

ITEM NO: 5(d)

GREATER MANCHESTER PENSION FUND

PROPERTY WORKING GROUP

30th January 2009

Commenced: 11 05am

Terminated: 12.25pm

Present: Councillor Whitley (Chair)

Councillor Pennington

Councillor Sweeton

Councillor Doubleday

Mr Thompson

P. Morris

Director of Pensions

R Grainger

Head of Pension Fund Legal

C Lofstedt

Head of Property Investments

S.Taylor

Head of Pension Fund Investments

T. Boyle

Head of Pension Fund Accountancy

P Hughes

Pension Fund Accountancy

Apologies for absence: Councillors: Baldwin, KQuinn, Walton and Mr Mulryan

11. MINUTES

The Minutes of the proceedings of the meeting of the Property Working Group held on 7th November 2008 were approved as a correct record.

12. 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.

Mr Lofstedt began by explaining that the Treasury expected gross domestic produce (GDP) to fall by 1.7% in 2009 and the unemployment claimant count had risen to 1.8m, according to one measure. This would be the highest since 1997. Meanwhile interest rates had been cut to levels never seen before. It was queried whether or not the Government's fiscal stimulus could arrest the economy's decline.

The downturn on the UK High Street continued to attract much attention. A number of well known, long-established and less prestigious names had failed. However some retailers had performed respectably; the major supermarkets reported sound performance. Some clothing retailers had also reported an increase in sales. However the outlook for consumer spending in 2009 was undoubtedly bleak.

For the property investor a reliable income stream was paramount. Central London office rents continue to weaken. Slackening demand from tenants and a glut of newly-developed offices was depressing office rents in the city of London. West end rents had slackened too.

The industrial property market was very heavily influenced by the fortunes of the retail sector and its need for warehouses and depots. As the economy slowed down, these units were likely to be a growing risk to a portfolio, unless a unit could be split into smaller units to speed re-letting and stem the haemorrhage of empty rates. More resilient, albeit demanding to manage, were multi-occupied industrial estates with units below 10,000 square feet.

Savaging of yields by valuers had caused Net Asset Values to tumble in the specialist indirect funds especially those carrying significant debt. Indeed yield rises had hit all sector-specific funds, whether geared or not, and despite the remarkably low vacancy rates that some, such as the retail warehouse funds, enjoyed.

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

Completed sales were reported at: 74 the Parade, Leamington Spa; 92/94 King Street, Hammersmith, London W4; Kempshott Park Industrial Estate, Basingstoke and 9 King Street, London EC2.

The Head of Property Investment Unit updated the Group on various management issues respect of a number of properties. He also made reference to voids, lease renewals and rent reviews.

The Director of Pensions commented on investment strategy regarding the property allocation. There had been significant falls in UK commercial property valuations and based on the property derivative market further falls were expected. Thus new investment was likely to be restricted to acquiring from sellers in a distressed position.

The Director of Pensions also circulated information regarding Real Estate Investment Trusts (REITs) and explained that he would be presenting further details to a future meeting of the Pension Fund Panel.

RECOMMENDED

That the report be noted.

13. PROPERTY AGED DEBT FOR NINE MONTHS TO 31st DECEMBER 2008

Consideration was given to a report of the Director of Pensions, which summarised the Aged Debt for the Fund as at 31st December 2008 and compared it to the position as at 30th September 2008.

The value of the aged debt at 31st December 2008 was £7.6 million; this shows an increase in the overall debt from 30th September 2008 of £5.5 million. However, with the Christmas break occurring at the quarter end date, monies paid into the bank during the holiday period were currently being allocated against outstanding invoices. Some of the reported increase was due to timing differences. Thus the picture at the end of December was distorted and it was reported that the value of aged debt to date was £700,000

RECOMMENDED

That the report be noted.

14. GREATER MANCHESTER PROPERTY VENTURE FUND

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

It was reported that the economic output fell 0.6% in Q3 2008 but it was estimated by the National Institute of Economic and Social Research to have fallen by 1.5% in Q4.

Manufacturing and service sectors were both contracting strongly showing signs of zero growth whilst the construction sector was even weaker..

The deteriorating economic conditions were feeding through noticeably to the occupier markets. Average rental values had been falling now for more than six months and at an accelerated speed. Rents had fallen by 1.5% over the three months to December according to the International Property Database (IPD) monthly index. The year on year rate turned negative in November at -0.5% falling further into negative territory in December at -1.4%.

As UK economic forecast continued to become even gloomier expectations for rental growth had reduced and rents were now expected to fall across the board over the next three years and that all property rents would be more than 15% lower at the end of 2011 compared to the end of 2008. The steepest fall was likely to incur this year with reduction of -8% forecast followed by -6% in 2010 and slowing to -2% in 2011.

Yields also continue to increase markedly so in the last three months of 2008. The average all property equivalent yield for the end December 2008 was 8.45% representing a rise of 47 base points during the month compared with 43 base points in November and a 33 point rise in October.

With regard to local trends, previously, information had been reported on the Transport Innovation Fund (TIF) Capital Bid. Following the public vote in December 2008 there was an emphatic no vote from all Greater Manchester Authorities. It remained to be seen whether this emphatic decision had killed these proposals once and for all or whether it would resurface in some guise in the future.

Locally, the market was mirroring the effects of national trends. Rental levels were continuing to fall and landlords were increasingly offering attractive terms in order to secure tenants. Many landlords who were also experiencing negative rental growth and were being forced to renegotiate lease terms with existing tenants in order to retain them.

The increase in yields was also reflected in the local market for example investments at Spinningfields in Manchester City Centre recently sold for a reported 6.78% yield as investors sought to realise capital this was as opposed to the initial purchase yield of around 4.95%.

With regard to development opportunities, work was progressing on the architectural design for the new building at Elisabeth House, St Peter's Square, Manchester and options were being evaluated for the ground floor space, to compliment the wider master plan for St Peter's Square, Town Hall and Library. It was expected that the project would be on target to submit a full planning application in late summer.

At Stalybridge West, Tameside, it was reported that no further acquisitions had been completed since the last quarter's report.

At Martland Park, Wigan, the sale of the smaller of the two sites to Honda Europe had failed to be concluded due to market conditions.

At Kings Point, Oldham, the construction programme had slipped slightly due to poor weather with Practical Completion due 30th January 2009. Marketing was progressing in earnest and discussions were being held with a number of potential occupiers.

There had been no further contact with Wigan Council since the Fund had in principle agreed to relinquish its option over a site located at Westwood Park, Wigan.

Standing investments were detailed at: 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 and a policy of land banking by GMPVF was supported where land with excellent long term development potential became available at a competitive price.