GREATER MANCHESTER PENSION FUND - PROPERTY WORKING GROUP

Friday, 5 August 2016

Commenced: 9.30 am **Terminated:** 11.45 am

Present: Councillors S Quinn (Chair), J Fitzpatrick, J Lane, M Smith, Ward, Halliwell and Mr Thompson

Apologies for Absence: Councillor Wilson and Mr Drury

1. DECLARATIONS OF INTEREST

There were no declarations of interest.

2. MINUTES

The Minutes of the meeting of the Property Working Group held on 19 February 2016 were approved as a correct record.

3. MANAGEMENT SUMMARY

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report, which provided a commentary on issues and matters of interest arising over the last quarter, particularly the result of the EU referendum, which would have a significant impact on Property investment going forward.

With regard to 'Valuation, Performance and Allocation', the headlines from the Investment Property Databank report were that performance for the La Salle portfolio continued to lag the benchmark, largely due to in-direct investments, whereas the balanced portfolios selected internally had performed ahead of benchmark. The allocations to property investments and their current weightings as at 30 June 2016 were outlined to the Group.

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 with particular reference to the implications of the EU referendum result. GVA would also be reporting to the Group, and their presentation would focus on Wilmslow Road and First Street in addition to an update on other sites.

The Assistant Executive Director of Pensions (Local Investments and Property) informed the group that the two year review of GVA's contract would be discussed at the next meeting of the working group and asked if there were any issues to be considered. There was some feedback focusing on the need for GVA to make progress on longstanding projects and to make new investments. The Assistant Executive Director noted this and also said that GVA had a difficult job and that the Fund should look to ensure that it had a wide range of options to deploy capital in local property investments and that the report would focus on progress by GVA against business plans in the two years and also look at future options.

The Executive Director for Governance, Resources and Pensions commented that in order to ensure we were measuring the performance of GVA and indeed any manager in this area we needed to set out clear objectives and milestones to ensure that we were looking at added value rather than underlying value of property.

An update was provided with regard to overseas investment with two additional investments to report since the last meeting of the group.

RECOMMENDED:
That the report be noted.

4. LONG TERM PROPERTY PERFORMANCE

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report advising on the recent and longer term investment performance of the main UK property portfolio managed by La Salle Investment Management and the internally managed UK Balanced and Overseas portfolio.

It was reported that property had performed well relative to other classes during 2015 with a return of 13.3.%, however, there were concerns over current pricing levels and the implications of the recent EU referendum result therefore caution was being taken with regard to current investment activity.

At the end of 2015 the La Salle managed portfolio had 49 standing property investments and nine investments in specialist property indirect vehicles, three purchases had been made and four properties had been sold. Historically the composition of the direct properties showed a strong bias toward the retail sector and an underweight position in offices, however purchases made during 2015 had changed the composition to closer match the theoretical structure of the Investment Property Databank (IPD) Universe.

The target for the La Salle managed portfolio was to outperform the IPD All-Property Annual Universe by 0.75% over a rolling three year basis. In 2015 the Fund's total return was 10.5% compared to the benchmark of 13.3%. Voids in the directly-owned assets as a percentage of "Open Market Rental Value" continued to decrease and currently stood at 2.1%, which was below the IPD median level of 5.1%. The directly-owned assets had a higher income return and specialist indirect funds had a drag on overall performance and underperformed the benchmark by 6.3%.

There were no sales of UK balanced property pooled vehicles during 2015, some acquisitions were made and the portfolio outperformed its benchmark by 0.5%. An update on purchasing activity and backgrounds were provided for five overseas investments in order to give insight into the investments. The team would continue to control overseas and alternative investment risk through diversification of geography, vintage, sector and other factors.

RECOMMEDED:
(i) That the report be noted; and
(ii) That La Salle present to Panel at the meeting in September on their past performance and future strategy.

5. INVESTMENT GUIDELINES FOR OTHER PROPERTY INVESTMENTS

The Assistant Executive Director of Pensions (Local Investments and Pensions) submitted a report detailing activity in the management of the Fund's 'Other' Property portfolio and sought approval for Investment Guidelines. 'Other' property could be broadly defined as the leisure, agricultural, healthcare and residential sectors.

It was reported that there had been a long term underweighted position within this portfolio and investment in 'Other' property had better prospective returns than traditional UK property sectors in the medium term with a number of identifiable opportunities to invest in.

One specific commitment made to date was outlined to the Group, in Darwin Leisure Property Fund, an open-ended unit trust which operated a portfolio of UK holiday leisure parks. A co-investment had also been made in Centreparcs UK as part of a parallel investment.

The Statement of Investment Guidelines for the 'Other' property investment portfolio was appended to the report and outlined to the Group.

RECOMMENDED:
(i) That the report be noted; and
(ii) That the Investment Guidelines be approved.

6. PROPERTY RELATED AGED DEBT AS AT 19 JUNE 2016

The Assistant Executive Director of Pensions (Local Investment 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 (GMPVF)) as at 19 June 2016.

It was reported that the value of Property Aged Debt for the Fund as at 19 June 2016 was £0.315 million, compared to £0.189 million as at 19 March 2016. This marginal increase was mainly due to one company who had since paid their debt.

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 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. It was noted that a risk profile would be included for future reporting.

RECOMMENDED:
That the report be noted.

7. LA SALLE INVESTMENT MANAGEMENT QUARTERLY REPORT

The Working Group welcomed Simon Marks, Tom Rose and Rebecca Gates, La Salle Investment Management, who attended the meeting to present the GMPF main property portfolio quarterly report for quarter two 2016 and to outline the current state of the market with particular reference to the implications of the EU referendum result.

Mr Marks began by outlining the economic consequences resulting from the recent vote for the UK to leave the European Union. It was anticipated that performance over the short to medium term would be weaker with the potential for some opportunistic acquisitions over the next 12 months. There should be no negative impacts over the longer term and expectations were for the UK to prosper and be well-balanced.

The Working Group heard that rental growth was usually weaker in a weaker environment and the worst hit area was expected to be the central London commercial sector, however, although traditionally a volatile market, it was now more insulated with ongoing construction. Alternative sectors would be more resilient in the current climate and the residential market should make a quicker recovery than the commercial market.

Mr Rose and Ms Gates highlighted the following areas:-
- Portfolio Performance
- Portfolio Composition

- Transactional Activity (completed and planned)
- Key Estate Management Issues, including rent reviews and lease renewals

It was reported that the portfolio had produced a total return of 10.5% during 2015, compared to the benchmark of 13.3%. The total return for directly held assets was 11.7%, indirects underperformed the benchmark returning 7%, four sales throughout the year contributed 0.3% to the return and three purchases dragged returns by 1%.
It was anticipated that there would be a negative impact on the value of the portfolio over the short to medium term given expected property market volatility resulting from the current environment of economic and political uncertainty, which would likely be reflected in future valuations.

The portfolio composition was outlined and details provided of completed purchases, purchases under offer, completed sales and sales under offer. The Working Group was provided with information relating to lettings and lease renewals, rent reviews and vacancies.

The Director of Governance, Resources and Pensions suggested that it might be helpful to the Panel going forward to consider a risk profile of the debt because by focussing on the largest we may be focussing on the most secure whereas focus and actions may be more productive on the smaller but more risky debt.

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

RECOMMENDED:
That the report be noted.

8. 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 Wilmslow Road in Didsbury and 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.

Wilmslow Road, Didsbury – it was reported that the office building had been acquired in 2013 for future redevelopment potential. Investigations were ongoing regarding part demolition and part conversion to residential use. Soft market testing, financial appraisals based on feasibility drawings and a pre-application discussion with the local planning authority had all been completed.

First Street, Manchester – it was reported that this site was acquired in January 2016 with an anticipated completion date of September 2017. The building would provide 175,000 square feet of internal space, 39,000 of which had already been let and terms had been issued for an additional 50,000 square feet. Construction was progressing on site and marketing had commenced.

The report also gave an update on existing assets at:
- Calver Park, Warrington
- Island Site, Manchester
- Pomona
- Stalybridge West, Tameside
- Former Sorting Office, Stockport
- Chorlton Shopping Centre, South Manchester
- Preston East, J31 M6
- Old Haymarket, Liverpool City Centre
- Martland Park, Wigan
- Globe Park, Rochdale
- Unity House, Wigan

- One St Peter’s Square, Manchester City Centre

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

Financial performance information was provided for each site to show the current market valuation when compared to the cost to GMPF, 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 not show a positive internal rate of return until development had been completed later in the project lifecycle.

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 May, June and July 2016 and the current prediction on final viability.

RECOMMENDED:
That the report be noted.

9. ELIZABETH HOUSE UNIT TRUST

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report updating Members on Elizabeth House Unit Trust.

It was reported that GMPF purchased Elizabeth House in 2003 prior to the formation of the joint venture with Argent in 2008. GMPF was a 50% partner in the Elizabeth House Limited Partnership with Argent the other 50% partner. For tax efficiency reasons, the partnership set up a Jersey Registered Unit Trust to purchase and develop the Elizabeth House site, now known as 1 St. Peters Square.

An offer had been received from Deka in June 2015 to purchase the site and, following market testing, the offer was accepted by the Limited Partnership Board as it was economically advantageous in the buoyant property market conditions prevalent at the time. Following the outcome of the EU Referendum and subsequent uncertainty in the UK property market Deka renegotiated the terms of the purchase with the Partnership and a final offer had now been accepted with a completion date of mid-August 2016. The revised offer demonstrated a good transaction for the fund with a profit in excess of 20% on cost.

RECOMMENDED:
That the sale of the Elizabeth House Unit Trust be noted.

10. URGENT ITEMS

There were no urgent items.

CHAIR