



## Geared Property Update Princes Way Fund

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**Please read this document carefully as it contains important information on the maturity of the fund**



**Irish Life**

## 1. About the Princes Way Property

This town centre office property occupies a prominent position on Princes Way in Solihull, which is located in the heart of the West Midlands conurbation and is regarded as one of the prime residential and office locations of the area. The property was designed as three interconnecting buildings arranged over ground and three upper floors. The total floor area of the property is 70,220ft<sup>2</sup> (6,523m<sup>2</sup>) with 219 car spaces.

The property is let to NPower Limited on a full repairing and insuring lease until 31<sup>st</sup> December 2018, with 5.5 years remaining, at a current rent of Stg£1,485,500 per annum. There is a guarantee in place from the parent company of RWE NPower Plc.

## 2. Market and Property Update

Source: Irish Life

### Market Overview

Property investment transactions in the UK in the first half of 2013 have been strong at approximately Stg£16 bn. UK institutions and listed property companies continue to be reasonably active but the most significant participants have undoubtedly been the overseas investors, who have been focussed on the Central London market. A continued widening of the gap between prime and secondary asset pricing also remains a key factor of the market. More recently however, investor demand has started to extend to key regional top tier locations in response to strong competition and limited availability of prime stock in London.

The deleveraging by the banks has been ordered to date but there is an expectation that further deleveraging must take place to bring exposure by the banks to more modest levels.

Occupier demand remains soft and availability rates high resulting in limited expectation of rental growth, other than in selective locations. The over-rented nature of properties has a large gap to close before landlords will see increases in passing rents.

### Property Update

The property continues to be leased to NPower which is guaranteed by RWE NPower plc. The unexpired lease term is relative short at 5.5 years. N-power is very committed to the building. They are currently investing Stg£2.2m in the property to create a roof terrace on an existing flat roof, create an enclosure for air conditioning units on an existing flat roof and the installation of 16 light tubes to roof level.

N-Power now plans to fully occupy all of the property. Block A was sub-let to Arcelor Mittal when N-power took over the lease, but a surrender has been agreed in order that N-Power take over occupation. There may be scope to extend the length of the lease term at an appropriate time if it makes economic sense.

## 3. Performance of the Princes Way Fund

### Property Valuation – December 2012

This property was purchased in 2006 for Stg£25.75m (plus costs). The value of the property has decreased from Stg£11.7m in December 2012 to £11.45m in June 2013 as a result of an increase in the yield by 0.24% to 12.25%.

### Negative Net Asset Value of Fund

The current guide value of your Princes Way policy is €0.00 because the net asset value of the fund is negative. The loan for the Princes Way property (Stg£18.15 m) is in excess of the property value (Stg£11.45 m) and combined with the loan interest expense, fund costs, rental income, exchange rate movements and fund management charge have

resulted in the fund having negative equity. However, as the debt is on a non-recourse basis, the fund is valued at nil.

Please note that this negative equity will need to be recovered before the net asset value of the fund increases to a positive value and before the plan will be valued at greater than €0.00. As you are aware, the Princes Way Fund is a closed fund and investors cannot exit until maturity. When the fund matures, investors will receive a maturity value based on the sale price achieved at the time. The value of your plan is in your annual benefit statement and is the current guide value. This guide value also reflects any movements in the fund since the 30<sup>th</sup> June 2013.

## 4. Fund Maturity

The loan on this property is held with permanent tsb and matured in February 2013. As reported previously permanent tsb had advised that they required repayment of the loan, which would have required the property to be sold.

However after extensive negotiations, permanent tsb have now agreed to an extension on this loan for a further 3 years on the following terms:

- A 1% arrangement fee
- Margin increased by 1.4%, which brings it to 2.5% over the cost of funds, giving a current all-in rate of 3% (reduced from the previous 5.7% on the fixed element of the loan)
- A 1% exit fee when the property is sold
- Quarterly rental sweeps of surplus income to reduce the balance of the loan
- Immediate reduction of the loan by Stg£500,000
- permanent tsb reserves the right to review its position if the property valuation falls more than 10% from the December 2012 valuation of Stg£11.7m

Whilst the extension of the loan term means that the property does not need to be sold at this time, the current loan-to-value of ratio of 159% gives rise to a strong possibility that the property may still need to be sold at a later date without a return for policyholders

## 5. Keeping you up-to-date on your fund

Property valuations are completed in June and December each year. This property update reflects the last property valuation as at 30 June 2013. The accompanying benefit statement reflects an up-to-date value of your investment. You can call your Invesco adviser or contact our Geared Property Services Team on 01 704 1831 to get an up-to-date value at any stage on your investment. In the interest of customer service, we will record or monitor calls.

The information provided is a guide only and may be subject to change. The valuation details regarding the asset(s) in question are confidential and should be considered price sensitive information.