



Geared Property Update Harcourt Property Fund



Irish Life

1. About the Harcourt Property

The property comprises a five storey, Georgian office building on 72/74 Harcourt Street. The building was modernised around 1980. It has approximately 3,200m² of office space and 52 car spaces. The building is fitted out to a modern specification with raised access floors, air conditioning and lifts serving all floors.

The entire property is let to Bank of Scotland (BOSI) on a 35 year lease from 25th May 1980, expiring in May 2015. The entire property was previously sub-let to the Office of Public Works (Dept. of Justice, Equality and Law Reform), who terminated their occupation in March 2010. BOSI continue to be liable for the rent under the lease.

On 31st December 2010 Bank of Scotland Ireland (BOSI) ceased to exist and has merged into Bank of Scotland plc. Our asset managers have been in contact with BOSI's legal team and the necessary legal documentation is now in place formalising this matter.

2. Performance of the Harcourt Property Fund

Property Valuation – June 2011

This property was purchased in 2003 for €17.47m (plus costs). The value of the property has decreased by 5.60% to €10.12m in the six months to June 2011 as a result of a reduction in the underlying rental value.

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 (€8.73 million), loan interest expense, fund

costs, rental income and fund management charge has resulted in the value of the units in the fund falling from 0.346 to 0.31 since the last valuation date i.e. 1st January 2011 to 30th June 2011.

From November 2003 (launch date) to 30th June 2011

The value of units in the fund have fallen 69% from launch in November 2003 to 30th June 2011.

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. Exit restrictions apply to this fund.

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. Potential occupiers are encouraged to make relocation decisions, taking advantage of flexible lease terms and low rental levels.

Property Update

The property is let to Bank of Scotland Ireland (BOSI). They had sub let it to Office of Public Works for occupation by the government however this sublease was terminated in March 2010. BOSI have been seeking a new tenant for the building for a number of months but they continue to be liable for rent and other lease obligations for the remainder of the lease term which runs until 2015. The rent is considered to be quite secure until May 2015. A sub-lease has recently been agreed for half a floor in the building and this tenant has just moved into the building.

The current rent of €1,340,000 p.a. equates to a level of approximately €357 per sq m. The March 2010 rent review was concluded at a nil increase. As previously reported, it was expected that there would be no increase in rent given current market conditions, as the current rental value is below the passing rent.

The current value of the property as at June 2011 is €10.12m based on a net initial yield of 7.56%. The reduction in rental value over the last twelve months has had a significant negative impact on the value of the property and the closer the 2015 lease expiry gets, the more negative the effect is likely to be on the valuation.

With regard to loan on the property, the amount outstanding in June 2011 has fallen to €8.727million as a result of capital repayments. The current loan to value (LTV) of the property is 86%.

4. Looking Ahead

The asset management team continues to engage with the tenant and monitor progress on the lease marketing.

While the rental income from the property is secure until May 2015, the value of this asset is likely to decline further given the short (under 4 years) unexpired lease term, unless a new lease can be negotiated on the entire property.

The current lack of liquidity in the market along with the reducing term of the lease make it very unlikely that the property could be sold in the short term.

We will continue to monitor any sub-let/assignment with Bank of Scotland. The property is in a very good Dublin 2 office location, and we are hoping that as the market recovers, a new tenant (or a number of tenants) can be found prior to 2015.

In the meantime we continue to make capital repayments on the loan with a total of approximately €360,000 paid off the capital so far in 2011.

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.

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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