



## Geared Property Update - Centrica Fund – H1 2013

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### 1. About the Centrica Property

The Centrica Building, 1 Waterfront Avenue, Granton, Edinburgh is located 2.5 miles north of the city centre. The building itself extends to 92,127 ft<sup>2</sup> (8,558.60 m<sup>2</sup>) and has 204 car parking spaces.

### 2. Performance of the Centrica Fund

#### Property Valuation – December 2012

This property was purchased in 2004 for Stg£26.5m (plus costs) at a net initial yield of 6.01%. The value of the property has remained unchanged over the last six months to 30<sup>th</sup> June 2013 at £15m. See section 4 for further details on the valuation.

#### Negative Net Asset Value of Fund

The current guide value of your Centrica policy is €0.00 because the net asset value of the fund is negative. The loan for the Centrica property, (Stg£14.87m) is nearly equivalent to the property value (Stg£15m), and all other contributing factors to the return of the fund such as previous valuations, loan interest expense, fund costs, rental income, exchange rate movements and fund management charges\* have resulted in the fund having negative equity and your policy having no current value.

As you're aware, the Centrica Fund is a closed fund and investors cannot exit until maturity. When the fund matures, investors 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 June 2013.

\*As previously outlined, the management fee for Centrica is adjusted every year. It is currently at 2.55% per annum of the net asset value of the fund.

### 3. Fund Maturity/Extension

In the previous update it was advised that terms had been agreed to extend the loan, which expired in February 2012. This extension has now been put in place as at 18<sup>th</sup> February 2013 and is for a further 2 year period. One of the conditions of the new facility is an interest coverage ratio (ICR) covenant test which requires a certificate quarterly on the interest payment date confirming that the ICR covenant is not less than 2.2 times. The current ICR is 2.34.

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 99% gives rise to a strong possibility that the property may still need to be sold at a later date without a return for policyholders.

As explained in the terms and conditions, when the geared pension property fund ceases, the value of the fund will be the amount received from the sale of the fund assets less any outstanding balance on the loan of the fund. Your accumulated fund at that time could be valued at zero.

## 4. Factors impacting the performance of the fund

Source: Irish Life

### Market Overview

Investment volumes in the first half of 2013 are broadly in line with last year's figures. UK institutions and listed property companies continue to be reasonably active but the most dominant participant has undoubtedly been the overseas investor, accounting for almost half of all transactions. 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 shift towards key regional locations in response to strong competition for 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 on their portfolios.

### Property Update

The property continues to be let to GB Gas holdings Ltd. The rent review is due in September 2013 and it is at this point that we expect to engage with the tenant to explore the option of extending the lease but with 7 years left on the lease the tenant may not want to extend at this time.

The valuation of the property remained at the same level at December 2012. There were some signs of improved liquidity in the Central Edinburgh

investment market but in peripheral locations such as Granton, where Centrica is located, there has been no improvement.

The occupational market in the centre of Edinburgh has seen a number of large lettings in the first half of the year. Prime rents remain stable but incentives still remain tenant favourable with around 30-36 months on a 10 year letting. Vacancy rates in out of town locations remain high and rents continue to be under pressure.

There have been no significant investment deals outside the city centre.

## 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 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. 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.