

GREATER MANCHESTER PENSION FUND - PROPERTY WORKING GROUP

Friday, 27 October 2017

Commenced: 9.00 am

Terminated: 10.00am

Present: Councillors S Quinn (Chair), J Fitzpatrick, J Lane, M Smith, Barnes, Halliwell, Mr Allsop and Mr Drury

In Attendance:

Sandra Stewart	Director of Pensions
Paddy Dowdall	Assistant Director of Pensions (Local Investments and Property)
Tracey Boyle	Head of Pensions Accountancy
Misodzi Dent	Investment Officer
Nigel Driver	Investment Manager
Andrew Hall	Investment Manager
Daniel Hobson	Senior Investments Manager

Apologies for Absence: Councillors Ward and Grimshaw

8. DECLARATIONS OF INTEREST

There were no declarations of interest.

9. MINUTES

The Minutes of the meeting of the Property Working Group held on 28 July 2017 were approved as a correct record.

10. MANAGEMENT SUMMARY

The Assistant Director of Pensions (Local Investments and Property) submitted a report, which provided an overview of property investment and a commentary on issues and matters of interest arising over the last quarter in relation to the Fund's property investments.

The allocations to property investments and their current weightings as at 30 September 2017 were outlined to the Group. It was noted that property was underweight due to the strong performance of the Fund, which had grown quicker than the long-term average. This had had a positive effect on the Fund overall since 2016.

It was reported that the team were scheduled to undertake a review of indirect investments and would work with the Fund's pooling partners with a view to adopting a medium term approach. The results of the review would be presented at a future meeting of the Working Group.

RECOMMENDED:

- (i) That the report be noted; and
- (ii) That a report on the results of the review into indirect investments be brought to a future meeting of the Working Group.

11. PROPERTY RELATED AGED DEBT AS AT 19 SEPTEMBER 2017

The Assistant Director of Pensions (Local Investments and Property) submitted a report summarising the aged debt (31 days and over) for the two property portfolios (Main Property Fund and Greater Manchester Property Venture Fund) as at 19 September 2017.

An overview of the debt position was given including a summary of debt across the two areas and totals. Total debt had increased slightly from £0.309 million as at 19 June 2017 to £0.368 million as at 19 September 2017.

It was noted that procedures for collection of debt were complied with and were working well, Greater Manchester Property Venture Fund debt remained very marginally within amber status but this was not material at present.

The highest value debts for each portfolio were detailed as per the appendices to the report. The policies for debt recovery were unchanged and there were currently no payment plans in place.

A risk profile was provided, which showed that across the two funds, raised debtor invoices totalled just over £33 million with 1.11% of this outstanding at 19 September 2017.

RECOMMENDED:

That the report be noted.

12. GVA QUARTERLY REPORT

The Working Group considered a report of GVA, which summarised the financial allocation to the committed projects and the indicative allocation required for projects currently undergoing due diligence. The report also contained an update on progress achieved during the quarter and actions to be undertaken for the forthcoming quarter across all GMPVF development sites.

The report focussed on the performance of the Greater Manchester Property Venture Fund, 2017 priorities and the progress to date on new and existing opportunities. The investments outlined to the Working Group and split into 'committed sites' 'advanced due diligence' and 'active review'. It was reported that there had been a significant increase in sites under 'active review' and 'committed sites' when compared to quarter 4 2016.

Charts detailing the portfolio overview by sector showed greater diversification over the four sectors (office, suburban residential, city centre residential and other) with a substantial increase in committed and pipeline sites. A year by year portfolio investment projection was shown, which detailed a steady increase to 2020 in capital deployed.

Priorities for the forthcoming year were outlined and included converting existing deals in advanced due diligence status, continuing to balance the portfolio, increasing residential development and addressing market challenges and opportunities. There had been one rejected opportunity during the quarter and the reasons for that rejection were outlined.

New and progressing opportunities were presented and included Soapworks, First Street Manchester, Owen Street Manchester, Island Site, Broadfield Business Park, Chorlton shopping centre, Matrix Homes Manchester, Irwell Riverside, Wilmslow Road Didsbury, Princess Street Manchester and Circle Square.

Financial performance information was provided for each site to show the current market valuation when compared to the cost value to the Fund, together with the Internal Rate of Return from the date of acquisition, taking into account all income and expenditure to date. It was expected that sites would not show a positive return until development had been completed.

The Working Group was also provided with a RAG (Red, Amber, Green) analysis showing the progress of development activity undertaken during the last three quarters to September 2017 and the current prediction on final viability.

RECOMMENDED:

That the report be noted.

13. LASALLE QUARTERLY REPORT

The Working Group welcomed Julian Agnew and Tom Rose, La Salle Investment Management, who attended the meeting to present the GMPF main property portfolio quarterly report for quarter three 2017. An update was provided on portfolio composition and value, transactional activity, key estate management issues and a general market overview.

Mr Agnew began by providing a capital market dashboard for UK property. The overall risk assessment for the UK was stable with a low probability of an imminent downturn. Potential risks had not disappeared and included ongoing political uncertainty and softening occupier demand. Market conditions were cautiously optimistic and seven of the nine Red, Amber, Green indicators were green (positive) with caution surrounding retail funds capital flows. There were signs of potential disruption to cumulative Investment Property Databank real capital growth, which would be closely monitored.

He explained that it was advantageous to retain property over the long-term as this helped to achieve strong returns. He anticipated that over the next five years property returns should reach 4 – 6% and the best performing asset classes continued to be urban retail, industrial and alternatives.

Mr Rose advised that the portfolio had increased over the quarter and now contained 49 assets with a value of £746 million, which increased to £792 million when commitments were included. The vacancy rate was 7.7%, slightly higher than the 6.9% benchmark. Overall the portfolio had outperformed the benchmark for the year to June 2017. Directly held properties outperformed the benchmark but indirects and purchase costs continued to drag returns.

He advised that during the quarter an offer had been accepted on a shopping centre as a joint investment with West Yorkshire Pension Fund and the sale of an underperforming asset had been completed. With regard to key asset management initiatives during the period, there had been nine new lettings, one lease renewal and six rent reviews. An update was provided on the portfolio's indirect commitments. There had been good progress on two funds and sales on two underlying assets was proceeding.

In conclusion, LaSalle would continue with a cautious investment approach focusing on alternatives, best in class retail and logistics. There were a number of asset management initiatives for the coming quarter and three potential sales. Work would continue to reduce vacancy rates and on the indirect exit programme.

RECOMMENDED:

That the report be noted.

14. URGENT ITEMS

There were no urgent items.

In closing the meeting the Chair advised that this was Nigel Driver's last meeting as he would be leaving GMPF. The Working Group joined the Chair in thanking Nigel for his commitment and contribution over the years and wished him well for the future.