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Parade of shops in Woodley, Berkshire, where investment in footfall has boosted values

Councils: focus on planning, not yield gap

George Walker, partner and auctioneer, Allsop

As an auctioneer, I have seen more than 25 councils buy at our auctions over the past 20 years and it will come as no surprise that much of this activity has taken place in the past two years.

The phenomenon of councils buying real estate has been written about at great length recently. Much has been made of the spend facilitating town centre regeneration, but the latest report by Revo suggests that of the £3.8bn invested by local authorities between 2013 and 2017, £900m, or 23% of the total, went into the retail warehousing and industrial sectors.

This is hardly a boost to town centre regeneration.

The high street is a commercial auctioneers' stomping ground. Over the past 12 months, London's top auction houses raised £1.3bn in total and around 70% of this was retail stock, purchased by private investors.

So why is retail so popular with private investors? Lots with core assets valued at up to £5m allow great liquidity and often provide good balance to portfolios. On the face of it, retail is also much more straightforward to understand than many other types of commercial investments.

It is much easier to measure the performance of a retail asset. For example, investors can use the length of queues and trading hours as indicators. The susceptibility of the product range to the Amazon effect is of course the last piece of this jigsaw, and as the Sainsbury's and Asda story has proven, this forces change on almost a weekly basis.

Where do local authorities come into this?

Of course, some are now investors in some of our biggest town centres. Around 16% of the £3.8bn has been invested in shopping centres, enabling councils to work with existing and prospective tenants on rent and lease deals should they feel so inclined.

Investing the surpluses

The duty and of course inherent skill set of local authorities is to provide public services such as housing, infrastructure, education, health and social care. I suggest that it should be within this armoury of skills that any surpluses from real estate investment could be best deployed to invigorate our town centres with the elixir of life that is footfall.

The Woodley example

To illustrate this point, let me

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take you to Woodley, a few miles from Reading town centre, where we were instructed to sell a parade of five shops with offices above.

On a desk-top basis, we were as worried as the valuers were about the short leases on two of the lettings, both with less than a year to run at meaningful unit rents, and making up 40% of the parade's income.

As I queued for my Greggs breakfast on a chilly January morning I sensed that this was a busy and productive town centre. Chatting to the locals, an old fashioned and useful habit, revealed a hive of activity. Local people at all hours of the day were drawn to the area by two local schools, a library, community centre and lots of new flats over the shops.

Opposite the library, bus station and community centre was a Lidl with a new NHS drop-in clinic above it, which complemented the Waitrose down the road. Such was the mix of amenities on hand that people travelled there by bus, car and on foot.

This mix of uses proved to be a great draw and our market responded well to this example of a thriving high street. On auction day the eventual buyer outbid 12 others to achieve a sale price of £3.5m, some £600,000 above valuation, exceeding even our clients' expectations.

It would be predictable if I told you that the buyer was a local authority but, in this case, it wasn't. Nevertheless, the investment in planning that took place in Woodley many years before has kept the centre relevant and helped to generate long-term revenue for private investors and the local authority.

Delivering the rates

This investment will continue to deliver business rates and community charge revenue to the local authority in the tried and tested way.

It involves no clever balancing of yields in their portfolio, or worrying by the finance committee as their eye is taken off the ball of debt repayment or the timing of their exit.

I hope that some wise heads will see the benefits of investing some of the surplus income from the £3.8bn spent into understanding the benefits of sound and expedient planning policy, rather than just exploiting a yield gap and carrying the associated risks.

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