

# Westlink Syndicated Fund

PERFORMANCE REPORT 30 JUNE 2011

## 1. About the Westlink Properties

### A) Block 3, Richview Office Park, Clonskeagh

The property comprises a 680m<sup>2</sup> (7,320ft<sup>2</sup>) two-storey modern office with 18 surface car parking spaces. Completed in the 1990's, the building is of concrete frame construction with raised access floors and suspended, acoustic ceiling tiles throughout.

The entire building is let to Tilman Asset Management for a term of 30 years from January 1995 subject to a tenant break option in 2015. The passing rent is €222,790.

### B) Block 4, Richview Office Park, Clonskeagh

The property comprises a two-storey, detached, modern office building of concrete frame construction, with raised access floors and suspended, acoustic tiled ceilings. It has a floor area of 680m<sup>2</sup> (7,320ft<sup>2</sup>). Also included are 26 parking spaces.

The entire building is let to Ardagh Glass Group Plc for a term of 20 years from December 2006 subject to a tenant break option in 2016 and 2021. The passing rent is €220,576.

### C) Block B, Ashtowngate

The property comprises a three storey over basement modern office building extending to 1,560.82m<sup>2</sup> (16,800ft<sup>2</sup>) and 57 car parking spaces. Finishes include carpeted raised access floors, suspended ceilings and a ceiling mounted cooling

The ground and first floor are let to the Office of Public Works on a 25 year full repair and insuring (FRI) lease from February 2007 at a current rent of €254,401 per annum.

Environmental Systems Research Ireland Ltd occupies the second floor on a 20 year lease from May 2004 subject to a break option in 2014. The passing rent is €117,079 per annum.

### D) Block C, Ashtowngate

The property comprises a modern office building constructed to third generation. Finishes include carpeted raised access floors, suspended ceilings and ceiling-mounted cooling system. Total floor area is 1,638.49m<sup>2</sup> (17,636ft<sup>2</sup>) and there are 63 parking spaces.

The first and second floors of the building are occupied by Intrum Justitia and Waterways Ireland respectively. The ground floor is vacant and currently available on the market to let.

The 1st floor is occupied by Intrum Justitia on a 25 year lease from October 2002 (with no break option). The current passing rent is €155,000 per annum.

The 2nd floor is occupied by Waterways Ireland on a 20 year lease from January 2001 (with no break option). The current passing rent is €138,000 per annum.

### E) Westlink Industrial Estate, Kylemore Road.

The estate comprises 31 warehouse units which are of concrete frame construction with red brick facades. Each unit comprises two storey offices to the front with warehouse accommodation to the

rear. The total property area is 18,019m<sup>2</sup> (193,958ft<sup>2</sup>), with individual lots ranging in size from about 372m<sup>2</sup> (4,000ft<sup>2</sup>) to 1,520m<sup>2</sup> (16,360ft<sup>2</sup>).

There are 21 units which are occupied with a large number of different businesses represented: Smurfit Ireland, the EHB, the ESB, DGS Accessories, Diversey (Ireland) etc. Consequently, there is a large number of different leases involved ranging in term from 5 to 35 years, expiring between now and 2027. As indicated in our December 2010 communication, the total passing rent has decreased to approximately €800,000, per annum, mainly due to the departure of some tenants and payment difficulties with other tenants. Ten units are vacant and currently on the market to let. However, it is proving difficult to fill space and interest in the units is very subdued. We are also experiencing difficulties with some tenants whose businesses are suffering and there are increasing arrears in rental payments. We have actively engaged with several tenants and have granted short-term rent reductions to some. We have also managed to enter into short-term licences on some units but at significantly lower rents. One new lease was agreed in May 2011 on 2 units, but again at a low rent and for a short-term (5 years). Also, the Diversey tenant has exercised an option to break its lease in December 2011 and this will have a further negative impact on income.

## 2. Performance of the Westlink Property Fund

### Property Valuation – June 2011

The properties in the Westlink fund were purchased in 2005 for a total of €41.1m. See below for details of each property value:

#### Richview

The property (Block 3) was purchased in 2005 for €4.3m (plus costs). The value of the property has decreased by 11.76% to €1.5m in the six months to June 2011 as a result of an increase in the yield to 8.4%. The closer the 2015 lease break gets, the

more negative the impact will be on valuation. Also, valuers are of the opinion that the property is significantly over-rented.

The property (Block 4) was purchased in 2005 for €4.4m (plus costs). The value of the property has decreased by 9.59% to €1.65m in the six months to June 2011 as a result of an increase in the yield to 8.52%. The closer the 2016 break gets, the more negative the impact will be on valuation. Also, valuers are of the view that the property is significantly over-rented.

#### Ashtowngate

The property (Block B) was purchased in 2005 for €4.55m (plus costs). The value of the property has decreased by 9.85% to €2.93m in the six months to June 2011. There was an increase in the yield by 0.35% to 8.37%. Also, valuers are of the view that the property is significantly over-rented.

The property (Block C) was purchased in 2005 for €5.4m (plus costs). The value of the property has decreased by 0.18% to €2.75m in the six months to June 2011. The yield has increased to 9.23%. Valuers are of the view that the property is significantly over-rented.

#### Westlink

This property was purchased in 2005 for €22.46m (plus costs). The value of the property has decreased by 19.96% to €8.7m in the six months to June 2011 as a result of an increase in the yield by 0.44% to 9.19% as well as a fall in rental values.

So in summary, the overall valuation of the properties in the Westlink fund is €17.53m, a decrease of 14.07% in the six months to June 2011 as a result of an increase in the yields and a decrease in the ERVs. Yields have continued to rise due to the ongoing deterioration in the Irish economy, the restriction of credit and the lack of investor confidence and appetite. See section 3 for further details on the valuation of the property.

## Negative Net Asset Value of Fund

The current guide value of your Westlink policy is €0.00 because the net asset value of the fund is negative. The loan for the Westlink property, (€30.39 million) is now in excess of the property value, (€17.53 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 plan will be valued at greater than €0.00. As you're aware, the Westlink 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 30<sup>th</sup> June 2011.

## 3. Factors impacting the performance of the fund

Source: Irish Life

### Office Market

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.

Transactional activity remains very low, with buyer activity limited to occupiers rather than investors. The vacancy rate in the Dublin office market has fallen marginally from the high of 23% following the Google acquisition of the vacant 100,000 sq.ft Montevetro building in Dublin 4.

Potential occupiers are encouraged to make relocation decisions, taking advantage of flexible lease terms and low rental levels. We expect to see some further declines in rental and capital values this year as investment and economic risks persist.

### Industrial Market

The supply of industrial property continued to increase in Q1 2011. Vacancy levels continue to grow given the subdued demand and increasing supply. Demand for industrial property remains sluggish and there is a wide variance in the rental levels achieved across the market.

Potential tenants are naturally uncertain about their future. This is being reflected in the flexibility they require when taking any lease. Potential occupiers can obtain very attractive rental deals with significant incentives.

Competition among landlords continues to intensify as a larger volume of properties become available on the market. This has and will continue to put downward pressure on rents and force landlords to deliver more flexible terms than in the past.

## Property Update

### Richview

The buildings here are fully let on long term leases, albeit there are breaks in these leases in 2015 and 2016. There continues to be a high vacancy rate in Clonskeagh and a large amount of space is still available. There is an outstanding rent review on Block 3, Richview Office Park.

However, given current market conditions, it has been decided to record a "nil" increase on this review.

### Ashtowngate

Rental payments continue to be made in a timely manner in both Blocks B & C Ashtowngate and there is no evidence of any of the tenants being in difficulty for the time being. There is an outstanding rent review on Block B, Ashtowngate.

Given current market conditions, it is unlikely that an increase in rent will be achieved at this review. New marketing was put in place on the vacancy in Block C and this has generated some interest; however, tenants are taking a long time to make decisions and nothing concrete has materialised for this space.

### Westlink

The outstanding rent reviews are currently being negotiated but tenants are continuing to resist increases and are in fact either requesting reductions in rent or running into difficulties with rent payments. We have actively engaged with several tenants and have granted some short-term rent reductions and/or revised payment plans. We have negotiated some new leases and short-term licences but at significantly lower rents.

The current value of the entire portfolio as at June 2011 is €17.53 million. This valuation figure is likely to fall in the short term. With regard to loan on the property, the amount outstanding in June 2011 is €30.39 million with €500,000 paid off the loan capital so far in 2011. As the loan for the property is on a variable rate, it has benefited from cuts in ECB interests rates and the rate currently applying is 2.39%.

## 4. Looking Ahead

The team continue to implement the revised asset management strategy which includes the following:

- The installation of a remote security system to save on security costs has been completed. We have received positive feedback on this .from a number of tenants.
- Implementation of other cost-cutting measures remains ongoing to bring service charges on the estate down to a more tenant friendly level. Further savings have been achieved in the 2011 service charge budget.
- Further reductions have been achieved in the service charge budget which brings down the tenants's occupational costs.

- Negotiations currently being held with several tenants to reach agreement on rent reductions and/or revised payment plans for those in difficulty.
- More flexibility (e.g. reduced rents/shorter leases and/or licences) for any new lettings to generate cash in the fund.
- Some light refurbishment is currently being carried out to some of the vacant units to make them more attractive for viewing.

## 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<sup>th</sup> 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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