St. Stephen’s Green Property Syndicate Fund

Irish Life

1. About the St. Stephen's Green Property

The St Stephen's Green Shopping Centre was originally developed in 1988, extended in 1997 and now comprises c.28,000 m2 on four levels. There are over 90 individual shops on three levels together with pubs and restaurants on the ground and basement levels and self-service restaurants on the first and second floors. The Centre enjoys combined access to 1,127 car parking spaces between the St Stephen's Green multi-storey car park and the adjoining Royal College of Surgeons car park. The Centre is located at the junction of St Stephen's Green with the top of Grafton Street.

2. Performance of St. Stephen's Green Property Syndicate Fund

Property Valuation – June 2011

The value of the property has decreased by 7.9% in the six months to June 2011. The value movement is principally a result of a decrease in rental values, as the yield applied to the asset has remained relatively steady over the half year. The retail market remains under pressure due to the lack of consumer confidence, which reflects uncertainty in both the global and the Irish economy. This lack of consumer confidence and reluctance to spend, feeds though to reduce demand for retail space, and to consequently produce lower retail rents. Furthermore, the legislative uncertainty regarding rent reviews in existing leases will continue to dampen investor sentiment until this uncertainty is removed from the market. Going forward, the pressure on retail rents is expected to continue, while the uncertainty in the global economy remains.

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, loan interest expense, fund costs, rental income and fund management charge has resulted in the value of the units in the fund falling from 0.89 to 0.61 since the last valuation date i.e. 1st January 2011 to 30 June 2011.

From March 2001 (launch date) to 30th June 2011

The value of units in the fund had decreased 0.39% from launch in March 2001 to 30th June 2011.

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 30th June 2011. Exit restrictions apply to this fund.

3. Factors impacting the performance of the fund

Source: Irish Life

Market Overview

The retail leasing market continues to be negatively impacted by the global economic downturn and the resultant significant weakening in consumer demand. Negotiation power is still weighted in favour of the tenant (with weaker demand for retail space). While domestic retailers are under pressure, international retailers, currently with less exposure to the Irish market, continue to increase their presence, taking advantage of the softer deals in the market. Tescos, Starbucks, Sketchers, Disney and McDonalds have all increased their presence in the Irish market recently.

Recent deals have produced lease structures that tend to be flexible (leases have shorter durations, with multiple tenant break options, which is a change from the traditional 20 to 25-year lease terms). Furthermore, many leases tend to have turnover top-ups to supplement base rents that would be lower than market rents. In this way, the landlord shares part of the tenant's operating risk. The legislative change at the end of 2010 requires that rent reviews in new leases are marked to market periodically during the lease term, ending the upwards only reviews. With shorter duration, rents that are dependent on retailer turnover and future rent reviews that can increase or decrease, retail rental income streams from recent deals have produced increased investment risk.

New retail deals typically involve fairly significant capital contributions and or longer rent free periods to fund retail fit-out costs, since the banks are reluctant to increase their already significant real estate exposure by funding fit-out costs.

Insolvency and liquidity problems will continue to impact retailers. In H1 2011, Diamond Living (an Irish operation) was put into voluntary liquidation and Jane Norman (a UK operator with a strong presence in Ireland) has been put into administration. This follows a long line of recent casualties with Sasha, Barratts, OBrien's Sandwich Bar, The Mosaic Group, Classic Furniture and 3G Mobile amongst the most prominent. These insolvency problems are negatively impacting landlords that tend to be junior in claim to secured creditors in these insolvency events.

The outlook is for domestic retailers to experience continued difficulty for some time and for larger overseas retailers with strong financial backing to continue to seek opportunities with more favourable rents and increased incentives.

Property Update

The Stephens Green Centre has also experienced problems with insolvent tenants, but Irish Life Investment Managers (ILIM) continues to actively manage tenancies in difficulty and to work with tenants by assessing individual tenant performance and agreeing temporary concessions where necessary.

Despite the challenging retail environment, several new tenancies have been introduced to the Centre, such as 21, selling the Danish Bestseller product range including the Jack & Jones, Vero Moda and Only brands, Cans, Sony and Treat Yer Feet. These rent lettings compliment the introductions of The Early Learning Centre and Harry's on the Green completed in Q4 2010. Discussions have also been positive with some other desirable retailers and we continue to engage with potential retailers in order to augment tenant mix and drive footfall in the Centre.

The Centre's car park revenue figures for H1 2011 are in line with H1 2010 and this trend is expected to continue.

4. Looking Ahead

The general economic conditions which are inhibiting consumer confidence are not particular to the centre and will continue to create a challenging retail environment in the short term. Property values have been under pressure for some time and the legislative uncertainty created by the government's assessment of rent reviews in existing leases has frozen investment activity. This lack of investment activity will continue until the legislative uncertainty is resolved. Values will remain under pressure, more due to lower retail rents, rather than further significant outward yield movement, in line with similar assets. Retail property will be slow to recover in this current phase of the cycle.

The economic environment combined with the current shortage of property investors in the market means that any sale of the property will be at a substantial discount. Given the poor short term outlook for the property in terms of pricing and sale prospects ILIM has recommended that investors continue to hold the property for up to another three years. The long term fundamentals of the property remain strong and ILIM hope to be able to realise value over the longer term. Accordingly investors have been given the option to remain invested in the fund for an additional period.

It is worth noting that despite, the challenging retail environment, the fundamental characteristics of the centre remain strong which include:

- location in a strong sub-market: The Grafton Street sub-market has in recent times been extended to encompass South King Street (by the introduction of the large H&M and Zara units) and this enlarged sub-market encompasses the SSGSC (and this is benefiting foot traffic in the immediate vicinity of the Centre);

- future reconfiguration potential: The Centre is being positioned to undertake a reconfiguration that will harness current retailer demands (to create larger, deeper units). The Centre has extensive frontage onto South King Street, which at this time has not been completely exploited;

- location at a future transport hub: The possibility exists that the Metro North and Interconnector lines (and the existing LUAS line) will eventually transform the north-west corner of St. Stephen's Green, which is adjacent to the main entrance to the centre into a major transport hub;

- future cinema development potential: The planning application for a cinema development (to be located on the roof of the car park) has been approved, subject to some outstanding objections.

These characteristics, coupled with the existing advantage of the proximity to St Stephens Green, render the location of this Shopping Centre as one of the best in the country.

5. Keeping you up-to-date on your fund

This property update reflects the property valuation as at 30th 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.

The information provided is a guide only and may be subject to change. The valuation details regarding the asset(s) in questions are confidential and should be considered price sensitive information.