



meeting PENSION FUND INVESTMENT ADVISORY PANEL

date 11 June 1999

agenda item number

12

REPORT OF THE COUNTY TREASURER

CHISWICK PARK UNIT TRUST

1. Purpose

- 1.1 To endorse the action taken by the County Treasurer following consultations, in authorising an investment of £10 million in the Chiswick Park Unit Trust.

2. Background

- 2.1 At the last meeting of the Panel, members agreed to consider the case for an increase in investment in property. A final decision was left to this meeting, pending the production of an information paper for members. Panel members felt additionally, that if there was an exceptional opportunity it should be considered on its merit rather than await this meeting.
- 2.2 Soon after the last meeting, Argyll produce a proposal for an investment in a business park development at Chiswick Park in West London. This would be in partnership with other major financial institutions and would be operated on a unit trust basis. A decision was required by 21 May 1999, requiring me to exercise delegated powers.
- 2.3 Consultations took place with the Independent Adviser and leading members. There was also a site visit by Councillor Carter and Cox...

3. The Proposal

- 3.1 The site is 33 acres, approximately mid-way between Central London and Heathrow Airport. There is a planning consent for nearly 1.5 million square feet of office space and over 1700 car park spaces. There is no other business park being constructed in the immediate location.
- 3.2 The consortium, in which Argyll, Schroders and Stanhope are the major partners, is raising £100 million to pay for the site purchase and associated costs, for necessary infrastructure works and for the development of the first phase of offices. The Nottinghamshire Fund was invited to subscribe £10 million.
- 3.3 There would be a second phase of office development which might be financed by either increased equity contributions or by borrowing. The funding requirement

could range from £1.4 million on a "borrowing" basis to £18.8 million on an "equity basis".

3.4 There is also the possibility of a third phase, but this would involve extra payments to the current site owner and also would invoke some expensive Section 106 agreements. Our Property Advisers state that it is not economic for Phase 3 to proceed at present.

3.5 The estimated returns to the Fund are:-

		% per annum
Phase 1	First 3 years	21.9
Phase 2	Option 1 – by equity	
	Years 3 – 8	10.1
	Years 8 – 10	9.2
	Options 2 – by borrowing	
	Years 3 – 8	16.4
	Years 8 - 10	20.5

The returns compare with a current return on gilts of just over 5% per annum.

4. Our Response

4.1 Following appropriate consultations, I have authorised the investment of £10 million for Phase 1. However, since it has the characteristics of a venture capital arrangement in which we are a minority partner, it is felt that this should be regarded as a financial rather than a property investment, and viewed as an alternative to cash, rather than any other asset class. For this reason the comparison with the equivalent gilt was made.

4.2 The Pension Fund's equity stake will be 7.34% of the total initial subscription. Members who were consulted were concerned that the Fund's investment should not be diluted when additional funding was sought for Phase 2. The Fund will have to determine its position on this when all the partners are consulted on the method of funding for Phase 2 at some point in the next few years.

4.3 The initial investment is made clearly on the grounds that only Phases 1 and 2 will proceed, since the advice is that Phase 3 is currently economically unviable.

5. Recommendation

That action taken by the County Treasurer, after appropriate consultations, in authorising an investment of £10 million in the Chiswick Park Unit Trust be endorsed.

R A LATHAM
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