



## **Geared Property Update Citymark Pension Fund**



**Irish Life**

## 1. About the Citymark Property

Citymark, 150 Fountainbridge, Edinburgh EH3 9PE comprises a six-storey office block totalling 101,403 sq ft (9,420 sq m) of modern office accommodation incorporating raised access floors, air conditioning and lifts serving all floors. There are 22 car parking spaces provided on site.

The property is leased to the Governor and Company of The Bank of Scotland on a full repairing and insuring lease for 22 yrs 10.5 months from March 2003.

## 2. Performance of the Citymark Pension Fund

### Property Valuation – June 2011

This property was purchased in 2003 for Stg£40.6m (plus costs) at a net initial yield of 5.8%. The value of the property remains unchanged since December 2010 at a value of Stg£37.95m.

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£29.54 million), loan interest expense, fund costs, exchange rate movements, rental income and fund management charge has resulted in the value of the units in the fund falling from 0.58 to 0.564 since the last valuation date i.e. 1st January to 30<sup>th</sup> June 2011.

#### From June 2003 (launch date) to 30<sup>th</sup> June 2011

The value of units in the fund have fallen 43.6% from launch in June 2003 to 30<sup>th</sup> 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 30<sup>th</sup> June 2011. Exit restrictions apply to this fund.

## 3. Factors impacting the performance of the fund

Source: Irish Life

### Market Overview

The Market has been very subdued in the first 6 months in Edinburgh with very few investment transactions and very little occupier requirements to take space in office buildings. One significant transaction which recently took place saw Amazon take a lease of 60,000sq.ft. The headline rent is quoted at £17 /sq.ft. which shows a significant reduction on the headline rents that were being achieved at the height of the market (at figures up to £30/sq.ft).

There is a view from local agents BNP Paribas & Ryden that over the next number of years the Grade A office stock that is available will be depleted enough to put upward pressure on rental levels but as the base level is low, rents are likely to remain below peak market levels for the foreseeable future.

There has however been positive news in the Edinburgh market where State Street, the US asset management firm, is developing a European 'centre of excellence' at its Edinburgh base which will see it add 90 jobs to its 750 strong Scottish workforce (The Scotsman 2 June 2011).

## Property Update

The property continues to be leased to HBOS who were taken over by Lloyds. The property is fully utilised by them. There are 1200 desks in the building with an estimated 97% of these full as at June 2011.

Lloyds have been consolidating their staff in a number of buildings including Citymark leaving a number of buildings with very low occupancy levels. The local view is that they may be looking to exit these buildings and are set to approach their landlords or look to sub-let the space.

The brewery site which is opposite Citymark and was earmarked as a Corporate HQ site for HBOS has not been developed. The view from local agents is that the adjoining owner may look to acquire the site and develop it into a mixed residential/commercial use.

The property is currently rented at a passing rent of Stg£24.75 per sq. ft. The rental value which the agents are estimating that the property is worth is approximately £22.50. This value has not changed in the last 12 months unlike many regional property investments which have experienced falls in value.

Rental payments continue to be made in a timely manner by the tenant. Loan interest payments continue to be paid with rental income exceeding debt cost by 1.32 times (interest cover ratio). There is an excess of rental income over debt costs due to the low interest rate environment. This has enabled the reduction of the loan on this property by Stg£250,000 for the first half of 2011. It is expected that during the second half of 2011 the loan will be further reduced by Stg£250,000.

The loan from Bank of Scotland on the property has been reduced to Stg£29.54m million due to continued quarterly capital repayments. The loan to value stands at 78% at June 2011. Should a

property sale not be appropriate at the fund maturity date we would likely require an alternative loan provider given that BOS have closed their Irish banking operation and are unlikely to be open to a loan extension.

## 4. Looking Ahead

- The debt is being repaid quarterly. The capital repayments over the next 6 months are estimated to be in the region of stg£250,000 given the current net asset value.
- The key focus is to continue to pay capital repayments off the loan from the excess cash 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 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.**

**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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