SUBJECT: Investment & Commercial Portfolio Performance Update

MEETING: Performance & Overview Committee

DATE: April 2025

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 24-25 was £3.871m.

3.5 Since acquisition, both acquired investments have generated a combined net income of £2,216,948. This position will improve as a consequence of the net surplus forecast for 25-26, as outlined in the subsequent sections of the report.

Acquired Investment Portfolio

3.6 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.

3.7 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.

3.8 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 Sept 2024	-2.08%	1.41%	
ROI as of March 2025	-1.81%	1.44%	
ROI forecast at 25-26 (March 2026)	-1.00%	2.04%	
Occupancy rates as of March 2024	85.6%	97%	
Occupancy rates as of Sept 2024	87.9%	94.6%	
Occupancy rates as of March 2025	87.7%	97.1%	
Net income to MCC 24/25	-£111,348	£285,222	£173,874
Net income to MCC since acquisition	£242,088	£1,974,860	£2,216,948

3.9 Since acquisition, both assets have generated a total income of £2,216,948 above borrowing repayments. Whilst both assets currently perform below the original 2% above borrowing investment criteria the borrowing costs continue to be met in full. As a result these assets continue to be held as strategic employment, economic development, and income generating assets.

3.10 Castlegate Business Park's letting activity has stabilised, with the majority of new lettings achieved via MonSpace initiative or expansion of existing tenants. Feasibility work is being undertaken to explore any opportunity to expand the MonSpace availability at the property. Newport Leisure Park continues to generate a net return to MCC. Continuing to let vacant space will improve the financial performance of both assets, reducing MCC's exposure to business rates, service charge and utilities and increasing its net return.

3.11 The 25/26 forecast is reflective of existing lettings and therefore presumes no further lettings or surrenders will be realised. Newport Leisure Park will exceed the 2% ROI target following expiry of existing rent-free periods later in 2025/26. In order to return Castlegate Business Park to 2% Return on Investment, 10% of the total floor area (equating to 18,188 sqft) will need to be let. This equates to 95.8% occupied.

Castlegate Business Park

3.12 Castlegate Business Park was acquired in September 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.

3.13 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 March 2025, the occupancy rates are at 87.7%.

3.14 Details of letting activity since September 2024 are set out below:

Office & MonSpace

3.15 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.

3.16 As of March 2025, 7 of the 9 suites are occupied to a range of businesses including accountancy firms, mortgage brokers and gate manufacturers. One of the two remaining vacant suites is under offer. The letting of MonSpace has generated a total rental to MCC of over £61,000 pa.

3.17 Following an initial period of occupation, one of the MonSpace lettings has agreed to enter longer term agreements at the property. This has further reduced MCC's service charge, business rates and utilities liability.

3.18 Despite additional units being let, the overall rent roll has remained consistent following the surrender of Unit 540 by an existing tenant who sought to downsize and relocate within the premises. Unit 540 is being advertised and expressions of interest have been received from MonSpace occupants. The rent roll has also been adjusted following departure of the film production company who occupied for a short period during 2024.

3.19 In addition to the above, a rent review is being exercised with an existing tenant, with a significant rental uplift achieved as well as extension of their existing lease agreement. A new renewal is under negotiations for unit 610, 960 and 940 which will secure the future of an existing tenant and result in a rental uplift. A license has also been granted for occupation of a small storage area, thereby further increasing the rent roll and reducing MCC's service charge and business rates liability.

3.20 The onsite café operator (Castell Coffi) continues to trade well and a lease extension is under negotiation. The granting of the lease would result in a rental uplift to MCC. The café continues to contribute positively to the catering offer on site and is reducing the service charge liability that historically was associated with the onsite first floor canteen.

3.21 Since the last performance update, a tenant has been evicted following a sustained period of failed payment and arrears. One other flexi unit occupier has vacated, which has resulted in a small change in occupancy rates. This has resulted in a small reduction in the ROI compared to 24/25 projections, however rental arrears are being recovered. Expressions of interest have been received in the vacant space. The short-term letting resulted in a business rates saving to MCC.

3.22 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.

3.23 There is one tenant at Castlegate Business Park in arrears and discussions are ongoing regarding payment plans to address short-term cash flow pressures. Business rates mitigation is also being explored for all vacant floor space within the property. We are currently awaiting confirmation from the Shared Revenue Services regarding the status of any outstanding rates bills for Castlegate or refunds for occupied space. Any additional rates may have a material impact on the figures and business rates consultants are supporting any potential mitigating action should it be required.

3.24 In order to maximise use of the asset and unlock revenue saving opportunities for MCC, opportunities to relocate services storage requirements are being explored. MCC's Museum Service will vacate an existing hired industrial unit in Severnbridge Industrial Estate, therefore generating additional revenue savings to the property on business rates and unlocking an underutilized unit to be re-let. There is strong demand in the industrial unit. The total revenue benefit as a result of this relocation is projected to be around £30,000. We are also exploring opportunities to collaborate with Coleg Gwent for the hire of space within the property.

3.25 As a consequence of existing tenant expansion and securing new occupiers within the MonSpace initiative, 32 new skilled jobs have been created. Over 300 staff are now employed within the property.

3.26 As of March 2025, Castlegate Business Park is projected to generate a commercial loss of £111,348. Whilst a continued financial pressure, this is a £17,057 improvement on the reported position as of September 24. Castlegate Business Park has only two tenants who are able to exercise a break clause within the next calendar year. Both tenants are in negotiations to accept a lease renewal, with terms agreed with the larger of the occupiers including occupying additional vacant space. Neither tenant has served the required notice to vacate. We continue to secure new tenants to return the asset to a net positive position.

Newport Leisure Park

3.27 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.

3.28 Since acquisition, the park was subject to significant closures as a consequence of the Covid pandemic and we have experienced turnover in tenants. Despite the turnover, the asset is currently generating a net return to MCC of 1.44%. 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. There is one remaining vacant unit at the property.

3.29 Details of letting and management activity from September 2024 are set out below:

3.30 Unit 6, previously occupied by Pizza Hut, has been let to Horizon Vets Ltd. The veterinarians are undertaking fit out of the unit and are scheduled to commence trading in April 2025. Letting of the unit is on competitive terms and consistent with pre-pandemic rental levels. The business rates and utility costs associated with the vacant property have been reflected in the slight reduction on ROI.

3.31 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. This unit is the only vacant unit at the Leisure Park. The property has been marketed since for an alternative occupier. Limited interest has been received to date, with interested parties seeking creation of a drive through window which is currently unfeasible due to access constraints. Consideration is being given to partitioning the unit into two smaller units to increase the attractiveness to smaller leisure offerings.

3.32 One of the units is subject to a rent review which is currently being negotiated. A marginal rental uplift is anticipated.

3.33 Unit 1, let to Cineworld, continues to be subject to the outcome of the national restructure of the Cineworld Group. As previously reported, the rent payable has been adjusted since December 2024 and will remain on a reduced value for a period of 3 years. The reduced rental value is reflected in the financial projections in Figure 1. Cineworld continue to meet their revised lease obligations.

3.34 MCC have agreed terms with an EV charging company who will hire car parking spaces from MCC for the provision of EV charging. A grid application has been made to the National Grid and we await confirmation of planning permission. Should consent be granted, MCC will benefit from a fixed annual rental and profit share that will improve the financial projections outlined in the report.

3.35 MCC are in negotiation with an advertising board company (Route Media) who are shortly to apply for planning permission. If consent is granted and subject to contract, this will further enhance the rental income from the asset.

3.36 There are no tenants in arrears at Newport Leisure Park. The earliest break clause of relevance to Newport Leisure Park cannot be exercised until November 2025. No notice has been served or any intention shared of a desire to vacate.

Commercial and Other Investment Portfolio's

3.37 The Council's industrial portfolio comprises of 40 units ranging in size from 365ft^2 to 2,850ft^2 located within Caldicot and Raglan. They continue to be in high demand. Currently the portfolio is 100% let and there are rental arrears in the region of £33k, around £20k of which is within a month of the due date. This equates to less than 10% of the rent roll. Lease renewal negotiations are ongoing with an existing longstanding business, who is seeking to expand their offering within the Old Pill Farm Industrial Estate.

3.38 The retail portfolio is made up of 23 secondary neighbourhood units, which are a combination of freehold and long leasehold tenures. Whilst there has been some movement in occupation following surrender of retail premises in Chepstow, the portfolio overall remains very well occupied. The refurbishment of the former One Stop Shop at Monmouth Market Hall using grant funding secured by the Regeneration Team has been completed. The space was used recently for the Monmouth Placemaking consultation event. Change of Use application has been submitted to planning for the former planning offices at Market Hall for the use of a gallery, workshop and event space. Terms have been agreed for a new lease subject to planning approval. Enquiries are being made with potential co-working operators to facilitate hire of the space. These uses will generate a rental for MCC and offset ongoing revenue costs for the respective properties.

3.39 The ground floor of Innovation House, Magor has recently been reoccupied in part by MCC's Social Care Workforce Development Team which has enabled previously leased in premises to be released, resulting in a £25k pa revenue saving. The second-floor smaller wing is occupied and generating a rental return. The remaining vacant space continues to be marketed. Recent interest has been received from an engineering firm and terms are being discussed. The Pupil Referral Service have vacated Hanbury House in Chepstow, following relocation to the former Mounton House School, which provides an opportunity to re-let as commercial premises.

3.40 There are 24 farm holdings in the Council's ownership generating an improving commercial return. There are £40k of arrears for County farms, primarily relating to one farm in Leechpool. Two agricultural cottages have been identified as surplus and are under consideration for disposal. A new letting has completed at Llanfair Farm in February following a successful marketing campaign. An agreement has been reached in the succession case at 4 Llandewi Court Farm with terms agreed for a new FBT at the property. Forfeiture notices have been served on one Council farm for non-payment of rent and we will be seeking vacant possession via a Court Order. 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.

3.41 Income from the Council's solar farm is currently forecasted to generate a net income (after operating, maintenance and borrowing costs) of £285,916, an overspend of £116,084 against an £402,000 income target. This is mainly due to a number of grid outages onsite plus scheduled replacement of inverters resulting in downtime. Adverse weather conditions have contributed to the reduced income return. It is anticipated the performance will improve through 2025/26, with a forecasted gross income of £751,286. Since 2017, the solar farm has generated a gross income for MCC of £5,186,879 and a ROI of approximately 5%.

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.

4. REASONS:

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

5. RESOURCE IMPLICATIONS:

This report outlines a £374,861 improvement in the performance of the investment portfolio from 24/25 projections. The 25/26 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 approved £50m asset investment programme has been spent on the two acquired investments at Castlegate and NLP. £1,852,738 of the remaining fund has been retained within the capital budget to apply to any future maintenance and development work required across the sites, with the remaining balance now expired and removed from the budget.

	Castlegate			NLP			Combined		
	Budget	**Forecast**	**Variance**	**Budget**	**Forecast**	**Variance**	**Budget**	**Forecast**	**Variance**
Expenditure	781,353	925,523	144,170	1,013,517	1,071,250	57,733	1,794,870	1,996,773	201,903
Income	-682,400	-814,175	-131,775	-1,359,825	-1,356,472	3,353	-2,042,225	-2,170,647	-128,422
Net	**98,953**	**111,348**	**12,395**	**-346,308**	**-285,222**	**61,086**	**-247,355**	**-173,874**	**73,481**

As a result of the investments, budgeted income targets have been introduced. The latest forecast at period 3 of 2024/25 shows a net surplus generated on NLP of £285,222 and a deficit of £111,348 on Castlegate, a combined surplus on both investments of £173,874. This results in an in-year forecast budget pressure of £73,481 against the income target of £247,355.

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 September 2024, 32 new skilled jobs have been created or appointed to at Castlegate Business Park.

The capital values of both assets continue to be impacted by the respective sectors however an improving rent roll is resulting in capital appreciation. Both assets will be revalued in accordance with MCC's programme of annual asset valuations.

Income targets for the commercial and other investment asset portfolio, exclusive of acquired investments, have been increased by £100,000 in 24-25. The finalised figures for the 2024–2025 financial year will be presented within the budget outturn report. We are currently awaiting confirmation from the Shared Revenue Services regarding the outstanding rates bill for Castlegate, which may have a material impact on the figures.

6. 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.

7. CONSULTEES:

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8. BACKGROUND PAPERS:

Appendix 1 – Performance Dashboard

9. AUTHOR(S):

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Appendix 1 – Performance Dashboard

Performance Indicators			
Measures/Milestones	**24/25 M6**	**24/25 Budget**	**24/25 Outturn Forecast**
Total Gross income target for investment and commercial portfolio	**£3,641,133**	**£3,756,652**	**£3,871,507**
Industrial Unit Gross Income	£209,451	£223,275	£233,876
County Farm Gross Income	£270,294	£284,120	£274,012
Solar Farm Gross Income	£627,535	£727,032	£650,151
Retail and Office Gross Income	£482,681	£480,000	£662,296
% of rental arrears from commercial portfolio total income	2.4%	2%	4%
Castlegate Business Park Occupancy Rates	87.9%	100%	87.7%
Newport Leisure Park Occupancy Rates	94.6%	100%	97.1%
Gross income on acquired investments	£2,051,172	n/a	£2,051,172
Castlegate Business Park – Job creation from lettings or existing tenants	275 employed (33 new roles)	n/a	307 employed (32 new roles)