

**SUBJECT: Investment & Commercial Portfolio
Performance Update**

MEETING: Performance & Overview Committee

DATE: October 2024

DIVISION/WARDS AFFECTED: All

1. PURPOSE:

For Performance & Overview Committee to receive a performance update on the Council's commercial and investment property portfolio.

2. RECOMMENDATIONS:

- 2.1 That the performance of the commercial and investment property portfolio is noted.

3. KEY ISSUES:

Background

- 3.1 This report provides an update on the current performance of the council's commercial and investment property portfolio, including Castlegate Business Park and Newport Leisure Park investments, MCC's County Farms portfolio, and retail and industrial portfolio.
- 3.2 MCC benefits from a diverse land and property portfolio that has delivered a commercial return over a number of years. The portfolio is managed in accordance with the strategic principles and objectives set out in the Council's approved 2023-2027 Asset Management Strategy. The asset register consists of a range of different land and property which have come into MCC ownership over many years through a mixture of acquisition, donation, or council/government reorganisation. These include:
- Acquired investments of Castlegate Business Park and Newport Leisure Park
 - Industrial units
 - Retail units

- Office accommodation
 - County Farms and Bryngwyn Livestock Market
 - Oak Grove Solar Farm
- 3.3 Ongoing management and monitoring of the commercial and investment portfolio is undertaken by officers within MCC's Estates, Finance and Legal departments. Acquired investment assets are supported as part of the wider functions and responsibilities of Landlord Services, and departments are in regular contact with the appointed managing agents for the respective sites. The cost of managing agents is incurred by tenants of the respective properties, recovered via service charge payments.
- 3.4 The combined gross income for all investment and commercial assets, inclusive of acquired investments, for 23-24 was £3.628m.

Since acquisition, both acquired investments have generated a combined net income of £2,042,074. This position will improve as a consequence of the net surplus forecast for 24-25, as outlined in the subsequent sections of the report.

Acquired Investment Portfolio

- 3.5 The investments of Castlegate Business Park and Newport Leisure Park were acquired via the Council's Asset Investment Policy. The Asset Investment Policy facilitated acquisition of assets to meet the strategic aim of generating commercial returns, thereby helping to offset wider budget pressures facing the Council. The policy also established the criteria for evaluation of commercial and property investments, measured against the return on investment (ROI) or net income return, over and above the borrowing repayment cost.
- 3.6 At the time of acquisition, prudential borrowing was used to acquire or invest in property, with the cost of borrowing serviced by the resulting rental streams. As a result of the Council's risk appetite and the ongoing strain on its financial standing, any further investment will only be considered in order to support the core policy objectives contained within the Council's latest Community & Corporate Plan and where deemed prudent, sustainable and affordable. The Performance & Overview Scrutiny Committee now receives 6 monthly updates on the performance of the Council's property investment portfolio.
- 3.7 Figure 1 shows a summary of financial performance and occupancy rates of the respective portfolios. Further detail on activity associated with each portfolio is outlined in the subsequent section:

	Castlegate Business Park	Newport Leisure Park	
ROI as of 23/24 (March 2024)	-3.74%	0.15%	
ROI as of 24/25 (Sept 2024)	-2.08%	1.41%	
Forecast for 25/26	-0.95%	1.78%	
Occupancy rates as of 23/24 (March 2024)	85.6%	97%	
Occupancy rates as of 24/25 (Sept 2024)	87.9%	94.6%	
Net income to MCC 24/25	-£128,405	£279,067	£150,662
Net income to MCC since acquisition	£353,436	£1,689,638	£2,043,074

- 3.8 Since acquisition, both assets have generated a total income of £2,043,074 above borrowing repayments. Whilst both assets currently perform below the original 2% above borrowing investment criteria, officers would recommend to members that they continue to hold these assets to retain as strategic employment and income generating assets.
- 3.9 Castlegate Business Park continues to recover well following exposure to known risks associated with the surrender of the anchor tenant at point of acquisition. Newport Leisure Park, whilst carrying risk associated with the future of the Cineworld Group, continues to generate a net return to MCC. Continuing to let vacant space will materially improve the financial performance of both assets, reducing MCC's exposure to business rates, service charge and utilities and increasing its net return.
- 3.10 The 25/26 forecast presumes no further lettings (or surrenders) will be realised, but there continues to be a reasonable prospect of securing new tenants and improving the forecasted ROI. Letting 20% of the vacant floor space will return Castlegate BP to a positive net return. Newport Leisure Park will exceed the 2% ROI target if the only remaining void is filled. It should also be noted that any sale is likely to also result in a depreciated capital value due to the reduced rent roll and limited investment activity in the sector at this time.

Castlegate Business Park

- 3.11 Castlegate Business Park was acquired in June 2018 for £7million together with a service charge loan of £900k and associated acquisition costs. The asset consists of mixed office and production/warehouse space amount to circa 217,000 sqft situated in 18 acres of land adjoining the Caldicot settlement.

3.12 The property at the time of acquisition was 95% occupied, the majority to Mitel who were the original owners of the site. Following surrender of 60% of the property by Mitel in March 2022, MCC Estates have worked to reduce this void through securing new tenants and expansion of existing businesses. As of September 2024, the occupancy rates are at 87.9%.

3.13 Details of letting activity since January 2024 are set out below:

Office & MonSpace

3.14 MCC Estates 'MonSpace' initiative, which makes available 9 smaller office suites on more flexible terms than might otherwise be accommodated by the sector, continues to return strong occupancy levels. This has reduced vacant space in the property that may otherwise have been more challenging to let. It has also enabled several local businesses to be retained in the area.



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CastleGate Business Park

mon space

- Free parking
- Onsite cafe
- Excellent transport links
- 15 minutes from the M4

3.15 As of September 2024, 6 of the suites are occupied, with 2 tenants having occupied and vacated since launching MonSpace in November 2023. Another suite is under offer and scheduled to be occupied in November. Flexible terms have assisted support different businesses in a range of circumstances, for example Caldicot Town Council occupied one of the suites during their building refurbishment, enabling them to continue to operate unaffected by the works. The letting of MonSpace has generated a total rental to MCC of over £25,000.

3.16 Following a short period of occupation at MonSpace, two tenants have elected to enter long term leases for the property. This has further reduced MCC's service charge, business rates and utilities liability.

3.17 Two rent reviews have been exercised with existing tenants, resulting in significant rental increases. We have also secured lease extensions and expansions with three existing tenants on site, further increasing the rent roll and reducing MCC's service charge and business rates liability.

Cafe

3.18 As a consequence of the pandemic, the onsite canteen was closed however a new cafe operator (Castell Coffi) has been identified and are operating successfully from the property. The cafe is supporting trade from existing tenants as well as the surrounding Severn Bridge Industrial Estate. Discussions are ongoing to secure a long-term lease agreement to retain the operator on site.

Miscellaneous

- 3.19 Through March-August the property was being utilised by a film company as a 'base' whilst filming in and around Monmouthshire. This included storage, office and set design. Expectation Comedy are a TV and film company based in London who work with several TV channels, including Channel 4. The units at Castlegate have been considered attractive for their purposes, as they offer privacy, office space for staff and ample onsite parking. The 13-week licence has generated a strong commercial return for MCC.
- 3.20 The Castlegate Business Park car park continues to be hired to facilitate a number of local events, including charity events with Portskewett Football Club and events at Caldicot Castle. The large car park is also being hired by local businesses within the Severn Bridge Industrial Estate for additional parking, further generating a rental for MCC.
- 3.21 There is one tenant at Castlegate Business Park in arrears and discussions are ongoing regarding payment plans to address short-term cash flow pressures.
- 3.22 As of September 2024, Castlegate Business Park is projected to generate a commercial loss of £128,405. Whilst a continued financial pressure, this is a £101,650 improvement on the 23-24 position, and we continue to secure new tenants to return the asset to a net positive position.

Newport Leisure Park

- 3.23 Newport Leisure Park was acquired in March 2019 at a cost of £22.5million. It is situated on the Newport/Monmouthshire border and comprises of a mix of six restaurants, two retail units and three leisure units within an 11 acre site. At the time of acquisition, all of the units were let on the basis of long leaseholds with no rental or service charge arrears.
- 3.24 Since acquisition, the park was subject to significant closures as a consequence of the Covid pandemic. Four units have been made vacant via surrender or eviction, creating voids which required re-letting. Despite this, the asset has continued to generate a total net return to MCC of 1.41%. New tenants have been secured following the lettings of Unit 7 (Starbucks) and Unit 2 (Innoflate). Both tenants are trading and paying rental and service charge contributions.
- 3.25 Details of letting and management activity from January 2024 are set out below:
- 3.26 In January 2024, MCC elected to exercise forfeiture on the lease of Unit 9B Tiffins. This followed an extended period of rental arrears and inability of the tenant to address the debt. The property has been marketed since for an alternative occupier. Expressions of interest have been received and we

continue to consider offers, including the potential to partition the unit into two smaller units to increase the attractiveness to smaller leisure offerings.

- 3.27 Unit 6, the former Pizza Hut unit and only other remaining vacancy, is under offer and at the time of writing is finalising a lease for a new occupier. Fit out is scheduled to commence in October 2024, with trading commencing later in the Autumn. Letting of the unit is on competitive terms and consistent with pre-pandemic rental levels.
- 3.28 Unit 1, let to Cineworld, has been subject to national attention as a consequence of a company restructure being executed by the Cineworld Group. On the 26th of July, Cineworld Group shared their intentions to close multiple cinemas across the UK.
- 3.29 Under the restructuring plan, existing lease agreements for UK Cineworld cinemas have been classified as either Class A, B, C1, C2, D1, D2 or D3 creditors. 38 sites have been classified as Class A. 33 sites in Class B. 16 sites in Class C. 9 sites in Class D. Class C and D sites have been identified as sites subject to closure (of which 6 closures have been announced) or significant rental reductions including nil rental.
- 3.30 The proposed restructure classified Cineworld Newport Leisure Park as a 'Class B Creditor'. As a Class B creditor, Cineworld have determined that the cinema should remain open but is subject to a rental reduction to achieve their desired annual turnover. MCC will be subject to a rental reduction for a period of 3 years, commencing 3 months after the restructure is carried out.
- 3.31 Cineworld will seek to reduce the rental to align with an estimated rental value (ERV) or market rent. ERV reductions have resulted in Class B Creditors experiencing rental reductions of up to 87%. Under the terms of the restructure, it is proposed MCC's reduction will be more favourable than others, reflecting the strength of the operation at Newport Leisure Park. Whilst the final reduced rental figure is under review and subject to scrutiny, the ERV reduction is reflected in the 24/25 and 25/26 forecasting within this report.
- 3.32 The courts sanctioned a Creditor Vote on the restructuring plan on the 18th September and the restructure was authorized on the 30th September. MCC's rental from Cineworld will be unaffected for an initial period of 3 months, and a further payment is projected 12 months post-restructure which intends to address any shortfall in rental through year 1 of the restructure.
- 3.33 Engagement with the local management team at Cineworld has reaffirmed the strategic importance of the asset given its location, limited local competition, free car parking and footfall. Despite this, Estates continue to monitor the restructuring plan closely and prepare an exit strategy should the position change. Independent advice has been sought regarding interest in the property should the restructure be unsuccessful or the cinema close, and it is recommended that supporting the restructure best protects MCC's interests and projected net revenue position.

- 3.34 Rent reviews have been exercised on existing tenants, resulting in an uplift in rental returns to MCC.
- 3.35 MCC have been in advanced discussions with an electrical vehicle charger operator for the installation of new chargers at the property. Any agreement would be subject to grid connection and planning consent. The EV chargers would generate an annual rental for MCC.
- 3.36 There are no tenants in arrears at Newport Leisure Park.

Commercial Portfolio

- 3.37 The Council's industrial portfolio comprises of 40 units ranging in size from 365ft² to 2,850ft² located within Caldicot and Raglan. Currently the portfolio is 100% let and there are aged rental arrears in the region of £15k. This equates to 7.3% of the rent roll. Several lease renewals have been executed or are under negotiation which is anticipated to increase rental returns. A recent review of Castleway Industrial Estate has made it possible for some of the existing tenants to expand their business and commit their future to the location.
- 3.38 The retail portfolio is made up of 23 secondary neighbourhood units, which are a combination of freehold and long leasehold tenures. The portfolio is 96% let. The ground floor of Hanbury House in Chepstow is now fully let with a range of tenants inclusive of medical, gym and retail offerings. The Estates Department, in partnership with Regeneration colleagues in MCC, are developing a temporary 'pop-up shop' within the ground floor former One Stop Shop space at Monmouth Market Hall and, subject to planning, an exhibition space on the first floor former Planning offices. These uses will generate a rental for MCC and offset ongoing revenue costs for the property.
- 3.39 Innovation House, Magor is categorised as an investment asset with an income target of £156,000. The second-floor smaller wing is occupied and generating a rental return. The remaining vacant space continues to be marketed. Interest has been received from a large-scale flexible office provider and terms are being negotiated. In the interim and to prove concept, it is intended to launch a 'MonSpaces' opportunity on the ground floor. Usk County Hall has also secured the letting of the ground floor of 'J-Block' to the Shared Resources Service (SRS), generating a commercial return and reducing MCC's operating costs.
- 3.40 There are 24 farm holdings in the Council's ownership generating an improving commercial return. There are £24k of arrears for County farms, primarily relating to one farm in Leechpool. This represents 8.8% of the total rent roll. Site visits have been held to discuss options with the tenant. Significant rental uplifts have been achieved across multiple recent farm lettings. Another county farm has been recently vacated, with re-marketing scheduled to commence in October. MCC also continue to receive rental payments from the Bryngwyn Livestock Market, which makes rental payments

based on a combination of turnover and base rent. Bryngwyn Livestock Market has generated a rental return of over £929,611 since 2013.

- 3.41 Income from the Council's solar farm is currently forecasting a £100,000 overspend at M4 due to a number of grid outages on site this year plus adverse weather conditions which is affecting the income return. Subject to weather, it is anticipated the performance will increase through to year end. Since 2017, the solar farm has generated a gross income for MCC of £4,517,289.

4. OPTIONS APPRAISAL:

The report is not a decision-making report. The report represents a performance review of the commercial and investment portfolios, as required under the governance changes outlined in the Asset Management Strategy. Therefore, no option appraisal is required.

5. REASONS:

The Asset Management Strategy requires a 6-month performance review of the Council's commercial and investment portfolios.

6. RESOURCE IMPLICATIONS:

This report outlines a £351,649 improvement in the performance of the investment portfolio from 23/24 projections. The 24/25 projections have been adjusted to reflect the changes and risk associated with Cineworld's occupation. Despite these changes, both Castlegate Business Park and Newport Leisure Park are projected to generate a significant improvement since 23/24 and Newport Leisure Park a net surplus, after borrowing repayments, in 24/25.

£30.7m of the £50,000,000 prudential borrowing fund had been spent on these two investments.

	Castlegate			NLP			Combined		
	Budget	Forecast	Variance	Budget	Forecast	Variance	Budget	Forecast	Variance
Expenditure	781,353	883,105	101,752	1,013,517	1,017,405	3,888	1,794,870	1,900,510	105,640
Income	-682,400	-754,700	-72,300	-1,359,825	-1,296,472	63,353	-2,042,225	-2,051,172	-8,947
Net Return	98,953	128,405	29,452	-346,308	-279,067	67,241	-247,355	-150,662	96,693

As a result of the investments, budgeted income targets have been introduced. The latest Month 6 projections estimate a net surplus on NLP of £279,067 and a deficit of £128,405 on Castlegate, a combined surplus on both investments of £150,662 resulting in an in-year forecast budget pressure of £96,693.

As a strategic asset within the county, information has been sought on the number of jobs created at Castlegate Business Park since the last performance update. Since January 2024, 33 new skilled jobs have been created or appointed to at Castlegate Business Park. Future Performance & Overview Committee performance updates will continue to report any movements in job and skill creation.

The capital values of both assets continue to be impacted by the respective sectors however an improving rent roll is resulting in capital appreciation. As of March 2024, the asset valuations for Castlegate Business Park and Newport Leisure Park were £6.1m and £19.5m respectively.

Income targets for the commercial portfolio, exclusive of acquired investments, have been increased by £100,000 in 24-25. Acquired Investments are projecting to generate a net income of £2247,355 in 24-25.

7. EQUALITY AND FUTURE GENERATIONS EVALUATION (INCLUDES SOCIAL JUSTICE, SAFEGUARDING AND CORPORATE PARENTING)

There are no equality and Future Generations implications arising from the purpose of this report. This report provides a performance review of the commercial and investment portfolios.

8. CONSULTEES:

Stacey Jones – Finance and Resources Manager
Joanne Chase – Head of Commercial Law
Paige Moseley – Solicitor, Commercial Law

9. BACKGROUND PAPERS:

Appendix 1 – Performance Dashboard

10. AUTHOR(S):

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Appendix 1 – Performance Dashboard

Performance Indicators			
Measures/Milestones	23/24	Target	24/25
Total Gross income target for investment and commercial portfolio	£3,628,877	£3,756,652*	£3,641,133
Industrial Unit Gross Income	£203,129	£223,275*	£209,451
County Farm Gross Income	£269,317	£284,120*	£270,294
Solar Farm Gross Income	£916,274	£727,032	£627,535
Retail and Office Gross Income	£359,075	£480,000*	£482,681
% of rental arrears from commercial portfolio total income	6.4%	2%	2.4%
Castlegate Business Park Occupancy Rates	85.6%	100%	87.9%
Newport Leisure Park Occupancy Rates	97%	100%	94.6%
Net income from acquired investments	£2,043,074	n/a	£2,193,736
Castlegate Business Park – Job creation from lettings or existing tenants	n/a	n/a	33 new roles created (Aug 2024)

*income target increased by £100,000 from 23/24.