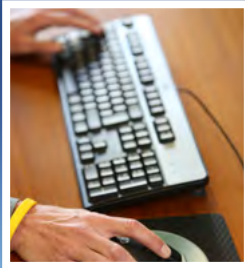
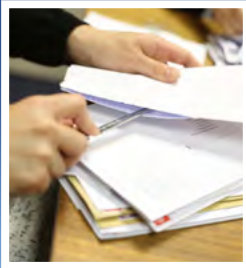


Commercial Property Investment Portfolio - Investment Strategy



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Foreword

The Council's Commercial Vision as set out in the Commercial Strategy is to be self-sufficient by 2020/21 and not rely on Government grant to support the budget. This requires the Council to generate additional income of £400,000 in 2020/21, rising to £600,000 in 2021/22 and then £800,000 in 2022/23 as set out in the 10 year Financial Strategy. Acquiring commercial investment properties will help achieve those income targets.

The Council is conscious to adopt a prudent approach and to ensure that a robust risk management approach is adopted. Lambert Smith Hampton Investment Management (LSHIM) has been appointed by the Council to act as Investment Manager in establishing a commercial investment portfolio. The strategy is to create a balanced property investment portfolio, from which to derive a long term secure revenue stream.

The strategy outlines the objectives for the Council and what the Council with advice from LSHIM perceives to be a prudent approach to invest in commercial property, setting out the recommended investment strategy. The Council will set up a company structure through which it will acquire and manage the properties.

Lambert Smith Hampton (LSH) is a leading specialist property consultancy with 43 offices and 1400 staff across the UK. LSHIM is the investment management arm of the business and will be directly responsible for this mandate.

Introduction

The public sector as a whole has been experiencing significant pressures on capital and revenue budgets following central government cuts in Local Authority funding over the last 9 years.

The Council, along with many other local authorities, has not been immune from these budget pressures and with the financial outlook unlikely to change in the short to medium term, the Council needs to find new and innovative ways of creating additional revenue to continue to deliver services to the local communities.

The Council aims to be self-sufficient in by 2020/21 as set out in the Council's Commercial Strategy. This is reflected in the Council's 10 year Financial Strategy 2019/20 to 2028/29. See table below:

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Income Generation (£,000)	0	400	600	800	1,000	1,100	1,200	1,300	1,500	1,500

The Council is intending to create a balanced commercial property portfolio through a company, the income of which will largely be responsible for meeting the income generation targets, in particular for the first 3-5 years. In order to meet the income targets in the later years of the Financial Strategy, additional capital may need to be invested or the Council will need to identify other alternative income streams. The investment strategy and the capital invested will be reviewed on an annual basis.

Importance of Setting a Strategy with Clear Objectives

The Council needs to act in a business-like manner with skill and caution. The Council has a fiduciary duty to its communities. As such it is essential that it takes a prudent approach and minimises risks as far as appropriate. The strategy and objectives set out hereafter build on this principle of a prudent approach.

A prudent approach in respect of a commercial property portfolio is therefore to ensure that the portfolio will generate sustainable income streams, preserve value and provide an opportunity for capital growth. To do this, the following is needed:

- A clear portfolio strategy to achieve pre-agreed objectives.
- Rigorous evaluation of potential investments that will stand up to scrutiny, against a set of pre-agreed criteria.
- Investment decisions to be taken following professional advice and recommendations from LSHIM.

Objectives

Set out below are the key objectives that have been discussed and agreed in an earlier workshops with Council members and which will underpin the investment strategy:

- To act prudently with public money and applying care, skill and caution when acquiring and management assets
- To invest £30M in commercial property to generate a sustainable income stream, preserve value and provide an opportunity for capital growth;
- HDC wants to expand its investment portfolio with £30M of new investment over the next three years with a net additional income target of £400,000 in 2020/21; £600,000 in 2021/22 and £800,000 in 2022/23 targeted.
- To maintain a low risk profile investing only in core/core plus assets – typically long leases and better quality buildings;
- To generate a gross income yield in excess of 4.5% across portfolio;
- To manage risk across the portfolio by diversification in asset type and geography;
- To operate in accordance with legislation and guidance
- To generate a reliable income stream to support Council services

Governance and Delegation

The investment will occur through a wholly-owned company. The governance of the Company will be in accordance with the Companies Acts, rather than local government legislation and will be set out in its Articles. As a wholly owned company it is likely to be a “controlled company” under the Local Government and Housing Act 1989 and therefore the Local Authorities Companies Order 1995 will apply certain additional requirements on the Company.

The Council will have a role as shareholder of the Company and will ensure that the manner in which it acts as shareholder complies with Local Government Law. In particular the Council will delegate powers to act as shareholder to an appropriate body within the Council. Good governance requires that the body should comprise Members and /or Officers who are not Directors of the Company to ensure that the Board can be held accountable for its actions. The body will also take decisions as to making loans to the Company and this will be governed solely by Local Government Legislation and the Council’s constitution.

The Council will include strategic restrictions in the Articles on the powers of the Board of the Company such as requiring compliance with the Investment Strategy, imposing a financial limit of £10m, as this will ensure that the Council’s on-going strategic interests and objectives are taken into account by the Board. In respect of any individual investment, a requirement to liaise with the Council on investments through the Property Investment Committee with which the Board will be required to consult and abide by its decisions.

The property market moves fast and often a decision whether to bid for a property has to be made within 24-48 hours. To facilitate this the Articles will permit written resolutions and electronic meetings. They will also delegate the power to the Chief Executive (or his Deputy) as an individual director in consultation with the Portfolio Holder for Economic Development and Finance - (or his Deputy) to approve bidding for assets and indeed completing on these purchases where a sound business case has been established and these acquisition would be in line with the Investment Strategy.

The Council will employ specialist advice and expertise in LSHIM who will be responsible for ensuring that the acquisition and the on-going financial returns meet the performance targets. This is a specialist role requiring a combination of property and financial skills and access to the property investment markets. LSHIM will maintain a portfolio overview and implement specific actions required and acquisition recommendations to meet the portfolio objectives. LSHIM will be responsible for the identification, selection, acquisition of stock and its asset management on instruction from the PIC. The assets will be bought and managed through the company.

■ Property Investment Committee

The Property Investment Committee (PIC) will be formed as a liaison committee between the Council and the wholly-owned company to ensure the strategy is followed and thereafter managed in a proactive and accountable manner.

The PIC will maintain oversight of the performance of the property portfolio and holding LSHIM to account with regard to meeting the performance measures as set out in the strategy. It will monitor the performance of the commercial property portfolio and receive updates with regard to the financial performance, asset management plans and Key Performance indicators as set out in this strategy. The PIC will make recommendations to and support the company directors in the decision-making process.

The PIC consists of the following:

- Portfolio Holder for Economic Development and Finance (Company Director)
- Portfolio Holder for Governance
- Chief Executive – Company Director
- Deputy Chief Executive

In attendance will also be the following officers from Hambleton District Council

- Director of Law and Governance (Monitoring Officer),
- Director of Finance and Commercial (S.151 Officer) of Hambleton District Council,
- Head of Commercial and Programme Management

Also in attendance will be the Council's Property investment advisors (LSHIM). The PIC will meet as a minimum on a quarterly basis.

Delegated Authorities

Some of the acquisition opportunities will have a narrow timeframe in which the selling agent accepts bids. Another factor for sellers is how quickly a purchaser is able to complete following the bid to purchase being accepted. To stay competitive in the market, it is therefore important to delegate authority to key board members to allow for a timely response, to submit bids and to complete on purchases. All delegated decisions will be made in accordance with the investment strategy.

The following delegation levels apply:

STAGE	CIRCULATION	DECISION BY	SIGNATURES
Stage 1 – Sifting exercise – LSHIM decision whether to forward to the Property Investment Committee based on Investment strategy criteria	n/a	n/a	n/a
Stage 2 – Light Bulb report	Property Investment Committee	Board of Directors	Chief Executive of the Council as Director of the Company
Stage 3 – Recommendation to bid	Property Investment Committee	Board of Directors	Chief Executive of the Council as Director of the Company
Stage 4 – Investment Recommendation (Business Case)	Property Investment Committee	Board of Directors	Chief Executive of the Council as Director of the Company

Signatures as set out above can take the form of an email. There may be the need for urgent decisions where the signatories are unavailable. In these cases, the following deputies have delegated authority to make the decision and sign for the respective stages:

Authority	Deputy
Director of the Company - Cllr Peter Wilkinson	Cllr Isobel Sanderson – Property Investment Committee Member
Director of the Company Dr Justin Ives	Mick Jewitt – Property Investment Committee Member

Financial Limits

The Company has authority to consider purchases up to £10m. The Board has delegated authority to approve such purchases subject to decisions according with the Investment Strategy. Not one asset will make up more than 30% of the commercial property portfolio. The limit of £10m would include all purchaser's costs and capital that may need to be invested and these would be reflected in the business case.

Property Management Delegation levels to LSH

LSH will be managing the assets on a daily basis. In order to do so effectively the following delegation levels apply:

- Authority given to the Property Managers to sign contracts “For and on behalf of the Company” on multi let properties where a service charge is operable; this may relate to landscaping, refuse removal , car park management and other services that may be required
- Authority given to Property Managers to procure supplier contracts on multi let properties without recourse to Hambleton DC’s procurement team but in line with procurement regulations that may apply;
- Authority to write off individual tenant arrears under £250;
- Authority to agree non value affecting licence for alterations from tenants;
- Authority to sign off service charge budgets without recourse to the Company or where there is no financial implication to the Company (ie no voids or service charge caps).

Report to Cabinet and Council

The Company will report any purchases to Cabinet and Council at the earliest opportunity. Additionally, an update on the financial performance of the portfolio will be given as part of the Quarterly Financial Reporting to Cabinet and Council. On an annual basis the Property Investment Committee will update the Investment Strategy and Business Plan and these will be reported to Cabinet and Council for approval prior to the beginning of the financial year.

Investment Strategy

Executive Summary

Size	<ul style="list-style-type: none"> • Target portfolio size £30M gross (circa £27.9m net of purchaser's costs). • Capital to be deployed over a three year period but as soon as prudently possible. • The portfolio will comprise between 4 – 6 properties. • Asset values of between £5m - £8m. • Maximum weighting of 30% from any one property.
Performance Objectives	<ul style="list-style-type: none"> • To achieve an average gross income yield of at least 4.50% over 10 years. • Net income of £400,000 in 2020/21; £600,000 in 2021/22 and £800,000 in 2022/23. • Where appropriate to outperform the IPD/MSCI Annual Property Fund Index Benchmark.
Property Type	<ul style="list-style-type: none"> • Create a well-diversified portfolio in properties with good fundamentals and strong tenant demand to ensure the property does not reach obsolescence during the hold period.
Geographic Allocation	<ul style="list-style-type: none"> • Diversified by location with all locations across the UK considered.
Sector Allocation	<ul style="list-style-type: none"> • Diversified by sector with a maximum of 35% in a single sector. • Targeting higher allocations in industrial and office.
Other Restrictions and Guidelines	
Tenants	<ul style="list-style-type: none"> • Maximum rent from any single tenant is 25% of total rental exposure • Tenants are forensically analysed before acquisition to minimise income risk
Lease Structure	<ul style="list-style-type: none"> • Target an average unexpired lease term in excess of the MSCI benchmark. • Ensure that lease expiries (or lease breaks) in any one year do not account for more than 25% of the total income. • Core income assets have an unexpired lease term of at least 7.5 years at purchase. • Where possible acquire assets with fixed or RPI uplifts to help de-risk income growth.
Development	<ul style="list-style-type: none"> • Not to actively seek development opportunities.
Financing	<ul style="list-style-type: none"> • Funded through Capital Programme through surplus funds or borrowing, where funds will be provided to the Company.
Environmental	<ul style="list-style-type: none"> • Acquire properties with appropriate EPCs. • Seek to improve EPC ratings wherever financially prudent.

Portfolio Size

The Council wants to establish its investment portfolio with £30m of new investment over the next three years with a net additional income target of £400,000 in 2020/21; £600,000 in 2021/22 and £800,000 in 2022/23 targeted. The Council, on the advice from LSHIM, will aim to invest £30m as prudently and swiftly as possible through the company to create the additional income as soon as possible for the Council.

The optimum lot size for acquisitions would be between £5m - £8m in order to diversify the portfolio. This would ensure that no property was accountable for more than 30% based on the aspirational total value of the portfolio. Based on the optimum lot sizes the portfolio will comprise of between 4 and 6 properties of differing values.

Target returns

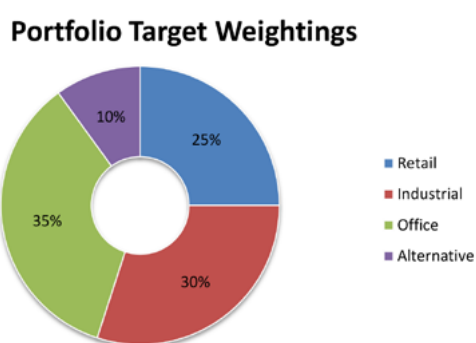
There are two principal areas of return from commercial property investment – income and capital growth. The Council's objective is to maximise revenue along with ensuring that the investment capital is not eroded by inflation. Core and Core-Plus assets will be targeted to achieve a return that is balanced between income and capital growth.

Property Fundamentals

Properties in either prime or good secondary locations will be acquired meaning at end of lease term they should re-let with minimal voids. LSHIM will recommend acquisitions that have strong fundamentals ensuring that if a property was to become vacant it could be re-let quickly with minimal cost and income downtime. There will be no investment in speculative development as this increases the risk beyond the objectives.


Sector Allocation

Our recommendation for portfolio weightings for a core / core plus portfolio is as follows:



**Retail refers to Retail warehousing (highly unlikely to be High Street unless exceptional circumstances dictate otherwise).*

For the sake of clarity the definition of 'Retail' includes out of town retail warehouses and retail warehouse parks as well as stand-alone out of town supermarkets. The Council will be cautious with regard to in town retail investments in view of the structural changes in that sector other than prime retail units in 'Cathedral cities' where such meet our minimum return criteria.



Some degree of flexibility will need to be built into the process, as if we were to invest say £7M in a single industrial investment, we would not recommend investing the balance of the Industrial allocation (£1M) in a single, small industrial investment. Instead, we would reallocate this to one of the other sectors or add it to any potential second tranche of capital.

The Council will seek to keep the portfolio as balanced as possible during the investment process, this is difficult at the start and will ultimately depend on the opportunities within the market however, the final portfolio will reflect the target ratings as closely as possible.

Tenants

The maximum rent from any single tenant should not exceed 25% of the total rental income. All potential investments will be assessed for strong tenant covenants to meet rental liabilities. For all acquisitions LSHIM will instruct a forensic accountant to review the tenant financials for which reliance can be provided. This goes above and beyond the Dunn & Bradstreet reports that will be analysed for an initial assessment.

Lease Structure

Investment opportunities will have an average unexpired lease term of at least 7.5 years at purchase. The Property Investment Committee will seek opportunities with good rental growth and potential capital value improvement during the hold period through active asset management i.e. lease re-gear, RPI/CPI and open market rent reviews, refurbishment. The strategy will be based on a core/core plus, the majority of opportunities will be single occupier however two / three tenant properties will also be considered. This approach keeps on-going management and asset management costs to a minimum.

Financing

The purchases will be made through the company which will be financed through funding from the Council. This will be reflected in the Council's Capital Programme which is funded through surplus funds and borrowing. The Director of Finance and Commercial (S.151 Officer) has delegated authority as to when the most appropriate time is to take long-term or short-term loans to support the Capital Programme. The impact of borrowing and the investment reports are reported through the quarterly financial reports to Cabinet.

Environmental

Properties with appropriate EPCs will be sought (with at least 'D' rating) to reduce the risk of capital expenditure being required to improve the property to a lettable or saleable standard at exit. In addition opportunities to improve EPC ratings wherever financially prudent should be taken through the hold period.

Ethical consideration and Reputation of the Council

All property acquisition should be considered in light of any ethical issues and with regard to avoiding any reputational damage to the Council.

Maintaining value of properties in the portfolio

LSHIM will also initiate and oversee the development, implementation and regular review of individual property strategies (Asset Business Plans), which will be implemented by the Asset Manager. Frequently, asset management initiatives are identified at a pre-purchase stage and can often form part of the rationale for a given acquisition. However, other opportunities may arise later on in the ownership of an asset and might be identified by the Fund Manager and Asset Manager.

A strong and close working relationship between the respective teams (Fund manager, asset manager and property manager) is essential to identify these opportunities to increase income and add value and this is a core strength of all function being carried out by the same property advisory firm.

Effective asset management comes about largely as a result of strong tenant relationships and it will be important that the management team get to know the tenants from the first post-acquisition inspection of any investment.

LSHIM have developed a 'RAG' traffic light system to categorise assets and prioritise key actions and would form part of the agenda for the quarterly portfolio review meetings.

Risk Management

Many of the risks in building a portfolio are linked to the quality of the assets being purchased and the incumbent tenant(s). These considerations are addressed through the due diligence completed by LSHIM and third party professionals. Prior to completion, comprehensive reports will be commissioned from appropriate specialists which will then be reviewed by the Directors at LSHIM and form part of the comprehensive Investment Recommendation (Building Survey, Environmental Report, Measured Survey, Forensic accountant and an Independent Valuation) that LSHIM will prepare for the Property Investment Committee.

This due diligence will include building and site specific surveys, estimates of future maintenance costs, estimates of any future capital refurbishment requirements, and the need to understand operational risks. As previously stated, these reports will be commissioned from 'best in class' advisors on each and every occasion irrespective as to whether or not they work for LSH.

Performance Measurement

The performance of the portfolio and each investment will be monitored regularly against targets and Key Performance Indicators (KPIs) of benchmarks. These should not be based on just return performance but include rent collection efficiency, arrears and building inspection frequency.

Investment Management KPI's

The table below details the aims we have set out for the portfolio. As properties are acquired, the portfolio will be measured against these aims. At the start of the acquiring process the portfolio will be imbalanced by its nature however over time the portfolio will re-balance.

	Portfolio	Aim
Number of Properties	-	4 – 6
Number of Tenancies	-	4 – 9
Gross Income Yield	-	Above average of 4.50% over 10 years
Vacancy Rate (% of rent)	-	Below MSCI Benchmark (Currently 6.20%)
Rent with 5+ years	-	Minimum 40%
Rent with 10+ years	-	Minimum 15%
Min unexpired lease term at purchase		7.5 years
Largest property (% of value)	-	Below 30%
Largest tenant (% of income)	-	Below 25%

The Portfolio will also be measured against the MSCI UK Property Index on an annual basis. This is an independent index that measures over 9,000 direct property investments across the UK.

The portfolio will also be monitored by the PIC. This monitoring will be reported quarterly to Cabinet and Council to ensure it is meeting the Council's income generation targets as set out in the Council's 10 year Finance Strategy.

Asset Management KPI's

The property management and rent collection role will be performed by Lambert Smith Hampton..

The following indicators are applied for ensuring a well-managed portfolio:

	Rent Collected	Service Charge Collected
At Quarter Day	70%	65%
7 days post Quarter Day	80%	75%
14 days post Quarter Day	95%	85%
21 days post Quarter Day	99%	95%

The above is based on collectable monies and to exclude tenants in administration/liquidation or on pre agreed payment plans.

Aged debt

- Debt to be no more than 1.5% of annual contracted rent and service charge

Charge Raising and Transfer

- All quarterly rent and service charge invoices to be raised at least four weeks before the Quarter day
- Monies will be remitted to the client within 5 working days of allocation

Service Charge

- Service Charge (including but not restricted to budgets, reconciliation, tenant communication and variances) to be administered in accordance with the RICS Service Charge Code 3rd Edition and updates thereof

Occupier Satisfaction

- Annual Occupier Meetings to be held on single let properties
- Six Monthly Occupier Meetings to be held on multi let properties
- Tenant Satisfaction Survey to be carried out annually and summary reported back to client within 28 days of final response

Data Management

- All lease events, valuations and other material changes to be entered on to the property database within 10 working days

Suppliers

- All suppliers must be vetted and meet appropriate criteria relating to capability, financial standing, employment practices and fitness for purpose.
- Supplier invoices to be processed and paid within 28 days of receipt or in line with supplier contract terms if less than 28 days.

Acquisition Process and Property Selection Criteria

LSHIM will source the best opportunities on behalf of the Property Investment Committee with an acquisition (and disposal) strategy based on a thorough understanding of the Council's financial objectives, detailed market knowledge, robust due diligence and rigorous valuations.

There are two principal ways by which investment properties will be sourced – directly from selling agents and from agent introductions.

LSHIM inform selling and introducing agents of current requirements by circulating quarterly summaries of investment criteria by email and more effectively through face to face meetings with investment agents throughout the UK.

This twin-track approach secures a regular flow of potential acquisitions throughout the year and the key to success is to have a streamlined and effective process for evaluating potential opportunities according to the criteria set by and agreed through the investment strategy.

These opportunities may be either on or off market with the latter providing the opportunity to purchase at Market Value but in a non-competitive environment. Frequently, the quid-pro-quo is that the Vendor will expect a quick sale – typically within 15-20 working days from agreeing terms to completion.

The development of the portfolio will be tracked in the Quarterly and Annual reports which set out both portfolio and individual property strategies as well as all the financial data relating to the portfolio.

The chart below summarises the acquisition process:



Stage 1 (Evaluation Matrix - Appendix 1)

LSHIM will source opportunities for acquisition, based upon the parameters set out in the above portfolio strategy. A scoring matrix (Appendix 1) will be used for initial evaluation to ensure uniform basis of appraisal across different asset classes and locations. The resultant score will need to pass a score of 60 in order to be passed to the PIC .

Stage 2 (Light Bulb Report)

Suitable opportunities will be issued by LSHIM to HDC in a summary format which will ensure there are no conflicts of interest or any historical reasons preventing further due diligence. A decision back from HDC will be needed within 24/48 hours.

Stage 3 (Recommendation to Bid)

LSHIM will inspect the property and carry out detailed due diligence and build cash flow models to establish returns. Assuming the parameters for the portfolio are met, LSHIM will issue a Recommendation to Bid generally within 1 to 2 weeks outlining the key fundamentals along with the maximum recommended offer level. A decision back from HDC will be needed within 24/48 hours.

Stage 4 (Investment Recommendation)

If the offer is accepted and Heads of Terms issued, exchange and completion could be set for within 10 to 15 working days. LSHIM will instruct and coordinate the relevant surveys required for the acquisition and will liaise with the appointed legal advisors. This will include a Building Survey, Environmental Survey, Forensic Accountant and independent Valuation. Prior to exchange, a detailed Investment Report will be issued by LSHIM to HDC which will provide a detailed analysis and cash flow of the investment but will also provide summaries of all 3rd party advisors reports.

Key to the above is the need for prompt responses by the Property Investment Committee back to LSHIM, in particular at Stage 2 and 3.

Reporting

LSHIM will provide formal reporting to the PIC on the progress of each property and the portfolio as a whole on the following basis:

- A written quarterly report on the performance of the portfolio and new acquisitions;
- A quarterly meeting of the PIC or equivalent;
- An annual* report on the performance of the portfolio;
- An annual* review of the asset strategy for each property;
- An annual* review of the investment strategy for the portfolio as a whole;
- Ad hoc decision making meetings arranged as required on specific actions.

*The annual report/reviews will be incorporated into the appropriate quarterly report. These quarterly/annual reports will comprise:

- An update on the Portfolio Strategy;
- A summary of the changes within the portfolio since the last report;
- Updated detail on the portfolio composition and portfolio weightings;
- UK wide commercial property market update;
- Property Management update including an Income Statement, Rental areas;
- Key Performance Indicators;
- Tenancy Schedule – followed by individual property reports on each of the assets.

Both quarterly and annual report will be made available to PIC attendees 5 working days prior to the meeting.

For the acquisition process LSHIM will provide the following reports:

- **Lightbulb Opportunity** – This will detail the fundamentals of the unit with a brief analysis of the opportunity. This two page document is intended to confirm the PIC and the company have no conflicts of interest with the property and no historic reasons for not progressing with further due diligence.
- **Recommendation to Bid** – This provides an extensive report following an inspection of the property and in-depth due diligence on the area, property, local market and comparables. LSHIM will run detailed cash flow appraisals and sensitivities and set out the investment rationale. This document will seek the formal approval to bid.
- **Investment Recommendation** – If successful in the bidding process, we will prepare this final report which you will receive at least 48 hours prior to completion and which will consolidate the advice of the lawyers, building surveyors and any other professional advisors and provide the formal advice on the basis of which the funds are released from completion.

In addition to the formal reporting LSHIM will also attend the quarterly PIC meetings covering any acquisitions that have taken place over the last three months, the performance of the portfolio as a whole, potential upcoming issues and general wider market intelligence. In addition LSHIM will attend further PIC meetings as and when planned.

LSHIM will provide a prompt response to any issues raised by the PIC and are available 24/7. Any matters will be resolved within a reasonable time frame.

Cabinet and Council Reporting

The PIC will provide a report to Cabinet with regard to any potential purchases at the earliest opportunity. Additionally, an update will be provided in the quarterly financial report to Cabinet and subsequently Council. These reports will include the performance of the commercial property portfolio but also the overall impact of the Council's borrowing position. On an annual basis, a review of the investment strategy as well as performance of the overall portfolio will be reported to Cabinet and Council for approval.

Appendix 1

LSHIM/Hambleton Investment Property Assessment Matrix

SCORING CRITERIA	Score	4	3	2	1	Score
	Weighting Factor	Excellent / Very Good	Good	Acceptable	Not Acceptable	
Location	5	Prime	Off Prime/ Good Secondary	Secondary	Tertiary	15
Tenant Covenant	5	Single or multiple tenants offering strong financial covenant	Single or multiple tenants offering good financial covenant	Single or multiple tenants offering reasonable financial covenant	Multiple tenants offering weak financial covenant strength	20
Building Quality	4	Modern or recently refurbished with nominal capex required	Good quality with capex likely to be required within the next 15 years	Good quality with capex likely to be required within the next 10 years	Older style or non-compliant with capex required within the next 5 years	12
AWULT	4	Greater than 10 years	Between 6 and 10 years	Between 3 and 6 years	Less than 3 years or vacant	16
Tenure	3	Freehold	Lease more than 125 years	Lease between 100 and 125 years	Lease between 60 and 100 years	12
EPC Rating	3	A, B	C	D	E	12
Max Score		96	72	48	24	87

The threshold will be set at 60.





HAMBLETON
DISTRICT COUNCIL

Civic Centre, Stone Cross, Rotary Way, Northallerton, North Yorkshire DL6 2UU
01609 779977
info@hambleton.gov.uk
hambleton.gov.uk

This information is available in alternative formats and languages