



# **Property Investment: examples and issues**

Andy Mudd, Head of APSE Solutions

# What are we talking about?



- Commercial property
- Residential property
- Local property
- Out of borough investments

# Scale and purpose



- Strategic local investment
- Social policy driven
- Purely about money

# But its nothing new is it?



- No but.....
- Councils have invested at least £2.4bn in property since 2010
- And £1bn just in 2016



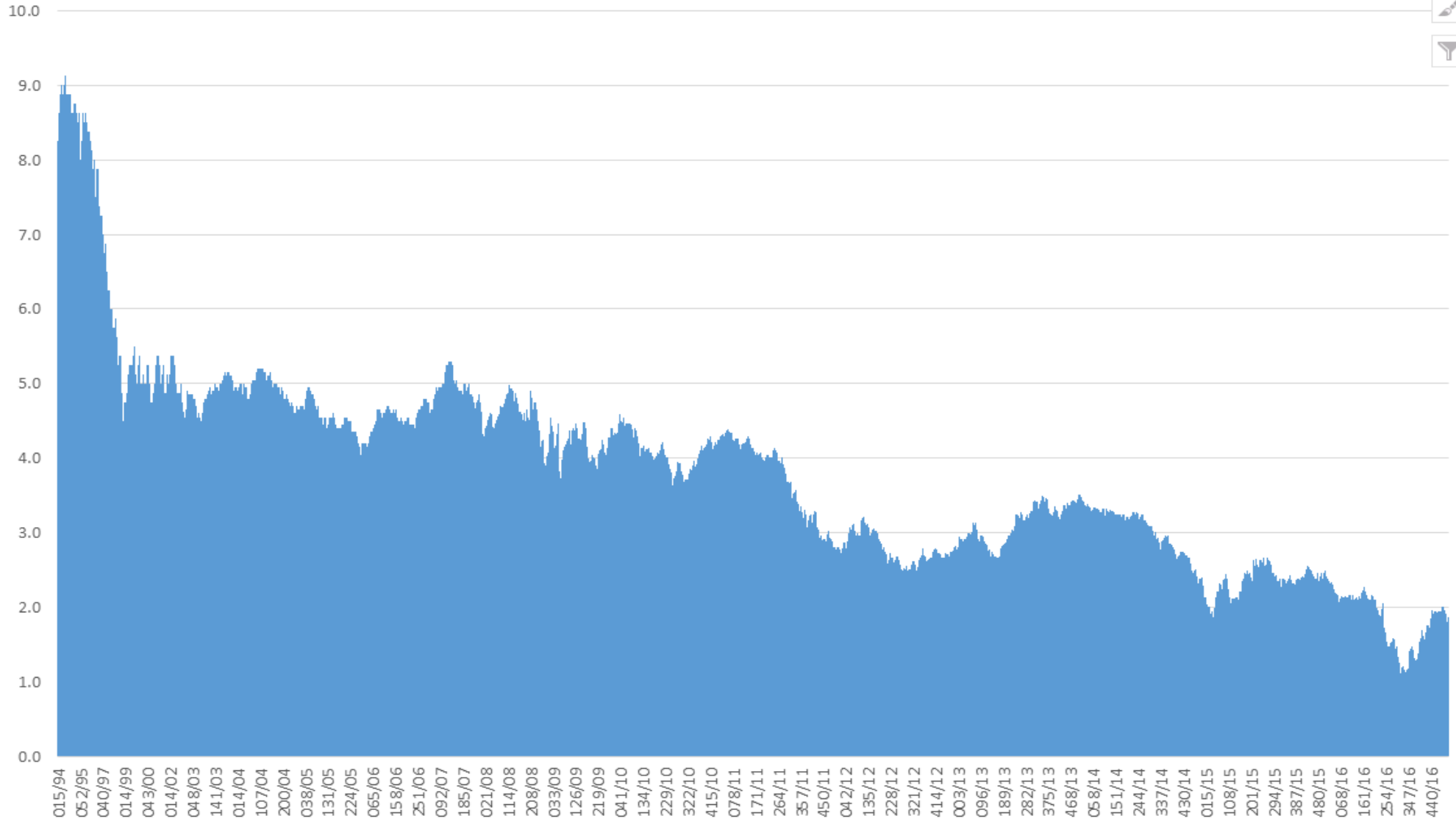
# Drivers

- Investment yields at an all time low
- PWLB rates also at an all time low
- Need to get more from cash balances
  - Pure investment
  - Commercial ventures
  - Loans

# PWLB Rates Over the Last Twenty Years



### 20 Year Repayment Maturity Loan Rates



# Strategic local investments



- Eastleigh Borough Council
  - Rose Bowl cricket stadium
- Canterbury Council
  - Shopping centre
- Essex
  - Post offices
- City of London Corporation
  - About 25% of the square mile

# Social policy



- Spelthorne
  - Hotel for the homeless
- Havering
  - Affordable housing
- Western Isles
  - Affordable housing for rent
- Loads of councils
  - Golf courses but they don't seem to make money



# Just for the money



- Spelthorne Borough Council
  - The biggest single investment yet of £360m to buy BPs HQ
  - Council budget is about £100m
  - Yield intended to cover the funding gap
- Mansfield District Council, West Lindsey District Council
  - Travel Lodges in Edinburgh and Keighley respectively
  - Aylesbury Vale and Eastleigh also have tie ups with Travelodge
- Portsmouth
  - Mercedes dealership in Eastleigh
  - Parcel distribution depot in Birmingham
  - Waitrose store in Somerset
- St Albans
  - Local commercial property portfolio
  - First to be free of government funding
- Wandsworth
  - Car Phone Warehouse in Cardiff amongst others



# Key issues

- Legality
  - Powers
  - Liabilities
- Financial risk
  - Bad investments
  - Changes to interest rates
- Reputational issues
  - Bad investments
  - Investments in bad i.e. unethical things



# Nonetheless...

- Scottish commercial property market is very buoyant
  - Record investment in 2018
  - Higher than France and South Korea
- With private sector yields pushing 6%
- So the right investments are likely to pay off

# But watch out for public/government opinion



- National press don't like it
- And neither do the private sector

“There are real echoes here of Northern Rock, where many punters were lent all the purchase price of a property, and the Icelandic bank scandals, where councils played a market they didn't understand for short-term income gain.”  
(Lord Oakshott, Chairman of Olim Property, Room 151 April 2017))

# Which has prompted a bit of a rethink



- Changes to CIPFA treasury management code
  - More transparency and disclosure
- Proposed changes to prudential framework of capital finance
  - Greater disclosure why as well as what
  - Borrowing in advance of need
  - Proportionality
  - Extend security, liquidity, yield principle for non financial investment
  - Minimum revenue provision guidance



# Some conclusions

- An offer that probably can't be refused
  - 6% yield on borrowing at 2.5%
- But must be properly risk assessed
  - With portfolio management measures to limit exposure
- And a close eye on where it might end up



# Contact details

**Andy Mudd, Head of Solutions**

**Email: [amudd@apse.org.uk](mailto:amudd@apse.org.uk)**

**[www.apse.org.uk](http://www.apse.org.uk)**



**GB 11409**



**GB 11132**



**GB 14074**

**Association for Public Service Excellence**  
Trafford House, Chester Road, Manchester M32 0RS  
**telephone:** 0161 772 1810  
**fax:** 0161 772 1811  
**web:** [www.apse.org.uk](http://www.apse.org.uk)