GREATER MANCHESTER PENSION FUND - PROPERTY WORKING GROUP

27 September 2018

Commenced: 9.00 am **Terminated:** 10.35 am

Present:	Councillors Quinn (Chair), Drennan, M Smith, Patrick, Mr Allsop and Mr Thompson	
In Attendance:	Sandra Stewart	Director of Pensions
	Paddy Dowdall	Assistant Director of Pensions (Local Investments and Property)
	Kevin Etchells	Investments Manager
	Andrew Hall	Investments Manager
	Richard Thomas	Investments Officer
Apologies for Absence:	Councillors Ward and Grimshaw	

9. DECLARATIONS OF INTEREST

There were no declarations of interest.

10. MINUTES

The Minutes of the Property Working Group held on 13 July 2018 were approved as a correct record.

11. 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 Assistant Director of Pensions (Local Investments and Property) provided explanations for the five types of investment (Direct Portfolio, Indirect, GMPVF, Overseas and Other).

It was reported that the performance of LaSalle (Direct Portfolio) continued to be an area of concern and a project to review the strategy for deployment of capital and performance monitoring was underway. A copy of the project plan was appended to the report.

A presentation on the 2018 half yearly returns of the LaSalle portfolio was given. Three assets had been purchased, which had added £217.7 million to the portfolio, and contracts had been exchanged on a hotel in Central London. These purchases had taken the portfolio to over £1,039 million as at September 2018. The vacancy rate had significantly increased as a result of these purchases but it was expected to reduce to 6.4% as vacant space was let over the coming months. The average lease length was below the benchmark and the net initial yield and equivalent yield were below the benchmark. Despite this the portfolio was of a defensive nature.

There had been historic underperformance of the portfolio against the benchmark due to the effects of transaction costs, a drag of indirects and an underweight position in the industrial sector. However, outperformance was anticipated from 2020 onwards with the existing portfolio forecast to generate a total return of 4-5% over a five year period. There was expected to be a slower pace of

growth on acquisitions, which would reduce transaction costs, with opportunistic investment and a reduction in indirects exposure.

RECOMMENDED:
That the report be noted.

12. LOCALISING PENSION FUND INVESTMENTS

The Assistant Director of Pensions (Local Investments and Property) submitted a report written by Sheffield Political Economy Research Institute on a project that looked at localising pension fund investments.

It was reported that the project encompassed a series of seminars with stakeholders and experts in three English city regions – Manchester, Sheffield and Birmingham. Participants included local government officials, economists, local business and civil society leaders and finance and investment professionals. Greater Manchester had played a prominent part in the project, in particular the former Chair of the Fund, Councillor Kieran Quinn. The report was dedicated to Councillor Quinn and his pioneering work on pension fund investments in Greater Manchester.

The report examined the role of pension funds in contributing to an investment led economic recovery that focused on supporting a more geographically balanced economy and the difficulties that arose through trying to achieve this aim. The report was considered and discussed with the group and an impact and legacy strategy for Airport City Manchester was circulated to members and also discussed.

RECOMMENDED:
That the report be noted.

13. 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 3 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.

An update on fire safety was provided. It was confirmed that works in respect of this had recently been completed at Soapworks Salford.

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 an increase in ‘committed sites’ when compared to Quarter 3 2017 and a decrease in sites under active review and advanced due diligence. New projects would be identified over the coming year in order to try and maintain the current capital deployment.

Charts detailing the portfolio overview by sector showed diversification over the four sectors (office, suburban residential, city centre residential and other) with an 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 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, Island Site, Circle Square, Whitehouse 100 Runcorn and Fresenius Runcorn.

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.

In light of the Manchester City Centre Residential Report that had been presented at the previous Working Group meeting (Minute 5 refers) GVA explained their approach to residential city centre risk monitoring that included how risk was monitored, how any identified risk was categorised and further opportunities that arose. Due to high activity and plentiful opportunities in this area a detailed review of the market was undertaken on a quarterly basis, which helped to inform future investment in the city centre.

RECOMMENDED:
That the report be noted.

14. 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 2 2018. An update was provided on the value of the direct and indirect property assets, portfolio composition, transactional activity, key estate management issues, including rent reviews, lease renewals, voids, debtors and capital expenditure, as well as a general market overview.

La Salle's annual strategy report had been circulated to the group that focused on their recent performance and improvement plans with subsequent outcomes.

With regards to portfolio performance, it was reported that the value of the portfolio had increased since the previous quarter and contained 50 assets with a value of £1.007 million, which increased to £1,082 million when commitments were included. The vacancy rate was 9.8%, which was above the benchmark of 7.2%, due to two recent acquisitions, and the average lease length was 7.8 years, which was below the benchmark of 11.7 years. The net initial yield was 4.2%, slightly below the benchmark of 4.5% and the equivalent yield was 5.2%, slightly below the benchmark of 5.5%.

A capital market dashboard for UK property was provided. The overall risk assessment for the UK remained stable with a low probability of an imminent downturn and potential economic and political risks remained. Market conditions were cautiously optimistic and eight of the nine Red, Amber, Green indicators were green (positive) with caution surrounding Retail capital growth and yield impact.

An update on portfolio progress was provided. In relation to asset management the following initiatives were highlighted:-

- Intu Chapelfield shopping centre, Norwich
- The Hollies, Midsomer Norton
- The Hive, Bethnal Green
- Republic at East India, London
- Gracechurch Street, London

Four retail sales had progressed during the quarter - two had been completed with contracts signed for a shopping precinct and another site was currently under offer. Acquisition of a logistics park had been completed during the quarter and contracts had been signed on a central London hotel development.

A review of activity against strategic objectives over the year was outlined that included acquisitions of dominant, high quality assets, selected sales of existing assets, let vacancies, lease renewals and rent reviews, improvement of sustainability metrics and capital expenditure to add value. A new annual strategy report with a revised set of objectives had been created that focused on sales, letting of key vacancies, creation of income certainty, improvement of sustainability metrics, acquisitions and performance forecasts.

RECOMMENDED:
That the report be noted.

15. URGENT ITEMS

There were no urgent items.