INVESTMENT POLICY

Fund Objective

The Fund will establish an investment portfolio of Urban Regeneration projects subject principally, but not necessarily exclusively, to leases. The Fund will have a balanced portfolio in terms of geographic location and sector of market. The Fund will aim to achieve an ungeared Internal Rate of Return (IRR) of at least 12% per annum over the life of the Partnership.

Investment Policy

Projects

Projects will vary between the development of new premises on brownfield land and refurbishment of existing buildings. Investments might also be acquired where they offer a strategic foothold in a future urban regeneration site. The Fund will acquire sites, fund developments and enter Joint Ventures with other parties. A typical project will range in total development cost from £20m - £50m for a single phase project and £50m to £100m for a multi-phase project.

Geographic Distribution

Projects may be located throughout the UK, although the majority of sites will be in major English towns and cities, especially in the south-east of England.

There will be a bias towards Objective 1 and 2 areas* for European Regional Development Fund activity, UK Assisted (Tier 2) Areas, European URBAN programme areas and other UK Urban Priority Areas. Within these areas the Fund will focus its activities on London and the East Thames Gateway and outside the South East on the edge of the city centre core and fringe in the major conurbation's.

Location

The Fund will be selecting opportunities in locations which have low existing use values relative to the underlying fundamentals of the location. These areas will usually be on the fringe of city centres, often within a short walk of the prime core but suffering from a lack of, or inappropriate, infrastructure (e.g. the wrong side of a road or adjacent to a neglected canal or park) or fragmented land ownership with pockets of dereliction.

The Fund will require its public sector partners to have a local area regeneration strategy which deals with these issues e.g. through infrastructure investment, land assembly etc for which they have prioritised resources.

Uses

Most new developments undertaken by the Fund will be mixed use (typically 50% to 90% residential and 10% to 50% commercial). The Fund will aim for the investment element of the Fund to comprise between 40% to 60% of residential and 40% to 60% of commercial investment by value.

Timing

Projects typically take between 1 and 2 years to procure (depending on whether a competitive bidding process is required). Construction periods are typically between 1 and 3 years depending on the complexity and site contamination. An Urban Regeneration development is likely to take 5 years after completion of the

* Objective 1 and 2 areas are priority areas that require European grant level assistance.

development phase before a project reaches maturity and projects are likely to be held for at least this time to benefit from rental and capital growth.

Risk Profile

The Fund will undertake both speculative and pre-let development activity in both the commercial and residential sectors.

The Fund will manage speculative development risk through comprehensive up front research and analysis. A balance between prelet, pre-sold and speculative can also be achieved in agreeing arrangements with developers (through profit erosion or rental guarantee) to minimise financial exposure.

Risk can also be managed by entering into arrangements with the public sector whereby the letting risk is effectively shared with the public sector through a variety (or combination) of structures including discounted land purchase, joint ventures and rental guarantees where the public sector shares in any value uplift.

The Fund will also seek to undertake pre-lettings where appropriate and in some cases pre sales to major anchor operators which reduce the risk of subsequent lettings.

The business occupiers are likely to initially be small independent businesses with operations which add to the image and mix required to change market perceptions of an area. As the project proceeds more substantial occupiers will be attracted and the overall investment characteristics of the Fund will be enhanced.

Leases will generally be flexible to allow businesses to grow within the project. Some of the ground floor commercial leases may be on a turnover rent basis.

Procurement Process

Method of Procurement

Major projects of the type the Fund will be seeking are usually procured through the public sector (Regional Development Agencies, local authorities, and English Partnerships) and this generally is undertaken through a competitive process which is judged on a combination of competence (skills, and financial covenant), proposed scheme design and feasibility. However a significant number of these projects have historically been procured through limited competition or one to one negotiation. The Fund will pursue all these routes.

The process frequently starts before the land assembly process is complete (as the existence of a credible private sector partner and viable scheme assists the land assembly process). Thus the period of time from being selected as preferred partner to commencing development can be considerable (between one and two years).

In the initial stages of the Fund, Igloo will be prioritising opportunities which offer the potential for more rapid investment starts, but the Fund is budgeting for a significant pre development period.

Development

* Objective 1 and 2 areas are priority areas that require European grant level assistance.

The Fund will undertake development activity. This has the advantage of increased levels of return and the disadvantage of relatively lengthy timescales and more risk. The Fund will seek to avoid 'hard bid' land acquisition competitions with established developers seeking instead to operate in partnerships, particularly with landowners.

Joint Ventures (JVs)

The Fund will seek to break into the development pipeline by forging development partnerships (JVs) particularly with smaller regional developers in local markets. The Fund's Development Manager will retain the key role of managing the Fund's interface with the joint venture partners.

Forward funding with other developers

The Fund will also seek to enter into forward commitments with developers who are already the preferred bidder on a scheme.

The circumstances of each individual project and developer will dictate the nature of the funding arrangements, either joint venture or forward funding. Again, the Fund's Development Manager will retain the key role of managing the Fund's interface with the joint venture partner.

Acquisition of standing investments

While this is not envisaged as a major activity there are circumstances where the Fund will identify existing investments in areas likely to be subject to major regeneration activity, which will be purchased either for long term holding or with a view to medium term redevelopment or refurbishment.

Socially Responsible Investment Criteria

The fund is committed to a policy of Socially Responsible Investment (SRI) which will deliver social and environmental benefits whilst achieving acceptable financial returns.

The Implementation Policy sets out the process that will be used to establish a schemes SRI characteristics. This process consists of three stages corresponding to the development process:

1. Initiation – screening to determine whether Igloo should engage in further negotiation with the developer,
2. Design – detailed assessment of the design in order to determine the schemes SRI characteristics,
3. Completion – post-occupancy audit to determine how well the completed scheme performed.

Recommendations produced during the initiation and design stages will be combined with appraisals of risk and financial return to inform Igloo's investment decisions.

Internal Rates of Return

Income return (ungeared - net of costs) 10% - 12% approximately
Capital Return (ungeared - net of costs) 1% - 3% approximately
Total (ungeared - net of costs) 12% - 15% approximately

Gearing Policy

The Partnership will have the ability to borrow up to a maximum of 50% of the net capital value of the completed projects (as updated by annual revaluations).

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Borrowings will be taken out on either a variable or fixed rate basis, with variable rates being linked to either one, three, six or twelve month LIBOR.

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