GREATER MANCHESTER PENSION FUND - PROPERTY WORKING GROUP

Friday, 8 March 2019

Commenced: 9.00 am **Terminated:** 10.12 am

Present: Councillors Quinn (Chair), Drennan, Patrick, Grimshaw, Mr Thompson and Cooney

In Attendance:	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 M Smith and Ward

30. MINUTES

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

31. DECLARATIONS OF INTEREST

There were no declarations of interest.

32. MANAGEMENT SUMMARY

The Assistant Director of Pensions (Local Investments & Property) 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.

It was reported that the performance of LaSalle continued to be an area of concern. The project to review strategy for deployment of capital and performance monitoring continued and the latest draft action points were reported separately on the agenda.

The allocations to property investments and their current weightings as at 31 December 2018 were outlined to the Group. Direct Portfolio (direct and specialist indirect) Investments current weighting was 4.83%, Indirect investments was 1.66%, GMPVF investments showed a weighting of 1.22%, Overseas investments was 1.22% and Other Investments had a weighting of 0.34%. The total of these investments had a weighting of 9.27% which as a proportion of the main fund was 10%.

RECOMMENDED:
That the report be noted.

33. PROPERTY INVESTMENT: DEPLOYMENT AND PERFORMANCE MONITORING UPDATE

The Assistant Director of Pensions (Local Investments and Property), introduced the report to update members on progress for property investment focusing on deployment of capital and performance monitoring. The progress of this review had been reported to previous meetings of this working group.

A meeting was held with Fund advisors, the senior management group and property team on the 18 October 2018. The purpose of the meeting was to update on La Salle and to review the other portfolios with a focus on:

- Portfolio strategy
- Current allocation and portfolio summary
- Performance returns and benchmarking
- Key risk exposures including debt
- Internal and external management resources
- Management costs

La Salle had provided estimated 2018 returns, which had continued to underperform its respective benchmark and gave rise for concern. This would be considered further in the upcoming meeting.

Members enquired how any underperformance would be addressed. Members expressed concern over the high vacancy rate and decisions made on a number of properties. The Assistant Director of Pensions (Local Investments & Property) informed members that a review was taking place of the benchmark and that La Salle had been asked to provide information on investments made for other clients in order to review their decisions.

RECOMMENDED
That the report be noted.

34. AVISON YOUNG / 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 2019. A report was 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. The fire safety review of the GMPVF portfolio was on going and the existing portfolio was being monitored and any requirements would be reported as appropriate.

The presentation focussed on the performance of the Greater Manchester Property Venture Fund, 2019 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 explained that 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, 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 December 2018 and the current prediction on final viability.

RECOMMENDED:
That the report be noted.

35. 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 4 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.

With regard to portfolio performance, it was reported that the value of the portfolio had decreased since the previous quarter and contained 49 assets with a value of £1.046 million, which increased to £1,110 million when commitments were included. The vacancy rate was 11.9%, which was above the benchmark of 7.2% and the average lease length was 7.7 years, which was below the benchmark of 11.7 years. The net initial yield was 4%, 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 was rated as 'Caution' suggesting a moderate probability of an immediate downturn, linked to significant political and economic risks around the UK's exit from the EU; the overall balance of risk measures remained positive. Market conditions were cautiously optimistic and 5 of the nine Red, Amber, Green indicators were green (positive) with caution surrounding Retail capital growth, yield impact, recession risk and corporate bond spreads.

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

- Intu Chapelfield shopping centre, Norwich
- Knightswick Centre, Canvey Island
- Premier Inn, Waterloo

Four retail sales had progressed during the quarter - two had been completed with two sales under offer.

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.

Members expressed concern that the vacancy rate remained above the benchmark and that the performance of shopping centres across the UK indicated that vacancy rate may continue to be high.

RECOMMENDED:
That the report be noted.

36. URGENT ITEMS

There were no urgent items.