Quarterly Report Q3 2024 **Irish Property Fund**

Ecomonic backdrop

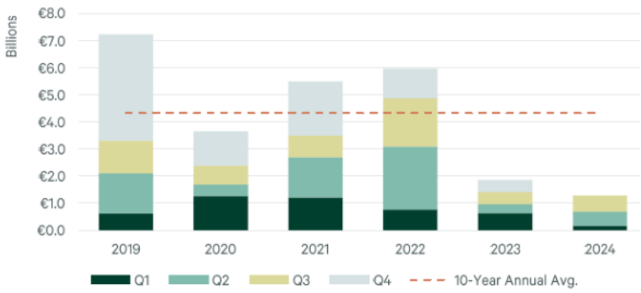
The Irish economy continues to improve, and consumer price inflation has slowed (to an annualised rate of 0.7% in September 2024, and notably down from 6.4% in September 2023). Modified Domestic Demand (MDD, a measure of domestic and government consumption, that strips out distortions that arise from internationally owned enterprise operations and aircraft leasing for example, and provides a more accurate picture of domestic activity) is forecast to be at over 2% in 2024 and at over 3% in 2025 (as reported by Knight Frank research). Eurozone inflation has dropped to 2%, and the expectation is that the European Central Bank (ECB) will continue to reduce interest rates into 2025. This is likely to improve both sentiment and activity in the economy. Risks remain on the geopolitical front, with elections and international conflicts dominating news headlines.

Investment market

Trading activity in Q3 2024 showed an increase over the previous quarter (at just under €600m, versus €514m in Q2 2024, according to CBRE). While activity is low relative to in recent years, the sequential quarterly increase shows some momentum is returning to the investment market after a slow 2023. However, 2024 year to date still represents a significant drop in volume relative to prior years, and also relative to the 10-year average, as shown in the graph.

The improvement in deal volume is likely down to several factors. Firstly, the cuts to ECB interest rates (in June and September), with market expectation that this trend may continue, is positive for the cost of debt financing. As the majority of real estate holdings tend to have some level of mortgage financing, this is a very positive development for the investment market. The slow increase in the number of assets being placed on the market, and market evidence showing that asking prices are closer to sales prices, is creating pricing evidence in the market. This provides both sellers and investors with more confidence when making investment decisions, and also helps property valuers conclude to asset values. Lastly, several receivership sales have successfully closed after reasonably competitive bidding processes. (A receiver is appointed by a lending institution to recover a debt attached to a property in an insolvency event.) Typically, receivership sales can provide value-seeking investors with a good opportunity to acquire a property at a time in the cycle when investment demand is slow, and so, if done wisely, the investor can profit later when market sentiment improves as the economy recovers.

Investment volumes by quarter in the Irish market 2019-2024



Source: CBRE Research

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MARKET REVIEW (CONTINUED)

A notable trend in Q3 2024 was the return of larger deal sizes to the investment market. A total of five deals over the €40m lot size transacted (three of these were over €70m). In prior quarters, many institutional investors had elected not to participate in the market, which was dominated by smaller lot sizes (in the €5m to €20m lot size). Furthermore, the retail, multi-family, industrial and office sectors were represented in these five deals, and this diversity in investor demand is positive for the real estate sector in general.

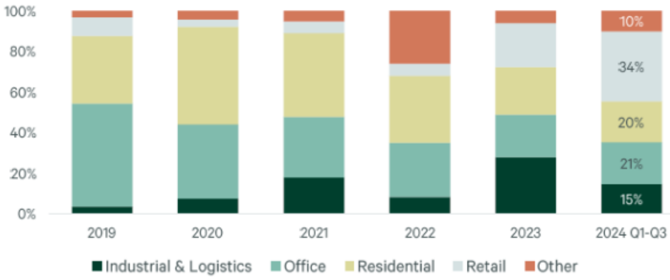
The largest transaction was the sale of The Square in Tallaght, sold by Oaktree (a US firm) and acquired by Eagle Street (a pan-European asset manager), in a deal size close to €130M. The debt financing had been provided to Oaktree by both AIB and M&G (the latter London-based), and these lenders had appointed a receiver to recover the debt. This shopping centre was constructed in 1990 and has traded several times in the period following the opening. The sale of the 298-bed student accommodation building by Scape (an international student accommodation service provider) was to Hines (US investment firm). The asset is located in the Grafton Street sub-market and benefits from proximity to several universities.

The most notable office transaction was the sale of Warrington Place (sold by Irish Life Assurance) for just over €40m, to a private investor.

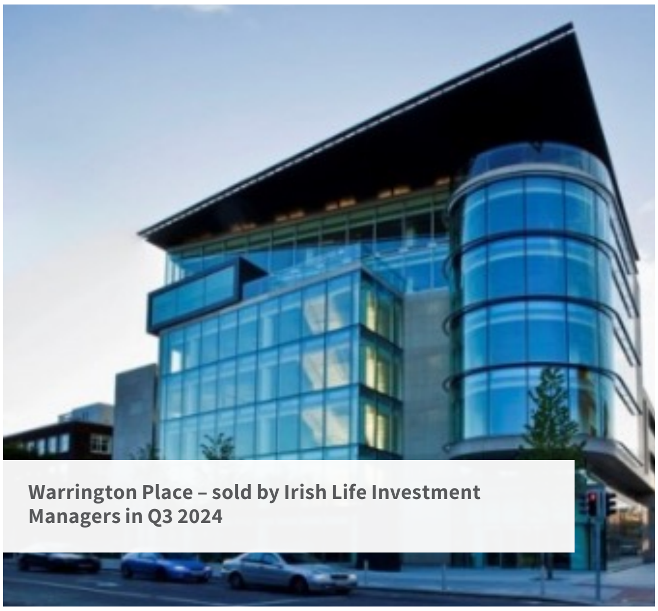
The table to the right shows the investment sector trends in respect of placement into the different sectors, and the trend of lower investment into the office sector has continued into 2024 to the benefit of the retail sector, which has attracted 34% of investment year to date. This number is partly skewed by a single transaction, the sale of Tallaght Shopping Centre, the details of which were set out earlier in this report. Liquidity in the office market has continued to slowly improve, and the market accounted for 24% of investment in Q3 2024.

With respect to the outlook for the investment market, investment sentiment continues to improve. Again, investment volumes are low relative to the periods 2019 through 2022, but the increased activity in larger lots sizes and by institutional investors is positive.

Investment in the Irish property market by sector (2019-2024)



Source: CBRE Research



Warrington Place – sold by Irish Life Investment Managers in Q3 2024

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MARKET REVIEW (CONTINUED)

Office

Employment continues to increase in the Irish economy, and the highest numbers of employed on record are now at work (2.75m people, representing an increase of 71,500 people over Q2 2023 to Q2 2024, according to Knight Frank research). Employment tends to be a key driver of the office market, and so this provides a strong foundation for this sector going forward.

As noted in previous updates, the office market continues to undergo a period of structural change, where the transition to more modern hybrid working practice has modified the demand and use of office buildings. In a tight labour market, employers are transitioning to more centrally located office facilities and into buildings with stronger environmental credentials in order to attract workers in certain sectors (financial and professional services for example). Consequently, demand continues to be strong for well-located, high-specification offices, while other parts of the Dublin office market (buildings with an older specification and also those with more peripheral locations) are experiencing a lull in prospective tenant interest.

Total take up in Q3 was at 581,000 square feet, which brings the year-to-date 2024 number to 1.68m square feet, and this number is expected to grow to 2m square feet by year end 2024. This number is healthy relative to recent years, above the 10-year average, and especially relative to the 1.4m square feet that was leased in 2023.

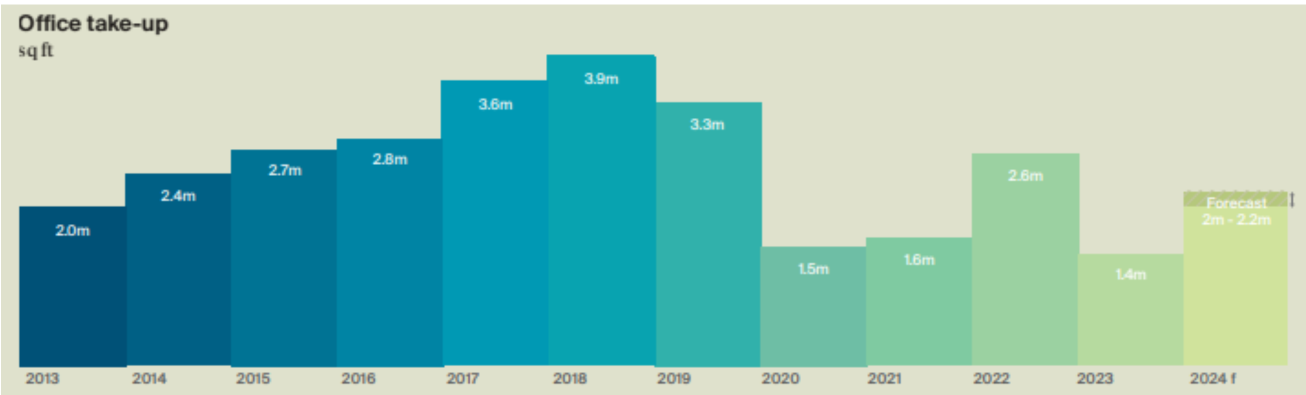
The largest occupiers of space have been professional and financial services, and TMT (Technology Media and Telecommunications), accounting for 70% of leasing activity. Actually, the TMT sector has been the most active sector in absorbing space over 2024 year to date, with Bloomberg, SAP, Apple, and Stripe among those that have closed letting deals.

The stronger letting activity over 2024 has reduced the office market vacancy to 15.1% at the end of Q3, down from 15.9% at the end of the prior quarter (per Knight Frank research). Again, the vacancy rate for the most desirable buildings, particularly in the Dublin 2 market is significantly lower, and is expected to tighten further in 2025. Vacancy in the market should also be viewed in the context of the natural equilibrium vacancy rate (the rate where reasonable latitude exists in the market for tenants to take space / move / increase take-up without entering bubble rent territory), which is estimated to be 6% to 8% according to Knight Frank.

Prime rents (the rents being secured for the best buildings) are in the order of €62 per square foot, and this has remained steady over the last year.

Taking the development pipeline into consideration, it is notable that large proportions of stock being delivered into the market over the years 2024 to 2026 are already reserved / pre-leased (so they are either under advanced negotiations or they are contractually agreed with occupiers). It is also notable that there is almost no planned pipeline of delivery of office space post 2026, according to Knight Frank. A total of 1.9m square feet is to be delivered/completed in 2024 (61% of this is re-leased), 642,000 square feet is to be delivered in 2025 (46% is pre-leased), and 1.3m square feet is to be delivered in 2026 (53% is pre-leased). This displays a very strong occupational demand for new product. It is also notable that, at this time, no new space is scheduled for completion post 2026, so the likelihood of a tightening of this subset of the office market (with scope for increased rental values) in the medium term is realistic.

Dublin market office take-up from 2013 to 2024 (year-end 2024 is forecast)



Source: Knight Frank Research, f = forecast

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MARKET REVIEW (CONTINUED)

Retail

The retail sector has remained resilient to the rise in inflation and cost of living. However, a notable negative impact is being seen across the food and beverage sector. These businesses are experiencing difficult conditions in light of increased operating costs (wage, energy, cost of goods inflation, for example), with diminishing latitude to continue passing on these increased costs to the end consumer.

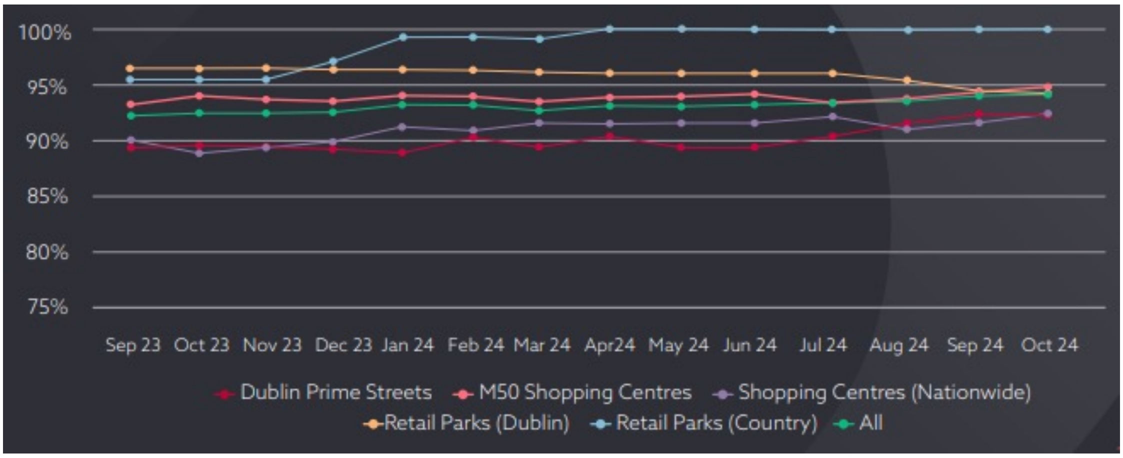
Rental growth is now a feature of certain parts of the market, like Grafton Street and Henry Street, which continue to very slowly experience increased rental values because of slow but sustained tenant demand, which is supported by continued improvement in footfall.

Retail parks' performance continues to show resilience, supported in part by the continued strong housing market.

Irish Life completed a new lease with Mango in the recently redeveloped 112/113 Grafton Street, which will be open for trade in early 2025. This is a relatively large format unit on the Street, offering approximately 3,000 square feet of retail accommodation at ground level and 13,000 square feet overall. Other letting deals either completed or under way involve Swatch, Also, New Balance, Mountain Warehouse, Lovisa, Kiko and Arket (a H&M brand).

Occupancy continues to be relatively strong in the various sub-sectors, set out in the graph below.

Occupancy in the various retail sub-sectors from September 2023 to October 2024



Source: Bannon

Industrial

Leasing activity has remained relatively low in Q3 2024, but vacancy in the sector continues to be very low, at less than 3% (accordingly to CBRE). Occupational demand continues to be strong, and CBRE reports that current demand is at 1.2m square feet, which is an increase on the number reported in Q2 2024.

Demand is being driven by the continued restructuring of supply chains and the continued improvement of economic conditions. Furthermore, tenant requirements continue to evolve with respect to technical and sustainability characteristics of the buildings being sought.

Leasing activity has mostly focused on the N7 (south-west Dublin) and the M1 (north-east Dublin) corridors, which, combined, accounted for over 80% of transactions in Q3 2024. In terms of building sizes (which reflects occupational demand), approximately 35% of activity was focused on 20,000 to 50,000 square foot buildings, and another 30% of deals were in buildings ranging from 50,000 to 100,000 square feet.

Rents continue to increase slowly, and the best rents are reported to be at €13 per square foot, and slow continued growth is projected, given the tight occupational market.

A total of 1.4m square feet of stock is currently under construction across 13 buildings, and delivery of the majority of this new stock is expected to be completed by year-end 2025.

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FUND STATISTICS

Total returns	
Q3 2024	+0.32%
1 Year	-4.87%
3 Years (annualised)	-2.73%
5 Years (annualised)	-1.96%
10 Years (annualised)	+5.00%

Property income yields	
Office	6.9%
Retail	7.5%
Industrial	3.6%
Portfolio	6.7%

Source: Irish Life Investment Managers. Data is accurate as at end of quarter three (30 September 2024).
The pricing basis of the fund changed in January 2020 from acquisition to disposal basis.

THE PORTFOLIO >

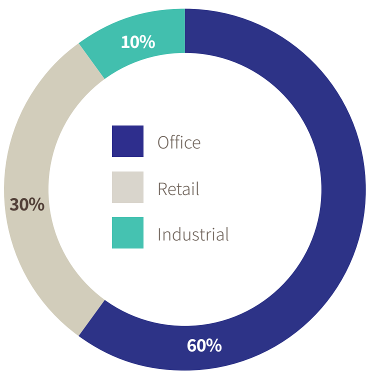
32 BUILDINGS

250 TENANCIES

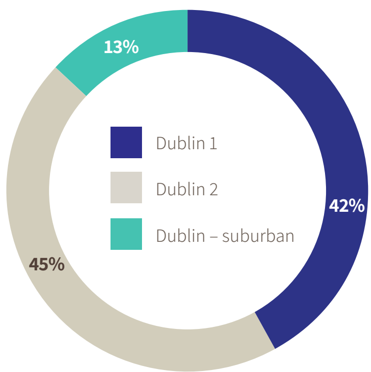
+0.32% TOTAL Q3 RETURNS (GROSS)

Source: Irish Life Investment Managers. Data is accurate as at end of quarter three (30 September 2024).

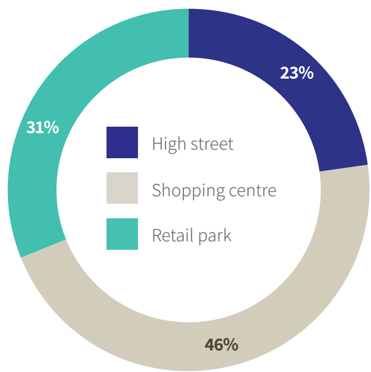
Sector Weightings:



Office Sub-Sector Weightings:



Retail Sub-Sector Weightings:



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FUND ACTIVITY

The fund has no leverage (so it has no mortgage financing).

The negative moves in capital values in the market, driven to a large degree by negative interest rates, has continued, but at a slower pace. The slow decline in interest rates will help, but long-term uncertainty around interest rates negatively impacts long-term investor sentiment, as debt financing is used in the capital structure of most real estate holdings.

The office market sector continues to experience the brunt of the falls in values, generally due to the lowering in demand for office space as a result of the adaption of more modern hybrid working practices. These dynamics are translated into valuation impairments in the form of increased yields applied to the income streams (indicating an increase in the risk attached to the income streams).

However, it is important to note that well-located buildings with modern specifications have seen more moderate valuation impairments. For these particular buildings, while negative interest rates have negatively impacted all property values, the very strong occupational demand in these office buildings has maintained both rental values and rental income streams.

With regard to portfolio construction, historically, most funds would have had a high office weighting, relative to other sectors (retail and industrial sectors for example). This heavy office weighting of most multi-asset property funds (this fund has a weighting of 60% at end Q3 2024) has negatively impacted performance.

Most of the office holdings in the fund are centrally located (87% are in Dublin 1 and Dublin 2), which tends to command the majority of tenant demand, and correspondingly there is very low vacancy in the office stock held in the portfolio. The fund has disposed of several assets over recent years to reduce exposure to suburban office buildings, and this has helped with investment performance over recent years.

It is also important to note that the drop in capital values in the portfolio have not been driven by portfolio-specific events (lease expiries, vacancies, insolvencies of tenants for example), but rather they have been driven by negative market sentiment.

The fund has high occupancy levels and so, while the income return (the total rental income divided by the total value of the property portfolio value), is strong, it is being diluted by negative capital value returns.

The fund imposed a six-month deferral (notice period) to all withdrawal and switch requests on 3 March 2023, as communicated to customers at that time. The decision was made in response to investor flows, and is not a reflection of our view of the long-term suitability of property as an asset class, nor the quality of the portfolio of properties within the fund.

- Rent collection rates in the fund continue to be close to 100%, which helps the strong income return.
- Transaction activity continued into Q3, with leasing and asset trading activity.
- The fund has closed two office lettings and has agreed three retail letting deals over Q3 2024, which will further feed into the strong income profile of the fund.
- The vacancy rate of the fund at the end of Q3 2024 was at approximately 10.6%.
- Two assets traded over the quarter, the sales of Warrington Place (located in Dublin 2) and of 45-47 Henry Street, in Dublin 1, both to private investors. In both cases, the fund had looked to maximise capital value through asset management initiatives in advance of sales by restructuring of leases to ensure a longer income stream, thus enhancing value prior to sale.
- The fund has a well-constructed portfolio of assets, with a strong income profile.
- The strategy is to continue to improve the assets within the portfolio, to create value-enhancing opportunities and to further improve the portfolio structure, the income profile and returns of the fund.

This document is intended as a general review of investment market conditions. It does not constitute investment advice and has not been prepared based on the financial needs or objectives of any particular person, and does not take account of the specific needs or circumstances of any person.