Corporate Estate Annual Report

Executive Summary

for the Year Ended March 2022

Leicester City Council

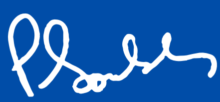
1. Foreword from Leicester City Mayor

Leicester City council has operated a corporate estate that manages property for many generations - and with government cuts to revenue budget over the last ten years, unlike many other councils, we have utilised capital budgets to invest in our estate – generating much-need income that we can spend on jobs and services in order to keep down council tax but also to use it constructively to make good things happen in our city.

Our corporate estate includes a wide range of properties with the vast majority in our neighbourhoods. From many shops across our estates to units within the city centre, now including Haymarket Shopping Centre, to a growing portfolio of managed workspaces that provides flexible space for entrepreneurs and thus creating jobs, as well as unlocking opportunities for investment and regeneration - effective management of our estate undoubtedly has a huge contribution to the local economy.

At one time, the corporate estate was reported to council every year and as Mayor I have reintroduced those reports to ensure that the public know what is being done on their behalf with their resources and for the wellbeing and economic prosperity of the city.

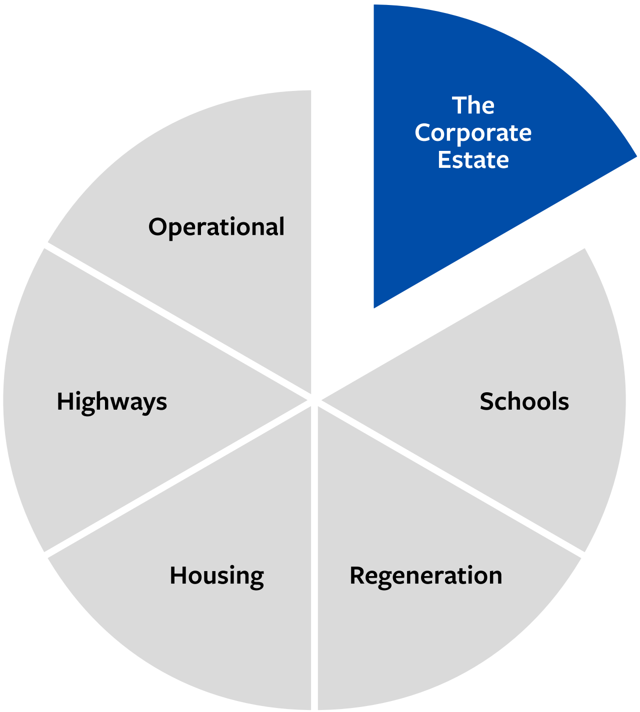
Peter Soulsby, Leicester City Mayor



2. Background to the Council's Land and Property Holdings

Leicester City council holds a diverse portfolio of land and property assets ranging from historic buildings such as the 13th century Guildhall to the King Richard III Visitor Centre opened in 2014. For the most-part however the estate owned by the council is held and managed in order to provide front line services for the city's residents in the form of homes, schools, leisure centres, and neighbourhood centres as well as Green Flag parks, playgrounds and open spaces providing areas for leisure and recreation. There are also the critical infrastructures such as bridges, footpaths, cycle paths and car parks that aid the smooth running of the city.

Making up just over 11% of the overall capital value of the Council's estate (excluding Housing and Highways), there is also a grouping of land and property assets – known as the Corporate Estate – that is held for commercial reasons. It is the Council's investment portfolio that is managed in-house, and provides local businesses with commercial premises, offices, shops, industrial units and workshops, whilst generating an income for the Council to re-invest in its services.



The Corporate Estate — the council's investment portfolio — is a small part of a broad range of Leicester City Council land and property holdings, making up just over 11% of the overall capital value of the council's estate (excluding housing and highways).

The Corporate Estate – a Long-Term Investment:

The Council directly owning and managing a commercial property portfolio is not a new concept. The Council has been investing in land and property for generations, enabled by the special powers afforded through parliament, including the 1956 Leicester Corporation Act that gave the Leicester Corporation the powers to buy, sell and manage land and property for highways, education, planning and investment purposes, and more recently - in terms of holding and managing land and property for investment purposes - the Local Government Act 1972.

Whilst other investors are significantly influenced by how the market is performing at any given time, as a public body we are able to take a long-term view of the needs of the City – something that other investors are not always able to consider. The benefits we receive today, in terms of a growth in value and income to the council, along with our ability to bring forward land for redevelopment, are a direct result of the prudent investment and wise management of the Corporate Estate portfolio in the past.

Our 2022 report demonstrates clearly why our long-term views, and balanced approach are working well and will continue to do so in years to come.

Supporting the Local Economy:

There are workspaces that sit outside of this portfolio – held for economic regeneration purposes – that are also let out to local businesses. The Economic Regeneration workspace portfolio focuses primarily on supporting the growth of priority economic sectors and have proved an effective mechanism to kick start the delivery of regeneration areas.

The Corporate Estate, on the other hand, consists of a diverse portfolio with a range of long and short-term leases in order to balance out risk. It is managed as a commercial operation, whilst making a significant contribution to the Council's commitment to support the local economy, maintaining a retail presence in the City Centre and neighbourhoods, and supporting local businesses by providing a range of accommodation with space provided for both businesses to start-up and to grow locally.

3. Understanding Our Estate

Portfolio Key Facts:

378
Sites
(including land)

1267
Lettable Units
(including land)

£123m
Valuation at
31 March 2022

1.6m sq ft
Gross Internal Area
(floor space)

Accounts for 16%
of the GIA (floor space) of the estate owned by the council

117.2
Hectares
(excluding farm and agricultural land)

£326,225 p/a
Largest single rent
(3.91% of gross rent)

Largest single sector by volume and value continues to be the industrial sector

Lettable Units

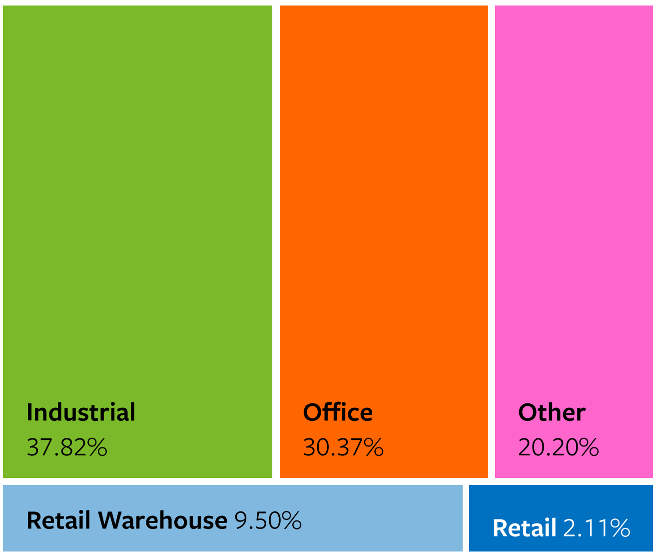
Industrial	396
Office	381
Retail	325
Other	165
TOTAL	**1267**

Scope of the Estate:

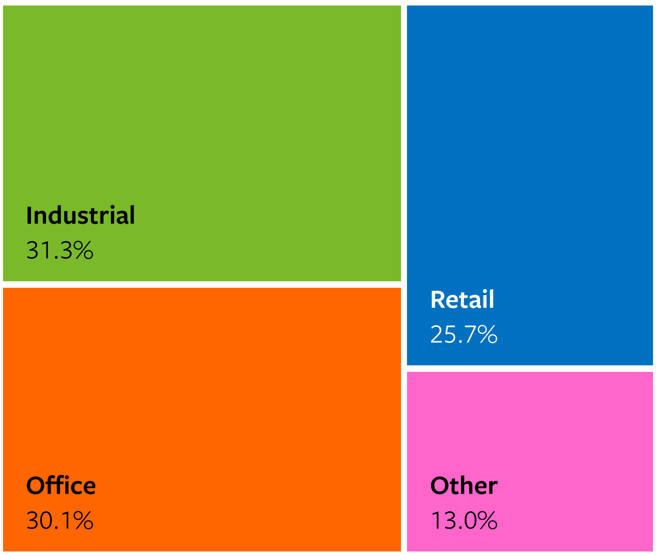
The corporate estate property portfolio provides a broad range of commercial space across the traditional office, retail and industrial sectors, as well as a significant offering in terms of other less traditional space for rent — including advertising hoardings, substations, grazing land, farms, garages, and car parks.

Compared side by side with the CCLA Local Authorities' Property Fund (Annual Report and Financial Statements Year Ended 31 March 2021) the most significant difference relates to investment in the Retail sector - the fund's holdings in the Retail sector are only 2.11% compared to 25.7% in the Corporate Estate.

CCLA ASSET ALLOCATION — 2021 PERCENTAGES

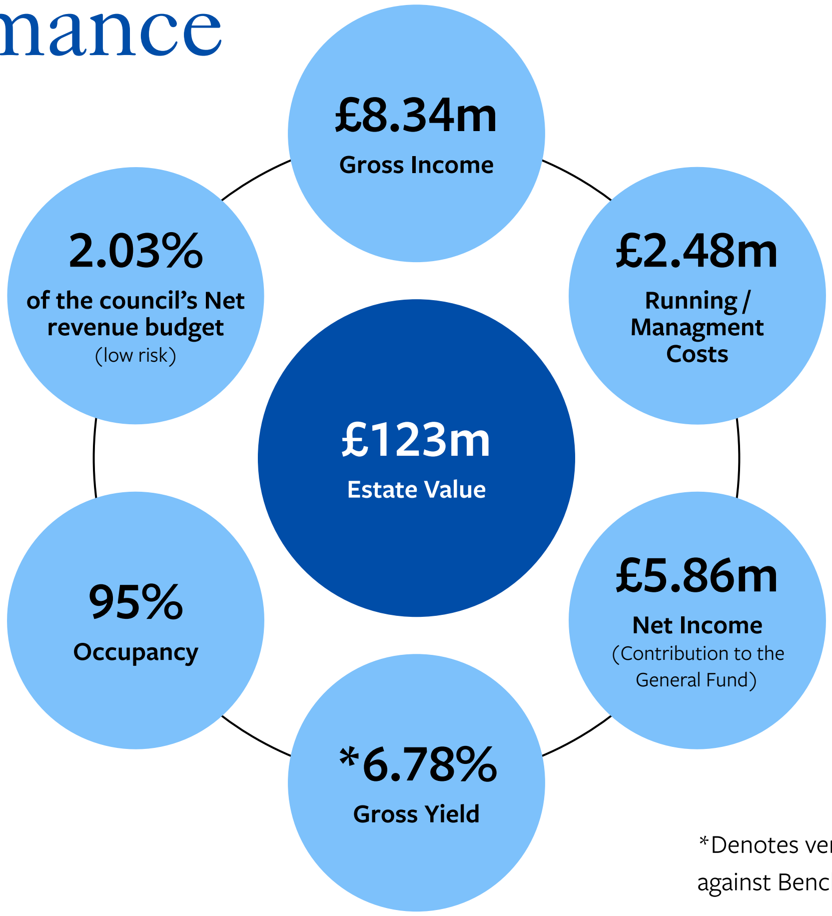


CORPORATE ESTATE ASSET ALLOCATION (LETTABLE UNITS) 2021/22



We have continued to support local businesses by maintaining a sizeable Retail portfolio consisting of city centre retail, neighbourhood shops, and other retail spaces at competitive rents. Alongside this we continue to offer a considerable portfolio of Office space, adding a managed workspace to our existing city-wide portfolio that offer almost more than 250 lettable units spanning across the Office and Industrial sectors. Including the growing numbers of Economic Regeneration workspaces in this number increases the lettable managed workspace units to 446.

4. Portfolio Performance

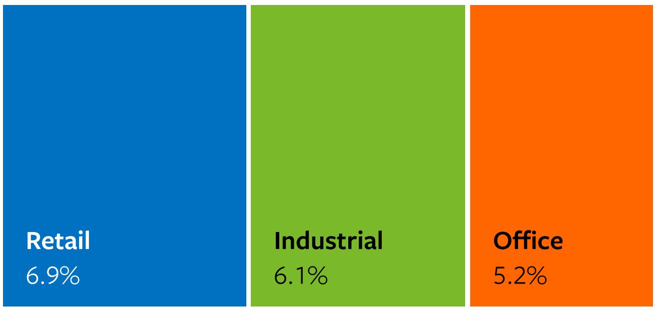


*Denotes very good performance against Benchmarks

Key Metrics:

- Gross income has increased by c.£850k / 11.4% to £8.34 million (generally as a result of the 2 acquisitions / transfers – with Office sector income reducing minimally)
- Portfolio value has increased by c.£11 million / 9.6% to £123 million (purchase of Haymarket Shopping Centre and transfer in of Leicester Business Centre)
- Net income is up by £513k / 9.6% to £5.9 million (in line with valuation increase), with running costs rising by just over £300k - in line with portfolio value
- Gross yield is at an excellent 6.78% - up from 6.67% last year
- Occupancy is a very healthy 95% overall
- Despite a (low) 5% voids rate across the portfolio, voids represent just under £100k in lost revenue (only 1.2%) showing that voids are generally in lower value / lower income-producing sites

Gross Yield by Sector:



According to Savills (Market in Minutes: UK Commercial 17 March 2022) the UK average prime yield was at 4.84% and back to the level seen in October 2019 (prior to the pandemic).

The Corporate Estate returned a yield of 6.78% for the year ended March 2022 – slightly up from 6.67% in 2021, with overall revenue from rents increasing during the same period due to targeted investment / acquisitions.

5. Outlook and Strategy for 2022/2023

The breadth of our portfolio structure - which is wholly invested in the local area - alongside a strategy that is underpinned by robust governance and strong risk management, has enabled us to maintain a good revenue return and capital yield year on year, despite recent market conditions.

The strength of our existing Industrial portfolio, along with our ability to maintain almost 100% occupancy, tells us that our investment activity should be focussed on this sector. Supply of available industrial space is shrinking, whilst demand is high, and optimising and investing in our stock will support a growth in rental and capital values, in a sector that currently presents low risk.

Whilst supporting our City Centre and Neighbourhood shopkeepers in a challenging post-pandemic recovery period is key, we can maintain strong asset values and improve the vibrancy of our City Centre and Neighbourhood shopping spaces by investing and increasing the service life - and the energy efficiency - of our stock. This includes both our indoor and outdoor space use, potentially transforming and / or repositioning some of our assets to mixed use in order to optimise benefits and to maintain an attractive retail proposition in the future.

With the strategic acquisition of the Haymarket Shopping Centre under our belt, we continue to assess the potential for more beneficial use of the land in our existing portfolio, whilst maintaining the necessary balance across a broad range of sectors to minimise risk.

In addition to maintaining a balanced spread of different types of property, we keep the portfolio under review on an ongoing basis. A growth in Retail sector income will come from focussed activity to increase occupancy rates, with running costs positively affected by efficiency improvements and a reduction in service charge shortfalls caused by voids. In addition, we will consider the opportunities to enhance and strengthen our local Managed Workspace offer, continuing to develop our space to attract and meet the growing demand for flexible, local, shared office space solutions.

We continuously assess options to re-purpose and invest in assets that we already hold and that have a reasonable service life, as well as considering the timing of disposals. In terms of asset condition and sustainability, like others, we are aware of the challenges that some of our portfolio stock may have in meeting the impending changes to minimum energy efficiency standards for commercial property, and we take our role in leading the City to its net zero ambition very seriously.

To that end, we will continue to pro-actively manage our portfolio – its suitability and performance, as well as its financial returns – and continue to apply environmental, social and governance considerations to our investment and management activity, ensuring that our portfolio remains stable and sustainable.

Richard Sword
Strategic Director City Development and Neighbourhoods

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