

Adoption - Investment Property Policy

File No: S118279.015

Summary

This report presents the Investment Property Policy which sets out the requirements for the management of the City of Sydney's (the City) Investment Property Portfolio.

Following the adoption of the Investment Policy in relation to the City's cash and investment portfolio, Council requested the City to develop a policy for the City's Investment Property Portfolio. This policy sets the framework to realise the City's Investment Property revenue objectives which align with the City's broader principles of financial sustainability.

Council's investment opportunities are constrained by a combination of legislation, regulation and orders, directions and guidelines issued by the Minister or the Office of Local Government. The City's cash investments may only be invested in interest bearing deposits and/or bonds in Federal, State (including NSW TCorp) or local governments and in banks that are Approved Deposit Taking Institutions under the Banking Act 1959. Councils are not permitted to invest in equities and therefore not permitted to invest directly in individual companies. Investment property income, arising through acquisitions and repositioning assets, is one of the few opportunities available to the City to generate revenue outside of rates and annual charges to enable the City to discharge its functions under the Local Government Act. In appropriate circumstances, investment in property offers financial advantages in comparison to the City's cash assets which are held to ensure sufficient liquidity to meet the City's objectives. In contrast, the City's Investment Property Portfolio is held over the long-term, reflecting the relative illiquid nature of investment property and changes in property cycles. Holding investment in both financial and property assets assists in diversifying risk.

The Investment Property Portfolio collectively balances risk, return and capital gain which are important components of the City's ongoing prudent financial and property management practices. This policy complements the existing Investment Policy and the Long Term Financial Plan (LTFP). It includes investment criteria to frame investment decisions, risk management parameters, and investment governance standards to ensure transparency, internal controls and performance management.

This policy applies to the City's Investment Property holdings, comprising those properties owned by the City that constitute 'Investment Property' under Australian Accounting Standard AASB140. Properties held by the City for its own operations/administration, community purposes or other specific strategic purposes are outside the scope of AASB140 and this Policy.

An annual confidential report will be provided to Council summarising the Investment Property Portfolio's performance. The Policy will be reviewed every 4-years from adoption.

Recommendation

It is resolved that:

- (A) Council adopt the Investment Property Policy for the management of the City's Investment Property Portfolio as shown at Attachment A to the subject report;
- (B) Council note the current Investment Property Portfolio List as contained at Attachment B to the subject report; and
- (C) authority be delegated to the Chief Executive Officer to make amendments to the Investment Property Policy to correct any minor drafting errors and finalise design, artwork and accessible formats for publication.

Attachments

Attachment A. Investment Property Policy

Attachment B. Investment Property Portfolio List

Background

1. The policy sets the framework to realise the City's Investment Property revenue objectives which align with broader principles of financial sustainability and enable the City to discharge its functions which include the provision of goods, services, facilities and other activities for the community and the wider public. It reinforces the City's ongoing commitment to maintain a conservative and diversified income base to reduce the burden on ratepayers for funding all of the City's operations.
2. Strategic investment in property assets can provide the City with stable income streams over the longer term, while securing the value of funds invested in an underlying asset that has historically appreciated over time. In appropriate circumstances, investment in property offers financial advantage over term (cash) investments placed with financial institutions under the City's Investment Policy.
3. Holding investments in both financial and property assets assists in diversifying risk. The outcome of this policy complements the aims of the Investment Policy which outlines the approach to the City's financial assets. The Investment Policy was adopted by Council in November 2024.
4. This policy applies to the City's Investment Property holdings, comprising those properties owned by the City that constitute 'Investment Property' under Australian Accounting Standard AASB140.
5. Properties held by the City for its own operations/administration, community purposes or other specific strategic purposes are outside the scope of AASB140 and this policy. Certain City-owned properties held to satisfy longer term strategic outcomes generate rental income on commercial terms in the interim, but are not considered to be Investment Property, as the primary objective for holding the property is not for rental income or capital appreciation.
6. The City's objectives for the Investment Property Portfolio are to:
 - (a) ensure a stable source of recurrent income and returns in the long term to enable the City to discharge its functions which include the provision of goods, services, facilities and other activities
 - (b) safeguard and enhance existing property revenue levels and achieve an optimal diversified total investment portfolio taking into account cash investments and Local Government regulatory restrictions on investment
 - (c) optimise income from those assets and long-term capital growth
 - (d) undertake appropriate asset renewal and repositioning
 - (e) grow property revenue to support long term financial stability
 - (f) further diversify and strengthen its revenue base.
7. The City's investments in property (as guided by this Policy) take a long-term view, with the goal of achieving both additional stable rental returns and capital growth in asset values.

8. The City's aim in managing the Investment Property Portfolio is to strategically position individual properties to deliver optimal and sustainable investment returns. The City utilises a management model with asset managers overseeing the property and facilities management functions.
9. Monthly, quarterly and annual financial reporting are utilised by staff to monitor the City's returns from Investment Property, and performance against budget, throughout the year.

Investment Criteria

10. The below investment criteria are considered for investments to be included within the City's Investment Property Portfolio at time of acquisition. It is noted that the criteria are considered as a whole and are not individually weighted.
 - (a) Scope - Investments must comply with the legislative requirements and regulations relevant to the City's strategy for revenue growth to enable the City to exercise its statutory functions
 - (b) Currency - Property Investments must be denominated in Australian Dollars
 - (c) Ownership - Real Property Investments must be held in the name of Council of the City of Sydney. The City does not invest in real estate investment trusts or similar entities
 - (d) Synergy - Where applicable acquisition decisions will consider the synergistic benefit to existing assets owned by the City
 - (e) Type of Investments and Rental Returns - The City will invest in Property Investments which provide an appropriate commercial return and capital growth potential. The overall mix of assets will be diversified (including type, location and tenancy mix) to generate a balanced source of income which complements the existing investment assets
 - (f) Geographic Location - Property Investments are not restricted to the City of Sydney Local Government Area
 - (g) Development - The City may engage in development activities in order to generate an investment return. This may be through either new developments or refurbishing and repositioning existing Investment Property
 - (h) Market Value Range for Acquisition and Hurdle Rate - The City will target Property Investment with a market value range in the order of \$30m to \$150m. Investment returns, ie Net Yield, from new acquisitions should exceed a hurdle rate of 4% pa

Performance Reporting

11. A confidential annual report will be provided to Council summarising its Investment Property Portfolio performance (post receipt of the annual valuations) which will consider priorities and opportunities for the portfolio in addition to monitoring financial performance.

Key Implications

Strategic Alignment - Sustainable Sydney 2030-2050 Continuing the Vision

12. Sustainable Sydney 2030-2050 Continuing the Vision renews the communities' vision for the sustainable development of the city to 2050. It includes 10 strategic directions to guide the future of the city, as well as 10 targets against which to measure progress. This policy is aligned with the following strategic directions and objectives:
- Direction 1 - Responsible governance and stewardship - specifically expanding revenue from commercial operations and the property portfolio.

Risks

13. This approach is within the City's risk appetite, which states:
- We recognise the need to strike a balance between risk taking and risk aversion to ensure the sustainable management of infrastructure, assets and their long-term resilience.
14. The adoption of the Policy will minimise any risk to the long-term sustainability of Investment Property Portfolio and ensure secure income streams to support the exercise of council's statutory functions.

Environmental and Social Responsibility

15. Environmental and social responsibility are to be considered on the same basis as other risks and opportunities within the Investment Property Portfolio. The City's preference is to avoid transactions with lessees engaged in socially and environmentally harmful activities.

Financial Implications

16. Council's investment property income represents a substantial income stream. Anticipated returns are estimated and included in the City's Long Term Financial Plan.
17. The City's long-term aim is to optimise the level of income derived from investment property, to support the anticipated additional demand for community services, and to ensure that the burden of the City's operational costs are not borne solely by the ratepayer.

Relevant Legislation

18. The City's Investment Properties are classified as "operational land" in accordance with Section 25 of the Local Government Act 1993.
19. Section 186 of the Local Government Act 1993 allows a council acquire land for the purpose of exercising any of its functions.

Critical Dates / Time Frames

20. The City will also undertake a review of the Policy every 4 years from adoption.

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Chief Operating Officer

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