1. **Update on the Council's property portfolio particularly new acquisitions and future plans for sites.**

   a. **In this update can you outline how they will be funded and if they will be funded from rental revenues? For example Members were informed the Tesco's development would be funded from rental income - additional income from the expansion of the shopping village.**

   b. **If this is the case, what is the forecast for the rental revenue streams?**

Update on Property Portfolio:

The Council's Property Portfolio can be defined to cover a broad range of assets, from Council homes to roads, schools, libraries, leisure centres, Town Halls and so on. The total value of these assets is in the region of £6bn.

This briefing largely concerns itself with the element of the Council's estate that is not housing and that is let out in return for payment. This portfolio is managed by a dedicated Commercial Estates Team within Strategic Property Services, set up in 2010. This element of Hackney's portfolio includes estates within both the HRA and the General Fund.

The HRA assets are typically associated with council housing estates, including around 200 convenience shops in small parades which produce modest rents, but also provide convenience services for Hackney's residents. Typical tenants might be laundrettes, take-aways, and newsagents. The size of this portfolio has remained relatively static over the years, but as the Housing Regeneration team has brought forward new schemes, these have usually included ground floor space for employment uses too, for example at the recently completed development in Reading Lane.

In 2012/13, the rent earned from HRA properties was c£1.6m. In the same period, the rent earned from General Fund properties was roughly £1.5m.

In 2018/19, the rent projected for HRA properties is: c £2.4m.

In 2018/19, the rent projected for General Fund Properties is: c £7m.

The growth in HRA income is attributable largely to rental growth from existing leases via rent review, and also via lease renewals.

The growth in General Fund properties includes rental growth in the same way, via rent reviews with existing tenants and lease renewals. However, it has received a substantial boost from some acquisitions, made in pursuit of the Council's wider strategic objectives and ambitions.

Properties acquired since 2012/13 include:

Keltan House
Previously occupied by LBH, at an annual cost of c £900k, was vacated as LBH headcount reduced, and purchased from the freehold owner for c£9m. The Council was previously committed until 2033 at the earliest, under a lease originally signed by the GLC. Options were modelled including staying put, sub-letting to mitigate the rental liability for Hackney, or purchase to then let on. At the time, LBH had excellent market information, and pooling its own internal knowledge and advice from informed advisers in the market, LBH concluded that the best option would be to buy itself out of the lease and the associated liability for the coming years, and calculated that this would be viable at a purchase price of up to £10m. Fortunately the owner was a major land owner and had little local knowledge so LBH secured this building for under £10m, and has subsequently let it out as 40,000sqft of much needed workspace. The rental income for this building is c£1.25m pa. Managed workspace is much in demand in London Fields and the food and beverage offer on the Ground Floor combines a number of uses and has been popular throughout the week ever since opening.

96-98 and 100-106 Leonard Street
Both commercial buildings, principally office space, acquired to safeguard sustainable but lower cost workspace for new businesses seeking short leases while keeping Hackney secured in the growing Shoreditch zone. Investment characteristics were relatively safe as growth in demand for such space has been strong, and rents have grown more rapidly than anticipated. Yields this year 4.5%-5%. These are not high spec buildings and LBH does not have to charge the high rents that have tended to characterise the Shoreditch market of late.

17 Sylvester Road

Located at the Town Hall campus, it is strategically important and has scope for further development if required. This building is occupied by the DWP and is yielding close to 8% rental return.

333-337 Mare St

Previously in private ownership, the building is located next to Hackney Central station and has the potential to play a strategic part in the future development of Hackney Central town centre. The rental yield achieved this year is c6%. The opportunity to acquire an empty site, adjoining to the rear at 237 Graham Rd arose and LBH acquired it. This gives LBH substantial control of land adjoining the station and is enabling the Council to work with TfL on materially improving the access and passenger flows to the station which suffers overcrowding at peak times

Dalston Curve - south units

These are let to food and beverage providers. LBH was subsequently able to ensure that suitable occupiers, relevant to Dalston Town Centre would be selected, for this key, high footfall location. Secured at a modest acquisition cost, initial rental yields are higher than usual.

Dalston curve - north unit

This unit was acquired as a single lot with the south units. Negotiations with two tenants are complete, and these will open as Superdrug and Pret a Manger.

Westgate St

The Council has long been freeholder for this site in Westgate St, let on a long lease to Notting Hill Housing Association. Notting Hill HA approached Hackney to extend their lease which had run down to below 80 years, in order that they could develop the site for new homes. The Council was entitled to financial remuneration for such an extension and a valuation was undertaken. Anticipating a planning requirement for employment space on the ground floor at the time, rather than take a capital sum LBH negotiated a long lease back of the ground floor employment space. This is occupied and yielding over 15% pa, while providing much needed work space for young and creative businesses. Report went to Cabinet in the 2013/2014 Municipal Year.

51-61 Mare St

Acquired as a strategic piece of land assembly, this site adjoins the Arriva bus depot in Ash Grove. It is currently let on short leases to fund the

investment, while plans for use of key Hackney Centre Town Centre sites develop.
There have been other acquisitions made in support of Temporary Accommodation, where it has been more effective to acquire certain space than house tenants in hotels and expensive but low quality emergency private accommodation.

New acquisitions

Sherry's Wharf

This does not form part of the Commercial Estate. It was already owned by the Council in a sense, albeit it was leased. The opportunity arose to acquire the freehold on economic terms. The rent payable by the Council was £450,000, a level it rose to at the last review in 2013 from £158,500, a 283% increase. At the rent review before that it rose from £25,000 to £158,750, a 635% increase. Although the next review would not have been until 2034 there was a likelihood of another large increase in the rent payable by the Council that would have had to be funded by the HRA as a whole. The freehold has been acquired for £12.75m and the Council is now its own landlord mitigating the risk of substantial and unavoidable future rent hikes.

Future plans for sites

There are no plans to make any acquisitions at present. The Council does not run an acquisitions programme. Instead it monitors the Borough for opportunities constantly through its network of internal departments and staff, external agents, other land owners, occupiers and so on. Should sites of strategic relevance come available, they will be considered on their individual merits. The figures supporting the investment case must always be strong otherwise the proposed investment is not sustainable. While the Council's strategic acquisitions have always been acquired with a particular purpose in mind, each one has stood up well financially, often beating the projected returns substantially.