GREATER MANCHESTER PENSION FUND - PROPERTY WORKING GROUP

2 February 2018

Commenced: 9.00 am **Terminated:** 9.55 am

Present:	Councillors J Fitzpatrick, J Lane, M Smith, Ward, Grimshaw, 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
	Daniel Hobson	Senior Investments Manager
	Andrew Hall	Investment Manager
	Misodzi Dent	Investment Officer
Apologies for Absence:	Councillors S Quinn and Barnes	

ELECTION OF CHAIR

RESOLVED:
That in the absence of the Chair, Councillor J Lane be appointed Chair for the duration of the meeting.

Councillor J Lane in the Chair.

Those in attendance joined the Chair in a one minutes silence in memory of Councillor Kieran Quinn, Executive Leader of Tameside Council and Chair of the Greater Manchester Pension Fund, who sadly passed away on 25 December 2017.

15. DECLARATIONS OF INTEREST

There were no declarations of interest.

16. MINUTES

The Minutes of the meeting of the Property Working Group held on 27 October 2017 were approved as a correct record.

17. 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 31 December 2017 were outlined to the Group. It was noted that the pace of deployment in Property investment against its overall allocation continued to be considered carefully by the Fund's management team and its external investment managers and advisers. A meeting had been held with LaSalle and the investment managers for the balanced indirect investment taking into account the views of the Fund's investment advisers. It was concluded that:-

- The deployment of investment in property had not kept pace with allocation due to the strong performance of the Fund.
- GMPF needed a clear plan to meet its allocation to property investments in the medium term in all property portfolios.
- A pacing model for overseas investment had been approved by the Panel.
- LaSalle and the balanced indirect portfolios needed to be considered alongside each other.

Following consideration of these conclusions a draft four year pacing strategy had been produced across all portfolios, which would be reviewed on an annual basis (a copy of the strategy was appended to the report). It was intended to redeem the investments in indirect balanced funds over the medium term and for LaSalle to increase the deployment of investment to meet the targeted allocation. It was proposed that the pacing model form part of the Asset Allocation report to be considered by Panel in June 2018.

RECOMMENDED:
That the report be noted.

18. PROPERTY RELATED AGED DEBT AS AT 19 DECEMBER 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 December 2017.

An overview of the debt position was given including a summary of debt across the two areas and totals. Total debt had decreased slightly from £0.368 million as at 19 September 2017 to £0.264 million as at 19 December 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. It was reported that two of the ten highest value debtors in the Greater Manchester Property Venture Fund had paid their outstanding amounts, which demonstrated that the processes were working well. 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 £35 million with 0.75% of this outstanding at 19 December 2017.

RECOMMENDED:
That the report be noted.

19. GVA QUARTERLY REPORT

The Working Group welcomed Jonathan Stanlake and Gareth Conroy of GVA who attended the meeting to present the GVA quarterly report for Quarter 4 2017. A report had also been submitted, 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 Greater Manchester Property Venture Fund development sites.
Mr Stanlake began by informing the Working Group that there had been a slight change in GVA's ownership structure in that they had separated from their parent company. This change would not affect clients and they would continue to deal with the same members of staff who would continue to work from the same office. An update on fire safety was provided. It was confirmed that a number of minor issues had been identified during the review of fire safety, which continued to be addressed by GVA, but there had been no inherent or structural problems identified.

A review of 2017 was provided and it was highlighted that £175 million had been invested in five sites over the year with 500,000 square feet of workspace created and 1,841 residential dwellings.

The presentation focussed on the performance of the Greater Manchester Property Venture Fund, 2018 priorities and the progress to date on new and existing opportunities. The investments were 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. A year by year portfolio investment projection was shown, which detailed a steady increase to 2021 in capital deployed.

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. The 'committed sites' chart detailed an overweight position in terms of offices but this was equally split when 'pipeline sites' were taken into account. Members commented that there had been an increase in city centre residential and it was confirmed that this had been a priority area for the last few years. Officers added that The University of Salford were conducting a research paper on city centre residential development and the results would be shared with members in due course. Members enquired what types of developments were included in the other category. It was confirmed that the other category contained industrial, leisure and car parking developments.

Priorities for the forthcoming year were outlined and included a continued focus on residential investment in particular suburban opportunities, monitoring the city centre residential market, asset management of Greater Manchester Property Venture Fund investments to maximise income and development, monitoring debt and equity projects with partners, continuing to seek new opportunities in all market sectors and support the Greater Manchester economy. There had been one rejected opportunity during the quarter and the reasons for that rejection were outlined.

New and progressing opportunities were presented and discussed with the Working Group, including First Street Manchester, Circle Square, Chorlton, Island Site, Pomona Island Manchester and Globe Park Rochdale.

The report detailed financial performance information 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. A fee expenditure incurred on development activity during the quarter was also shown for each site.

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.

20. LASALLE QUARTERLY REPORT

The Working Group welcomed Rebecca Gates and Tom Rose, La Salle Investment Management, who attended the meeting to present the GMPF main property portfolio quarterly report for Quarter 4 2017. An update was provided on portfolio composition and value, transactional activity, key estate management issues, including rent reviews, lease renewals and capital expenditure, and a general market overview.

Mr Rose began by providing a capital market dashboard for UK property. The overall risk assessment for the UK remained stable with a low probability of an imminent downturn. Potential economic and political risks remained with uncertainty surrounding the UK's departure from the EU with 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, although there were signs of improvement in this area and it was anticipated that the indicator would turn green. There were signs of potential disruption to Cumulative Investment Property Databank Real Capital Growth, which would be closely monitored.

With regards to portfolio performance, it was reported that the value of the portfolio had increased since the previous quarter and contained 49 assets with a value of £814 million, which increased to £976 million when commitments were included. The vacancy rate had decreased to 6.4%, which was below the benchmark of 6.8%, and the net initial yield was in-line with the market at 4.5%. It was confirmed that fire and safety assessments for all holdings were up to date and there was no aluminium cladding in the portfolio.

Ms Gates provided a definition for "the right retail". She told the Working Group that LaSalle chose to invest in accessible stores that were flexible and affordable and able to compete in a digital world. There were three types outlined, as below:-

- Experiential Destination
- Strong Urban Centre
- Convenience Centre

An update on portfolio progress was provided. There had been two acquisitions in "the right retail" and one sale during the quarter. In terms of asset management, over £400,000 had been added to annual rent, 30 new EPC ratings had been obtained and a number of lettings had been completed. There had been a continued focus on indirect holdings and progress during the quarter was outlined.

In conclusion, LaSalle would continue with a cautious investment approach focusing on alternatives and logistics and sell secondary assets. Work would continue on managing the existing portfolio and on the indirect exit programme.

RECOMMENDED:
That the report be noted.

21. URGENT ITEMS

There were no urgent items.