



Geared Property Update – City Park 2 Fund – H1 2013

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1. About City Park 2 Property

City Park is located to the north of the Hove which is 55 miles south of Central London on the Sussex coast. City Park 2 is a headquarters style office building providing a total net area of approximately 67,296ft² (6,252m²) and forms part of a complex of 3 buildings.

2. Performance of the City Park 2 Fund

Property Valuation – June 2013

This property was purchased in 2006 for Stg£23.35m (plus costs). The value of the property has decreased by 8.71% to Stg£14.15m in the six months to June 2013. See section 4 for further details on the valuation of the property.

Negative Net Asset Value of Fund

The current guide value of your City Park 2 policy is €0.00 because the net asset value of the fund is negative. The loan for the City Park 2 property, (Stg£15.03m) is nearly equivalent to the property value (Stg£14.15 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.

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 30 June 2013.

3. Fund Maturity

The loan on this property is held with Bank of Scotland (now Lloyds Banking Group) and matures in October 2013. The amount outstanding on the loan in June 2013 is Stg£15.03m and the loan to value (LTV) ratio of the property is currently 106%.

With just 10 years secure income remaining on the lease, the property is in a key phase in its investment life cycle. Given the unexpired lease term and the improvement in the investment market liquidity, the asset manager is actively considering the sale of the property.

As advised in previous reports, the lender has indicated that it will not be extending the existing loan. Lengthy discussions have taken place with the lender in order to explore other possible options. Most recent discussions with Lloyds have been based on agreeing suitable terms for a loan redemption by the end of 2013. We expect to reach agreement with Lloyds in the coming weeks and will keep you informed of progress on this.

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.

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Legal & General Assurance Society Ltd has a 20 year lease from September 2005 on City Park 2. The current passing rent is Stg£1.27m. The tenant has the option to break the lease in March 2023, giving just under 10 years secure rental income. However as the lease term reduces, it will become less attractive to investors.

A number of attempts have been made by the asset managers to enter into discussions with the tenant in relation to extending and/or re-gearing the lease beyond the 2023 lease break date. Unfortunately, to date these have not been successful.

The yield applied by the valuer at the June 2013 valuation was 8.5% compared to 7.75% in December 2012, resulting in a fall in value of 8.71% over the period. The explanation for the significant move in yield is as a result of both the reduction in the lease term – now just under 10 years - along with some comparable transactions that have taken place for assets that were on the market for a considerable length of time.

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.