

**Report to:** Budget Panel  
**Date of meeting:** 28th October 2014.  
**Report of:** Shared Director of Finance and Regeneration & Property Section Head  
**Title:** Property Rents

## **1.0 SUMMARY**

1.1 This report provides an overview of the current position in relation to property rents in Watford for 2014/15.

The current forecast is that commercial rents will see an adverse variance against the 2014/15 budget of £414,000. These are mainly due to known developments which are listed in the report below.

## **2.0 RECOMMENDATIONS**

2.1 To consider the attached report.

### **Contact Officer:**

For further information on this report please contact Joanne Wagstaffe, Shared Director of Finance, telephone extension 8189, email [joanne.wagstaffe@watford.gov.uk](mailto:joanne.wagstaffe@watford.gov.uk) and Martin Jones, Regeneration & Property Section Head, telephone extension 8408, email [martin.jones@watford.gov.uk](mailto:martin.jones@watford.gov.uk)

### 3.0 INTRODUCTION

3.1 The commercial rent portfolio forms a large part of WBC's total income received around 33%, £6m. The commercial portfolio is heavily weighted in the prime retail sector but also contains industrial and mixed use properties in the borough. Much of the portfolio 60% is held freehold subject to long ground leases and there is limited opportunity to increase income with the existing stock.

### 4.0 POSITION AT PERIOD 6 (September)

4.1 The overall position at Period 6 is that commercial rents are predicted to be £414,000 below the budgeted income. A summary of the position is shown in Table 1 below.

Table 1: Property Rents

	Budget for 2014/5	Invoiced to 30/09/2014 at Period 6	Received to 30-Sep at Period 6	Forecast rent for 2014/15 at Period 6	Forecast Variance for 2014-15
AREA/Zone/Site	£	£	£	£	£
Intu	1,300,000	605,101	605,101	960,000	-340,000
Charter Place	2,115,100	1,258,750	928,688	2,115,100	0
Watford Business Park	768,000	363,701	313,184	683,000	-85,000
Watford Health Campus/Cardiff Road	110,000	2,582	2,582	56,000	-54,000
Miscellaneous	1,093,950	652,203	548,575	1,158,950	65,000
Parks & Leisure	174,820	89,393	61,417	174,820	0
Multi-Story Car Parks (Satellite)	930,730	296,601	296,601	930,730	0
Car Parks (Other)	24,160	14,031	13,886	24,160	0
BBC	61,000	30,500	30,500	61,000	0
Total	6,577,760	3,312,862	2,800,534	6,163,760	-414,000

The details of these variances are outlined below.

#### 4.2 Intu

WBC receives 7% of income after Intu (WRP) management and professional costs are taken into account. Intu are the senior partner and managers of the centre and there is a vested interest in maximising rent income and reducing running and management costs. WBC are not in direct control or deals with day to day issues in the centre and as a result are reliant on being updated with forecasts at quarterly meetings.

The reduction in income is caused by a number of reasons including

1. **Bankruptcy/Administrations and Receiverships-** These happen from time to time as demonstrated recently by the failure of Phones 4 U and La Senza in the last few months. In addition Game, Base and Republic have been in administration. This means not only is rent income affected but the re-letting costs also need to be paid which often include rent free periods, capital contributions or both, plus agents and legal fees. In addition should a retail unit be vacant for any length of time it also removes the business rates empty property relief which all contribute to a reduction on the amount paid to WBC.

2. **Over rented Units at lease expiry-** Many units in the centre were let in 2006/2007 when market rents were high. When these leases expire and new leases granted these are often at a lower rate due to the current market conditions resulting in lower returns. The trend is that market rates appear to be increasing and it is anticipated that more favourable rents will be able to be obtained in the medium term.
3. **Incentives and rent free periods to incoming tenants** – Following a number of business failures and re-siting tenants e.g. Next and HMV. Intu have secured several lettings which involve property incentives.

#### 4.3 **Watford Business Park**

Watford Business Park is owned freehold by the Council and receives income from long leases; however, the amount of property in direct Council control is limited. WBC receives a mixture of ground rents and geared ground rents (a percentage of rent that the long leaseholder receives).

Following the Cabinet meeting in September it was agreed to hand the management of the Park to Greenhill Asset management from 29<sup>th</sup> September 2014. The rent collection will still remain with the Council in the short term but the management approach may necessitate direct control. Greenhill's approach to the management of the Park will be more robust and whilst the ultimate aim is to improve the quality of the business park, to increase revenue and regear the leases on the estate it will be necessary from time to time to put stop notices and not to invoice or demand rent for legal reasons. This will not mean that the income is lost but will nevertheless show as a deficit on the rent schedules until such a time as the rent does become due. This will show as a timing issue in the rent account.

This project is also the subject of Local Enterprise Funding with the aim of working with Greenhill's to improve the building stock and income through a process of lease negotiations and purchases.

#### 4.4 **Miscellaneous**

The reported increase in income is due to rent reviews, step rents over the year and those that pay in arrears.

#### 4.5 **Rent Recovery Rates**

The information in table 2 indicates that the 85% of rent invoiced has been received by the Council. It is anticipated that of the remaining 15% most of this will be collected by the end of the financial year.

Table 2: Invoiced income that has been received

	Invoiced to 30/09/2014 at Period 6	Received to 30-Sep at Period 6	Outstanding Invoices at Period 6	% Collected
AREA/Zone/Site	£	£		
Intu	605,101	605,101	0	100%
Charter Place	1,258,750	928,688	330,063	74%
Watford Busines Park	363,701	313,184	50,517	86%
Watford Health Campus/Cardiff Road	2,582	2,582	0	100%
Miscellaneous	652,203	548,575	103,628	84%
Parks & Leisure	89,393	61,417	27,976	69%
Multi-Story Car Parks (Satellite)	296,601	296,601	0	100%
Car Parks (Other)	14,031	13,886	145	99%
BBC	30,500	30,500	0	100%
Watford New Market	0	0	0	n/a
<b>Total</b>	<b>3,312,862</b>	<b>2,800,534</b>	<b>512,328.08</b>	<b>15%</b>

Out of the outstanding £512,000,

- £389,000 was not due at the end of Period 6, in accordance with our payment terms.
- The balance of £123,000 is due to lease renewals and rent review negotiations.

#### 4.6 General

In March 2014, a Property Review was commissioned to assess if the Council had the right balance in the commercial property portfolio and to look at opportunities for both capital and revenue generation. The work also including benchmarking performance against asset classes and rated the opportunities in the existing portfolio from low to high

This work has just recently been completed and the Council is reviewing options which will include a disposal and reinvestment strategy with the aim of increasing revenue income.

#### 4.7 Occupancy Rates

Occupancy rates for the commercial rents portfolio are shown in the table below. There are situations where WBC are preparing properties for redevelopment. This will often lead to vacancies being created during the process.

Table 3: Occupancy Rates

	No. of Units	No. Occupied 30/09/2014 at Period 6	Percentage Occupied
AREA/Zone/Site			%
Intu	1	1	100%
Charter Place	8	8	100%
Watford Busines Park	77	67	87%
Watford Health Campus/Cardiff Road	19	16	84%
Miscellaneous	95	91	96%
Parks & Leisure	19	19	100%
Multi-Story Car Parks (Satellite)	1	1	100%
Car Parks (Other)	10	10	100%
BBC	1	1	100%
Watford New Market	1	1	100%
<b>Total</b>	<b>232</b>	<b>215</b>	<b>93%</b>

Table 3 shows that void rates are low with occupancy levels at 93% and that many of the areas of low occupancy are where the Council is undertaking regeneration initiatives.

#### 4.8 Budget Monitoring

As part of the redesign of the Finance Digest there will be more emphasis put on the Council's income streams, with a particular focus on the commercial rent portfolio. This is in part due to an outstanding External Audit recommendation and also in part due to the fact that the Council needs to improve the management of its income streams and understand the impact on its finances.

The commercial rent portfolio will be given greater attention than some of the other streams due to the level of the income and the potential impact on the Council's financial position. In future there will be more information reported that shows the occupancy rates, invoiced income, income received and the actions being taken to recover any unpaid invoices.

#### 4.9 Conclusion

The commercial rent portfolio provides a significant income for Watford Borough Council. It is important that this is regularly monitored and managed to ensure that maximum income can be obtained from this funding stream.

Going forward there will be more detailed monitoring information available to help the Council understand the impact of this income of the budget.

## 5.0 FINANCIAL IMPLICATIONS

5.1 Included in the report.

## 6.0 LEGAL IMPLICATIONS

6.1 There are no legal implications included in the report.

## 7.0 POTENTIAL RISKS

Potential Risk	Likelihood	Impact	Overall Score
The economy deteriorates and effects returns on property. e.g. administrations/bankruptcy	2	4	8
Strategies in regenerating Watford Business Park may necessitate short term income loss in obtaining vacant possession of leases to implement project	3	2	8
The emerging disposal strategy for property will result in capital payments to the council but will have a negative impact on revenue from rents until capital funds reinvested	3	3	9

## 8.0 EQUALITIES

8.1 Watford Borough Council is committed to equality and diversity as an employer, service provider and as a strategic partner. In order to fulfil this commitment and its duties under the Equality Act 2010 it is important to demonstrate how policies, practices and decisions impact on people with different protected characteristics. It is also important to demonstrate that the Council is not discriminating unlawfully when carrying out any of its functions.

There are no equality issues in relation to this report.