



## Geared Property Update Broad Street Life Fund



**Irish Life**

## 1. About the Broad Street Property

Bristol is the regional capital for the southwest and has become one of the UK's major commercial and financial centres. The property National Westminster Court, Broad Street is a refurbished 1970s freehold office complex totalling 117,596ft<sup>2</sup> (10,925m<sup>2</sup>) on ground and six upper floors. A basement car park provides 84 car spaces with main road access from Nelson Street.

The property is fully let to National Westminster Bank plc (part of the RBS Group) on a 60 year lease from January 1973 with 22 years remaining with 5-yearly upward only rent reviews\*.

\*upward only rent reviews – rent can increase or stay the same but cannot fall.

## 2. Performance of the Broad Street Life Fund

### Property Valuation – June 2011

This property was purchased in 2006 for Stg£22m (plus costs). The value of the property has remained unchanged at Stg£14.55 million in the six months to June 2011.

See section 3 for further details on the valuation of the property.

### Fund Return (unit price movements)

#### From 1st January 2011 to 30th June 2011

This valuation and all other factors contributing to the return on the fund such as the outstanding loan balance (Stg£12.690 million), 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 slightly from 0.136 to 0.137 since the last valuation date i.e. 1st January 2011 to 30th June 2011.

#### From July 2006 (launch date) to 30<sup>th</sup> June 2011

The value of units in the fund have fallen 86.3% from launch in July 2006 to 30<sup>th</sup> June 2011.

### Net Asset Value of Fund

As the net asset value of the fund is close to zero and could become negative, there may be a possibility that the current guide value of your Broad Street policy could move to zero in the future. An example of how this could happen would be a further reduction in the value of the property. As the debt is on a non-recourse basis, the fund would be valued at nil in this eventuality.

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 Broad Street 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 2011.

## 3. Factors impacting the performance of the fund

Source: Irish Life

### Market Overview

Office Markets in the UK continue to be split between Central London and the rest of the Country. Central London with its safe haven status continues to attract overseas and institutional investors. With limited opportunities available, investors are competing aggressively, keeping downward pressure on yields. Outside London investment market conditions remain less buoyant overall.

Investor demand remains narrowly focused and the prime/non-prime yield spread remains almost three times higher than at the peak of the boom in 2007.

Key risks to the sector come from debt and a pickup in credit availability continues to look unlikely. Major UK Banks continue to reduce their exposure to the sector; recent reports suggest that Lloyds bank is due to bring a large portfolio of distressed assets to the market.

In terms of the office occupational market, a lack of development in London and rising demand has put upward pressure on rental levels. Regional occupier demand remains generally weak, due to elevated supply and concerns over the Governments austerity measures. Occupier markets outside of Central London are still generally subdued and rental growth does not appear likely in the immediate future.

## Property Update

The current value of the property as at June 2011 is Stg£14.55m showing no change from December 2010. This is based on a yield of 6.5%. This yield reflects good investor demand for secure well let properties.

Bristol city centre has total office space of approximately 16 million sq ft. Supply of new and second hand space has increased significantly in the last couple of years with total supply now in the region of 2.4m sq ft. Vacancy in the city centre has risen further to between 15% - 16% and city centre headline rents have slipped again since our last report. Take up has been subdued for the first quarter of 2011 and overall the year is not expected to match the level of 2010 take up. Supply of second hand space continues to struggle with supply remaining high.

It would not make sense for NatWest Court to be redeveloped as offices in the current very challenging environment of high vacancy and low demand. As we have noted in previous communications, there may be a potential development opportunity for the building but unlocking this potential is dependant on the tenant's (NatWest) longer-term intentions with respect to their lease as well as an improvement in occupational market fundamentals.

The asset manager continues to monitor and engage where possible on the Bristol City Core Strategy which was submitted to the Secretary of State and the proposed City Centre Area Action Plan which has been pushed back and is not due to reach consultation stage until later in 2011.

With regard to the loan on the property, the rent paid by the tenant exceeds the current interest repayments on the loan, with a net interest cover ratio of 1.4 times. The loan amount outstanding in June 2011 has fallen to Stg£12.69 million. Due to the continuation of loan payments (with Stg£80,000 repaid so far in 2011 in addition to interest repayments), the loan to value (LTV) of the property has improved since December 2010 to stand at 87%.

## 4. Looking Ahead

The property is in very good condition for a building of its age, with regular planned maintenance being carried out by the tenant. The tenant has recently completed an upgrade to the air conditioning system in the building at a significant cost directly to the tenant. The asset manager visited the building in May 2011 and met with the tenant's property adviser who indicated that the tenant's "space strategy" is currently on hold in Bristol. It is worth noting that RBS (owners of NatWest) occupies several buildings in Bristol.

Going forward, the strategy is to maintain contact with the RBS and keep up to date with their space requirements in the city. At some point, they may be willing to pay to release itself from the obligations of the lease. In the meantime, the fund will continue to receive secure rental income and pay down available cash to reduce the outstanding loan balance.

## 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<sup>th</sup> June 2011. 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.

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**Warning: The value of investments may go down as well as up.**

**Past performance is not a reliable guide to future performance.**

**This product will be affected by changes in currency exchange rates.**