



Geared Property Update - Westlink Fund – H1 2013

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1. About the Westlink Properties

Richview Office Park, Clonskeagh

Both Block 3 and Block 4 of the Richview Office Park comprise a two-storey office building with a floor area of 680m² (7,320ft²) and parking spaces. Block 3 is let to Tilman Brewin Dolphin for a term of 30 years from January 1995 subject to a tenant break option in 2015. Block 4 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.

Ashtowngate

Block B comprises a three storey office building extending to 1,560.82m² (16,800ft²) and 57 car parking spaces. The ground and first floor are let to the Office of Public Works on a 25 year lease from February 2007. The second floor is let to Environmental Systems Research Ireland Ltd on a 20 year lease from May 2004 subject to a break option in 2014.

Block C comprises an office building extending to 1,638.49m² (17,636ft²) and 63 parking spaces. The 1st floor is occupied by Intrum Justitia on a 25 year lease from October 2002 (with no break option). The 2nd floor is occupied by Waterways Ireland on a 20 year lease from January 2001 (with no break option). The ground floor is vacant and currently available on the market to let.

Westlink Industrial Estate, Kylemore Road

The estate comprises 31 warehouse units with each unit consisting of two storey offices to the front with warehouse accommodation to the rear. The total property area is 18,019m² (193,958ft²), with individual lots ranging in size from about 372m² (4,000ft²) to 1,520m² (16,360ft²). There are 22 units which are occupied with a large number of different businesses represented: Smurfit Ireland, the ESB, DGS Accessories, etc. Consequently, there is a large number of different leases involved ranging in term from 5 to 35 years, expiring between now and 2027. Nine units are vacant and currently on the market to let.

2. Performance of the Westlink Fund

Property Valuation – June 2013

The properties in the Westlink fund were purchased in 2005 for a total of €41.1m. The current aggregate value of the properties is €15.87m. See below for detail of each property value:

Richview

Block 3 was purchased for €4.3m (plus costs) and Block 4 for €4.4m (plus costs) in 2005. The value of the block 3 has fallen by 5.8% to €1.3m and block 4 has fallen by 5% to €1.5m in the six months to June 2013. The closer the lease break gets for both blocks, the more negative the impact has been on valuation. Also, valuers are of the view that the property is significantly over-rented.

Ashtowngate

Block B was purchased for €4.55m (plus costs) and block C for €5.4m (plus costs) in 2005. The value of Block B has fallen by 5.7% to €2.8m and block C has fallen by 5.3% to €2.7m in the six months to June 2013. The valuers are of the view that both blocks are significantly over-rented.

Westlink

This property was purchased in 2005 for €22.46m (plus costs). The value of the property has fallen by 5.38% to €7.57m in the six months to June 2013.

In summary, the overall valuation of the properties in the Westlink fund has fallen by 5.4% to €15.87m 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 Westlink policy is €0.00 because the net asset value of the fund is negative. The loan for the Westlink property, (€29.37m) is now in excess of the property value (€15.87m), this and all other contributing 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 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 June 2013.

3. Loan Maturity

The loan on this property is held with permanent tsb and matured in March 2013. As reported previously permanent tsb had advised that they required repayment of the loan, which would have required the property to be sold.

However after extensive negotiations, permanent tsb have now agreed to an extension on this loan for a further 3 years on the following terms:

- A 1% arrangement fee
- Nil Margin
- A 1% exit fee when the property is sold.
- Quarterly rental sweeps of surplus income to reduce the balance of the loan.
- permanent tsb reserves the right to review its position if the property valuation falls more than 10% from the December 2012 valuation of €16.78m

Whilst the extension of the loan term means that the property does not need to be sold at this time, the current loan-to-value ratio of 182% gives rise to a strong possibility that the property may still need to be sold at a later date without a return for policyholders. For example at 31st March 2016, Irish Life may decide, taking all of the circumstances into account, not to seek a further extension of the loan term with the current lender or with an alternative lender and may, using its sole discretion as provided for in the fund's terms and conditions, decide that the property should be sold and the fund closed.

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

The Irish commercial property investment market has experienced a significant improvement in transactional activity over the first 6 months of the year. This has been driven by investor demand for prime Dublin city centre offices and an improvement in the supply of properties brought to the market, as the banks and NAMA have commenced unwinding their exposure to the sector. This has not extended to secondary properties, or suburban and regional office markets as concerns over high vacancy rates and rental prospects persist.

The overall Dublin office vacancy rate remains stubbornly high at 19% but the Dublin CBD has seen grade A office vacancy fall to c.5% driven by take up by foreign direct investment companies and the wider business services sector. Prospects for rental growth are good, however due to current levels of over renting this will have limited impact on rents receivable for most leased investment properties. In relation to older/secondary and suburban offices, it is expected that these will continue to underperform in the short/medium term.

The industrial market is showing some signs of recovery however, the market is still faced with some challenges. In occupier markets, demand is expected to continue, but a key issue remains the high level of older stock, some of which is likely to remain vacant in its current condition. The availability of quality stock is likely to continue to tighten, with potential stock depletion in key locations, particularly for certain size categories.

Secondary rents remain low at €3.00 - €4.00 per sq.ft and are likely to remain at these levels in the short term due to over-supply of product. Lease terms continue to be flexible. There is evidence of some deals signing with longer lease terms but they do include a number of breaks.

Managing and minimizing void costs is a key issue for Landlords in the industrial sector.

Property Update

Richview

As advised in our previous communication, the discussions with the tenant in Block 3 have resulted in the tenant taking out the 2015 lease break in return for a reduction in rent.

We are now in a position where we have 10 years secure income to a good covenant. This has not yet been reflected in the valuation of the property but we expect there to be a small uplift in value in our next report. This makes the asset both more attractive and liquid and we are currently considering a sale of the asset as part of the overall strategy in the entire portfolio.

Ashtowngate

The vacant space in Block C continues to prove difficult to let despite high rental incentives being offered. We have recently managed to let some additional car parking spaces on short-term licences.

On the remainder of the Ashtowngate space, rental payments continue to be made in a timely manner and there is no evidence of any of the tenants being in difficulty for the time being.

Westlink

There are now ten units currently vacant in the industrial estate. It continues to be challenging to fill space and interest in the units is very subdued despite the favourable terms being offered. We have worked at reducing our service charges and vacancy costs and have succeeded in achieving reductions for the past few years.

We continue to have tenants either requesting reductions in rent or running into difficulties with rent payments. We are engaging with these tenants and have granted some short-term rent reductions and/or revised payment plans.

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.