



## Geared Property Update – Whitbread Fund – H1 2013

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### 1. About Whitbread Court Property

Whitbread Court is a modern three level office building completed in 1990 totalling 65,983ft<sup>2</sup> (6,130m<sup>2</sup>) with approximately 293 car spaces. The building is located in Houghton Hall Business Park, Dunstable which is close to Luton. The property is arranged in three linked blocks, known as buildings 1, 2 and 3 each providing well specified office accommodation on ground, first and second floors. Extensions linking the buildings were completed in 2001.

The property is let in its entirety to Whitbread Group plc for a term expiring on 12th February 2022 on a full repairing and insuring basis incorporating five-yearly upward only rent reviews.

### 2. Factors impacting the performance of the fund

Source: Irish Life

#### Market Overview

Property investment transactions in the UK in the first half of 2013 have been strong at approximately £16bn. 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 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. Commercial property debt has still been

difficult to raise and although there is an emergence of insurance firms and pension funds entering the market the focus for this debt is on prime assets.

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 key strength of Whitbread Court is the high quality of the tenant, the Whitbread Group. They continue to perform well as a business and as a tenant. However, the duration of their lease in the building is reducing to sub 9 years, which has had a negative impact on the property valuation.

While the weight of investor activity has been focussed on Central London, the wider southeast market has seen a pick-up in activity, including a number of transactions in the Luton sub-market. These have focussed our valuers on prices as well as the asset manager's view on strategy. These include:

- 100 Capability Green, Luton - let to Rexham with 11.5 years unexpired off a rent of £16.57 psf. Originally constructed in 1987 and recently refurbished to grade A specification. The property went under offer in June 2013 at a NIY of 9%. The property has been on the market since mid-2012 and the original yield quoted was 8%.
- Another comparable is a building at Wigmore place close to Luton airport with just above 10 years income to TUI Northern Europe Ltd with passing rent of just above £7 per sq ft. We understand a bid has been accepted at 11%.
- Finally, Pearson Plc, Edinburgh Gate, Harlow. Grade A HQ office building over 5 floors, 465 car parking spaces. Let entirely to Pearson Plc until Dec 2020 - sold Jan 2013 at 10.12% NIY.

The loan from Bank of Scotland (now Lloyds Banking) is for a term of 17.5 years maturing in 2022. The margin on the loan is 1.2%. The fixed rate element of the loan matured in October 2011 and this has increased the ability to make higher capital repayments. However, the capacity to make capital repayments in the future will depend on what happens to UK interest rates. In June 2013, the amount of the loan outstanding was Stg£8,130,449 with the loan to value (LTV) ratio of the property currently 99% (based on the June valuation).

### 3. Looking Ahead

The asset management team are assessing all options on this asset, including a potential sale, a lease re-gear and/or a hold to maturity. The property is in a key phase in its investment life cycle. Given the reducing unexpired lease term and the improvement in the investment market liquidity, the asset manager is actively considering the sale of the property. Discussions are currently taking place with Lloyds with a view to agreeing suitable terms for an early loan redemption

## 4. Performance of the Whitbread Court Pension Fund

### Property Valuation – June 2013

This property was purchased in 2004 for Stg£13.3m (plus costs). The value of the property decreased by 9.84% to Stg£8.25m in the six months to June 2013. The yield on Whitbread Court has moved from 9% in December 2012 to 10% in June 2013. Valuers currently have the Estimated Rental Value (ERV) at Stg£12 per sq ft., which indicates that Whitbread court is over-rented by over 10%. The explanation for the significant move in yield is as a result of both the reduction in the lease term – now just under 9 years - along with a couple of transactions that have taken place for assets that were on the market for a considerable length of time.

## Fund Return (unit price movements)

### 31 December 2012 to 30 June 2013

This valuation and all other factors contributing to the return on the fund such as the outstanding loan balance (Stg£8.13million), loan interest expense, fund costs, rental income, exchange rate movements and fund management charge has resulted in the value of the units in the fund falling from 0.174 to 0.048 since the last valuation date i.e. from 31 December 2012 to 30 June 2013.

### Net Asset Value of Fund

As the net asset value of the fund (i.e. the value after deduction of the outstanding loan) is close to zero and could become negative in the near future, your policy would then have no remaining value. If this occurs, negative equity will need to be recovered before the net asset value of the fund increases to a positive value and before the policy will be valued at greater than €0.00. As you're aware, the 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.

## 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 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.