

# ITEM NO: 6(d)

## GREATER MANCHESTER PENSION FUND

### PROPERTY WORKING GROUP

24 July 2015

Commenced: 11.00am

Terminated: 12.25pm

**Present:**

- Councillor S Quinn (Chair)
- Councillor J Fitzpatrick
- Councillor Halliwell
- Councillor J Lane
- Councillor R Miah
- Councillor M Smith
- Mr Drury                      **UNITE**
- Peter Morris                **Executive Director of Pensions**
- Paddy Dowdall            **Assistant Executive Director, Local Investments and Property**
- Tracey Boyle               **Service Unit Manager - Pensions Accountancy**
- Neil Charnock             **Head of Pension Fund Legal**
- Nigel Driver               **Investment Manager (Property)**
- Andrew Hall               **Investment Manager (Local Investments)**

**Apologies for absence:** Councillor D Ward and Mr Thompson

#### 1. DECLARATIONS OF INTEREST

No declarations of interest were made.

#### 2. MINUTES

The Minutes of the proceedings of the meeting of the Property Working Group held on 17 April 2015 were approved as a correct record.

#### 3. CURRENT ISSUES – MANAGEMENT SUMMARY

The Executive Director of Pensions submitted a report, copies of which had been circulated, which highlighted key current issues in the management of property portfolios within the Greater Manchester Pension Fund (GMPF).

It was reported that LaSalle would be presenting their quarterly report to the Working Group and highlights from their report were outlined. GVA would also be reporting to the Working Group, and it was explained that the presentation would concentrate on activity at two key sites showing the progress achieved during the last quarter and the actions to be carried out over the coming quarter.

The Working Group was informed that there had been more comprehensive reporting of overseas investment and since the last meeting investments had been made in a fund investing in European property run by Standard Life focusing on core-plus property and a fund managed by Tristaon investing on a value-add/opportunistic pan- European basis. These investments would be covered in more detail at a future meeting.

**RECOMMENDED**

**That the report be noted.**

**4. LONG TERM PROPERTY PERFORMANCE (IPD REVIEW 2015 ETC)**

The Executive Director of Pensions submitted a report, copies of which had been circulated, which advised on the recent and longer term investment performance of the direct property portfolio and of the balanced property pooled vehicle portfolio.

It was reported that the fund had outsourced its investment management and property management functions to LaSalle during 2014 and the Investment Property Databank (IPDS) survey had been used as a benchmark as this provided the most reliable source of measurement and comparison of property performance. The property performance as measured by IPD was compared to other asset classes as per section 2.4 of the report.

The Working Group was notified that property investments in London and the South East were generally the best performing due to strong demand from tenants and investors. The UK property transaction market remained highly competitive which continued to push prices higher and yields lower income yields. This had resulted in investors focusing their attention on alternative property sectors as well as other geographical areas across the UK that had been previously overlooked.

It was explained that at the end of 2014 the fund had 50 standing property investments and 8 investments in specialist property pooled vehicles. No purchases were made in the directly owned part of the portfolio during 2014 and 4 properties had been sold. The average lot size grew slightly as a result of the sales to £6.8 million which was lower than the IPD average lot size of £8.1 million.

The Working Group was informed that, when compared to the IPD average portfolio structure, GMPF's direct property portfolio continued to show a significant overweight position in retail and supermarkets and a marked underweight position in offices. The composition of the portfolio was highlighted as per chart 2a and 2b at 3.5 of the report.

It was stated that the fund had achieved a total return of 11.3% which was disappointing when compared to the benchmark IPD median of 17.9%; the GMPF direct property portfolio was compared against IPD over a range of time periods as per chart 3 at section 4.2 of the report. Property specific issues were key to underperformance and although work had been undertaken to reduce void properties, which had decreased to 4.3% by December 2014., they were still a contributing factor.

The Working Group heard that there were no purchases or sales of balanced property pooled vehicles during 2014 and the value stood at approximately £291 million as at 31 March 2015. Performance had been driven by the recent investment in Triton and the current medium term plan was to reduce holdings in the generalist pooled funds and reinvest money in other property opportunities.

**RECOMMENDED**

**That the report be noted.**

## **5. PROPERTY AGED DEBT AS AT 19 JUNE 2015**

The Executive Director of Pensions submitted a report, copies of which had been circulated, that summarised the aged debt for the two property portfolios (Main Property Fund and Greater Manchester Property Venture Fund (GMPVF)) as at 19 June 2015. The procedure for the collection of debt and the reminder process was explained to the Working Group.

It was reported that the value of property aged debt for the fund as at 19 June 2015 was £0.83 million, compared to £0.845 million at 19 March 2015. An overview of debt position was given including a summary of debt across the two areas and totals. GMPVF debt remained very marginally in amber status and much of the over 151 day's debt was due to businesses being in administration. It was explained that there was no anticipated movement in the balances and they would be referred for write off.

The highest value debts for each area were detailed in the appendices to the report. The key trends were the total had decreased marginally from March to June and that net debt had increased slightly over the same period.

### **RECOMMENDED**

**That the report be noted.**

## **6. LA SALLE QUARTERLY REPORT**

The Working Group welcomed Tom Rose, Fund Manager, and Rebecca Gates, Head of UK Asset Management, La Salle Investment Management, who attended the meeting to present the GMPF main property portfolio quarterly report for quarter one 2015.

Mr Rose and Ms Gates highlighted the following areas:

- Portfolio summary;
- Performance to December 2014;
- Structure and Composition of the Portfolio by Sector;
- Activity Update and Annual Strategy progress;
- Purchases and Sales; and
- Asset Management Summary.

It was reported that during the quarter there had been an overall valuation uplift of £1 million for the held direct properties with this net change in value attributed relating to the extension of the unexpired lease term at Chandlers Ford; letting of a vacant unit in Bredbury; three new lettings and three lease renewals at Canvey Island; and vacation of one tenant following lease expiry at Ipswich.

The Working Group was informed that there had been two sales during the quarter, showing a and the small profit compared to the previous valuation. The next independent portfolio valuation would be at 30 September 2015 and IPD would report performance mid-way through the fourth quarter.

The structure and the composition of the portfolio by sector was outlined and it was highlighted that the key change was alternatives. An update was provided on activity and strategy with the purchases and sales discussed in detail.

### **RECOMMENDED**

**That the report be noted.**

## **7. GVA QUARTERLY REPORT**

The Working Group welcomed Jonathan Stanlake and Gareth Convoy of GVA who attended the meeting to present the GVA quarterly report. The report focussed on activity at two sites, Calver Park Warrington and the Island site Manchester city centre with a brief update provided on the progress at the other GMPVF sites.

Calver Park, Warrington – It was reported that an agreement in principle had recently been approved for the sale of part of the site with a completion date expected towards the end of 2015. It was anticipated that the 9 acre site would be open by summer 2016. The sale of the land covered the initial cost of the site and the remaining land had been valued at approximately £1 million.

Island Site, Manchester City Centre – It was reported that this site had good development potential and leaseholds had been secured until 2017 from existing occupiers which mitigated the holding costs. Future actions included considering consultant advice, evaluating options and then to provide recommendations on viability, delivery strategy, and next steps.

Financial performance information was provided for each site to show the current market valuation compared to the cost to GMPVF, together with the return to the fund from the date of acquisition taking into account all income and expenditure to date. It was explained that sites would not show a positive internal rate of return until development had been completed which would be later on the in the project lifecycle.

The report also gave an update on existing assets at:-

- Stalybridge West
- Former Sorting Office, Stockport
- One St Peter's Square, Manchester city centre
- Chorlton Shopping Centre
- Preston East, J31 M6
- Old Haymarket, Liverpool city centre
- Wilmslow Road, Didsbury
- Unity House, Wigan
- Martland Park, Wigan
- Globe Park, Rochdale.

The Working Group was also provided with a schedule of fee expenditure incurred on development activity during the previous quarter for each site and a RAG analysis showing the progress of development activity undertaken during the last two quarters to March and June 2015 respectively and the current prediction on final viability.

The Executive Director of Pensions also gave an update on 1 St Peters Square and Airport City.

### **RECOMMENDED**

**That the report be noted.**