Investing in Leicestershire Programme

ANNUAL PERFORMANCE REPORT
2025 - 2026

Leicestershire County Council

Building Business. **Boosting** Communities.

INTRODUCTION

The Council first established an investment portfolio in 2014 with a view to generating additional funding to improve financial resilience thereby supporting the continued delivery of essential quality frontline services.

The original portfolio comprised the Council's industrial and farm property holdings, valued at approximately £40 million in 2014, together with a seed investment of £15 million. Through subsequent direct property acquisitions, development activity and non-property investments, the portfolio has grown to its current value of £280 million. The IiLP composition is unlike many UK property portfolios as a result, given the mixture of regional Leicestershire direct property (with large rural and development assets) and non-property financial assets. The overall strategy is supported by regular external strategy reviews.

In 2023 the fund was rebranded as the Investing in Leicestershire Programme (IiLP) adopting its current strategy of focussing future investment in areas that addressed social and economic market failure whilst continuing to provide financial returns.

The management of the portfolio is overseen by an Advisory Board and as part of its agreed governance an Annual Performance Report is produced each year. This, twelfth annual report sets out the overall performance of the IILP during the 2025-26 financial year providing details of its current investments and in respect of the direct property portfolio, detailed comparison with the wider real estate investment market.

Further it reviews progress in respect of major projects and the future potential of the portfolio to enable the continued delivery of an ongoing income stream and capital receipts vital to the delivery of frontline services whilst continuing to support job creation and economic growth across Leicestershire.

SUMMARY

The IILP has continued to contribute to the economic, social, and environmental wellbeing of the people of Leicestershire; making a significant contribution to the Council's Strategic Plan. The income generated by investment in high quality assets provides increased financial resilience and underpins the Council's ability to deliver a comprehensive range of quality services now and in the future.

The annual report examines the development and performance of the overall portfolio, the potential of the future investment programme to deliver enhanced returns and the outlook for the wider investment market and how it might impact on the future investment strategy.

Total Value By Sector

	Value as at 31st March 2025	Value as at 31st March 2026
Office Inc. County Hall	£63.1m	£59.2m
Industrial And Distribution	£26.0m	£37.3m
Rural	£95.9m	£86.7m
Other	£4.7m	£4.5m
Development	£42.1m	£39.0m
Pooled Property	£16.1m	£7.8m
Private Debt	£23.0m	£18.7m
Pooled Infrastrucure	£8.7m	£9.2m
Pooled Bank Risk Share	£12.7m	£17.7m
Total IiLP	**£292.3m**	**£280.1m**

As of 31st March 2026, the capital value of the portfolio, including the let areas of County Hall (currently managed alongside the portfolio), totalled £280.1m million compared with the value as of 31st March 2025 of £292.3 million. Notwithstanding the sustained increases in the value of the direct portfolio since inception over the 2025-26 year, the portfolio showed a reduction of £5.1m resulting from changes in the valuation approach and variations in market conditions. This coupled with a further reduction of £7.1m in the value of the diversified holdings, resulting in an overall fall of £12.2m. The valuations of the direct property portfolio are undertaken by external valuers on behalf of the County Council.

Our strategic focus will remain on sustainable investments that drive economic growth, social development, and environmental sustainability.

Financial Summary

	Value on 31st March 2025 (£m)	Transactions			Valuation Change (£m)	Value on 31st March 2026 (£m)	Net Income (£m)	Since inception IRR%
		Acquisitions and Transfers in (£m)	Net Capital spend (£m)	Sales & Transfers out (£m)				
Office inc County Hall	63.1		0.4		(4.2)	59.2	3.3	
Industrial and Distribution	26.0	10.3			1.0	37.3	1.7	
Rural	95.9		0.3	(0.9)	(8.6)	86.7	0.0	
Other Property	4.7			(0.6)	0.4	4.5	0.2	
Sub-Total Managed Property	**189.7**	**10.3**	**0.7**	**(1.5)**	**(11.5)**	**187.7**	**5.2**	
Development	**42.1**		**12.8**	**(10.7)**	**(5.3)**	**39.0**	**(0.2)**	
Direct property	**231.8**	**10.3**	**13.5**	**(12.2)**	**(16.7)**	**226.7**	**5.0**	
Pooled Property	16.1		(8.2)		(0.1)	7.8	0.4	2.4%
Private Debt	23.0		(3.9)		(0.5)	18.7	1.1	5.5%
Pooled Infrastructure	8.7				0.5	9.2	0.5	7.2%
Pooled Bank Risk Share	12.7		5.0		0.1	17.7	1.9	12.6%
Total Diversifiers	**60.5**		**(7.0)**		**0.0**	**53.4**	**3.8**	**4.8%**
Additional sinking fund							**(0.2)**	
Total	**292.3**	**10.3**	**6.5**	**(12.2)**	**(16.7)**	**280.1**	**8.6**	

Notes: All figures are rounded to nearest 0.1m. Opening valuation figure adjusted to include the valuation of the let areas of County Hall managed in conjunction with direct property portfolio since 2023.
IRR (Internal Rate of Return) is a financial metric used to measure the annualised return of an investment.

The current strategy (undertaken by Hymans Robertson and approved in 2024) targets a capital value of two-thirds direct property and one-third diversifiers. At present the IiLP has a higher weighting (81%) to direct property, a consequence of rising capital valuations over a number of years and a pause in the redeployment of capital into diversifier investments whilst the IiLP undertakes a planned strategy review, that is due to complete later in 2026/27.

As of 31st March 2026, the IiLP held direct property assets valued at £226.7m, including £39m of development assets. The main movements during the year were as follows:

- Assets worth £10.3m (Airfield Business Park phase 3 and 4) were transferred from the development sector to the industrial and logistics sector.
- £1.5m of direct property was disposed of.
- Year-end valuations reduced the direct property portfolio by £16.7m.

Diversifier investments totalled £53.4m, representing 19% of the overall IiLP portfolio. Year-end valuations resulted in a net £16.7m reduction across a range of property assets.

The largest valuation movement related to the rural estate, where values reduced by £8.6m. This followed a change in valuation approach by the external valuers, who revised their methodology in line with the latest guidance and no longer considered it appropriate to include future hope value within the valuation of a group of rural assets. This is following a significant increase in valuation between 2024/25 and 2025/26 of £14.1m for the rural portfolio. Further market adjustments, particularly within the office sector where values reduced by £4.2m, also contributed to the overall fall in the value of the direct property portfolio.

The portfolio also includes investments outside the directly owned property portfolio, known as diversifiers. These comprise UK pooled property funds, private debt investments, pooled infrastructure funds and pooled bank risk share funds. At 31 March 2026, diversifier investments were valued at £53.4m, a reduction of £7.0m from 2024/25. This reflects capital repayments and disposals of £12.0m, partly offset by £5.0m of new investments. Diversifiers are held to provide income from sources other than direct property. This broader spread of investments has helped support the IiLP's income performance, particularly during a period when UK direct property has faced more challenging market conditions.

ANNUALISED RETURNS

Given the short-term volatility of asset valuations it is appropriate to view the performance of the IiLP on a multi-year basis. A summary of the property and diversifier investments is included in the table below showing returns over 1, 3 and 5 years.

Total Direct Property Portfolio

	1 year (2025-26)	3 year (2022-23 – 2025-26)	5 year (2020-21 – 2025-26)
Net Income Return	0.0%	2.2%	2.9%
Capital Growth	3.2%	13.2%	9.7%
Total Return	3.2%	15.3%	12.6%
Total Benchmark Return	6.0%	8.3%	6.2%

All Diversifiers

(pooled property, private debt, infrastructure and bank risk share)

	1 year (2025-26)	3 year (2022-23 – 2025-26)	5 year (2020-21 – 2025-26)
Net rate of return	6.4%	7.1%	6.5%

The diversifiers together have performed well over the one, three and five years and the net rate of return includes income and capital changes. The robust diversifier returns over the period since UK interest rate increases from near zero which tempered returns from property has been helpful to the overall IiLP portfolio.

The IiLP has now been in operation for several years, the data for returns over longer timeframes better demonstrates the stability of the returns achieved by the assets in the portfolio.

Over the three-year period to 2025-26, the direct portfolio achieved an annualised total return of 15.3%, compared with the market return of 8.3%. Over five years, the direct portfolio also outperformed the market, achieving an annualised total return of 12.6% compared with 6.2%. This stronger long-term performance was mainly driven by sustained capital growth in the rural portfolio, including the significant valuation uplift recorded in 2023-24 which was only partly reversed in 2025/26 with the change of valuation methodology.

The managed direct property portfolio, excluding development assets, delivered a total return of -3.1%, compared with the wider market return of 6.0%. This underperformance was mainly driven by negative capital growth of -5.9%. The largest impacts were the rural estate valuation adjustment and reduced office sector values. For example, at Embankment House, the valuation reduced because some leases are due to expire in the coming year, creating a risk around how quickly, and on what terms, the space can be re-let.

The IiLP has returned to valuing the portfolio at 31 March each year, rather than 1 October as in recent years. This means the 2025-26 return covers an 18-month period instead of the usual 12 months. As a result, the movement in values looks larger when compared with the 12-month market benchmark. This is a one-off timing issue, and future valuations will be carried out annually as at 31 March.

In addition to the budgeted sinking fund contribution, a further £0.2m was added at year end, funded from outperformance against budget. This reflects the prudent approach of setting aside funds to meet future maintenance requirements or unforeseen costs. The sinking fund acts as a contingency fund, helping to ensure that resources are available to maintain the condition of the portfolio's assets.

The IiLP recognises potential bad debts and accounts for these in each financial year in line with the Council's policy. The bad debt provision is reassessed each year and may fluctuate as income is received to clear debtor accounts. The assessment at the end of 2025/26 was that the provision did not need to be increased. The current value of the provision is £555k. Unpaid invoices are provided for at a rate based on the type of customer and invoice age in line with the wider County Council policy.

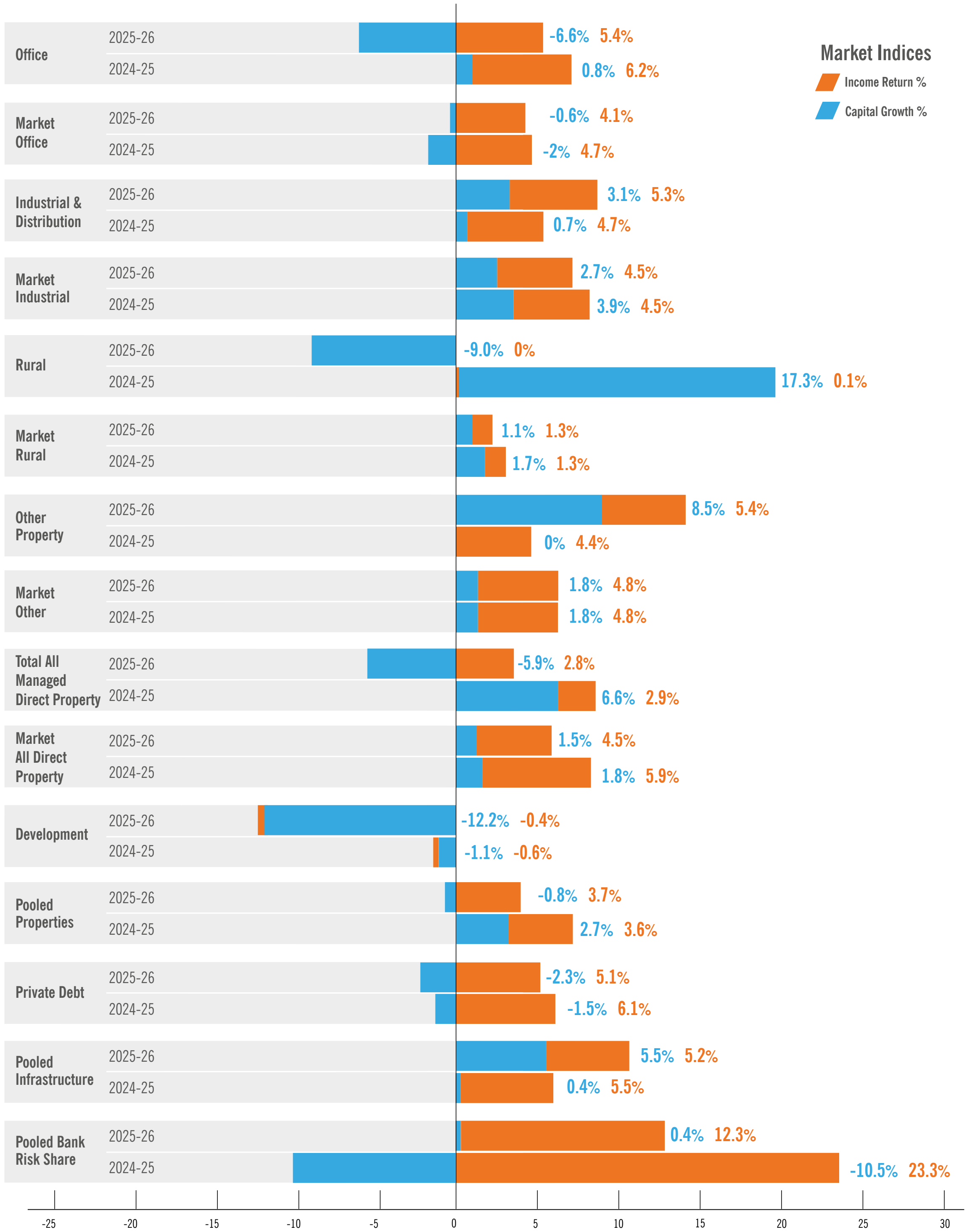
The level of net income accounts for centrally incurred costs. These costs include employee costs, bad debt provisions and sinking fund contributions. The current target level for the sinking fund, to be built up over the period to the end of 2029/30, is currently set at approximately £10m. This will be reassessed each year based on information regarding the assets within the Fund as part of the medium term financial strategy (MTFS).

The IiLP generated a total net income of £8.6m meeting the income target for the year. Direct property contributed £5.0m, with the balance generated by diversifier investments. The property net income percentage, excluding development assets and the rural estate, was 5.7%. This compares favourably with the wider UK benchmark net income return of 4.2%, demonstrating the underlying income strength of the core managed property portfolio. This provides a clearer measure of income performance because development assets are held primarily to create future capital value and wider economic benefits, rather than immediate rental income, while the rural estate is held for broader strategic, environmental and community objectives as well as financial return.

As part of the Council's ongoing assessment of its treasury management and capital financing requirements it compares total investment returns (capital and income) achievable via the IiLP and available opportunities to repay external debt early or hold in short term cash positions.

PERFORMANCE AND COMPARISON AGAINST INDUSTRY BENCHMARK

Programme Performance



The IiLP's direct property external benchmark is the "All Property" total return (capital growth plus income return) of the market benchmark monthly index.

The managed direct properties (excluding rural and development assets) produced a total return of 3.9% which is below the market level of 6.0% for the year. However, within the overall figure the income return continues to be delivered at above benchmark levels thereby ensuring that ongoing support for services is delivered.

As previously noted the short-term variations in asset valuations, compounded by the fact that the valuation date for the property portfolio has reverted to 31st March having previously been at 1st October has in this year resulted in negative capital growth, reducing the overall level of performance.

Offices

The income return from the office sector continues to outperform the market benchmark producing a 5.4% return compared to a 4.1% benchmark and a net income of £3.3m. However, the IiLP office sector suffered negative capital growth of -6.6%, largely as a result of a downturn in the value of office investments, including Embankment House. This was significantly greater than the market reduction of -0.6%, however is reflective of the market corrections occurring over the longer period with market office values falling by c.8.0% in the period from October 2024 to March 2025.

Industrial and distribution

The total returns from the combined industrial and distribution sectors were 8.4% compared with the previous year at -5.4%. This compares to a benchmark total return of 7.2%. Capital growth rose by 3.1% versus a benchmark of 2.7% due in part to increased rental income arising from rent reviews and lease renewals and partly as a result of market corrections over the 18 month period to March 2026. The income return of 5.3% exceeding the benchmark income return of 4.5%.

Rural

The rural sector achieved a total return of -9.0% in 2025-2026 versus a benchmark total return of 2.4%. The rural total return reflects the change in valuation methodology of the rural assets with future development value reducing the capital growth figure from an anticipated 2.1%. Income returns are comparatively low for the rural estate which are expected given the wider strategic objectives of the IiLP. The adjusted 5 year capital return for the IiLPs rural portfolio is 10.0% pa reflecting sustained growth in rural capital values over the longer term as investors recognise that it represents a "safe haven" in turbulent economic times.

Other

The IiLP's smaller 'other property sector' produced an excellent total return of 13.9% well above market levels. Providing a stable income of 8.5%; the portfolio holdings comprise a mixed range of assets, including a car dealership in Leicester city, a petrol filling station in Loughborough and a children's nursery.

Development

The development sector produced a total return of -12.6%, compared with 1.7% in the previous year. This reflects the nature of development assets, where costs are incurred before schemes become fully income-producing and valuations can move as assumptions change.

At the Airfield Business Park development, the valuation reflected units that were not yet let and the impact of rent-free periods. These factors are expected to unwind as the units are let and income stabilises. At the Leaders Farm development, the year-end valuation was lower, reflecting revised assumptions about the timing and delivery of future development. Lutterworth East remains the largest asset within the development portfolio, with values remaining stable over the period.

Development assets are held for their longer term capital growth and wider economic benefits, rather than immediate income. As a result, it is expected that planning, promotion and holding costs may exceed income during the development phase. This resulted in a small negative income return of -0.4% for the year.

Diversifier investments

A good year for diversifier investments, net income was ahead of budget which supported the wider IiLP. Diversifier investments had a net return of capital in the year of £7.1m reflecting the return of capital from pooled property and private debt investments. The exposure to diversifiers has reduced as a percentage of the total IiLP portfolio as a result over the year from the target allocation of one third.

Pooled property

The pooled property investments were originally spread across four separate investment managers. A total of £25m was invested between 2015 and 2019. As at the end of the financial year two managers have returned capital to the Fund. This leaves two pooled property investments within the IiLP. An open ended Fund focusing on core UK property investing across all sectors and a value add UK strategy which aim to realise value from investing and repositioning property assets. A 3.7% income return was achieved and capital values across the pooled property estate were lower in the year by -0.8%.

The Lothbury property unit trust, one of the four pooled property funds was wound up following an Extraordinary General Meeting (EGM) in March 2024. For clarity it is important to note that this winding up of a property fund; a forced sale over a period when property values had been depressed in comparison to the periods preceding the increase (from 0.25% in 2021) in the Bank of England's base rates. The forced nature of the sales means the IiLP fund is not able to 'hold' the investment, collect the income and then choose when to exit. The total return including quarterly income distributions shows a positive return since inception, +0.2% (IRR, internal rate of return).

The Hermes property unit trust also returned all capital in the financial year when the fund was merged with another institutional property fund. The merger conditions did not allow for investors such as the County Council to continue as eligible investors and capital was returned in August 2025.

Private Debt

The Fund invests in the Private Debt asset class via one institutional manager. Private Debt as an asset class offers varying levels of return and therefore risk. The IiLP invests towards the lower end of return expectations and therefore risk. The IiLP has invested over a number of years in three different vehicles, starting with £20million in 2018 with further commitments being made in 2021 and 2023 to maintain exposure to this asset class as capital is returned. As at the end of the year the earliest investment has returned call capital with the remaining two continuing to return capital. As at the year end the total value of private debt investments totalled £18.7m with this manager. The since inception internal rate of return (IRR) for private debt investments is 5.5%.

Pooled Infrastructure

The infrastructure investment is made via one manager. The capital is invested in a globally diversified infrastructure fund investing in core assets. The total net asset value of this fund is over $50billion with over 1000 investors. The strategy invests within operational assets and provides a defensive focus including those in critical assets which are underpinned by long term contracts, supported by regulation in many cases and situated in developed markets are favoured. The Fund is denominated in USD with the quarterly income converted to GBP when received and carrying value translated to GBP. The carrying value of the investment in GBP is now £9.2m and generated £0.5m income in 2025/26 or 5.2% as a net income percentage in the year. The return since the original investment was made in January 2023 has been 7.2% pa.

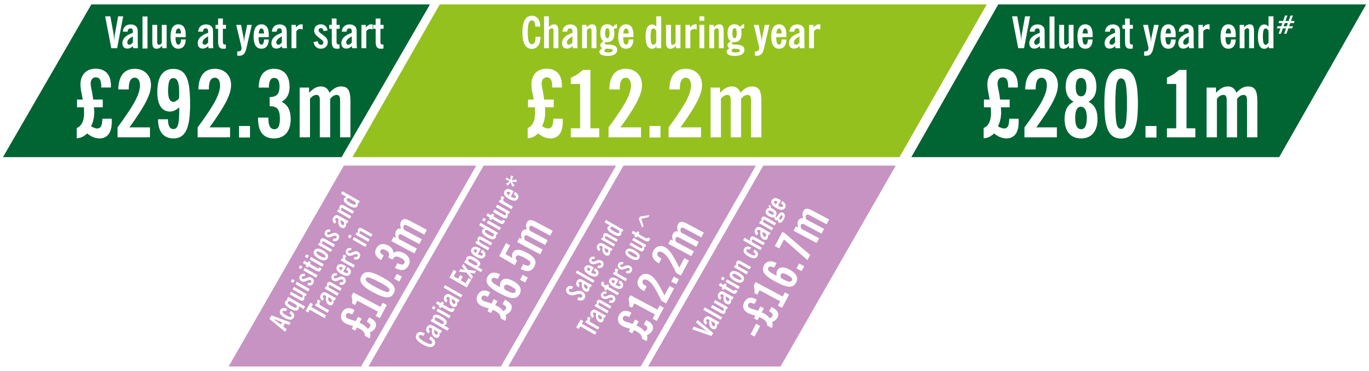
Pooled Bank Risk Share

The Fund also originally invested in a bank risk share strategy in 2022/23 and in a follow on fund in 2025. Over the two funds managed by the same investment manager the IiLP invested £24.7million. Both funds provide are regularly returning capital and income, with a net asset value of £17.7million at the year end. Income received during 2025/26 continued to be strong with £1.9million received. Over both investments the net income percentage was 12.3% in the year. The interest rate conditions over the last three years which were unfavourable (higher for longer bank interest rates) for many investment sectors have been a positive for this diversifying investment as its underlying investments are priced at a level which provides a margin over government base rates.

CHANGES TO THE PORTFOLIO DURING THE YEAR

Summary of Changes

During the year, the value of the portfolio, including the let areas of County Hall, reduced from £292.3m as at 31st March 2025 to £280.1m as at 31st March 2026. The chart below summarises the transactions and valuation movements that contributed to this change.



#Direct portfolio properties valued as at 31st March 2026 following previous valuation as at 1st October 2024.

TRANSACTIONS THROUGH THE YEAR

Direct property acquisitions

There were no property acquisitions during the year.

Property Disposals

Property disposals to the value of £1,983,780 as detailed in the table below were completed during the year.

Property	Receipt	Sector
Part Poole Farm, Quorn	£438,780	Development
Poplars Farmstead, Kimcote	£920,000	Rural
Glebe House, Loughborough	£625,000	Other
Total	**£1,983,780**	

Property Transfers

Property transfers to the value of £10,285,000 were made during the year, either on the completion of construction works in the case of developments to be retained as investment assets, or on being declared surplus and successfully marketed in respect of residential development sites.

Property	Transfer Value	Sector	Destination
Phases 3 & 4 Airfield Business Park	£10,285,000	Development	Industrial Sector
Total	**£10,285,000**		

PORTFOLIO REVIEW

Yield

The yield (achieved rent as a proportion of capital value) achieved by the direct managed portfolio was 4.5% (2.9% in 2024/25); the portfolio's overall yield being impacted development assets which has a higher weighting in our portfolio than many market property funds, meaning that overall, the portfolio will likely fall below the benchmark until such time as those developments are completed and become income generating or are released from the portfolio. In addition, the Fund also has exposure to rural assets which have lower yields and are held for a variety of other purposes.

Sector Proportions

The continued reduction in the value of the Diversifier portfolio as the level of capital returned to the fund (£7 million in year) exceeds the sums invested has resulted in a further shift in the balance between the two areas of investment with direct property 81% despite the reduction in the value of the direct property portfolio resulting from sales and the revaluation of rural assets and diversifiers at 19%. The target weighting between the two of 67% direct and 33% diversifiers was detailed in the Hymans Robertson Report IiLP strategy report of January 2024. A further strategy review is planned in 2026 which will inform the IiLP of changes that will be considered.

In relation to the direct property portfolio the long-term aim is to maintain a balance between sectors that reduces risk and maximises the potential for achieving financial resilience in the shorter term. In considering future acquisitions, the Programme will continue to focus any property purchases on assets that address market failure and provide wider economic and community benefits and the capability of contributing to the achievement of the County Council's strategic goals as well as delivering a long-term income stream, as set out in the IILP Strategy.

Rent Reviews, Lease Expiries, Vacancies and New Lettings

During the financial year 25/26 there were 9 lease renewals with rent reviews completed. This resulted in rental income across the portfolio increasing by £50k pa. Across the same period 7 leases ended with the tenants vacating.

There were 20 new lettings in the financial year 2025/2026. Key new lettings included the letting of Building 2 at Lichfield which saw new tenants take occupation of the recently refurbished building and new tenants moving onto Phase 3 of Airfield Business Park following the completion of the scheme. Overall, the new lettings throughout the year contributed an additional £466k per annum to the total rental income across the whole portfolio.

The significant number of new lettings saw vacancies across the estate decrease. Further work to secure new tenants will see a continued reduction in voids in the next financial year especially within the Coalville Business Centre and Loughborough Technology Centre.

The negotiation of rent reviews and lease renewals forms part of normal day-to-day property management, however the particular circumstances of individual leases means that it is not always appropriate to action these immediately they fall due. The total rent receivable at the end of the 2025/2026 financial year was £7.2m pa.

Following a consolidated period of rent reviews in respect of farm tenancies in previous years, 2 rent reviews have been concluded during the year. The total rental uplift across these two agreements is £2,300 per annum (equating to 15% uplift overall). A small number of new lettings have been agreed, 6 agreements, resulting in new rents of £85k per annum (a 26% uplift on the outgoing rents).

New Major Lettings

Airfield Business Park Phase 3

Phase 3 of Airfield Business Park completed in February 2026 and the site was handed over to the County Council. A number of pre-lets had been agreed, and leases for the EV charging area, Unit B1 and Units H3 & H4 were completed during February and March 2026. The leases for Units C1 and Unit F1 completed in May 2026. The remaining units are being marketed by external agents with tenants identified for Units H5 and H6.

Building 2, Lichfield

Following the completion of the major refurbishment works to split the building to two lettable units, the lease for the ground floor unit completed in July 2025. Tenants for the first floor were soon secured and took occupation in October 2025. The annual rent passing for the building is now £327k pa.

Other Estates

New leases also completed at the Coalville Business Centre with one tenant taking occupation of units 2 and 3 on the ground floor. Subsequently the same tenant has decided to expand their operations on site and have just completed leases of additional units (units 9 and 15 and unit 12) in the building. Thes leased commenced in June 2026.

There was also considerable interest in the Loughborough Technology Centre with leases for two of the vacant units completing within the financial year and a number of other lettings agreed. These will complete in the 2026/2027 Financial Year.

A number of new leases have been completed across the industrial estates, maintaining high levels of occupancy. Of particular note is the premises Unit 18 Atlas Court which has been let to the existing tenants of Units 1 and 1A Atlas Court, and Unit 15 Apollo Court which has been let to the existing tenants at Units 4 and 5 Apollo Court, Coalville. In both instances this additional space has allowed the tenants to grow their businesses, increasing employment opportunities and continuing to invest in the local economy.

Future Property Investments

The MTFS for 2026-30 includes £18m for direct property investments including commitment of £7m to complete schemes in progress. This includes a balance for new direct property investments totalling £11m.

Leaders Farm South, Lutterworth

The site at Leaders Farm formed part of the County Farms portfolio and was identified as having possible office and industrial development potential some years ago.

Following a marketing exercise two major roadside food and drink retailers expressed an interest in part of the site extending to 1.6 acres at the north-western corner. Whilst a departure from the Local Plan, due to a lack of demand for the Class B1 – office uses, the prospective tenants have been successful in securing planning permission for the proposed drive through units.

The drive-through units will generate a stabilised income of £190k pa. The construction of the new units is now complete with two drive through operators taking possession of the units in June 2026.

The future development of the remainder of the site is now being reviewed. There is interest for Light industrial/ Distribution use. However, this would be a departure from the current local plan. If the County Council is successful in obtaining planning for the employment units, they are projected to generate an additional rental income for the Council.

Development Sites

The Fund holds a number of assets within the portfolio that have been expressly retained or purchased with a view to realising their development potential in order to realise capital receipts or wider financial benefits to support the Council's capital and revenue programmes.

Lutterworth East

A hybrid planning permission (in outline for the residential and commercial development and in detail for the spine road and other highways infrastructure works) was granted by Harborough District Council's Planning Committee on 28th July 2020. The accompanying Section 106 Agreement was completed, and the decision notice issued on 17th May 2022.

A review of the scheme was undertaken in 2024, with some initial soft market testing, recognising the context for the proposed development had changed since the application was submitted in 2019. The impact of COVID on where people work (less office space needed) and escalating costs due to build cost price inflation as well as the lack of grant funding as also reviewed. This has made the scheme challenging to the market to deliver in its current form due to the high levels of upfront infrastructure costs.

Two applications were submitted to Harborough District Council to seek a reduction of the minimum level of affordable housing to 10% (subject to a viability assessment on each of the four residential phases) and the size restrictions on the B8 units to the south of the site. These applications were approved at the planning committee (3rd December 2024) and are subject to final documentation.

The project team is continuing to progress the scheme towards securing an extant consent by May 2027. This will require construction of the highway entrance to the proposed strategic employment area, discharge of pre-commencement planning conditions and payment of the related s106 contributions. As would be expected for a development of this scale and complexity, updated viability and delivery planning is being carried out. This includes reviewing infrastructure requirements, phasing, market demand and funding assumptions so as to ensure that the delivery strategy remains current and reflects changing market conditions. Opportunities to work with external partners, including Homes England, are also being explored, where this could help support delivery, help address infrastructure or funding requirements, and strengthen the overall route to implementation.

M69 Junction 2 – West of Stoney Stanton SDA

Following the Cabinet decision in March 2020, work has been progressed on the promotion of 103 acres of County Council land as part of a larger residential-led mixed-use development of up to 5,000 houses. Working in collaboration with other landowners and their developer partners, submissions have been made to Blaby District Council's 'Call for Sites and Issues and Options' consultation and work is ongoing to provide the necessary evidence base to support the sites allocation as part of the emerging Blaby District Local Plan.

The local plan process has been significantly delayed with the result that the Regulation 19 Pre-Submission consultation is scheduled to take place in July/August 2026 pushing the likely date of adoption back to 2027. The scheme has been included as a proposed allocation in the Regulation 19 Pre-Submission Draft, and it is therefore proposed that an outline planning application be submitted in December 2026, in advance of the Examination in Public. The timing of surveys and site investigations is now being geared to the revised timetable.

Overall, the following progress has been made during the year: -

- The option agreement necessary to secure the land required to construct the link road has been agreed and is progressing to completion.
- Progress has been made in agreeing the scope of the transport modelling required to support the outline planning application with both the local Highway Authority and National Highways having regard to the need to ensure that active travel is maximised reducing the need for vehicular journeys.
- The master plan for the development is being finalised and will inform the phasing plans and housing trajectory.
- A fully costed Infrastructure Cost Plan has been produced enabling both the viability appraisal and the collaboration agreement with the Council's co-promoters to be progressed.
- The project team continues to consult regularly with Blaby District Council and, in addition to a full public consultation in advance of submitting the planning application, will progress further meetings with the Community Liaison Group, local Parish Councils and other key stakeholders as plans are finalised.

Other potential sites

A further pipeline of development sites is being brought forward through the local plan process. This involves submitting sites through Call for Sites consultations at the start of plan reviews and responding to later consultations as they progress. Securing future local plan allocations will help maintain investment returns and provide an ongoing stream of capital receipts.

A number of local authorities across Leicestershire have been progressing local plan reviews during the year. In addition to the West of Stoney Stanton SDA the previously unallocated sites detailed below have been identified as potential allocations within their respective local plans

Local Planning Authority	Site	Allocation
Blaby District Council	Land East of Lutterworth Road (Glebe Farm and adjoining land)	375 houses and replacement sports facilities
Blaby District Council	Land at Steeplechase Farm, Kilby	25 houses
Harborough District Council	Land at Ashby Road, Ullesthorpe	50 houses
Hinckley and Bosworth Borough Council	Land off Barton Road, Barlestone (Osbaston parish)	128 houses
North West Leicestershire District Council	Land off Heather Lane, Ravenstone	85 Houses
North West Leicestershire District Council	Land at Burton Road, Oakthorpe	10,700 sq m Employment

Further, a 30 house site at Welford Road, Husbands Bosworth has been included with the village's limits of development in the Neighbourhood Development Plan facilitating its development and 3 further unallocated sites at Hinckley, Heather and Croft, will continue to be promoted through the local plan process.

In addition to potential residential and employment opportunities, sites with potential to support the delivery of biodiversity gains are also being identified and could potentially support the pipeline of future sites by providing any off-site credits necessary to facilitate the delivery of the required statutory 10% gains.

County Hall Lettings

Letting of office accommodation within County Hall continued in the 2025/2026 financial year with 56,214sqft space within the main County Hall buildings let to NHS and LPT partners and tenants and a further 12,000sqft of accommodation let within Anstey Frith to LPT and DHU Health.

Voids

Voids (unoccupied space) across the portfolio for the 2025/2026 financial year averaged across the whole year at 7.9%. Office space accounted for the majority of the voids, with the Loughborough Technology Centre and Coalville Business Centre having a significant volume of unlet units. Over 95% of the industrial element of the portfolio was fully occupied throughout the year.

Continued strong demand for accommodation continues to suggest that the relatively low level of voids can be maintained and indeed there are several large leases that have completed in the early part of the 2026/2027 Financial Year (Unit C1 at Airfield Business Park) and a number of new leases which have completed at Loughborough Technology Centre (Units 35/36 and Suite C both completed in the first few months of the new financial year). Additionally, we have received some positive interest in vacant space at Coalville Business Centre.

Arrears (Direct Portfolio)

As of 31st March 2026, total 90-day debt amounted to £631k, equating to 6.6% of gross portfolio income, a fall of £350k from the previous year. Rent collection remains in line with wider industry performance with over 86% of rural rents and 82% of industrial and office rents collected on time for Q4 2025/26. Payment of all outstanding debts is being actively pursued through debt management procedures. Further, no debt is written off until such time as all avenues including court action have been fully exhausted.

Lease Expiry Profile (Direct Portfolio)

The table below illustrates the profile of rents receivable from leases expiring in each year within the portfolio over the next 6 years both in terms of rental value and a proportion of total rental income. Where a tenant has an option to break within a lease, the worst-case scenario that the tenant will exercise such an option is assumed, whereas in practice most tenants are not choosing to take this option.

Year from	Current net rent	Percentage of total rent roll
01/04/2026	£856k	12.3%
01/04/2027	£409k	5.9%
01/04/2028	£594k	8.5%
01/04/2029	£243k	3.5%
01/04/2030	£194k	2.8%
01/04/2031	£439k	6.3%

The largest figure in the table above, and presenting the greatest risk to the portfolio, relates to the 2026 financial year when two leases at Embankment House, Nottingham and 6 of the 17 leases at Apollo Court, Coalville expire. In accordance with usual practice, a policy of early engagement with tenants is pursued with a view to agreeing lease renewals in advance of the termination date.

Key Performance indicators

The performance of the portfolio's direct property assets measured against the portfolio's KPIs is detailed in the table below. The current suite of IiLP KPI's is under review, as part of a wider review of the portfolio and the future management strategy of the individual sectors, ensuring that they remain fit for purpose reflecting benchmarks within the wider market and the targeted objectives of each sector. Accordingly, additional KPIs for the Rural Estate will be developed in the current year to ensure the objectives contained within the Rural Strategy are monitored and regularly reported.

Performance Indicator and Description	Performance 2025-2026	Target
Total IILP Income return 2025/26	3.0%	Meet with average market benchmark net income return target > 4.2%
Total IILP Capital growth 2025/26	-5.7%	Meet with average market benchmark yearly capital growth target > 1.8%
6A i Rate of Return (total return) 2025/26 vs medium term IiLP strategy target	-2.7%	Meet IiLP medium term Investment Strategy target Rate of Return > 6.0%
6A ii Rate of Return (total return) 2025/26 vs UK market benchmark 2025/26	-2.7% (3 year total return 15.3%) (5 year total return 12.6%)	Meet 2025/26 UK market benchmark return on capital over the whole portfolio > 6.0% (3 year benchmark total return 8.3%) (5 year benchmark total return 6.2%)
2025/26 Rental Income inc. County Hall (excludes service charges and other income)	£7.2m	Increase rental income from managed property year on year. 2024-25 = £7.7m
Voids	7.9%	Meet average market benchmark level of voids by area < 8.9%
Debt	6.6%	Meet 90 day debt target < 10% of gross income
Net income	£8.6m	Increase net income over the whole portfolio (including diversified investments) year on year 2024-25 = £8.6m
Management costs	5.7%	Meet management cost target < 15%

PROPERTY INVESTMENT MARKET REVIEW

Economic Conditions

UK gross domestic product (GDP) grew by 0.6% in Quarter 1 (Jan to Mar) 2026 and is estimated to have maintained the 0.7% growth in the three months to May, supported by 0.7% growth in services output and a 1.6% increase in construction activity, while production output fell by 0.1%. The unemployment rate reached 4.9% in June, compared with 0.7% a year earlier. Annual regular wage growth held at 3.4%, remaining above the pre-pandemic average of 2.7%. Retail sales volumes increased by 1.0% in June after rising 1.2% in May. HM Treasury forecasts indicate interest rates are expected to remain stable through the remainder of 2026. However, with PMI falling to 49.3 economic conditions could be more challenging in the second half of the year.

The unemployment rate remained at 4.9% for the 3 months to June 2026, up from 4.7% a year ago but a reduction from the 5.2% recorded in December 2025 whilst the number of job vacancies and people employed continued to decline over the 3 month period. However, wage inflation has slowed from 5.0% in July 2025 to 3.5% in July 2026, a real terms increase of 0.7% over the year.

CPI inflation rose to 2.9% in July from 2.6% in June with housing, household services and furniture making the largest contribution to the rise; transport making the largest, partially off-setting downward contribution. However, with volatile oil prices it is anticipated that inflation could rise later in the year and remain above the Bank of England 2% target until at least 2027. The Bank of England held interest rates at 3.75% for the tenth month in July but finds itself in a difficult position with continued economic uncertainty suggesting that if inflation spikes, interest rates could rise significantly by the year end.

Economic Outlook

The Q1 growth of 0.6% is anticipated to be the high point of the year with current predictions based on recent PMI data and the ongoing geopolitical disruptions in the Middle East suggesting the economy will enter a period of stagnation over the coming quarters and deliver 0.8% to 1.0% growth over the year with services continuing to be the strongest sector in the economy, with predicted growth of 1.3% this year.

The economy is expected to remain at a similar level in 2027, with GDP growth of 1%. It is forecast to pick up to 1.3% in 2028.

Investment Market

According to transaction data from Real Capital Analytics, quarterly volumes fell from 2025 Q4's near four-year high of £19bn to £9.3bn in Q1 2026. The Q1 figure was around 30% below the five-year quarterly average and down by 16% compared to Q1 2025 reflecting the general lack of investor confidence and the tightening of lending conditions.

Overseas capital makes up 42% of all investment into UK commercial real estate so far in Q1, which is below the ten-year average share of 51%. US investors continue to be dominant, having invested a total of £1.1bn so far this year, followed by Japan, Spain, Canada and Switzerland. Private investors continue to increase their exposure, accounting for a 31% share of all investment (ten-year average: 17%), while the share of institutional capital stands at 20%.

With credit conditions deteriorating and capital value expectations weakening, influenced by geopolitical tensions in the Middle East and renewed inflationary pressures the RICS UK Commercial Property Monitor for Q1 2026 points to a more challenging market conditions ahead.

Property Market Forecasts

The outlook for commercial real estate remains uncertain. Investor confidence is subdued, with ongoing geopolitical uncertainty, weaker economic growth, inflationary pressure and the outlook for interest rates continuing to affect market sentiment. Investment activity is therefore expected to remain weaker in the short term.

Rental growth is forecast to continue, although at a more modest pace. Across all property, rental growth is expected to be around 2.5% in 2026, with stronger performance in prime offices and industrial assets. Capital growth forecasts are more limited, with all-property capital growth expected to be around 0.3% in 2026 before improving in 2027.

The office market remains polarised. Demand is strongest for modern, well-located Grade A accommodation, where supply is limited and rental growth remains positive. Secondary office accommodation continues to face greater pressure, with higher vacancy risk and weaker rental prospects.

Industrial and distribution assets remain supported by occupier demand, although investment volumes have fallen and vacancy rates have increased as more supply has come forward. Rental growth is expected to moderate during 2026 before stabilising as the development pipeline reduces.

Retail market recovery remains fragile. Retail parks continue to perform better than other retail sub-sectors, supported by low vacancy rates and demand from value operators and discounters. However, wider retail performance remains sensitive to inflation, household spending and consumer confidence.

Rural property continues to be viewed as a relatively resilient asset class. Although income returns remain modest, demand for land is supported by competing uses including agriculture, development, energy and environmental objectives. Values are expected to remain broadly stable in the short term, with potential for further growth as policy certainty improves.

Overall, the market outlook supports a cautious and selective approach to future investment decisions. For the IiLP, this reinforces the importance of protecting income, maintaining high occupancy levels and focusing investment on assets that are capable of delivering both resilient financial returns and wider economic, social and environmental benefits. It also underlines the need for active management of lease expiries, voids and re-letting risks, particularly in the office sector where market conditions remain more challenging.

The outlook also supports continued focus on industrial and employment-generating assets where occupier demand remains comparatively stronger, while recognising that development and rural assets may deliver value over a longer timeframe through capital growth, strategic land promotion, environmental outcomes and support for the local economy. The planned strategy review provides an opportunity to consider the balance between direct property and diversifier investments, future sector exposure and the pace at which capital should be redeployed in the current market.

Investment Strategy Update

The Portfolio Management Strategy for 2026 to 2030 is aimed at supporting the development of the Portfolio to further enhance its contribution to the delivery of strategic goals whilst continuing to improve the Council's financial resilience as demand on services and operating costs continue to rise. It outlines how the Council will look to direct investments during this period developing the Portfolio to address areas of specific economic or social market failure and how it will manage these to help achieve the strategic priorities of the Council.

The Strategy is an integral part of the Council's Medium-Term Financial Strategy (MTFS) and intrinsically linked with the Corporate Asset Management Plan (CAMP) and the Treasury Management Strategy and Annual Investment Strategy and it should be read in conjunction with these documents.

The specific aims of this Strategy are to ensure investments funded or held in the Portfolio:

- Support the objectives of the Council's MTFS, Corporate Asset Management Plan, Strategic Plan, its Economic Growth Plan, and the County-wide Local Industrial Strategy.
- Support growth in the county and its economic area of influence and ensure there is a more diverse range of properties and land assets available to meet the aims of economic development.
- Maximise sustainable returns on Council owned property assets.
- Supports the delivery of front-line services through increased income generation from existing investments, or through capital investments that will reduce operating costs.
- Maintain a diverse portfolio of energy efficient and sustainable direct property and other investment assets which support economic growth and environmental sustainability.
- Support the Council's strategic objectives by working with partners to maintain momentum in the development of strategic sites and renewing existing employment sites and premises where there is demand thereby addressing areas of market failure.
- Contribute towards the development and implementation of the Council's emerging Climate Resilience Delivery Plan by reducing demand for energy and delivering projects that provide additional social, economic and environmental benefits in support of the Council's strategic outcomes.
- Channelling new investment into schemes that:
    - Maximise the potential to address economic and social market failure.
    - Improve property assets for a direct strategic/policy purpose.
    - Enhance the value and marketability of property assets enabling capital receipts to be used to support improved service delivery.
    - Manage investment risk by investing in diverse sectors and asset classes.
    - Support the Council in maximizing the benefit from its financial assets in a risk aware way (not including standard treasury management activity).

The implementation of this strategy coupled with robust performance monitoring measures will ensure that the portfolio operates effectively and delivers value for money.

The Programme's strategy continues to be reviewed annually, and an updated strategy will be incorporated within the Medium-Term Financial Strategy which will be considered by Cabinet and full Council later in the year.

Rural Estate Strategy

The Rural Estate Strategy 2026-36 was developed over the last year and following extensive engagement including a period of consultation was adopted by the Cabinet on 28th April 2026 and will guide the strategic management of the estate for the next 10 years to ensure it delivers its vision "to create a Rural Estate that provides opportunities for people to establish thriving rural businesses, supports the rural economy and local communities and makes an increasing contribution to the attainment of the Council's strategic objectives whilst delivering ongoing financial benefits".

The vision is supported by the following four key ambitions each supported by a suite of objectives to be achieve over the lifetime of the strategy:

- To retain a core estate of farms that are of sufficient size and suitably equipped, which support new entrants and existing tenants to run a viable farming business resilient to changing market conditions.
- To increase the contribution the Estate makes to the environmental, social and economic wellbeing of Leicestershire and contributes to the achievement of the objectives and outcomes of the Council's Strategic Plan.
- To realise the Estate's potential to deliver financial benefits that help support the provision of services for the people of Leicestershire.
- To strengthen existing partnerships and create new relationships with stakeholders to secure the delivery of strategic objectives and outcomes.

A supporting implementation plan is in place to ensure delivery of the Rural Estate Strategy, with progress monitored alongside wider IiLP performance and governance arrangements.

GLOSSARY

90 Day Debt: For LCC KPI purposes, debt over 90 days past due is performance benchmarked.

Absorption: Represents the uptake in space by leasing activity; a positive number indicates more space leased out than taken in-hand on a tenant's exit, conversely a negative figure shows that more space is taken back than leased out during a period.

All Property Yield: All Property Yield is the calculation of the Yield (defined below) across all property asset classes (i.e., a portfolio yield)

Bad Debt: Bad debt is taken as any debtor account (most likely rent) which has remained due beyond 6 months. A bad debt provision is held against the debtor sum, and when the debt is cleared the provision is credited back to the revenue account.

Capital Growth: Capital Growth is the increase of the capital value, net of capital expenditure or income expressed as a percentage of capital employed. (Closing Value – Opening Value – Capital Expenditure + Capital Receipts)/(Opening Value + Capital Expenditure)

Diversifiers: This describes investments which are not directly owned properties within the Leicestershire boundaries. As a result they are not subject to the same risks as directly owned property. The investments are made subject to the investment strategy for the IiLP which was last updated in early 2024. The current investments include UK diversified commercial property and are accessed by investments in institutional property funds, global private credit funds which provide finance to corporate borrowers for a fixed term and global infrastructure funds where the underlying holdings include ports, toll roads and renewable energy assets.

Hope Value: This is the value applied to a market valuation attributed to future development potential.

Lease Expiry: Most commercial and agricultural leases do not automatically terminate on expiry but continue to "hold over" with the tenant bound to perform the obligations of the lease. There is no specific requirement to renew the lease, but the tenant usually gains a more flexible position in respect of notice to quit provisions. The Landlord remains bound by statutory restrictions on termination such as grounds for notice or time limitations.

Net Income Return: Net Income Return is the net income receivable expressed as a percentage of capital employed. This differs from the Initial Yield as it considers costs of ownership, including capital expenditure. (Net Income)/(Opening Value + Capital Expenditure).

Rent Review: Commercial and agricultural leases usually allow for periodic review of rents. Across the IiLP these are most commonly on a 3 year cycle, the rent due is reviewed by negotiation and reference to comparable rents or a statutory formula. Occasionally rents will be reviewed by reference to RPI or other inflationary measures, although these are less common for the types of assets held by IiLP.

Rent Roll: The rent roll is the total annual income achievable by the property without deduction for rental allowances (i.e., rent-free periods) or other incentives, back-dated charges, premiums, or non-rental charges.

Sinking Fund: A sinking fund is a provision held on the balance sheet to offset or mitigate possible future costs incurred such as major incidents, significant revenue expenditure, etc.

Total Return: Total Return is the sum of the Capital Growth and Net Income Return.

Voids: Where commercial or agricultural property is vacant but physically capable of being leased or occupied it is classified as a void; property which does not meet statutory requirements for letting and is pending refurbishment, or unoccupied but leased is not included within the void figures.

Yield: Yield is the rental income expressed as a percentage of capital value. (Rental Income)/(Opening Value). In the context of this report, yield is used as a valuation comparator rather than solely as an expression of returns.

Leicestershire County Council

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