GBC INVESTMENT PROPERTY FUND PORTFOLIO ANNUAL REPORT

2018/19

Current Fund Summary – 2018/19

OBJECTIVE OF FUND

The Investment Property Fund aims to provide a high and secure level of income with the prospect of income growth and to maintain the capital value of the properties held in the Fund. This is achieved by keeping vacancy and associated costs to a minimum and by generating income growth through rental increases, refurbishments, active asset management and new lettings, as well as investing in a diversified commercial property portfolio.

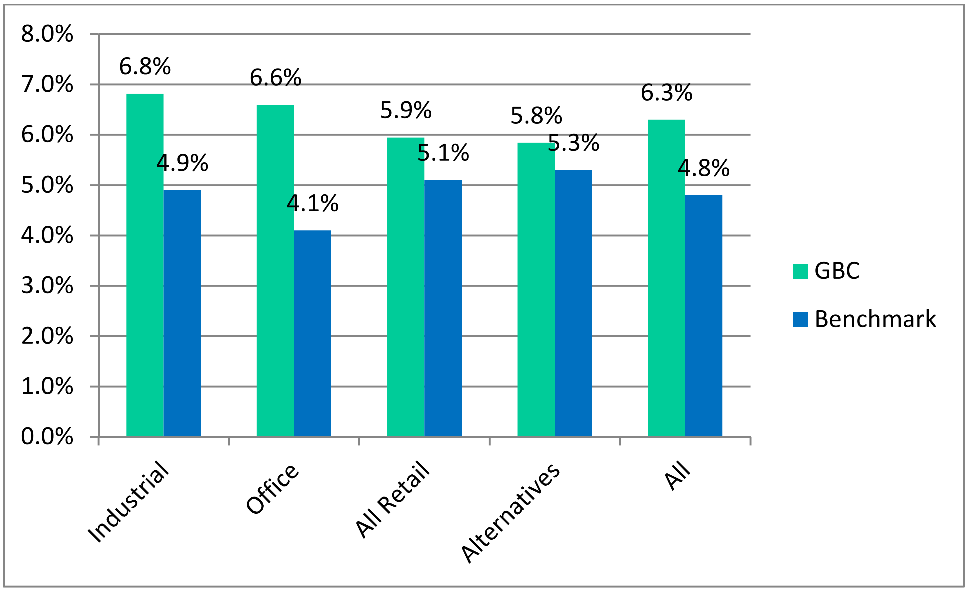
KEY POINTS – 31 MARCH 2019

- Fund size £161 million. Rental income of over £9.2 million pa.
- 164 properties
- High yielding (6.3% net of costs/voids)
- Low vacancy rate (0.78%)
- Long average unexpired lease terms

TOP FIVE SINGLE INVESTMENTS

- Wey House, Farnham Rd
- Liongate House, Ladymead
- Friary Centre
- The Billings, Walnut Tree Clse
- Friary Street, West Side

FUND PERFORMANCE AGAINST UK BENCHMARK 2018/19



KEY ACQUSITIONS AND DISPOSALS 2018/19

Property	Interest	Price paid	Date of completion	Previous rent pa	Current rent pa
ACQUSITIONS					
Slyfield, Moorfield Road, 41 (Moorfield Point)	Leasehold (to merge Freehold)	£1,459,000	04/12/2018	£221,000	£357,534
Woodbridge Meadows, 23 (Argol House)	Leasehold (to merge Freehold)	£829,806	05/02/2019	£7,225	£65,000
DISPOSALS					
Lysons, Cobbs	Freehold	£390,000	19/10/2018	£18,500	N/A

Property Investment Fund – 2018/19

FUND STRATEGY

The Fund comprises the principal commercial property sectors: office, retail, industrial and alternatives (hotels, car showrooms, petrol stations, leisure, etc.).

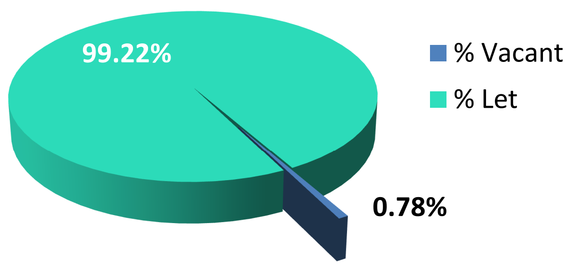
Current Fund Properties

Sector	No. of assets	Sub-category	No.
Office	8	-	
Industrial	125	-	
Retail	10	Shops Shopping Centres Supermarkets	6 2 1
Leisure	6	Restaurants Nightclubs	5 1
Alternatives	11	Educational Theatres Barns Petrol Stations Sui Generis Car Parks Water Treatment Works	3 1 2 1 1 1 1
Total Investment Properties	**159**		

Officers aim to achieve an above average income return by keeping vacancy and associated costs (such as empty rates, service charges, repairs and insurance) to a minimum and by generating income growth through rental increases, refurbishments, active asset management and new lettings. The vacancy rate is currently 0.78% (excluding intentional voids).

Vacancy Rate (based on days per property)

Qtr 1	Qtr 2	Qtr 3	Qtr 4	Year
0.65%	0.76%	0.72%	0.99%	0.78%



GBC INVESTMENT PROPERTY FUND PORTFOLIO ANNUAL REPORT

2018/19

The Fund has acquired 11 buildings in the last 5 years, investing almost £42 million in assets for pure investment and redevelopment opportunities. Those acquired for pure investment (just over £40 million) are now valued at over £51 million. Of these acquisitions, all properties have been retained to date, with only have one property being considered for disposal, illustrating that acquisitions have generally been made for the long term.

Property	Date Purchased	FY	Price paid	Asset Value at 31/01/2019
Midleton Ind Estate, 11	01/12/2014	2014/15	£460,000	Re-development
Midleton Ind Estate, 13	05/12/2014	2014/15	£325,000	Re-development
The Billings	01/12/2014	2014/15	£5,700,000	£6,950,000
Midleton Ind Estate, 05	19/12/2014	2014/15	£650,000	Re-development
Midleton Ind Estate, 10	20/07/2015	2015/16	£4,800,000	£6,700,000
Armour Building, Bridge St	24/03/2016	2015/16	£2,950,000	£3,120,000
Lysons, Brinnell Building	18/03/2016	2015/16	£1,500,000	£2,820,000
Wey House	02/08/2016	2016/17	£22,650,000	£23,200,000
Midleton Ind Estate, 09	24/03/2017	2016/17	£500,000	£890,000
Slyfield, Moorfield Road, 41	04/12/2018	2018/19	£1,459,000	£6,385,000
Woodbridge Meadows, 23	05/02/2019	2018/19	£829,806	£940,000

PERFORMANCE

Despite market uncertainty due to the current political environment and changing consumer spending patterns (See Appendix 1 - RICS UK Commercial Property Market Survey), the fund continues to perform well. The fund currently stands at £161million with a total rent roll of over £9.2 million per annum. This represents a total net return of 6.3%. This is despite the following:

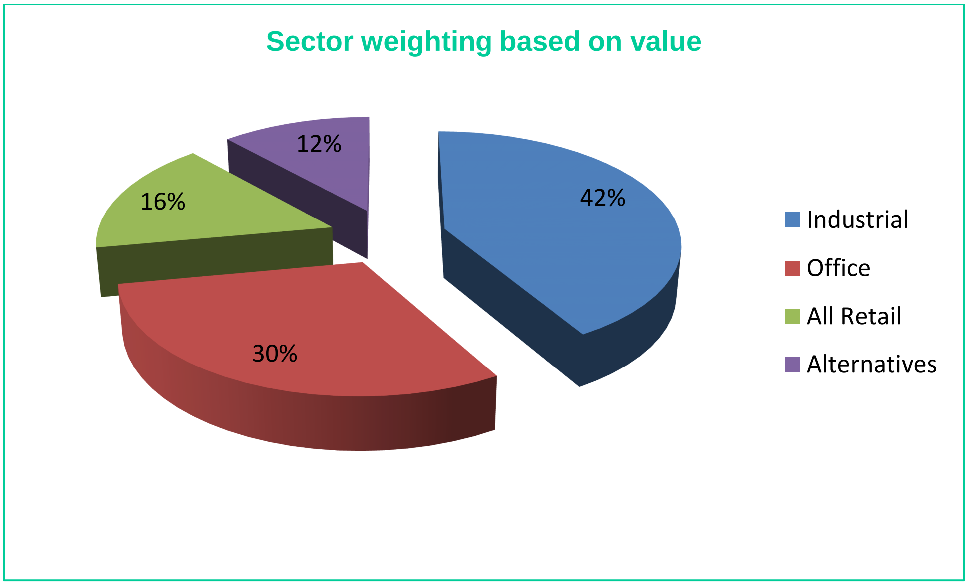
1. intentional voids at Midleton Industrial Estate to allow the redevelopment (rental loss of £125,350pa);
2. the loss of units on Slyfield Industrial Estate to enable to the Slyfield Area Regeneration Project (SARP) (rental loss of £92,500pa);
3. vacancies at 3 The Billings (which is now under offer at £154,000pa) and 10 Mildleton (£300,000pa); and
4. Reclassification of some assets to the Operational Portfolio.

This represents a total loss of £671,850pa. However, due to rental increases at rent review and recent acquisitions, the loss has been off-set and income has actually increased.

Fund Performance (total return)

	Industrial	Office	All Retail	Alternatives	All
Rental income (£)					
2015/16	2,679,571	1,831,900	1,750,254	885,636	7,147,361
2016/17	3,057,302	1,858,638	1,447,672	1,062,137	7,425,749
2017/18	3,493,405	3,186,048	1,426,317	1,080,786	9,186,556
2018/19	3,619,808	3,038,548	1,459,048	1,129,361	9,246,765
Capital value (£)					
	Industrial	Office	All Retail	Alternatives	All
2015/16	39,077,755	19,227,500	34,270,000	11,233,500	103,808,755
2016/17	42,922,450	25,915,000	25,908,500	15,963,500	110,709,450
2017/18	51,509,000	49,574,000	26,065,000	17,471,500	144,619,500
2018/19	66,970,000	49,159,000	26,097,000	18,843,000	161,069,000
Income return (net of costs)					
	Industrial	Office	All Retail	Alternatives	All
2015/16	8.0%	7.5%	5.6%	7.5%	6.8%
2016/17	7.1%	7.2%	5.6%	6.7%	6.7%
2017/18	8.0%	7.4%	5.2%	5.8%	6.6%
2018/19	6.8%	6.6%	5.9%	5.8%	6.3%
Benchmark return					
	Industrial	Office	All Retail	Alternatives	All
2015/16	6.1%	4.7%	5.4%	4.7%	5.2%
2016/17	5.4%	4.1%	5.0%	5.5%	4.8%
2017/18	4.9%	4.1%	5.1%	5.3%	4.8%
2018/19	4.4%	4.0%	5.1%	5.0%	4.6%

Currently the investment fund has a high weighting of industrial and office investments in comparison to retail and alternatives.



LOCAL PROPERTY MARKET

Industrial

The local industrial market, in common with that of the wider South West M25 region continues to experience encouraging levels of occupier activity despite ongoing BREXIT uncertainty. Enquiry levels remain steady, the investment market performs well and fundamental indicators of supply versus demand suggests there remains demand for speculatively built space in 2019 and beyond.

Industrial stock in Guildford Borough is made up of a number of industrial estates. The Fund's Slyfield Industrial Estate is by far the biggest and is arguably best located for road connections to the A3. Current availability is remarkably low at present, particularly for the smaller size ranges.

Office

The office market in Guildford has started to suffer from the loss of large corporate occupiers. At the end of Q4 2018 there was some 432,000 sq ft of offices (units greater than 2,000 sq ft) available to be let in Guildford (this does not include the 82,000 sq ft which Ericsson will be vacating nor the 50,000 sq.ft which BOC will shortly be bring to the market). This represents a vacancy rate of circa 13%.

The ten-year average annual take up in Guildford is just over 90,000 sq.ft so there is therefore 4-6 years supply. Although agents believe the take up is actually below the average with just 5,000 sq.ft let in 2 deals in Q1 2018.

Market demand is mainly focussed on town centre locations with a large part of the demand currently coming from the computer games sector. The market is reliant on the SME's for take up and demand is generally for smaller space areas of 3,000 -10,000 sq ft.

2017 take up above 5,000 sq.ft attached.

Retail

Tenant demand for retail space is still falling sharply.

See Appendix 1 - RICS Q4 2018: UK Commercial Property Market Survey

Industrial is the only sector displaying positive rental and capital value expectations in the near term.

Officers believe the Fund's sector weightings will deliver a small yield benefit through maintaining a higher weighting to the Guildford industrial and alternative sectors, and a lower weighting to the high street retail, shopping centre and corporate office markets.

The Council's ability to source the right investment stock at the right price continues to be the biggest driver of performance.

Whilst there is currently no active property investment acquisition fund, officers continue to look for interesting opportunities, currently with a bias towards Guildford locations, the industrial markets and good quality alternatives.

More importantly, officers continue to asset manage the existing portfolio to ensure performance is optimised. .

KEY ACQUSITIONS AND DISPOSALS 2018/19

Slyfield, Moorfield Road, 41 (Moorfield Point)

The rent of the above property was due for review as at 25 December 2015. In 2018, officers managed to finally agree an increase from the passing rent of £180,000pa to £221,000pa, an increase of 23%. This led to an approach from the long leaseholder to sell its interest in the property. This allowed the Council to consolidate the freehold and leasehold interest and become direct landlord to the eight sub-tenants with a rent roll of £357,534pa. The acquisition represented a net initial yield of 8.84%.

Woodbridge Meadows, 23 (Argol House)

This property was let on a long leasehold at £7,225pa. The Council acquired the property early this year. It was simultaneously re-let to the tenant on a 2-year lease at £65,000pa. On expiry of the temporary lease, the Council have grated a 125-year lease to Porsche Cars GB Ltd for a premium of £800,000 and a new ground rent of £15,000pa subject to review.

Lysons, Cobbs

This management intensive property did not meet the Council's investment criteria and was in a poor condition. As such, the Council agreed to sell the freehold to the existing tenant for £390,000. The proceeds have been ring fenced for future property investment.

CURRENT PROJECTS

The Council is currently undertaking a redevelopment of Midleton Industrial Estate. Midleton Industrial Estate, which is in the Council's freehold ownership, holds significant asset management opportunities.

The entire Estate comprises around 5.7 acres and is divided in accordance with the long leaseholds previously granted. There has been a strategy in recent years to buy back units, which were let on long leaseholds to enable redevelopment for continued industrial use. The units are typically 1970s warehouses at the end of their economic life.

The Council has to-date been temporarily letting properties to reduce costs and increase revenue with a range of lease expiry dates. The Council has now decided to bring forward and develop the site in phases as and when leases expire or are determined.

Phase 1 will begin with Plot 11, on which we vacant procession has been achieved, and follow with Plots 13 and 14/15.

It is hoped that the first properties will be ready to let around the end of 2019 / early 2020 and marketing will start once planning has been accepted.