



City of Ryde

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# Property Policy

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## Change History

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1.0	August 2022	Strategic Property	Initial creation of document. Draft Policy endorsed by Council on 23 August 2022 for public exhibition.  Policy adopted by Council on 22 November 2022 following public exhibition.

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## Context

The Policy sits above Council’s Property Strategy and sets out the framework for the management of all City of Ryde (Council) controlled property.

Property is defined as all council-controlled land (owned or managed) and any permanent developments attached, either natural or constructed. Property includes air and sub strata rights, plus interests created through leases, easements, or other legal mechanisms. These latter interests may also occur on land not owned by council, but council’s rights and benefits create entities, which will be reviewed and managed under this Policy.

The Council’s property assets serve a number of purposes. Most importantly, they are used to provide valued civic, social, cultural, recreation, environmental, transport, administration and other services for the community. Some of the Council’s properties serve as investments which are designed to create financial return to Council, thereby reducing reliance on rate revenue as a source of unrestricted income. New sources of revenue have become critical for all councils as increases in traditional income sources fail to keep pace with the increasing costs of delivering services to the community.

Strategies are developed at the broader portfolio and at the asset specific level, to deliver on different objectives. Strategic outcomes will be proactively sought, where Council’s service delivery is not adversely impacted and where robust economic and risk assessments have been completed.

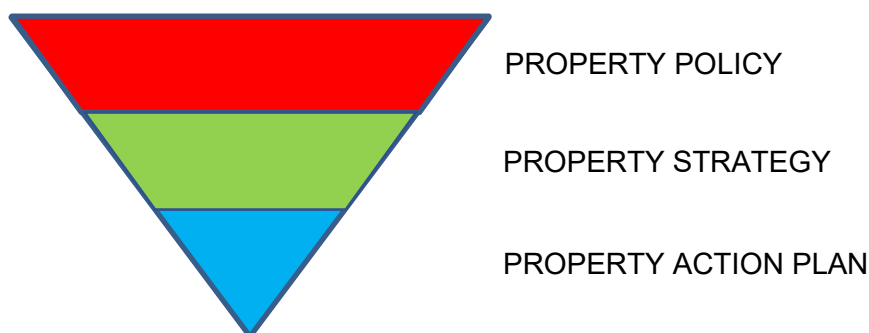
All key Property outcomes will be aligned with Council’s mandated Integrated Planning and Reporting (IP & R) and other relevant areas of Council strategy to optimise outcomes. This imperative is reflected in this Policy’s requirement for an overarching Property Strategy. It is also important that strategic land use planning in the City of Ryde LGA be examined and referenced when determining desired outcomes.

This Policy drives efficiencies, ongoing reviews, core service delivery, enhanced probity and accountability, financial outcomes, and proactive management by Council.

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## 1. Framework

The following framework is created by this Policy for the management of all property outcomes at the City of Ryde Council.



## 2. Property Management Principles

To maximise capital efficiency and land use, Council will manage its property consistent with the following six principles.

1. Holistic Management
2. Fit for Purpose
3. Asset Management
4. Risk management
5. Centralised Control of Income
6. Strategy alignment

### Holistic Management

All property decisions will achieve the maximum community benefit available at the time. To achieve this, decisions will contemplate concurrent outcomes for the portfolio of all Council owned or controlled properties. To that end:

- Property portfolio management objectives will take precedent over single property outcomes,
- Asset specific recommendations will never compromise long term objectives or portfolio strategies,
- Sub portfolio strategies will be used to manage outcomes for individual land classifications (community, operational, Crown, and others),
- Broader property strategies and related policy will operate in conjunction with the Property Strategy to ensure overall portfolio efficiency and provide an input for decision making,
- Portfolio and asset specific reviews will be conducted at least every year; and
- Advice must be obtained from Council staff responsible for Council property, and management for all leasing, acquisition, or sale decisions across Council.

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## Fit for purpose

All Council owned or controlled property will be fit for purpose to:

- Deliver Council's operational services and objectives and
- Maximise its financial return to the community.

There will be coordinated activities to realise the full value and ongoing potential of each Council property held to best equip it for its role in the portfolio.

Any property with no current or clear future purpose will be reviewed for potential divestment or re-purposing in accordance with this Policy.

## Asset Management

General asset management principles will apply including whole of lifecycle management. Asset management will ensure the delivery of a property's purpose. It allows optimal outcomes to occur at asset specific levels, within the context of the portfolio management principles.

All Council properties that have been assessed as fit for purpose, and not identified for action by Council's Property Strategy, will be managed in accordance with Council Policy for asset management. Condition targets will be set and maintained by property asset owners and funded accordingly.

Optimal outcomes will be sought by:

- Whole of life asset management of property assets including maintenance and insurance,
- The inclusion all relevant intangible factors in addition to financial,
- Targeting multiple functions for individual assets wherever practical, and
- A strategy (as simple as possible) for each site, consistent with its portfolio purpose.

## Risk Management

Property is capital intensive and sub-optimal management of these assets is a risk to sustainable Council service delivery. Property is subject to occupational, physical, obsolescence, contamination, legal, tenant, corruption, and financial risks. Accordingly, property will be managed in accordance with Council's Enterprise Risk Management framework.

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## Centralised Control of Income

All income from leases, licences, or any other agreements for any owned or managed property assets, (including Crown Land) will be receipted and accounted for as per the Statutory Financial Accounts.

Council's Finance staff will ensure that such funds are quarantined and held within a centralised account in the general ledger. There will be regular review and monitoring of this income and any variations will be reported to Council as part of the Quarterly Budget Review process.

## Strategy Alignment

A four-year Property Strategy will be aligned to Council's four-year delivery plan cycle (IP & R). It will contain objectives and measures for the four-year period and be reported on six monthly. It will be a key input into Council's long-term financial planning.

The Strategy will guide and align property outcomes wherever relevant for Council operations, including:

- The Community Strategic Plan, the Local Strategic Planning Statement and all other key Council documents and policies,
- All types of operational, administrative, library, community centre, parks, leisure centre and any of their related infrastructure assets,
- Community Land,
- Managed Crown Land,
- The Property Investment Portfolio ("PIP"),
- Affordable Housing,
- Section 7-11, 7-12 and Voluntary Planning Agreements,
- All master-planning impacting Council owned or managed property (actual or potential),
- All property matters reported to Council, and
- Private property identified in planning instruments that create a financial liability for Council.

Any individual Council property related policy or strategy will be referenced when drafting the Strategy to ensure their objectives are being progressed. However, this will in some cases be the subject of opportunity cost decisions endorsed by Council to maximize the overall utility to Council and therefore the community.

Staff engaged in strategic land use planning will ensure their work aligns with this Policy and the Property Strategy wherever relevant.

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## 3. Property Acquisition and Divestment

Property can be a 'cost of business' for Council. Excess or unproductive property traps capital, otherwise available for core business needs or financial returns.

Council will carry the optimal level of property needed, for its immediate and reasonably anticipated future needs rather than excessive holdings, or property with no distinct purpose or function.

Properties and their environments change over time which may impact the most appropriate property use. Where this occurs, timely re-purposing or asset sale and replacement, improves overall portfolio and financial outcomes.

Annual reviews will be conducted for each property owned, where its function and retention in the portfolio will be assessed. This mechanism will allow the portfolio to evolve: freeing excess capital, ensuring optimal property levels are held and that our property assets match ongoing needs.

### 3.1 Property Acquisition

In general property acquisitions will be recommended:

- To fill a gap in the portfolio for the delivery of ongoing services; and/or
- When no foreseeable opportunity exists to provide a property asset through a develop contribution; and/or
- To replace an existing underperforming investment property; and/or
- To deliver on a Property Strategy outcome; and/or
- To enhance the operational/community/financial value of an existing Council property.

Recommended acquisitions should:

- Have satisfied legal, physical, financial, and operational due diligence reviews,
- Be assessed for their ability to deliver multiple outcomes: not just the primary acquisition purpose,
- Be supported by a draft individual property strategy to demonstrate its ongoing merit to deliver on a Council objective,
- Satisfy all requirements for the intended land category – targeting the operational land category wherever possible,
- Identify the funding source, and
- Reference its alignment with the current Property Strategy and annual Property Action Plan.

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These acquisition requirements will apply to any property acquisition. This includes via: a planning approval; VPA; and dedications. They will also be used when Council is exercising its compulsory acquisition powers under section 186 (and others) of the Local Government Act 1993.

## 3.2 Property Re-purposing and Divestment

Annual property reviews will be used to identify property that is no longer fit for purpose.

In general recommendations for re-purposing a property will be made when:

- It is assessed as no longer being able to deliver on its original operational or community needs but its long-term value can be enhanced to contribute to broader portfolio outcomes; and/or
- Its maintenance costs are increasing, and re-purposing is the best option for the property; and/or
- It can no longer provide its expected income within its sub portfolio; and/or
- It is not required to deliver a future Council initiative in its current configuration; and/or
- Alternative service provision exists, or an alternate location can be utilised; and/or
- Its re-purposing delivers an outcome for a Property Strategy objective.

*Where re-purposing is not financially or site/precinct viable, divestment should then be considered.*

In general property divestments will be recommended to Council for its determination where the property is no longer fit for purpose or surplus to operational needs and:

- The property does not satisfy the re-purposing considerations above,
- The indicative sale price is unlikely to increase in the foreseeable future and is supported by an independent market valuation, and
- The sale proceeds will clearly contribute to the achievement of a Property Strategy Objective in keeping with this Policy.

Divestments will be included in the annual Property Action Plan which will form part of Council's annual budgeting cycle. Proceeds from divested property will only be used for property acquisitions to further property objectives.

Divestment may be considered in response to an external event such as an unsolicited proposal to Council in keeping with the requirements of the Policy. Divestment decisions in response to these events should not undermine current Strategy objectives.

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### 3.3 Investment Property Reserve

Council will maintain an internally restricted Investment Property Reserve to:

- Provide a 'Future Fund' for both property objectives and other Council initiatives,
- Provide for the appropriate governance of capital to be re-cycled from asset sales,
- Separate property income from properties with a defined income stream and related outgoings from all other fund movements to ensure transparency, and
- Provide oversight by Finance for funds to be invested in short term compliant products to maximise Council income.

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## 4. Property Development

Council expects to engage in property development because:

- The community infrastructure required to deliver services are not generally developed by the private sector and require construction projects for bespoke facilities,
- It has land to shape the future for communities consistent with its Community Strategic Plan, and
- Small scale development of investment property to increase Council's return on capital can be delivered efficiently by staff.

Notwithstanding this, the following must be considered before commencing any property development:

- Many types of property development are not core council business and staff with relevant skills are not retained placing a heavy reliance on external consultants when making key decisions.
- Councils cannot spread the financial risks associated with development across a portfolio of developments that a private sector developer can mitigate.
- Development can polarise cohorts in the community and create avoidable reputation risk for Councils.
- Councils can become conflicted in trying to optimise financial outcomes for development that require exploring the limits of environmental planning controls.

When considering any property development Council will draft a Preliminary Business Case for Executive and Council endorsement prior to proceeding to a Full Business Case.

Preliminary and Full Business Cases for property development will consider and/or address the following:

- Whether any existing property(s) can be purchased or acquired, which substantially deliver the required outcome with less risk.
- Prefer core community facilities and infrastructure as its standard development exposures and consider all other development exposures as non-standard.
- Ensure every development project is a standalone venture, allowing progress, costs, direct results, and risks to be monitored and controlled during its life.
- Reference other development exposures and diversity if multiple projects occur simultaneously.
- Benchmark in-house expertise against the project requirements and identify gaps and mitigation measures prior to seeking approve to commence.

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Recommendations to Council for non-standard development projects and exposures must be based on a robust business case, that will include appropriate involvement and/or exit points for Council. This includes consideration of the optimal Council position in respect of:

- Early sale of the land owned.
- Sale of the land on securing a DA and appropriate zoning.
- Full development and ownership for income generation.

To maximise property development opportunities Council will:

- Target appropriate mechanisms under Section 358 (and others) of the Local Government Act 1993.
- Consider any exclusive dealing requests or unsolicited proposals received for its properties and make recommendations accordingly.
- Benchmark proposed outcomes against ACCC requirements.

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## 5. Principles for Each Land Classification

Council's land holdings by category will be maintained and updated as change occurs. These categories are: Community Land; Crown Land; Operational Land; Investment Land; Remnant Land; and Environmental Land. This will be done in accordance with the requirements for all Council land under s53 *Local Government Act 1993*.

### 5.1 Community Land

Where an existing Community Land classification renders land not fit for purpose, the land will be reviewed for potential re-classification as Operational Land. Such land should be considered for alternative uses to deliver key outcomes or reduce future acquisition needs.

Community infrastructure and facilities will be developed and operated on Community or Council controlled Crown Land wherever possible to preserve operational land for potential income generation.

When prudent, multiple small properties will be replaced by larger, multi-functional buildings, for economies of scale and to minimise running and maintenance costs. There must not be a net loss of community benefit as a result of any such replacement.

Council will utilise a standard community licence for all Community Land tenants subject to exceptions created through tenders for additional terms.

### 5.2 Crown Land

Council must manage and maintain Crown land and related buildings in accordance with the *Crown Land Management Act 2016*. This includes adopted Plans of Management for individual parcels of Crown Land that have Council managed property.

Council will maximise Crown land use of to benefit the City of Ryde community and resist exposure to additional Crown or State Government land, where the land does not provide an opportunity to contribute to the achievement of an objective. This will be subject to an assessment of the lands impact on Council's financial position.

Where Crown land has environmental merit, Biodiversity Offset Agreements will be considered, to offset where feasible Council's administrative burden and costs.

### 5.3 Operational Land

Operational Land as prescribed by legislation does not have the constraints applicable to Community Land and provides for a broad range of Council outcomes.

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Operational land strategies will also have regard to:

- The land's economic highest and best use and whether the current use reflects this.
- The best available zoning for the site.
- The ability of the land to deliver revenue, in addition to its primary purpose.
- Activation of unused portions to maximise land utility, portfolio efficiency, or other portfolio outcomes.

## 5.4 Investment Land

Land to be used for income generating purposes will be Operational Land. This property category provides opportunities for Council to:

- Diversify its revenue and investment exposures,
- Increase operational income and general revenue, and
- Access attractive returns from low risk, passive income generating properties.

## 5.5 Remnant Land

Remnant Land can be Community or Operational Land. Council will conduct investigations to identify Remnant Land parcels at suitable intervals of not less than five years.

Each parcel of Remnant Land will be classified into one of the following three categories.

Remnant Category	
Environmental, Operational, Recreational	Land with a defined and ongoing purpose for council.
Major opportunities	Parcels suitable for sale, leasing and/or development. Of sufficient size or utility to be offered to the wider market.
Minor Opportunities	Small parcels, usually uneconomic as standalone entities. May suit sale or lease to one or more adjoining owners.

Every Remnant Land parcel will have a strategy consistent with its category. Land absorbed as road will have its respective titles cancelled and be removed from Council's property register and portfolio.

## 5.6 Environmental Land

All land in Environmental or Conservation areas in the City of Ryde Local Government Area, usually zoned C1 - National Parks and Nature Reserves or C2 Environmental Conservation - Or Land which otherwise provides or includes walking tracks, associated seating, shelters, board walks, observation decks, bird hides or the like, and associated display structures.

Environmental Land will be managed within its Community Land constraints.

Self-funding or partially offset management outcomes are targeted wherever possible, (such as Bio-diversity Stewardship Agreements) to sustain or enhance environmental outcomes.

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## 6. Property Investment Portfolio

Council will maintain a diversified Property Investment Portfolio (PIP) for the sole purpose of investment that will contribute to Council's long-term financial sustainability.

Council will regularly review and where necessary, restructure its PIP to:

- Enhance income from appropriate “risk adjusted” property alternatives;
- Target at least 90% (by value) of its PIP, to comprise passive income generating properties; and
- Reduce proportionate exposures to its traditional income sources.

To best ensure PIP outcomes, Council will:

- Set a benchmark annual return “hurdle rate” consistent with market returns from passive income generating commercial property.
- Review the hurdle rate when drafting the four year Property Strategy and as necessary in response to market volatility.
- Acquire appropriately diversified assets that meet or exceed the hurdle rate.
- Identify opportunities from Council’s full property portfolio, and recommend appropriate strategies where necessary, to deliver additional PIP assets.
- Set reasonable PIP growth targets, reflecting available capital for PIP investment, internal portfolio opportunities available and the premium that the hurdle rate provides, over and above alternative investment opportunities for council.

Council will apply portfolio construction, risk diversification and similar skills to ensure:

- A diversified income stream, with varying lease expiry dates and tenancy exposures;
- Pre-acquisition asset due diligence, with external input and recommendations;
- Associated portfolio due diligence – measuring the diversification and other benefits that each recommended acquisition, will deliver to the macro portfolio; and
- Optimal portfolio weightings and allocations.

Ongoing PIP management and monitoring will:

- Limit combined lease expiries to a fixed % of total PIP income, in any single year.
- Limit single asset and single tenant exposures, to a fixed % of total PIP value.
- Set maximum exposures for individual asset types – such as industrial, core retail, bulky goods.
- Monitor the Weighted Average Lease Expiry “WALE” of the individual assets and the PIP as a whole, plus allocations to each property type.
- Implement a management framework for impending lease expiries.

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## 6.1 Investment Property Selection

The selection of any property for inclusion in the PIP will require a resolution of Council, following confirmation that all the following criteria have been met:

- Projected return on investment for each property will be reviewed periodically and at a minimum every four years.
- The property has been reviewed by Council's appointed Property Investment Advisor for the purpose of providing the appropriate property investment advice.
- Building age and structural condition presents minimal risk to Council based on consideration of current and future capital investment needs.
- Location of site and its relationship to tenant demand over time.
- The weighted average lease expiry (WALE) is consistent with Council requirements and represents an appropriate level of risk.

Reflecting asset specific characteristics, types and risks, the minimum WALE for any property asset type for inclusion in the PIP with a long term view should be:

<b>Asset Type</b>	<b>Minimum WALE</b>
Commercial Offices	7.0 years.
Standard Retail Shops	3.0 years.
Retail – Bulky Goods	5.0 years.
Industrial	6.0 years.
Other – if recommended	Based on independent assessment.

## 6.2 Property Investment Advice

Council's Property Investment Advisor must be suitably qualified by industry standards to provide the necessary advice.

The Advisor must be an independent person who has no actual or potential conflict of interest in relation to investment decisions and the strategy being recommended.

Any property identified through an independent source or any a third-party agency, must be subject to a full review by Council's Property Investment Advisor, who must make recommendations accordingly.

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## 6.3 Review of Property Investment Portfolio Performance

The performance of the PIP will be assessed annually to determine the extent to which set hurdle rates have been achieved across the portfolio, and comparatively over time to assess the trend.

A qualitative assessment will be provided at year end about the overall portfolio performance in Council's Annual Report including an assessment of the targeted hurdle rate for the period.

The financial return on investment across the portfolio will be measured against projected cash returns each year and assessed for movement in trend over sequential years.

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## 7. Flagship Projects

Council's Property Strategy and Action Plan will include identifiable line items for Flagship projects. Flagship projects will be identified for major individual or clusters of properties (Precincts), where the outcomes sought by Council have broad community impact and/or involve large capital expenditure.

Detailed Project Plans created from endorsed Business Cases will be used for Flagships, delivered through appropriate governance mechanisms for their control and financial stewardship.

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## Annexure 1 – Definitions

### Affordable Housing

Housing that is appropriate for a range of very low, low, and moderate-income households and priced so that these households can also meet other basic living costs such as food, clothing, transport, medical care, and education.

### Bio-diversity Stewardship Agreements

In-perpetuity agreements whereby land-owners commit to environmental management actions and may generate 'biodiversity credits' which can be sold to offset the impacts of approved developments elsewhere. Landholders receive ongoing annual management payments and a potential profit from credit sales, once sold.

Payments or revenue received may be used to deliver existing management actions or possibly for new environmental initiatives.

### Green Star and Related Building Ratings

The Australian sustainability rating and certification system setting standards for healthy and resilient buildings and places and certifying outcomes via recognised Star Ratings accordingly. Related building systems include NABERS Energy Ratings, plus Building Sustainability, Health, and others.

### Hurdle Rate

The required percentage return on asset cost, calculated as the net annual rental, expressed as a percentage of the asset's purchase price.

The hurdle rate represents the minimum return council will accept, when acquiring assets for inclusion in the Property Investment Portfolio and is based on prevailing market conditions.

The hurdle rate is reviewed annually or otherwise as considered necessary, by reference to analysis of comparable sales evidence, for assets which would otherwise meet all required prerequisites for inclusion in the Property Investment Portfolio.

### Passive Income Generating Properties

Properties delivering income under medium, or long-term leases, which are renewed on expiry, for further income generation. For most of the ownership period, council's involvement as owner is limited to the more passive property management functions, such as maintenance and rent collection.

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Asset development, re-positioning or similar pro-active management strategies are not targeted initiatives, and occur only where necessitated by major lease expiries, tenant requests that financially enhance council's position and lease security, or other significant property changes.

## Portfolio Lease Expiry Profile

The ranking of all portfolio lease expiries, in date order and also by reference to the proportion of income each tenancy delivers, as a percentage of the total portfolio income.

The combined details provide the proportion of the total portfolio income to expire in the current and every future year.

The portfolio lease expiry profile is a risk management tool for the timely management and actions of future expiries. It is also used to measure overall portfolio diversification, so that significant components of the Property Investment Portfolio do not expire in a single, or a very limited number of years, when likely market conditions for renewal cannot yet be known.

## Property

All Council controlled land (owned or managed) and any permanent developments attached, either natural or constructed. Property includes air and sub strata rights, plus interests created through leases, easements, or other legal mechanisms.

These latter interests may also occur on land not owned by Council, but Council's rights and benefits create entities, which will be reviewed and managed under its Property Policy.

## Property Development

The construction, reconstruction, subdivision, or other substantial alteration or improvement, of vacant or occupied land and/or any buildings or directly related infrastructure.

## Property Investment Advisor

A person reasonably considered by council to have appropriate independence, experience, and expertise, to evaluate and make submissions in respect of proposed recommendations to Council, by council staff or others.

## Remnant land

Parcels of closed or unformed road, drainage reserves or other holdings, many of which represent residual land areas left over from infrastructure delivery, or other initiatives requiring the use of land.

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## Weighted Average Lease Expiry (WALE)

A measurement of the average time-period when all leases in each property, and the portfolio as a single entity, will expire.

The WALE reflects the average remaining time-period (or security) by rental dollar received and should generally be kept as high as reasonably possible for each property, but more specifically, for the combined portfolio.

An example of the calculation of the WALE for a hypothetical property follows, where two tenants have differing rental levels and remaining lease terms. The date used for the example is 31 December 2022.

A	B	C	D	E	F
Tenant	Net rent paid	Lease expiry	Remaining Term	Proportion of total rent	Weighting (D x E)
Tenant 1	\$120,000	31 Dec 2029	7.0 years	54.55%	3.82
Tenant 2	\$100,000	31 Dec 2027	5.0 years	45.45%	2.27
<b>Totals</b>	<b>\$220,000</b>			<b>100.00%</b>	<b>6.09</b>

The weighted average lease expiry for this property is 6.09 years.

The calculation occurs for each individual property, then for the portfolio as a single entity including the total income from each property and its individual WALE. An example follows.

A	B	C	D	E
Property	Net rent pa	Property WALE (years)	Rental weighting (%)	Weighting (C x D)
Property 1	\$350,000	3.5	48.6%	1.70
Property 2	\$80,000	4.2	11.1%	0.47
Property 3	\$125,000	7.7	17.4%	1.34
Property 4	\$165,000	4.9	22.9%	1.12
<b>Totals</b>	<b>\$720,000</b>		<b>100.0%</b>	<b>4.63</b>

The portfolio WALE in this example is 4.63 years.

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