



Geared Property Update - Daresbury Fund – H1 2013

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1. About Daresbury Property

Daresbury Park is an out of town business park located in Warrington. The property comprises of an office block with a ground level and two upper floors. It has a total net internal area of 40,526ft² (3,765m²). The property is let to ABB (UK) Ltd.

2. Performance of the Daresbury Fund

Property Valuation – June 2013

This property was purchased in 2005 for Stg£10.125m (plus costs). There has been no change in the value of this property in the six months to June 2013; the value has remained at Stg£5.8m. See section 4 for further details on the valuation of the property.

Negative Net Asset Value of Fund

The current guide value of your Daresbury Park policy is €0.00 because the net asset value of the fund is negative. The loan for the Daresbury Park property, (Stg£6.53m) is now in excess of the property value (Stg£5.8m), 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 would need to be recovered before the net asset value of the fund increases to a positive value and before the plan would be valued at greater than €0.00.

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 30 June 2013.

3. Loan Maturity

The loan on this property is held with permanent tsb and matured in March 2013. The amount outstanding on the loan in June 2013 is Stg£6.53m and the loan to value (LTV) ratio of the property is 113%.

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 increased by 1.2%, which brings it to 2.45% over the cost of funds, giving a current all-in rate of 2.95% (reduced from the previous 5.91% 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£5.8m.

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 113% 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 31st 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

Investment volumes in the first half of 2013 are broadly in line with last year's figures. UK institutions and listed property companies continue to be reasonably active but the most dominant participant has undoubtedly been the overseas investor, accounting for almost half of all transactions. 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 shift towards key regional locations in response to strong completion for 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 on their portfolios.

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The current passing rent of Stg£613,970 per annum (approximately Stg£15 ft².) is secure given the strength of the tenant ABB (UK) Ltd, part of the world-wide ABB Group and the property is used as the Group's UK Headquarters. The reducing lease term however will be a concern to potential buyers.

Preliminary discussions have been held with the tenant in an effort to extend the lease beyond the 2022 lease end date. A lease extension would have a positive impact on valuation, albeit at a cost to the landlord as the tenant would need to be incentivised to encourage them to commit to a longer lease duration. Unfortunately the tenant is not interested in entering any discussions on the lease.

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.