

## Shire of Mundaring

# POLICY

### MANAGEMENT OF PROPERTY HELD FOR INVESTMENT PURPOSES

**Policy Ref:** OR-20

**Adopted:** C4.10.17      **Date:** 10 October 2017  
**Amended:**                      **Date:**  
**Reviewed:**                      **Date:**  
**Procedure Ref:**                      **Delegation Ref:** CE-152 Disposal of  
Commercial Property  
**Statute Ref:** *Local Government Act 1995*  
**Related Policy:** *FI-02 Investments*  
**Local Law Ref:**

### PURPOSE

To guide decision-making with respect to the Shire's investment property portfolio.

### POLICY

#### 1. Rationale

In October 2017 the Shire adopted an Investment Property Strategy to deal with Shire-owned freehold land that is held specifically for investment purposes (C4.10.17). The objective of the Strategy is to pursue a prudent policy of investment property disposal, acquisition and management to generate low-risk investment wealth and income.

This Policy guides decisions on property classified as being held for investment purposes.

#### 2. Policy

The Shire will pursue a prudent policy of investment property disposal, acquisition and management to generate low-risk investment wealth and income.

The Shire will continue to dispose of properties that are classified as for investment purposes and are not producing an adequate financial return to the Shire.

Funds realised from those disposals will be used to acquire investment properties for the specific purpose of generating a reliable income stream and capital growth.

#### 3. Guiding Principles

Investment in commercial property and leasing it out at commercial rates is considered an appropriate long-term method of developing an enduring income stream for the Shire.

Decisions as to property purchase will be made on a case-by-case basis, but subject to the following guiding principles:

- There is a presumption against investment in commercial property within the district of the Shire of Mundaring to insulate the Shire against any perception of conflict between its regulatory and community roles and its role as a property owner;
- Investment will generally be in established commercial property. Depending on market conditions, purchase of existing tenanted properties is preferred;
- Investment will not generally be in tenanted residential properties unless there is a real prospect of capital gain or rezoning which would otherwise make it appealing;
- Properties will be managed on a strictly commercial basis. No preference, discount or dispensation will be given to charitable or not-for-profit groups;
- Reliability of cash flow is preferred to a high yield. Secure and reliable tenants such as a government or semi-government agency with a significant lease term are considered preferable;
- Purchase of properties with improvements in good condition is preferred; and
- Over the longer term yields should compare favourably with the cash rate that might otherwise be obtained from investing in accordance with Policy FI-02.

Over time the Shire will work towards a balance of properties within the portfolio, including consideration of:

- spreading the proportion of lease income over a number of properties to reduce the impact should a particular lessee default;
- staggered lease expiry terms to avoid the potential for concurrent vacant properties; and
- affording the Shire the opportunity to take advantage of any attractive investment propositions that might present.

#### **4. Capital Investment Reserve**

The Shire will establish and maintain a Capital Investment Reserve in accordance with s. 6.11 of the *Local Government Act 1995* (the Act).

This Reserve is to:

- hold funds from sale of properties that are classified as for investment purposes in the Investment Property Strategy.
- hold interest earned from the funds in the Capital Investment Reserve.
- hold other funds as determined by Council from time to time.

Capital Investment Reserve funds are solely for the purpose of purchasing other income-producing properties, or to enhance the value of investment properties to maximise their earning potential.

Subject to cash flow and forecast capital expenditure requirements on investment properties, funds held in the Capital Investment Reserve are to be invested in accordance with the Shire's Investment Policy FI-02 until required for application to a capital purchase or improvement project.

## **5. Capital Income Reserve**

The Shire will establish and maintain a Capital Income Reserve in accordance with s. 6.11 of the Act.

The Capital Income Reserve is to hold all rents and other income received from long-term investment assets.

Funds held in the Capital Income Reserve are to be applied:

- to meet direct costs incurred in managing the investment portfolio;
- to finance specific community projects as approved by Council; and
- for reinvestment in the Capital Investment Reserve as determined by Council from time to time to preserve and augment the value of the investment portfolio.

Subject to cash flow and forecast capital expenditure requirements, funds held in the Capital Income Reserve are to be invested in accordance with the Shire's Investment Policy FI-02.

Subject to cash flow projections and forecast capital expenditure requirements, the amounts in the Capital Income Reserve should be kept to a minimum.

## **6. Reporting**

Returns from the Shire's investment property portfolio will be reported to Council in the normal course of financial reporting.