portfolio and the management arrangements.

2.2 The views of Overview & Scrutiny committee are requested on the management and performance of the Commercial property Portfolio.

Report Approved by: **Dinesh Kotecha, Director of Corporate Resources**

Report Authorised by: **Julie Parker, Director of Corporate Resources**

J Parker 15/10/08

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3. Chief Financial Officer Comments

3.1 Chief financial officer has made no comment.

4. Head of Legal Services Comments

41 The Head of Legal Services notes the contents of this report. It does not raise any legal issues at this stage and therefore does not have any comments

5. Strategic Implications

5.1 The content of the report reflects the Council's current Asset Management Plan (AMP) and forms part of the Action Plan to the AMP.

5.2 Cabinet will receive a report on a detailed review of the commercial property portfolio and views from Overview & Scrutiny Committee will be integrated in to this report.

6. Financial Implications

6.1 There are no financial implications in the report.

7. Equalities Implications

7.1 The aim of the commercial portfolio is to support social and economic regeneration and therefore the portfolio contributes to the development of sustainable communities and providing opportunities for individuals.

8. Background

Strategic Objectives

8.1 The Council's commercial property portfolio (with a book value of approximately £30 million) has a key financial input to the Council's revenue budget (income budget of £4.9 million per annum) and aims to contribute to social and economic objectives through the provision of neighbourhood shop premises within housing estates and commercial & industrial premises to support the SME sector. A breakdown of the portfolio is attached as Appendix A.

8.2 Much of the existing commercial property portfolio was built through development projects and funding initiatives to provide employment and appropriate buildings for the local business needs. The portfolio is mixed in terms of tenants and length of leases and predominantly supports local businesses with a small number of national employers.

8.3 The portfolio has traditionally been managed with a focus on revenue income to the Council. More recently the focus has again shifted towards provision of suitable accommodation to local businesses.

8.4 The Council's Asset Management Plan now sets out the strategic objectives for the Commercial Property Portfolio as:-

- **Service** – the commercial estate should provide appropriate market intervention to encourage enterprise, promote the provision of local community and commercial facilities and complement the development of other public services.
- **Financial** – the commercial estate should provide sustainable income to support the

Council's revenue budget in the short to medium term taking account of the scope for enhancing capital gains in the longer term.

- **Regeneration** – the portfolio should be directed to supporting community and strategic projects and ensure that the estates are maintained to enhance the local neighbourhoods thereby supporting the Council's priorities for the Borough.

8.5 The overriding policy aim for the portfolio is to only hold assets that are required for immediate service delivery or contribute to the achievement of corporate objectives and priorities in the longer term.

9. Portfolio Management

9.1 The Council's commercial portfolio is in the main managed by an in-house team of property surveyors located within Corporate Property Services. The commercial team is responsible for assessing rental values, marketing, negotiating lettings, dealing with all the day to day management and financial performance.

9.2 The commercial team currently comprises six officers with a cost to the Council of £329,000. The Income from the commercial property portfolio is £4.9m which represents 6.7% in terms of cost. This does not include support costs.

9.3 Technopark is managed on a separate basis with 6 staff at a running cost of £223,000. This is recovered through service charges.

9.4 The cost of managing the commercial property portfolio on behalf of Homes for Haringey (mainly shops in residential estates) is benchmarked and compared with ACES (local authority based) benchmarking. The cost of management of the portfolio has been reduced from 15.4% to 8.4% this financial year which is comparable with similar local authorities.

9.5 The commercial team is supported by a range of other Council services for income collection, contractual, legislative, debt recovery (legal) and budget monitoring (finance). The commercial team also manages Techno Park with a team based on site to deal with facilities management and tenant services.

9.6 The rental income is collected through the Council's billing system with invoices currently running 100% on time.

9.7 Billing is monitored monthly with the level of debt analysed over 30 day periods. This adhere's to the Council's debt management process. Debt reporting is monthly and monitored with the Council's legal department. Levels of debt have recently been reduced although the current economic environment may influence this in the near future. Where debtors have been pursued legally and there is no possibility of recovering debt, the write off policy of the Council is invoked.

9.8 Over the past two years there has been an investment in (contract) resources for the team and external agents have been appointed to address the backlog of rent reviews. This has been a historical issue and of the 140 cases outstanding in April 2007, 107 cases have now been completed.

9.9A strategy to improve the level of voids and outstanding rent reviews has had some success. A level of voids in the portfolio is inevitable and a strategy is in place to deal with this. Within a week of becoming vacant the property will be inspected, valued and advertised on Haringey website. There is a constant rolling programme of advertisement for empty properties. The properties are regularly inspected and monitored through this process. All vacant property is inspected weekly as required for insurance purposes.

9.10 The majority of properties are let on full repairing and insuring leases where the tenants are responsible for maintaining their buildings. In the case of industrial estates a service charge is levied in order to ensure that the common parts are maintained. Estates are monitored regularly and issues discussed with tenants.

9.11 The main property with voids in the portfolio is at Technopark which has at present 80% occupation. There is a recovery plan in progress at Technopark in order to fill these vacancies including an advertising campaign which has created improved interest and it is anticipated that the occupation rate will rise significantly.

10. PERFORMANCE OF THE PORTFOLIO

10.1 A representative sample of properties has recently been assessed on financial performance and this shows an internal rate of return ranging from 7.7% to 10.7%. This suggests that the portfolio is performing in line with requirements with 6 to 7% generally used as a benchmark.

10.2 It is difficult to benchmark the performance of the portfolio with other Councils as performance indicators are measured in different ways by individual Councils. The internal rate of return represents a common indicator which can be compared with other market indices.

11. SUMMARY

11.1 The commercial property portfolio is currently managed in house with a management cost ranging from 6.7% to 8.4%. Further benchmarking is required in the future for this.

11.2 A detailed review of the commercial property portfolio is currently being undertaken and will be reported at Cabinet. Cabinet will be asked to make a decision on the future investment strategy of the portfolio.

11.3 The views of Overview and Scrutiny Committee are sought.

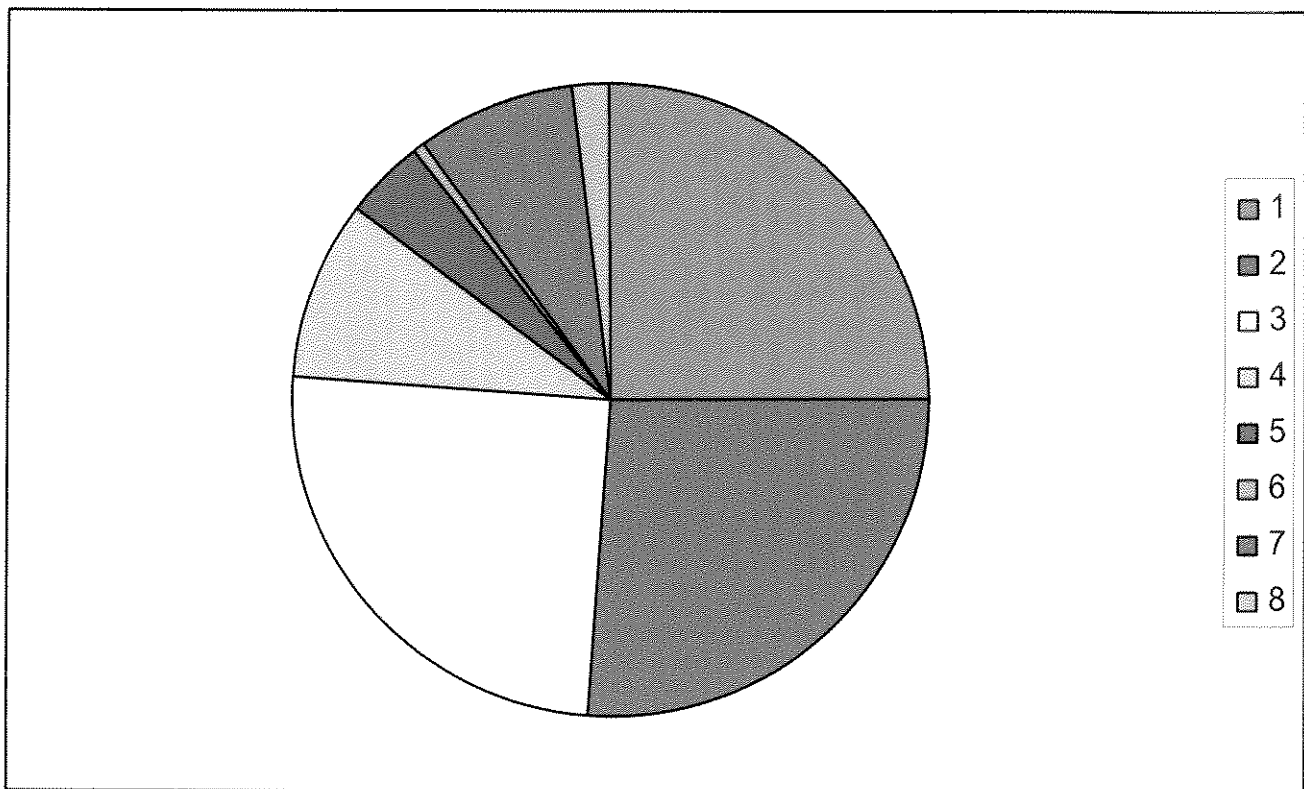
12. APPENDICES

12.1 Appendix A – Breakdown of the Commercial property portfolio including wards

APPENDIX A – Breakdown of the commercial property portfolio

The current income of the portfolio is approximately £4.9m per annum represented as follows:-

1. Retail	25%
2. Industrial	26.2%
3. Office	25%
4. Land	9%
5. Aerials	4.3%
6. Substations/Way leaves	0.5%
7. Community	8%
8. Utilities	2%



Properties split into wards:-

Ward	Grand Total
Alexandra	16
Bounds Green	60
Bruce Grove	22
Crouch End	28
Fortis Green	32
Harringay	33
Highgate	33
Hornsey	39

Muswell Hill	70
Noel Park	120
Northumberland	93
Out of Borough	6
Seven Sisters	43
St Anns	47
Stroud Green	23
Tottenham	5
Tottenham Green	189
Tottenham Hale	148
West Green	37
White Hart Lane	77
Wood Green	7
Woodside	47
Grand Total	1175