



Geared Property Update

City Park 2 Pension Fund



Irish Life

1. About the City Park 2 Property

The City of Brighton & Hove, located 55 miles south of Central London is the dominant commercial, tourist and cultural centre on the Sussex coast. City Park is located to the north of the city centre in a highly accessible position overlooking Hove Park. City Park 2 is a headquarters style office building providing a total net area of approximately 67,296ft² (6,252m²).

2. Performance of the City Park 2 Pension Fund

Property Valuation – June 2011

This property was purchased in 2006 for Stg£23.35m (plus costs). The value of the property remains unchanged at Stg£17.18m in the six months to June 2011.

See section 3 for further details on the valuation of the property.

Fund Return (unit price movements)

From 1st January 2011 to 30th June 2011

This valuation and all other factors contributing to the return on the fund such as the outstanding loan balance (Stg£15.5 million), loan interest expense, fund costs, rental income, exchange rate movements and fund management charge has resulted in the value of the units in the fund rising from 0.058 to 0.068 since the last valuation date i.e. 1st January 2011 to 30th June 2011.

From August 2006 (launch date) to 30th June 2011

The value of units in the fund have fallen 93.2% from launch in August 2006 to 30th June 2011.

Net Asset Value of Fund

As the net asset value of the fund is close to zero and could become negative, there may be a possibility that the current guide value of your City Park 2 policy could move to zero again in the future. An example of how this could happen would be a further reduction in the value of the property. As the debt is on a non-recourse basis, the fund would be valued at nil in this eventuality.

If this occurs, 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 City Park 2 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

Office Markets in the UK continue to be split between Central London and the rest of the Country. Central London with its safe haven status continues to attract overseas and institutional investors. With limited opportunities available, investors are competing aggressively, keeping downward pressure on yields. Outside London and excluding major Cities investment market conditions remain less buoyant overall.

Investor demand remains narrowly focused and the prime/non-prime yield spread remains almost three times higher than at the peak of the boom in 2007.

Key risks to the sector come from debt and a pickup in credit availability continues to look unlikely. Major UK Banks continue to reduce their exposure to the sector; recent reports suggest that Lloyds bank is due to bring a large portfolio of distressed assets to the market.

In terms of the office occupational market, a lack of development in London and rising demand has put upward pressure on rental levels. Regional occupier demand remains generally weak, due to elevated supply and concerns over the Governments austerity measures. Occupier markets outside of Central London are still generally subdued and rental growth does not appear likely in the immediate future.

Property Update

City Park 2 is let to Legal & General Assurance Society Ltd for a 20 year term at a current passing rent of Stg£1,272,079 with 5 yearly upward only rent reviews (first review due in 2011). The tenant has the option to break the lease at the end of year 17, subject to 12 months prior written notice.

Since our December 2010 communication there have been no substantial letting transactions in the Brighton and Hove office market. In terms of the investment market, the most relevant sale in terms of covenant/lease/scale has been that of the 184,000 sq ft grade A complex Sir George Siemens Square in Frimley in May 2011. Let to Siemens plc to 2027 with a tenant's break option in 2022, rack rented, it sold off 7% net initial yield. This yield has also been applied by the valuer in valuing the City Park 2 property at the mid year.

With regard to the loan on the property, the rent paid by the tenant exceeds the current interest

repayments on the loan, with an interest cover ratio of 1.29 times. The loan amount outstanding in June 2011 has fallen to Stg£15.5 million. Due to the continuation of loan payments (with Stg£130,000 repaid so far in 2011 in addition to interest repayments), the loan to value (LTV) of the property stands at 90%.

4. Looking Ahead

- The Asset manager visited the property in late 2010 along with local property advisers and the building is extremely well looked after by the tenant.
- The asset manager has instructed the local advisers to closely monitor and assess the market activity in Brighton & Hove and the surrounding areas leading up to the 2011 rent review on the property. However, as indicated above little or no letting transactions have taken place so far in 2011.
- Given the current market environment, rent review negotiations can be extremely challenging and we expect the tenant to resist any increases in rent. Our valuer considers the property to be "rack rented", implying that the passing rent on the property is equal to the market level or ERV (estimated rental value).
- The asset manger will continue to make capital loan repayments from any excess rental income in the fund in order that the debt is reduced.

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.

This product will be affected by changes in currency exchange rates.

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.

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