

ITEM NO: 5(d)

GREATER MANCHESTER PENSION FUND

PROPERTY WORKING GROUP

15 April 2011

Commenced: 11.05am

Terminated: 12.15pm

Present: Councillor J Taylor (Chair)
Councillor M Smith
Councillor Doubleday
Councillor Pennington
Councillor J Lane
Councillor Sweeton
Mr Mulryan AMICUS UNITE
Peter Morris Executive Director of Pensions
Steven Taylor Head of Pension Fund Investments
Ray Grainger Head of Pension Fund Legal
Charles Lofstedt Head of Property Investments
Tracey Boyle Pension Fund Accountancy
Jean Shutt Pension Fund Accountancy

Apologies for absence: Councillor Walton and Mr Thompson

17. DECLARATIONS OF INTEREST

There were no declarations of interest.

18. MINUTES

The Minutes of the proceedings of the meeting of the Property Working Group held on 28 January 2011 were approved as a correct record.

19. GREATER MANCHESTER PROPERTY VENTURE FUND

The Working Group received a presentation from Damian Masters on behalf of GVA in respect of the quarterly report.

Mr Masters began by providing an update on activity on existing assets managed by GVA on behalf of the Fund as follows:

With regard to One St Peters Square, Manchester, the negotiations and discussions regarding the potential prelet of part of the new building were ongoing. Following a presentation to the interested firm's Manchester Directors, a final decision on their preferred location was due to be made prior to Easter.

At Stalybridge West, Tameside, a change of personnel within the development team at the major food retailer had unfortunately, delayed negotiations. Meetings with the Company's new Development Director had confirmed that whilst there was still a strong desire to relocate to a larger store within the town, they were having to review and reappraise the commercial viability of this.

Early stage negotiations were underway with a motor dealership, for the potential design and build of a car showroom on the smaller of the two sites owned by the Fund, at Martland Park, Wigan.

The option to purchase land at Westwood Park, Wigan had not been activated.

GVA had submitted reports and market analysis of the potential demand for office development in the City of Liverpool. A building design team was in the process of being appointed to bring forward and further develop the initial massing plans already produced with a view to being in a position to submit a planning application for an office development later in the year.

At Calver Park, Warrington, a building design team had been assembled in order to produce a revised design and layout for this industrial development site which would in turn inform a revised planning application for development.

Marketing had recently formally commenced of the hotel opportunity at the former Royal Mail Sorting Office/Surface Car Parking Site, Stockport. With regard to the surface car parking site which the Fund acquired as part of the transaction, a letting has been agreed to a third party who were operating the car park and paying rent to the Fund.

Standing investments were then detailed relating to Globe Park, Moss Bridge Road, in Rochdale, Milk Street in Hyde, and Unity House, Westwood Park in Wigan.

Potential opportunities were also discussed within the Greater Manchester area and the North West generally. Particular reference was made to a redevelopment opportunity in Manchester, where, unfortunately, the Fund were not successful in acquiring. GVA continued to monitor the situation, as it was believed that future opportunities may present themselves.

15. PROPERTY AGED DEBT FOR THE SIX MONTHS TO 31 DECEMBER 2010

Consideration was given to a report of Executive Director of Pensions which provided details of the debt outstanding as at 28 February 2011, analysed by the duration of the outstanding debt. Comparison was made over a three year period to highlight trends and the ongoing difficulties in debt recovery. There had been no changes to the debt recovery processes and strategies for the bands of debt as reported to the January 2011 meeting of the Working Group.

The value of aged debt at 28 February 2011 was £1.2 million, this showed a reduction in the overall debt from 31 December 2010 quarter of £6.3 million. It was explained that the main reason for the increase in debt was due to the new quarter's rent being payable from 25 December 2010 with the Christmas break occurring at the quarter end and monies paid in during the holiday period were currently being allocated against outstanding invoices. An update on the current position was provided and a revised figure of £188,000 debt outstanding was announced at the meeting.

Details of possible write off's over the coming months were also given.

The report concluded that the environment remained difficult for many of the Fund's tenants. The debt recovery process was considered to be working relatively well but recovery continued to be difficult as some tenants struggled to pay. Where considered appropriate, payment plans and monthly billing had been agreed with tenants to assist them working through difficult trading conditions. Decisions on appropriate action continued to be property and tenant specific, reflecting the local circumstances.

RECOMMENDED

That the report be noted.

16. PROPERTY INVESTMENT STRATEGY

The Executive Director of Pensions reminded Members that the Management Panel had previously approved an allocation to overseas property of up to 2%. Implementation had been delayed because of the difficult economic climate but he advised that there was merit in reassessing the case for investment in the overseas property.

He also advised that he was evaluating the case for increasing the limit on local investment. He suggested further areas for research to review the case for investment e.g. residential.

The Executive Director of Pensions will report further on both the above issues, at the next meeting of the Pension Fund Management/Advisory Panel in July 2011.

17. PENSION FUND PROPERTY PORTFOLIO

The Head of Property Investments attended the meeting and presented a report which advised Members of the principal issues relating to the property portfolio together with comments on the property investment market generally.

It was reported that two themes seemed to sum up the commercial property market in 2010: strong demand amongst investors for prime property (and an aversion to secondary property) and a preference for London and the southeast. In summary, investors sought security of income, and the safety of prime stock in that part of the UK considered least vulnerable to the recession.

Institutional demand remained strong for assets that meet these criteria, although investors had recently become more willing to accept some risk for the benefit of higher returns. Rising inflation had increased the attraction of long leases where rents could increase in line with CPI or RPI, albeit increases without a 'cap' (typically to 3%, 4% or 5% per annum) were almost unknown.

In general, investors continued to doubt the likelihood of rental growth, other than in the Central London retail and office markets and, possibly, in specific locations where retail and retail warehouse rents had fallen sharply to a level at which occupiers could trade profitably. Office rents in central London had risen sharply, giving investors excellent returns in 2010. Prospects for rental growth remained encouraging here because little newly-developed stock would come to the market in 2011 and the first half of 2012. In marked contrast, some regional office letting markets would be very vulnerable to cuts in the public sector in 2011.

Obtaining debt funding was now difficult, if not impossible, and where available it was expensive and the terms were stringent.

Details were given of current transaction activity, voids, rent reviews, management activity and borrowing/debt of the indirect investments.

RECOMMENDED

That the report be noted.