



Geared Property Update Frederick Court Pension Fund



Irish Life

1. About the Frederick Court Property

The property is a six-storey over basement office building constructed in 1981 with a Georgian Style entrance located on North Frederick St in Dublin 1. It has 1,967m² of office accommodation and 25 on site car park spaces. All floors are serviced by two 8 person Otis lifts.

The property is fully let to the Office of Public Works. The lease is for a 35 year term expiring 2016 (with a remaining term of 5 years) with 5 yearly upward only rent reviews*. The next review is due this year.

*upward only rent reviews – rent can increase or stay the same but cannot reduce.

2. Performance of the Frederick Court Pension Fund

Property Valuation – June 2011

This property was purchased in 2003 for €10m (plus costs). The value of the property has decreased by 9.8% to €5.05m in the six months to June 2011 as a result of both a reduction in the estimated rental value* (ERV) and the shorter period left on the lease. See section 3 for further details on the valuation of the property.

* Estimated Rental Value (ERV) - The rent this property could command in the open market subject to the terms of this lease.

Negative Net Asset Value of Fund

The current guide value of your Frederick Court policy is €0.00 because the net asset value of the fund is negative. The loan for the Frederick Court property, (€6.3 million) is now in excess of the property value, (€5.05 million) and all other contributing factors to the return of the fund such as previous valuations, loan interest expense, fund costs, rental income 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 Frederick Court 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 is expected to report a decline in capital values of -6.5% for the first half of 2011. This decline brings the fall from the market peak in December 2007 to c 64%. 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 market continues to suffer from illiquidity and uncertainty around "Ireland Inc." following the IMF/ECB bailout and the bank stress test announcement. 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 but the nature and extent of any proposed legislation remains uncertain.

Transactional activity remains very low, with buyer activity limited to occupiers rather than investors. The vacancy rate in the Dublin office market will fall marginally from the high of 23% following the Google acquisition of the vacant 100,000 sq.ft Montevetro building in Dublin 4 and the two adjoining buildings which they occupy as tenant. Potential occupiers are encouraged to make relocation decisions, taking advantage of flexible lease terms and low rental levels.

Property Update

The property is fully let to the Office of Public Works (OPW) at a current rent of €702,000 p.a. which equates to a level of €357 per sq m. The lease runs until 2016 and the rent is considered to be quite secure for the next 5 years. The next rent review arises this year. However, as previously reported, current market conditions would indicate there will not be an increase in rent at review.

The current value of the property as at June 2011 is €5.05m based on a yield of 8.22%. With regard to the loan on the property, the amount outstanding in June 2011 has fallen to €6.284million. The current loan to value (LTV) of the property is 124%.

Loan extension discussions concluded with Bank of Scotland Ireland in December 2010 and the debt which matured in October 2010 was extended for a 2-year period until late 2012. The fixed element of the loan also matured in October 2010 and the total loan is now at a variable rate but is being charged a higher margin of 3%. The all-in fixed rate up to October 2010 was 5.35%. With variable rates now running quite low, the new all-in rate is currently lower than the fixed rate which had applied to October 2010.

On 31st December 2010 Bank of Scotland Ireland (BOSI) ceased to exist and has merged into Bank of Scotland plc, now in the ownership of Lloyds UK.

In June 2011 a meeting was held at the request of the lenders with representatives of Certus (who are now managing all previous Bank of Scotland Ireland loans). The purpose of the meeting was the annual review of the loan by the bank. Discussions were held on what the property strategy was and the indications from the bank are that an extension to the loan beyond 2012 will be difficult.

4. Looking Ahead

- As previously reported, the asset management team has investigated with the tenant the potential of extending the OPW lease. A proposal for a lease extension was sent to the OPW for consideration in early 2010 to which no response was received. We believe they have now undertaken a review of all their properties and their representatives recently requested that we submit a new proposal which we submitted in May 2011.
- Note that the asset management team has advised that unless this lease extension can be agreed, the value of this asset is likely to decline further given the short term (5 years) remaining on the lease.
- The building is reaching the stage (now 28 years old) where significant refurbishment works will be required in the event the building is vacated by the current tenant at expiry of the lease or indeed to entice the tenant to remain in place.

- As per our last update, given current market conditions in general and the lack of liquidity in the investment market, we do not believe now is the appropriate time to sell the property. The strategy is to hold the property in the fund at least until such time as discussions conclude with the tenant. As mentioned earlier, there may be no choice in 2012 but to sell the property in order to repay the debt.

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.

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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Warning: The value of investments may go down as well as up.

Past performance is not a reliable guide to future performance.