GREATER MANCHESTER PENSION FUND - PROPERTY WORKING GROUP

13 July 2018

Commenced: 9.00 am **Terminated:** 10.25 am

Present:	Councillors Quinn (Chair), J Fitzpatrick, J Lane, Ward, Grimshaw, Mr Allsop, Mr Drury and Mr Thompson	
In Attendance:	Sandra Stewart	Director of Pensions
	Paddy Dowdall	Assistant Director of Pensions (Local Investments and Property)
	Daniel Hobson	Senior Investments Manager
	Kevin Etchells	Investments Manager
	Andrew Hall	Investment Manager
	Misodzi Dent	Investment Officer
	Richard Thomas	Investment Officer
	Tracey Boyle	Head of Pensions Accountancy
Apologies for Absence:	Councillors M Smith and Barnes	

1. DECLARATIONS OF INTEREST

There were no declarations of interest.

2. MINUTES

The Minutes of the Property Working Group held on 20 April 2018 were approved as a correct record.

3. MANAGEMENT SUMMARY

The Director of Pensions 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 March 2018 were outlined to the Group. The current weighting was 7.97% against a benchmark of 10%. The figures for the LaSalle portfolio showed a weighting of 4.29% against the target of 4-6%. The Balanced Funds were 1.56% against a target of 0-2%, the GMPVF portfolio was 0.98% against a target of 0-2%, the Overseas portfolio was 0.85% against 0-2% and 'Other' was 0.29% against a target of 0-1%.

The Working Group was informed that a meeting had been held with 3 Fund Advisors, the senior management group, the property team and LaSalle on 17 May 2018. The agenda and a discussion summary were appended to the report and considered by the Group. The key outcomes from the meeting were outlined and included:-

- An agreement that the rate and timing of deployment had a significant impact on performance.

- An agreement that LaSalle had done well with asset management on existing properties whilst some questions remained over acquisitions noting that it was early in the life cycle for these.
- An agreement to explore changing the overall target allocation for La Salle and giving more flexibility over timing of deployment.
- A desire to understand more fully how the other internally managed portfolios fit in with the LaSalle portfolio and to examine what is an appropriate benchmark for each of the components and to consider any issues over the deployment of leverage.

As a result of the outcomes the project plan for deployment and performance monitoring had been revised and was appended to the report for the Group's consideration. Further meetings had been arranged and progress would be reported back to the Group at future meetings.

Members enquired how any underperformance would be addressed. It was confirmed that due to the long term nature the strategy was to continue with the existing business plan.

RECOMMENDED:
That the report be noted.

4. OVERSEAS PROPERTY INVESTMENTS

The Assistant Director of Pensions (Local Investments and Property) submitted a report detailing activity in the growth and management of the Fund's overseas property portfolio.

It was reported that the original investment strategy and investment guidelines for investing in overseas property were agreed by the Working Group on 30 January 2015 and updates were provided in the reports to the meetings on 6 November 2015, 19 February 2016 and 17 February 2017. Revised allocations and ranges for LaSalle and other property portfolios had been approved at Panel in July 2017 with the objective of achieving a 10% overall allocation to property by 2020, a 6% main property fund allocation and a reduction in balanced indirect funds.

The Group were informed that a review was currently underway to understand the sources of direct property underperformance and the implications of rapid deployment of capital on performance. The review could have implications for the pace of deployment across the whole property allocation and may result in a mid-year change to the property strategy.

It was explained that the pacing strategy was a key element of investing in indirect pooled vehicles in private markets, which set the amount of capital needed in order to reach the set allocation. There was a requirement to model the pacing strategy due to the complex and variable nature of the cash flows and values arising from this method of investment, which was set out in the investment guidelines, a copy of which was appended to the report. The Fund needed to achieve and maintain an allocation of 2% in overseas property subject to the availability of suitable opportunities.

Details of the overseas property portfolio were outlined to the Working Group. During 2017 four investments were made, which included a commitment to a real estate whole loan debt strategy, a perpetual-life Pan-European core plus strategy with an existing manager, a US focused alternative fund and the first investment in the Asia Pacific region. A high level summary of fund activities since 2015 was included in the report and outlined to the Group.

There would be steady and measured progress to meeting allocation whilst controlling risk through diversification across vintage, geography, sector and other factors. The Pace of investment and deployment had been disciplined and balanced and this would continue through 2018 as commercial property values became more expensive. Areas under consideration for investment were defensive, alternative real asset investments (farmland, healthcare, multifamily residential) and European and US exposure.

The most common investment vehicle that had been used was a ten year limited partnership with an investment period of four years, which required the Fund to have an on-going commitment programme to achieve and maintain the 2% allocation in overseas property. In order to maintain diversification across vintages as per the investment guidelines, it was necessary to have a four year horizon when planning commitments, which would be reviewed periodically. Therefore, the four year pacing strategy continued to be agreed and reviewed on an annual basis by the Working Group.

RECOMMENDED:
That the report be noted.

5. MANCHESTER CITY CENTRE RESIDENTIAL REPORT

The Working Group welcomed Professor Haran, Ulster University, Dr David, Ulster University and Professor Rudock, Salford University, who attended the meeting to comment on the current position of the Manchester City Centre residential market and the likely future prospects.

Officers reported that GMPF's Property Venture Fund had invested significantly in a number of city centre residential opportunities, both directly and by providing debt finance to developments. As the city centre was currently experiencing a housing boom the Fund had commissioned the University of Salford to prepare an independent report on the Manchester Residential Investment Market.

The report detailed key housing market trends in the city centre, specifically the apartment sector, and included details of existing provision, pricing trends and an analysis of the new build and resale market. It also included rental provision and investment in private rental schemes, activity within the city centre and an analysis of ongoing development activity and future developments.

The University representatives explained that they had used impartial data to verify the current availability of city centre housing and forecast future demand. Since 2015 Manchester had positioned itself as an attractive city centre residential investment market in the UK. The introduction of the Northern Powerhouse in 2014 had created a buoyant micro economy that had positively affected growth, employment creation and inward investment. It was expected that the growth would continue over the course of the next five years, above regional and national averages.

It was explained that growth was fuelled by Manchester offering a diverse range of employment opportunities across the wage spectrum. The economic expansion and job creation had attracted large volumes of graduates and young business professionals to the city and also the retention of existing students. This coupled with Manchester City Council's ambition to expand city centre living and grow the day and night economies had resulted in a boom in apartment developments in the city centre.

An analysis of sales price performance for 1, 2 and 3 bedroom apartments was provided in addition to rental market performance, which equated to approximately 70% of the housing stock. Private Rental Schemes allowed graduates and young professionals to aspire to city centre living. Research had shown that early professionals did not want to commit to homeownership preferring the rental sector that gave them flexibility and the option to align their lifestyle and careers paths. Therefore, the continued expansion and provision of the private rental sector in the city centre represented a viable investment opportunity over the medium to long term due to the ever increasing demand.

In conclusion, it was expected that new jobs would continue to be created in the city centre economy and it was anticipated that further inward migration would increase the demand for homes. Despite housing provision increasing markedly over the last 3 years, the demand for new homes continued to outweigh the supply and there would continue to be a demand for private rental sector schemes going forward.

A wide ranging discussing ensued and the representatives answered a variety of questions from the Group. In response to a question regarding warning sign indicators it was important to monitor the market diligently, pricing signals and occupancy levels, especially of the private rental sector.

RECOMMENDED:
That the report be noted.

6. 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 2 2018. A report had 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.

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 ‘committed sites’ when compared to Quarter 2 2017 and a significant decrease in sites under advanced due diligence. Officers would continue to work hard to find new opportunities.

Charts detailing the portfolio overview by sector showed greater diversification over the four sectors (office, suburban residential, city centre residential and other) with an increase in committed and pipeline sites. The ‘committed sites’ chart detailed an overweight position in terms of offices but this was equally split with city centre and suburban residential when ‘pipeline sites’ were taken into account. A year by year portfolio investment projection was shown, which detailed a steady increase to 2021 in capital deployed.

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 opportunities, monitoring debt and equity projects with partners, continuing to seek new opportunities in all market sectors and supporting 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, Crusader Mill Manchester, Wilmslow Road Didsbury and Deansgate Square.

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 June 2018 and the current prediction on final viability.

RECOMMENDED:
That the report be noted.

7. LASALLE QUARTERLY REPORT

The Working Group welcomed Tom Lewis and Tom Rose, La Salle Investment Management, who attended the meeting to deliver a presentation on the GMPF main property portfolio. The quarterly 2 report would be circulated to the Group at a later date.

Mr Rose began by providing the portfolio statistics for Quarter 1 2018. There were 49 assets overall (41 direct, 6 indirect and 2 joint ventures) with a value of £933 million, which increased to £1,069 million when commitments were included. The vacancy rate was 7.2%, which was above the benchmark of 6.9%, and the net initial yield was in-line with the market at 4.4%. Performance of the UK property market was outlined by sector with industrial being the best performer at 5.2% and retail the worst at -0.7%. Alternatives had achieved 2% and office 0.9%.

A number of retailers had faced financial difficulties with poundworld, ToysRus and maplin entering administration and House of Fraser, New Look, carpetright and mothercare entering into company voluntary arrangements. It was confirmed that the portfolio had been impacted less than most with only a 1% reduction in rents due to company voluntary arrangements.

An update on portfolio progress (asset management, sales and acquisitions) was provided. There had been two Sainsbury's lease extensions at Canvey Island and Midsomer Norton and 10 retail properties had been identified as potential sales with 5 expected to complete during the year. In terms of acquisitions, the logistics park in Reading had been completed in April, contracts had been signed for a logistics park in Southampton and final negotiations had been entered for a hotel in Waterloo, London.

Moving forward LaSalle would progress with the Southampton and Waterloo acquisitions, advance retail sales in line with the disposal programme, progress key lettings in Reading, Cardiff and Leeds and continue their close oversight of indirect holdings.

A discussion ensued on the demise of the high street and possible future options. It was confirmed that assets would continue to be sold and assets would continue to be purchased that were in the right place. It was anticipated that there would be further negative impacts on the high street due to the growth of the internet and it was imperative that retailers were offering a unique experience and were competitive. It was likely that further voids and rent reductions would occur.

RECOMMENDED:
That the report be noted.

8. URGENT ITEMS

There were no urgent items.