

Source: Project Finance Magazine
Date: 16 February 2011
Page: Online

Gravis Capital Partners has launched a new zero coupon bond fund based on the residual value of the Manchester civil justice centre. The fund will market investments in the UK-registered limited partnership to investors looking for long-term yield with zero coupon, such as trusts and holders of self-invested personal pension plans. The product is illiquid, and not inflation linked, but is taxed on a realisation rather than an accrual basis, making it suitable for UK individuals looking to manage their inheritance tax burden.

The zero-coupon bond would mature in 2042, and the fund says it can turn a £12,500 minimum investment into £250,000 at maturity, or a 10.6% annual rate of return. The holders of fund units will be exposed to the residual value of the building at the end of term of the building's lease. The courts complex, which cost £168 million (\$270 million) to build, has been leased to the UK's Ministry of Justice under a lease running from 2007 to 2042. Senior lenders to the building, owned by Allied London Properties as part of its Spinningfields redevelopment, would be repaid from lease payments, with fund unit holders paid from the resale value from the building.

Fund investors' return would be capped at £130 million, meaning that Gravis is looking for £6.5 million, as the discounted value of this future return. The product might be suitable for developers with assets that are also exposed to residual value, such as power plants with long-term power purchase agreements, though most infrastructure concessions are build-operate-transfer, and thus are handed back to government at the end of the term. The Manchester building, because it is a lease rather than a PFI, offers the requisite benefits. But the product's appeal has a limited investor base: UK corporation taxpayers, for instance, would see few benefits.