



## **Geared Property Update**

### **Princes Way Life 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 less than 8 years remaining, at a current rent of Stg£1,485,500 per annum with the next rent review due on 31<sup>st</sup> December 2012. There is a guarantee in place from the parent company of RWE NPower Plc.

## 2. Factors impacting the performance of the fund

Source: Irish Life

### Market Overview

The investment market for regional offices was more subdued during the first half of 2011 after a buoyant 2010. Prime yields held firm during the first half of 2011 but sentiment weakened. This is evidenced by a narrow band of what was accepted to be prime with larger discounts applied than previously to any investment shortcomings. The disparity between properties in growth potential areas and areas with excess availability increased. This has not been helped by the large pension funds that drove the market in 2010, being much less acquisitive.

Occupier markets outside of Central London offices are still generally muted and widespread rental growth does not appear likely in the immediate future. There is a lack of current prime occupational

evidence in Solihull but headline rents are in the region of Stg£14-£20 per square foot with incentives of 12 months rent free per 5 year term certain.

### Property Update

The property continues to be leased to Npower which is guaranteed by RWE NPower plc as guarantor. RWE had strong financial results in 2010 and the first quarter of 2011 but like all companies it is expected that market conditions affecting RWE's key electricity and gas operations will become more difficult over the near to medium.

At the beginning of July it was reported that RWE were considered either selling or floating NPower in order to reduce their overall net debt on the company. Npower remains a cash-generating business, achieving an operating profit of €277m last year but with the British Government about to reform the electricity market, this could damage the overall business of Npower. 40% of Npowers electricity comes from coal which makes it particularly exposed to the new reforms.

There is a rent review on the property due in December 2012, and there will only be 6 years remaining on the lease at this stage. There is not expected to be any uplift on the rent at this review but it is hoped that the tenant will engage with the possibility of re-gearing their lease to extend same for at least 10 years.

Princess Way is currently rented at a passing rent of stg£21.15 per square foot. The valuers at June 2011 estimate that the current rental value of the property has reduced since December and is in the region of Stg£18 per square foot which would show that the property is becoming more over-rented. This estimation is based on a number of historic rental transactions which were concluded in the early part of this year but these were mainly smaller transactions.

Rental payments continue to be made in a timely manner by the tenant. Loan interest payments continue to be paid with rental income exceeding debt cost by 1.78 times i.e. the interest cover ratio. This has enabled a reduction of the loan on this property by Stg£280,000 for the first 6 months of 2011 and it is expected that a further Stg£320,000 will be paid off the loan by end of the year given the current value and interest rates.

The loan amount outstanding in June 2011 has been reduced to Stg£18.65m. The loan on the value of the property stands at 109%.

The value of the property at June 2011 of Stg£17m is based on a net initial yield of 8.25%.

### 3. Looking Ahead

- Monitor RWE to track what will happen to Npower over the coming years.
- Loan repayments will continue to be paid on a quarterly basis. The capital repayments over the next 12 months are estimated to be in the region of 3.2% of the loan given the current net asset value.
- The key focus remains to make as much capital repayments from the excess cash in order that the debt is reduced.

## 4. Performance of the Princes Way Life Fund

### Property Valuation – June 2011

This property was purchased in 2006 for Stg£25.75m (plus costs). The value of the property has decreased to Stg£17m in the six months to June 2011 as a result of an increase in the yield by 0.25% to 8.25%. This reduction in value reflects weakening investor sentiment for provincial locations and the unexpired lease term being below 10 years.

### 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£18.65 million) is in excess of the property value (Stg£17 million) 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 2011.

## 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 Invesco on 01 294 7600 or contact the Irish Life 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.

**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.**

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.

Irish Life Assurance plc is regulated by the Central Bank of Ireland.

Irish Life Assurance plc, Registered in Ireland number 152576, VAT number 9F55923G