



Geared Property Update – Ocean Point Fund – H2 2012

This is for information purposes only and for existing customers only. This is not an advertisement.

1. About Ocean Point

Ocean Point is situated in Leith, an out of town office location outside Edinburgh. The property comprises an open plan office arranged over eight floors with a total floor area of 62,657ft² (5,821m²) and is leased to AWG Limited on a 20 year lease from February 2004 with 10.5 years remaining. The next rent review on the property is due in 2014.

2. Performance of the Ocean Point Fund

Property Valuation – June 2013

This property was purchased in 2006 for Stg£23.55m (plus costs) at a net initial yield of 5.4%. The value of the property has decreased by 1.12% to Stg£13.2m in the six months to June 2013. The net initial yield on this property has increased from 9.5% to 9.6%. See section 4 for further details on the valuation of the property.

Negative Net Asset Value of Fund

The current guide value of your Ocean Point policy is €0.00 because the net asset value of the fund is negative. The loan for the Ocean Point property, (Stg£17.59 million) is in excess of the property value (Stg£13.2 million), this and all other contributing factors has resulted in the fund having negative equity and your policy having no current value.

Please note that this 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.

3. Fund Maturity

The loan on this property is held with permanent tsb and matured in June 2013. As reported previously permanent tsb had advised that they required repayment of the loan, which would have required the property to be sold.

However after extensive negotiations, permanent tsb have now agreed to an extension on this loan for a further 2 years on the following terms:

- A 1% arrangement fee
- Margin to increase by 1.1%, which will bring it to 2.3% over the cost of funds giving a current all-in rate of 2.8% (reduced from the previous 6.27% on the fixed element of the loan)
- A 1% exit fee when the property is sold.
- Quarterly rental sweeps of surplus income to reduce the balance of the loan.
- permanent tsb reserves the right to review its position if the property valuation falls more than 10% from the December 2012 valuation of Stg£13.35m

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 ratio of 133% gives rise to a strong possibility that the property may still need to be sold at a later date without a return for policyholders. For example at 30th March 2015, Irish Life may decide, taking all of the circumstances into account, not to seek a further extension of the loan term with the current lender or with an alternative lender and may, using its sole discretion as provided for in the fund's terms and conditions, decide that the property should be sold and the fund closed.

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

Property investment transactions in the UK in the first half of 2013 have been strong at approximately £16 bn. UK institutions and listed property companies continue to be reasonably active but the most significant participants have undoubtedly been the overseas investors, who have been focussed on the Central London market. 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 extend to key regional locations in response to strong competition and limited availability of 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.

Property Update

The valuation of the property has decreased to Stg£13.2m due to an increase in the yield from 9.5% to 9.6%. There were some signs of improved liquidity in the Central Edinburgh investment market but in peripheral locations such as Leith, where Ocean Point 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 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 at any stage on your investment. 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.