

Appendix 2 - Risk Management Tests

Portfolio Strategy Context	Does the acquisition take the exposure of the whole portfolio to over 30% in either of the six sectors: - retail - office - food and beverage - industrial - hotel - other	
	YES	NO
	Proposal to be scored using risk matrix below.	Over exposure to one of the six sectors. Proposal cannot proceed without a review of existing portfolio to ensure that Council is not over exposed to any one sector.
How will this be assessed?	Proposal document will be required to provide specific detail on location and assess advantages and disadvantages with respect to property sector (retail/industrial/food and beverage/office/hotel/other). This is a partially subjective assessment and will be challenged by the Capital Strategy group. Particular reference will be given for proposals on wider sector performance, local and national competition, and, for retail, product lines and the relative current and anticipated future strength of that retail sector.	
Who will assess?	Capital Strategy Group	

Location - Micro	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	Excellent links	Good links	Reasonable links	Poor links, but prospects of improvement	Location with limited benefit
How will this be assessed?	Proposal document will be required to provide specific detail on location and assess advantages and disadvantages with respect to property sector (retail/industrial/food and beverage/office/hotel/other). This is a partially subjective assessment and will be challenged by the Capital Strategy group.				
Who will assess?	Capital Strategy Group				

Tenant Covenant	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	Excellent financial covenant	Strong financial covenant	Good financial covenant	Poor but improving financial covenant	Poor financial covenant
How will this be assessed?	The financial covenant of the tenant (s) will be assessed using an external search company which will provide us with a company report on the financial health of the company. The scoring will be based on the search company's assessment of financial health and is therefore objective.				
Who will assess?	Section 151 Officer or nominated representative based on externally produced score				

Building Quality - State of Repair	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	New, modern or recently refurbished	Good quality, no spend required for 20+ years	Good quality but spend required in 10-20 years	Spend required in 5-10 years	Tired, Spend required in next 5 years
How will this be assessed?	The quality of the building assessment is partly subjective and so will be challenged by the Capital Strategy Group. The submission should detail any improvement/refurbishment works that will improve the score and the cost of any such works, and the cost of any ongoing maintenance requirements, will be incorporated into the yield calculator.				
Who will assess?	Capital Strategy Group				

Building Quality - EPC Rating	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	A/B	C	D	E	F/G
How will this be assessed?	The EPC is an externally calculated and accredited rating and as such is objective. The Capital Strategy Group will seek confirmation of the rating.				
Who will assess?	Capital Strategy Group				

Lease Term	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	Greater than 15 years	Between 10 and 15 years	Between 6 and 10 years	Between 2 and 6 years	Under 2 years
How will this be assessed?	The assessment will be based upon a Weighted Average Unexpired Lease Term calculation which provides an objective assessment of the number of guaranteed years of rental income until the end (or break clause) within the lease.				
Who will assess?	Section 151 Officer or nominated representative based on accepted calculation				

Tenants Repairing Obligations	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	Full repairing and insuring	Full repairing and insuring - partially recoverable	Internal repairing	Internal repairing - partial recovery	Landlord responsible
How will this be assessed?	The lease terms will allow this to be an objective assessment to be made by the Council's legal representative.				
Who will assess?	Monitoring Officer or nominated representative based upon final lease				

Rent Review Mechanisms	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	Open Market Rental Value every 5 years		Consumer Price Index/Retail Price Index		No proper review mechanism
How will this be assessed?	The lease terms will allow this to be an objective assessment to be made by the Council's legal representative.				
Who will assess?	Capital Strategy Group based upon advice from the Monitoring officer.				

Occupational Demand	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	Demand from many tenants	Demand from a few tenants, but low number of competing buildings	Reasonable prospect of securing new tenants	Poor demand	Landlord responsible
How will this be assessed?	The occupation demand is partially subjective but the proposal should seek to include external advice with respect to the level of demand. The Capital Strategy Group would seek to rely on any such external advice in coming to its assessment of the proposal.				
Who will assess?	Capital Strategy Group based upon any independent expert advice offered.				

Management Intensity	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	1-2 tenants	3 -5 Tenants	5 - 9 tenants	10 - 15 tenants	16 plus tenants
How will this be assessed?	This is an objective assessment based upon the number of leases included within the proposal. As such the assessment will be made by the Council's legal representative.				
Who will assess?	Monitoring Officer or nominated representative based upon number of leases issued				

Liquidity	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	Lot size and sector attractive to investors	Lot size not attractive to investors but sector is	Lots size attractive to investors but sector is not	Generally unattractive	Attractive to niche investors only
How will this be assessed?	This is a more subjective criteria and a such the assessment should, where possible, seek external independent advice with respect to lot size and attractiveness				
Who will assess?	Capital Strategy Group based upon any independent expert advice offered.				

Tenure	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	Freehold	Long leasehold 125+ years / peppercorn ground rent	Lease between 100 and 125 years / peppercorn ground rent	Lease between 50 and 100 years	Lease less than 50 years and/or high ground rent
How will this be assessed?	This is an objective criteria that will be clear from lease paperwork.				
Who will assess?	Monitoring Officer or nominated representative based upon information held within lease agreement.				