

Investment Acquisition Criteria

GROUP 1 - Investment opportunities whose primary purpose is the delivery of a financial return for the Council.

GROUP 1 ACQUISITIONS CRITERIA				
Criteria	Criteria Description	Target	Weighting	Max Score
Financial Return	The yield to be achieved above estimated borrowing costs (interest on loan and Minimum Revenue Provision (MRP))	<ul style="list-style-type: none"> 2% or more per annum when the aim is pure financial return. Above 0.5% if other considerations apply (see group 2 below). 	PASS/FAIL - to be assessed by Finance.	
Sector Allocation /Lot size	The extent to which the property contributes to the achievement of a diversified portfolio.	<ul style="list-style-type: none"> Portfolio to be spread across a range of commercial sectors including offices, industrial, retail, leisure and car parks No more than 50% of the portfolio to be retail. Value of property to be no more than 20% of the value of the portfolio. 	3	12
Building Condition	Quality of building compared to Grade A industry standard	<ul style="list-style-type: none"> Modern or substantially refurbished in the last 10 years such that the building meets existing and expected future occupier requirements. Structurally sound and in good repair. Others considered by exception depending on lease and location. 	3	12
Location	Quality of location with regard to property type.	<ul style="list-style-type: none"> Good location for type in Southampton and other major cities/affluent market towns in UK. 	3	12

Tenant Covenant	Ability of tenant/s to pay the rent and observe other lease covenants for the duration of the lease. Credit rating of tenant.	<ul style="list-style-type: none"> • Demonstration of successful trading history. • Minimum of satisfactory financial credit rating risk score. • Good prospect of lease performance. 	3	12
Lease term and structure	Length of secure income. Lease terms such as tenant repairing obligations, rent review mechanisms.	<ul style="list-style-type: none"> • Single let on full repairing and insuring (FRI) lease with regular upward only reviews. • Multi-let properties will be considered except those requiring intensive management. • No unusual or adverse lease provisions. • Preferably 10+ year's unexpired term. If less than 10 years good prospect of tenant renewing (or re-letting) but not less than 5 years. 	3	12
Occupational demand	Anticipated level of demand from alternative occupiers if the tenant/s were to vacate.	<ul style="list-style-type: none"> • Good prospect of securing an alternative occupier if tenant were to vacate. 	3	12
Rental Growth Prospects	Opportunity / likelihood to increase passing rent.	<ul style="list-style-type: none"> • Property should not be over-rented. • Sector with potential for growth (or not contracting). • No existing/potential overpowering competition. 	3	12
Tenure	Type of tenure - Freehold/Long leasehold	<ul style="list-style-type: none"> • Freehold • Consideration will be given to long leasehold interests (depending on ground rent and any other obligations) 	2	8
Exit Strategy (Liquidity of asset)	The marketability of the property	<ul style="list-style-type: none"> • Property is attractive to a number of investors and could be sold in the market in a reasonable time without adversely affecting the price. 	2	8

Environmental	The extent to which the property provides a positive contribution to environmental objectives	<ul style="list-style-type: none"> Property has good energy efficiency and sustainability credentials. If current energy performance is poor then there is the ability to invest to improve rating subject to financial viability. Properties or operations with high environmental impacts will be avoided unless there is an exceptional case. 	2	8
Alternative Use /Underlying Value	The value of the land and the opportunity for change of use if required.	<ul style="list-style-type: none"> There is a reasonable prospect of securing planning for alternative uses. No listed buildings. No third party interests constraining potential redevelopment. 	1	4
			Total	112

A property will be expected to score at least 70% (78 out of 112)

Each Criteria to be scored out of 1-4 as follows:

- 4 Good
- 3 Satisfactory
- 2 Marginal
- 1 Poor

GROUP 2 - Regeneration investment opportunities that support the delivery of significant city/district regeneration.

GROUP 2 ACQUISITIONS CRITERIA	
Criteria	Target
Minimum Yield Required	0.5% after estimated borrowing costs (interest on loan and Minimum Revenue Provision). In very exceptional circumstances there may be a lower return however this will have to be offset by other regeneration investment assets in the Fund.
Property Type	All property types will be considered.
Location	Southampton
Tenure	Freehold /long leasehold (where Council owns freehold)
Council Objectives	The asset must support Council objectives and regeneration initiatives.