

GREATER MANCHESTER PENSION FUND - PROPERTY WORKING GROUP

Friday, 19 February 2016

Commenced: 9.30 am

Terminated: 11.00 am

Present: Councillors S Quinn (Chair), J Lane, R Miah, Ward, Dennett, Halliwell, Mr Drury and Mr Thompson

Apologies for Absence: Councillors J Fitzpatrick and M Smith

15. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members of the Working Group.

16. MINUTES

The Minutes of the proceedings of the meeting of the Property Working Group held on 6 November 2015 were approved as a correct record.

17. MANAGEMENT SUMMARY

The Executive Director of Pensions submitted a report, which highlighted the current issues in the management of the Fund's property portfolios. At present, these were focussing on the two external managers and whether they were achieving their objectives and implementation of the internal portfolios including the indirect UK and the overseas property portfolios.

It was reported that pooling options for GMPF were being considered by the Panel and other Working Groups. The likely outcome for property in the GMPF pool would follow the recommendations of the evidence-based research project conducted by LGPS and supported by Hymans Robertson.

With regard to valuation, performance and allocation, the performance report from IPD was due and would be presented at the next meeting of the Working Group. The allocations to property investments and their current weightings as at 31 December 2015 were outlined to the Group.

The Working Group were notified of discussions with the manager of the Fund's largest indirect property holding regarding the likely duration of the holding period for this investment and the decision to make a further investment in this fund. These matters had been discussed with the Chair and the case for further investment.

It was reported that La Salle would be presenting their quarterly report to the Group and the key issues relating to transactional and asset management activity over the last year, prospective purchases and the current state of the market would be highlighted. GVA would also be reporting to the Group, and their presentation would focus on a new development at First Street in Manchester in addition to an update on other sites including potential housing development sites in Manchester, Rochdale and Tameside.

RECOMMENDED:

That the report be noted.

18. OVERSEAS INVESTMENTS

The Executive Director of Pensions submitted a report summarising activity in the management of the Fund's Overseas Property portfolio.

With regard to investment activity, it was reported that investments were being made in accordance with the agreed guidelines and details of commitments made to funds and draw-downs were outlined to the Group. There would be a steady, measured progress to meeting the allocation whilst controlling risk through diversification across vintage, geography, sector and other factors.

The Working Group was informed that it was still early days for the deployment of capital but progress was satisfactory. The case for overseas property remained and there was a visible pipeline of potential investments.

The original Investment Guidelines, as per appendix one of the report, were outlined to the Group and proposed amendments were highlighted, as per the revised version at appendix two of the report. The minor amendments related to changes to governance and staffing structures.

RECOMMENDED:

- (i) That the report be noted; and**
- (ii) That the minor amendments to the Investment Guidelines as set out in the report be approved.**

19. PROPERTY RELATED AGED DEBT

The Executive Director of Pensions submitted a report summarising the aged debt for the two property portfolios (Main Property Fund and Greater Manchester Property Venture Fund (GMPVF)) as at 19 December 2015. There had been a £0.505 million reduction in aged debt over the last three months.

It was reported that the value of Property Aged Debt for the fund as at 19 December 2015 was £0.252 million, compared to £0.757 million as at 19 September 2015. This was largely due to debts that had been written off in respect of the Main Property Portfolio as discussed at the 6 November 2015 meeting.

An overview of the debt position was given including a summary of debt across the two areas and totals. It was noted that procedures for collection of debt were complied with and were working well, GMPVF debt had moved very marginally into 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.

RECOMMENDED:

That the report be noted.

20. LA SALLE QUARTERLY REPORT

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

Mr Rose and Ms Gates highlighted the following areas:-

- Portfolio summary
- Portfolio Composition
- Transactional Activity

- Key Asset Management Issues

It was reported that the portfolio had increased in value on a like-for-like basis in addition to an increase in value for the seven indirect holdings. IPD were finalising the calculations for the 2015 performance report. Returns of approximately 10.6% were expected which was expected to equate to underperformance of approximately 2%.

The portfolio composition was outlined and details provided of completed purchases, purchases currently under offer, completed sales and sales under offer. There were a number of upcoming potential sales, which were highlighted to the Group.

The Working Group were provided with information relating to lettings and lease renewals, rent reviews and vacancies. It was reported that there had been a marginal increase in the vacancy rate but a significant amount of space was currently under offer.

The Chair thanked Mr Rose and Ms Gates for their presentation.

21. GVA QUARTERLY REPORT

The Working Group welcomed Jonathan Stanlake and Gareth Conroy of GVA who attended the meeting to present the GVA quarterly report. The presentation focussed on activity at First Street in Manchester. An update was also given on the progress at the other Greater Manchester Property Venture Fund (GMPVF) sites including housing development sites.

Island Site, Manchester – it was reported that there were a number of existing occupiers together with their lease terms. Discussions had continued with Manchester City Council and architect drawings had evolved over time. The potential development opportunity for Grade A office space with restaurant and retail outlets on the ground floor was detailed. The financial viability modelling had been completed and the gross development value, total costs and anticipated GMPVF profit was highlighted.

First Street, Manchester – it was reported that this site was located within a key regeneration area of Manchester where public realm space had been completed. The site was acquired following an intensive process. Work had commenced in January 2016 with an anticipated completion date of September 2017. Working Group Members would be receiving an invitation to visit the site with a provisional date of 14 March 2016.

The building would provide 175,000 square feet of internal space, 35,000 of which had already been let. The building could accommodate 2,000 full time employees when complete. The gross development value, total costs and anticipated GMPVF profit was highlighted. The main focus for GVA was to source suitable tenants for the building.

The report also gave an update on existing assets at:

- Pomona
- Calver Park, Warrington
- Stalybridge West, Tameside
- Former Sorting Office, Stockport
- Preston East, J31 M6
- Wilmslow Road, Didsbury
- Old Haymarket, Liverpool City Centre
- Chorlton Shopping Centre, South Manchester
- Martland Park, Wigan
- Unity House, Wigan
- Globe Park, Rochdale
- One St Peter's Square, Manchester City Centre

Financial performance information was provided for each site to show the current market valuation when 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 generally not show a positive internal rate of return until development had been completed which would be at the end of the project lifecycle.

An update was given on potential housing development sites in Greater Manchester and the work that had been undertaken on these sites.

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 (Red, Amber, Green) analysis showing the progress of development activity undertaken during the last three quarters to June, September and December 2015 and the current prediction on final viability.

RECOMMENDED:

That the report be noted.

22. URGENT ITEMS

The Chair reported that there were no urgent items for consideration at the meeting.

CHAIR