

# **Geared Property Update**

## **Earlsfort Pension Property Fund**



**Irish Life**

# 1. About the Earlsfort Property

## Osborne House, Earlsfort Terrace, Dublin 2

Osborne House is a modern five-storey office building over a two-storey basement car park, located on the east side of Earlsfort Terrace. The accommodation comprises 1,161m<sup>2</sup> of offices with 15 car spaces allocated to the property. The building is fitted out to a modern office specification including raised floors, air handling system, central heating and an 8 person lift serving all floors. The fund holds a 78% share in the building.

The entire property is let to Jerdip Properties, a company owned by Arthur Cox solicitors, on a full repairing and insuring lease for a 25 year term expiring in June 2025, at a current rent of €680,000. There is a tenant only option to break in May 2015. Following the departure of Dolmen stockbrokers from the property the building has reverted to its former name of Osborne House.

# 2. Performance of the Earlsfort Pension Property Fund

## Property Valuation – June 2011

This property was purchased in 2002 for €9.036m (plus costs). The value of the property has decreased by 7.9% to €3.806m in the six months to June 2011 as a result of a further yield increase reflecting investor sentiment, poor liquidity in the market and a greater reduction in the rental value.

## Negative Net Asset Value of Fund

The current guide value of your Earlsfort policy is €0.00 because the net asset value of the fund is negative. The loan for the Earlsfort property, (€5.058 million) is now in excess of the property value, (€3.806 million) and all other contributing factors to the return of the fund such as previous valuations, loan interest expense, fund costs, rental income and fund management charge have resulted in the fund having negative equity.

However, as the debt is on a non-recourse basis, the fund is valued at nil.

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.

As you're aware, the Earlsfort 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 30th June 2011.

# 3. Factors impacting the performance of the fund

Source: Irish Life

## Market Overview

The SCS/IPD Index reported a decline in capital values of -7.5% for the first half of 2011. This decline brings the fall from the market peak in December 2007 to c 64%. With an income return at c 4.5% for the six months the total return for the market for H1 2011 is negative at -3.0%. Declining rental values continue to be the major contributor to the capital value falls in all sectors, with difficult economic conditions impacting occupier demand and ability to pay rent, however some yield increase has been seen in selective properties.

The Irish property investment market continues to suffer from illiquidity and uncertainty around the Irish economy following the EU/IMF Programme of Financial support for Ireland. The Government's proposal to legislate to end upward only rent reviews for existing leases has generated increased uncertainty and deterred overseas investor interest. These factors add additional risk

to current valuations. Valuers are typically highlighting the increased level of uncertainty in valuation reports. The nature and extent of any proposed legislation remains uncertain. Transactional activity remains very low, with buyer activity limited to occupiers rather than investors, including the Government acquisition of an office building on Clare Street in Dublin 2, the Penny's purchase of the office building over their store in Parnell Street and the headline grabbing Google acquisition of the vacant 100,000 sq.ft Montevetro building in Dublin 4 and the two adjoining buildings which they occupied as tenant.

The retail sector continues to be challenging with negative consumer sentiment impacting on trade, evidenced by the furniture retailer Diamond Living who recently closed down and the women's fashion chain Jane Norman, with 16 stores in Ireland which has gone into administration. Despite this, some retailers are looking to take advantage of current market conditions to roll out new stores including Tesco, Starbucks, Sketchers, Disney and McDonalds. The vacancy rate in the Dublin office market will fall marginally from the high of 23% following the Google acquisition. Potential occupiers are encouraged to make relocation decisions, taking advantage of flexible lease terms and low rental levels but this is having limited net impact on vacancy levels

## Property Update

The property is fully let to Arthur Cox solicitors at a rent of €680,000 p.a. which equates to a level of €540 per sq m. While the lease runs until 2025 the tenant has a break option in May 2015 and accordingly the rent can be considered to be relatively secure for the next 4 years.

A rent review fell due as of June 2010 however an increase in the current rent is unlikely as the property is significantly over rented (approximately 40% greater than the market level as at June 2010 or 50% as at June 2011). That said, it is important

to note that the lease has the benefit of an 'upwards only' rent review provision which means that in this case, the revised rent cannot fall below the current rent payable.

There may be potential for a future re-development of the entire Leeson Street/Earlsfort Terrace corner at some point however there are no prospects of this happening and little prospect of site assembly in the current environment. While the owners of adjoining blocks may be considered special purchasers there would be very little interest at the current time.

## 4. Looking Ahead

It is likely that the property value may fall further as the break clause approaches and while rental weakness persists. As outlined in the December update, in the short term it is unlikely that the property would attract investor interest due to the current lack of liquidity in the Irish market.

Due to the poor short term outlook for the property in terms of pricing and sale prospects it is recommended that the property is held in the fund for a further year and a half with the position being reviewed in June 2012.

## 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 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.

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