

Appendix 3 - Risk Management Tests

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| 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 | | | | |

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|-----------------|------------------------------|---------------------------|-------------------------|---------------------------------------|-------------------------|
| 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 |

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| 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 | | | | |

| | Excellent | Good | Acceptable | Marginal | Poor |
|-------------------------------|---|---|--------------------|---------------------------------------|----------------------|
| | 5 | 4 | 3 | 2 | 1 |
| Tenants Repairing Obligations | 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 | | | | |

| | Excellent | Good | Acceptable | Marginal | Poor |
|----------------------------|---|------|---|----------|----------------------------|
| | 5 | 4 | 3 | 2 | 1 |
| Rent Review Mechanisms | 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. | | | | |

| | Excellent | Good | Acceptable | Marginal | Poor |
|----------------------------|---|--|---|-------------|----------------------|
| | 5 | 4 | 3 | 2 | 1 |
| Occupational Demand | 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. | | | | |

| | Excellent | Good | Acceptable | Marginal | Poor |
|----------------------|-----------|------|------------|----------|------|
| | 5 | 4 | 3 | 2 | 1 |
| Management Intensity | | | | | |

| | | | | | |
|----------------------------|--|--------------|---------------|-----------------|-----------------|
| | 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 | | | | |

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|----------------------------|---|--|---|------------------------|------------------------------------|
| | Excellent | Good | Acceptable | Marginal | Poor |
| | 5 | 4 | 3 | 2 | 1 |
| Liquidity | 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. | | | | |

| | | | | | |
|----------------------------|--|--|--|--------------------------------|--|
| | Excellent | Good | Acceptable | Marginal | Poor |
| | 5 | 4 | 3 | 2 | 1 |
| Tenure | 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. | | | | |