

GREATER MANCHESTER PENSION FUND - PROPERTY WORKING GROUP

20 April 2018

Commenced: 9.00 am

Terminated: 10.25 am

Present: Councillors Cooney, J Fitzpatrick, J Lane, M Smith, Grimshaw, Halliwell, Mr Drury and Mr Thompson

In Attendance:

Sandra Stewart	Director of Pensions
Tracey Boyle	Head of Pensions Accountancy
Daniel Hobson	Senior Investments Manager
Kevin Etchells	Investment Manager
Andrew Hall	Investment Manager

Apologies for Absence: Councillors S Quinn, Ward and Barnes

ELECTION OF CHAIR

RESOLVED:

That in the absence of the Chair, Councillor Cooney the Vice Deputy Chair was appointed Chair for the duration of the meeting.

Councillor Cooney in the Chair.

22. DECLARATIONS OF INTEREST

There were no declarations of interest.

23. MINUTES

The Minutes of the Property Working Group held on 2 February 2018 were approved as a correct record.

24. 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 23 March 2018 were outlined to the Group. The current weighting was 7.97% against a benchmark of 10%. The draft figures from the Investment Property Databank for the LaSalle portfolio had been issued and showed a total return of 7.2% against the benchmark of 9.6% for 2017. The 'direct' portfolio returned 8.1% and the 'indirect' portfolio returned 4.3%.

The Working Group was informed that further to the Property Investment Pacing Model for deployment of capital, that had been agreed at the previous meeting, the Policy and Development Working Group had agreed a project plan for deployment and performance monitoring, a copy of

which was appended to the report and considered by the Group. Progress against the plan and potential next steps would be reported back to the Group at future meetings.

RECOMMENDED:

That the report be noted.

25. PROPERTY RELATED AGED DEBT AS AT 19 MARCH 2018

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 March 2018.

An overview of the debt position was given including a summary of debt across the two areas and totals. Total debt had increased slightly from £0.264 million as at December 2017 to £0.321 million as at March 2018.

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. 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 £35.1 million with 0.91% of this outstanding at 19 March 2018.

RECOMMENDED:

That the report be noted.

26. 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 1 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 sites under 'advanced due diligence' and 'committed sites' when compared to Quarter 1 2017. 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 with city centre and suburban residential when 'pipeline sites' were taken into account.

Members commented on the increase in city centre residential. Officers added that The University of Salford had conducted a research paper on city centre residential development and the results would be shared with members in due course.

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 Princess Street Manchester, Sorting Office Stockport, Wilmslow Road Didsbury, First Street Manchester, Stalybridge and Soapworks.

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 March 2018 and the current prediction on final viability.

RECOMMENDED:

That the report be noted.

27. LASALLE IM 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 1 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, 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 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.

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 £933 million, which increased to £1,069million 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%.

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 industrial acquisitions during the quarter and one leisure acquisition was currently under negotiation. In terms of asset management, over £750,000 had been added to annual rent, there had been a number of rent

reviews and three units had been let at Airport City Manchester. 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.

28. URGENT ITEMS

There were no urgent items.