

# ITEM NO: 6(d)

## GREATER MANCHESTER PENSION FUND

### PROPERTY WORKING GROUP

23 April 2010

Commenced: 11.05am

Terminated: 12.35pm

**Present:**

- Councillor Whitley (Chair)**
- Councillor Baldwin**
- Councillor Doubleday**
- Councillor Pennington**
- Mr Mulryan**                    **AMICUS UNITE**
- Mr Thompson**                **UCATT**
- Peter. Morris**                **Executive Director of Pensions**
- Steven Taylor**                **Head of Pension Fund Investments**
- Ray Grainger**                **Pension Fund Legal**
- Charles Lofstedt**            **Head of Property Investments**
- Tracey Boyle**                **Head of Pension Fund Accountancy**
- Pat Hughes**                 **Pension Fund Accountancy**
- Neil Charnock**               **Pension Fund Legal**
- Jean Shutt**                    **Pension Fund Accountancy**

**Apologies for absence:**    **Councillors K Quinn, Sweeton and Walton**

#### 14.    **DECLARATIONS OF INTEREST**

There were no declarations of interest.

#### 15.    **MINUTES**

The Minutes of the proceedings of the meeting of the Property Working Group held on 29 January 2010 were approved as a correct record.

#### 16.    **PROPERTY INVESTMENT STRATEGY**

The Executive Director of Pensions submitted a report and a presentation which asked Members to consider the Fund's property investment strategy for subsequent consideration by the Management Panel.

The Executive Director of Pensions began by outlining the case for property as follows:

For:

- Prospective returns – high income yield;
- Good diversifier v bonds and equities;

- Low volatility and lower risk;
- Decent match to pension liability; and
- Capably of being worked.

Against:

- Costs – transactions and labour intensive;
- Lack of liquidity;
- Lack of transparency;
- Large sum needed for direct portfolio; and
- Limited supply.

The current strategy position was then outlined:

- 10% long term strategic allocation;
- GMPVF allocation £100m - £120m; and
- Maximum of 3% of assets invested locally.

The current position regarding investments as a percentage of the Main Fund was also detailed including a comparison of returns vs other major asset classes.

The Executive Director of Pensions made reference to continuing turbulent times for the property market and current property issues were highlighted as follows:

- Increasing (and decreasing) weighting;
- Weight of money had pushed prices beyond our expectations;
- Bank sales?;
- Rents were falling and voids were increasing;
- Management of pooled general funds?;
- Case for overseas property?
- Case for extending the scope for GMPVF investment; and
- Case for agricultural/rural land.

The Head of Property Investments explained the aim of his team, which was to achieve the median and do better than the competition, which he had achieved in 2009. Detailed discussion then ensued regarding the current uncertain market conditions and also the buying of agricultural land and the pressures on the need for land in the future.

The proposals for consideration were explained and it was:

## RECOMMENDED

- (i) **The long term strategic allocations/constraints remain namely:**
- **A strategic allocation of 10% (of Main Fund Value) to property; and**
  - **The limit on local investment remain at 3%.**
- (ii) **A broadening of the means by which property exposure is obtained whilst operating with the limits detailed above, as follows:**

|   | <b>Current</b> | <b>Proposed Range</b> |
|---|----------------|-----------------------|
|   | <b>%</b>       | <b>%</b>              |
| <b>In-house Managed (Direct and Indirect)</b> | <b>5</b>       | <b>4 – 8</b>          |
| <b>Indirect</b>                               | <b>1</b>       | <b>0 – 2</b>          |
| <b>GMPVF</b>                                  | <b>0</b>       | <b>0 – 2</b>          |
| <b>Overseas</b>                               | <b>0</b>       | <b>0 – 2</b>          |
| <b>Other</b>                                  | <b>0</b>       | <b>0 – 1</b>          |
| <b>Total</b>                                  | <b>6</b>       | <b>6 - 14</b>         |

- (iii) That a further report be submitted to the next meeting of the Working Group to consider the implementation of the Property investment strategy approved by the Panel.

## **17. PENSION FUND PROPERTY PORTFOLIO**

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

It was reported that property yields reached their peak in April 2009 but fell month after month thereafter, with a fall overall in the last 8 months of 2009. Within the sectors the best performance was recorded by retail warehouses followed by South East standard high street shops.

Transactions by institutional investors rose from £180m in the second quarter of 2009, to more than £1.0bn in the fourth quarter, prime stock being the focus of their attention. Yields continued to fall in January 2010, albeit more slowly than previously, contributing to a total return for the month of 1.59%. Demand was particularly strong for stock in the south east which was considered less vulnerable to the effects of spending cuts in the public sector, and more able to benefit from economic recovery.

Rents measured by IPD had fallen at an unprecedented speed throughout this downturn. The fall became less precipitate towards the end of 2009 but tenants remained well aware that they have the upper hand in negotiations, and there was good reason to believe that the rental downturn would continue for some time yet. From the retailer's point of view conditions were still harsh.

Although take-up of industrial space increased during the last quarter of 2009 this appeared not to have led to increases in rental levels, suggesting that companies had been taking advantage of opportunities to move to better quality space and shed unsuitable space.

Offices in Central London were the only sector offering hope of early rental recovery. Incentives appeared to have reached their peak, availability of prime space had fallen, and there was little Grade A space in the office sector being brought to completion by development. London City prime headline rents increased in the last quarter of 2009, this being the first increase since the last quarter of 2007. In the regional office markets letting activity remained subdued, with the exception of the occasional large letting.

Details were given of borrowing/debt of the indirect investments.

Prospective transaction activity was reported.

### **RECOMMENDED**

**That the report be noted.**

## **18. PROPERTY AGED DEBT FOR ELEVEN MONTHS TO 28 FEBRUARY 2010**

Consideration was given to a report of the Executive Director of Pensions which summarised the Aged Debt for the Fund as at 28 February 2010 and compared it to the position as at 31 December 2009.

The value of aged debt at 28 February 2010 was £1.6million, this figure was updated at the meeting to £1.1million and that a large proportion of this was over 150 days old.

### **RECOMMENDED**

**That the report be noted.**

## **19. GREATER MANCHESTER PROPERTY VENTURE FUND**

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

He began by detailing recommendations in respect of the current assets managed by GVA Grimley on behalf of the Fund as follows:

With regard to 1 St Peter's Square (Elisabeth House) Manchester, it was reported that the planning permission for redevelopment was successfully obtained on 11 February 2010. This would see the existing Elisabeth House replaced by a new Grade A office building providing 280,000 sq ft.

At Stalybridge West, Tameside, discussions had continued with a retailer over their interest in relocating a larger store to this site.

At Martland Park, Wigan, it was recommended that development proposals be worked up for industrial development, ready for an improvement in the market.

Continued dialogue with Wigan MBC was continuing with regard to land at Westwood Park, Wigan.

At Old Haymarket, Liverpool, dialogue continued with a University over their potential for a new facility on the site.

Standing investments were then detailed at: Kings Point, Oldham; Globe Park, Moss Bridge Road, Rochdale; Milk Street, Hyde and Unity House, Westwood Park, Wigan.

Potential opportunities were also discussed within the Greater Manchester area and the North West generally.

## **20. NORTH WEST DEVELOPMENT AGENCY (NWDA)**

The Executive Director of Pensions informed Members of monies from the European Investment Bank and North West Development Agency which had been invested in a development Fund named 'Project Jessica'.

He explained that the purpose of the new Fund was to invest in opportunities in the North West of England with the twin aims of commercial returns and helping economic regeneration.

A consortium of Manchester CC (on behalf of Greater Manchester Authorities, Cheshire, Cumbria and Lancs), CBRE as Fund Manager and GMPF (to provide guidance on investment strategy and as a potential investor) had been established to submit a proposal to operate/manage the new Fund. The Chair of the Working Group had supported the Fund's participation in the consortium.

The Executive Director of Pensions outlined the bid process and the type of involvement that GMPF may have.

Details of any further developments with regard to this project would be reported to future meetings of the Working Group or Panel.

### **RECOMMENDED**

**That the information presented be noted.**