

ITEM NO: 5(c)

GREATER MANCHESTER PENSION FUND

PROPERTY WORKING GROUP

31 July 2009

Commenced: 11.00am

Terminated: 12.20pm

Present: Councillor Whitley (Chair)

Councillor Doubleday

Councillor Pennington

Mr Mulryan

P Morris

Director of Pensions

R Grainger

Pension Fund Legal

C Lofstedt

Head of Property Investments

T Boyle

Head of Pension Fund Accountancy

Apologies for absence: Councillors K Quinn and Baldwin and Mr Thompson

1. MINUTES

The Minutes of the proceedings of the meeting of the Property Working Group held on 24 April 2009 were approved as a correct record.

2. 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.

He began by explaining that economic conditions in the UK remained very challenging. Their severity was well-illustrated by the 1.9% decline in UK GDP in the first quarter of 2009.

It was reported that a recurring theme in times of uncertainty was that investors sought property with sound characteristics – good locations with buildings that could be let readily to dependable tenants. The present day was not exception.

There was a discernible 'London' cachet. Overseas investors, encouraged by the pound's weakness, were willing to cast their net across London, but rarely outside. UK investors tended to be individual private investors or private property ventures, and would venture out of London provided leases were long enough and tenant strength good.

In the recession, the banks had taken a more cautious approach to breaches of lending covenants than in previous recessions. Rather than jettison them by sales they had nursed their difficult loans, preferring to hold them if income covers interest payments. Nevertheless their exposure to property remained higher than they would like and in the longer term they would probably try to reduce it.

Tenant demand across all property sectors remained weak. Insolvencies had increased the amount of vacant space, while companies across all sectors were striving to pare down their outgoings, cut their stock, and make the best use of their property holdings.

Central London continued to suffer the most marked falls in office rental values, rents in the City having fallen by 31% and in the West End by 23%, but cities such as Manchester, Birmingham and Edinburgh had become more dependent on financial services than before. Newcastle and Bristol office markets had been supported by public sector lettings, but Glasgow and Bristol would soon see the completion of speculative office schemes.

Vacant industrial space was most concentrated in the North West, West Midlands, Yorkshire and Humberside.

Application of the European Landfill Directive had created demand for large warehouse units close to major populations as recycling centres, but such tenants were often new and untried ventures, or subsidiaries of larger companies, and thus of uncertain financial strength.

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

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

At the last meeting of the Panel, discussion had taken place with regard to the payment of rent monthly rather than quarterly and Members had suggested that an analysis of current working practices with regard to payment of rents be completed. The Director of Pensions agreed that this issue be a separate agenda item at the next meeting of the Working Group.

RECOMMENDED

- (i) That the report be noted.**
- (ii) That the issue of monthly payment of rents and current working practices be a separate agenda item for the next meeting of the Working Group.**

3. PROPERTY AGED DEBT FOR THREE MONTHS TO 30 JUNE 2009

Consideration was given to a report of the Director of Pensions which summarised the Aged Debt for the Fund as at 30 June 2009 and compared it to the position as at 28 February 2009.

The value of aged debt at 30 June 2009 was £6 million, this figure was updated at the meeting to £1.2 million.

RECOMMENDED

That the report be noted.

4. GREATER MANCHESTER PROPERTY VENTURE FUND

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

It was reported that the economic output shrank much more in Q4 2008 and Q1 2009 than in the last recession although encouragingly there are reports that the current situation may be improving. Whether this marks the end of the recession or not still waits to be seen.

Unemployment had continued to rise but at a decreased rate than in recent months.

Commercial rents had been falling since Spring 2008 and were now 6.6% below their peak value according to the May IPD monthly index.

The retail sector saw a drop in rents of -2.3% slightly better than the all property average, but the industrial sector had fared best with a rental decline of a more modest -1.7%.

It would appear that the bottom has been reached and there are now very slight signs of improvements.

Locally the market continued to mirror national trends with rental levels continuing to fall and yields increasing.

It was explained that a number of tenants seeking to capitalise upon the situation and renegotiate their lease terms in order to try and mitigate costs.

Another trend experienced was that companies who still required relocation or expansion were primarily interested in function and running costs at the expense of extravagance.

With regard to development opportunities, a planning application was being targeted in Autumn with regard to Elisabeth House, St Peter's Square, Manchester.

At Stalybridge West, Tameside, a programme of demolition had commenced.

Negotiations were currently underway with a company for the development of a new car showroom at Martland Park, Wigan.

The marketing of Kings Point, Oldham continued specifically targeting local professional companies.

With regard to land at Westwood Park, Wigan, subject to an alternative Wigan Council owned development site being made available, the Fund had agreed in principle to relinquish its option over the site at Westwood Park. Discussions and negotiations with Wigan Council were ongoing.

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

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

Councillor Sweeton sought further information regarding property opportunities in general. The Director of Pensions informed members that property values had fallen significantly, however, expectations were for further falls this year based on derivatives prices. Property yields were now averaging in excess of 8% reflecting the very difficult trading conditions for many tenants and falling rental values. This was a potentially attractive yield which should help stabilise capital values. The GMPVF was now looking to acquire development sites and the Head of Property Investments would only progress opportunistic purchases for the main property portfolio in line with the June Panel strategy decision.

The Director of Pensions referred to the case for buying property bank debt through a specialist fund that offered both banking and property expertise. This type of investment was being considered as part of the 'Special Opportunities Portfolio'.