

# Geared Property Update Centrica Pension Fund



**Irish Life**

## 1. About Centrica Property

The Centrica Building, 1 Waterfront Avenue, Granton, Edinburgh is located approximately 2.5 miles north of the city centre. The building itself extends to 92,127 sq ft (8,558.60 sq m) and has 204 car parking spaces. It was constructed over four levels and provides Grade A office accommodation.

The property is let on a full repairing and insurance lease to GB Gas Holdings Ltd guaranteed by Centrica Plc for 17 years from September 2003, with 9 years unexpired.

## 2. Performance of the Centrica Pension Fund

### Property Valuation – June 2011

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 decreased by 1.84% to Stg£18.65m in the six months to June 2011 as a result of a increase in the yield by 0.15% to 8.40%.

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£16.25 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 from 0.19 to 0.177 since the last valuation date i.e. 1st January to 30<sup>th</sup> June 2011.

#### From March 2005 (launch date) to 30<sup>th</sup> June 2011

The value of units in the fund have fallen 82.3% from launch in March 2005 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 Centrica 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 Centrica 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.

\*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. Factors impacting the performance of the fund

Source: Irish Life

#### Market Overview

The Market has been very subdued in the first 6 months in Edinburgh with very few investment transactions and very little occupier requirements to take space in office buildings. One significant transaction which recently took place saw Amazon take a lease of 60,000sq.ft. The headline rent is quoted at £17 /sq.ft which shows a significant reduction on the headline rents that were being achieved at the height of the market (at figures up to £30/sq.ft).

There is a view from local agents BNP Paribas & Ryden that over the next number of years the Grade A office stock that is available will be depleted enough to put upward pressure on rental levels but as the base level is low, rents are likely to remain below peak market levels for the foreseeable future.

There has however been positive news in the Edinburgh market where State Street, the US asset management firm, is developing a European 'centre of excellence' at its Edinburgh base which will see it add 90 jobs to its 750 strong Scottish workforce (The Scotsman 2 June 2011).

#### Property Update

The property remains in very good condition with the tenant continually upgrading the mechanical and electrical plant and improving areas of the building in order that they can increase the capacity.

They have recently completed the installation of the solar panels which are said to be one of the largest installations of its kind so far in the UK. This further

shows the commitment of the tenant to the building and also their commitment to the environment by looking at ways to reduce their carbon footprint. They currently have a system in place where they can sell back some of the electricity to the National Grid at peak times to reduce some of their costs.

The site of the property is fully utilised and as part of the ongoing works it is planned to re-do the landscaping at the beginning of the year next year to enhance same.

The valuer increased the yield used in valuing the property which resulted in the reduction in the property value at mid year. This reflects weak investor demand for properties outside prime locations and the reduced unexpired lease term. The property is currently rented at a passing rent of Stg£18 per sq. ft under the lease. The valuers continue to hold the opinion that the property is over rented but the market rental value has not changed since December 2010.

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 costs, with the interest cover ratio standing at 1.70. There is an excess of rental income over interest repayments due to the current low interest rate environment, which has benefited the variable portion of the debt. This enabled the reduction of the loan on this property by Stg£320,000 during the first 6 months of 2011. With expected capital repayments to reduce the loan of Stg£320,000 for the second half of 2011.

The loan on the property outstanding at June 2011 is Stg£16.25 million and the loan to value of the property stands at 87%.

## 4. Looking Ahead

- The debt is being repaid quarterly. The capital repayments over the next 6 months are estimated to be in the region of 1.9% of the loan.
- The key focus is to make capital repayments from the excess cash in order that the debt is reduced.

## 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.

**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.

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