ILIM

Life | Pensions | **Investments**

Quarterly Report Q3 2024

Pension Irish Property Fund

more **INVESTED**

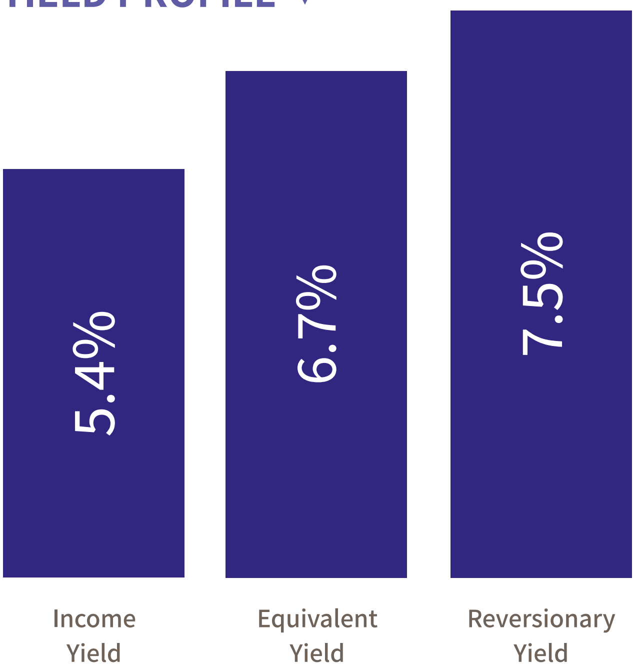
FUND CHARACTERISTICS

AT A GLANCE ▼

NAV	GAV	NO. OF ASSETS	GRESB 2024
€1.29bn	€1.31bn	64	

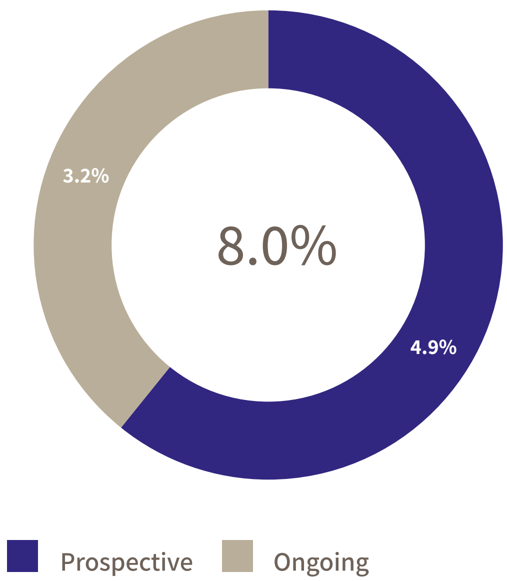
FLOOR AREA (SQ FT)	PASSING RENT PA	MARKET RENT PA	WAULT
3.30m	€7.23m	€92.93m	5.40 yrs

YIELD PROFILE ▼



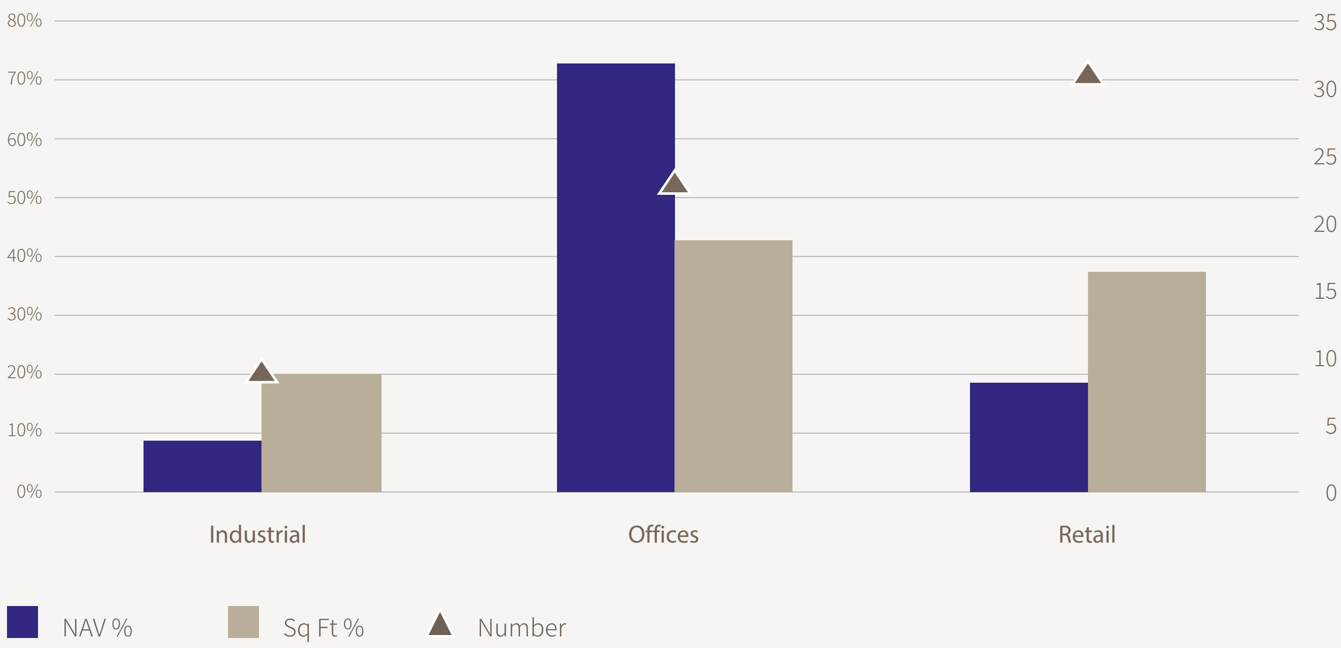
DEVELOPMENT ASSETS

as % of NAV

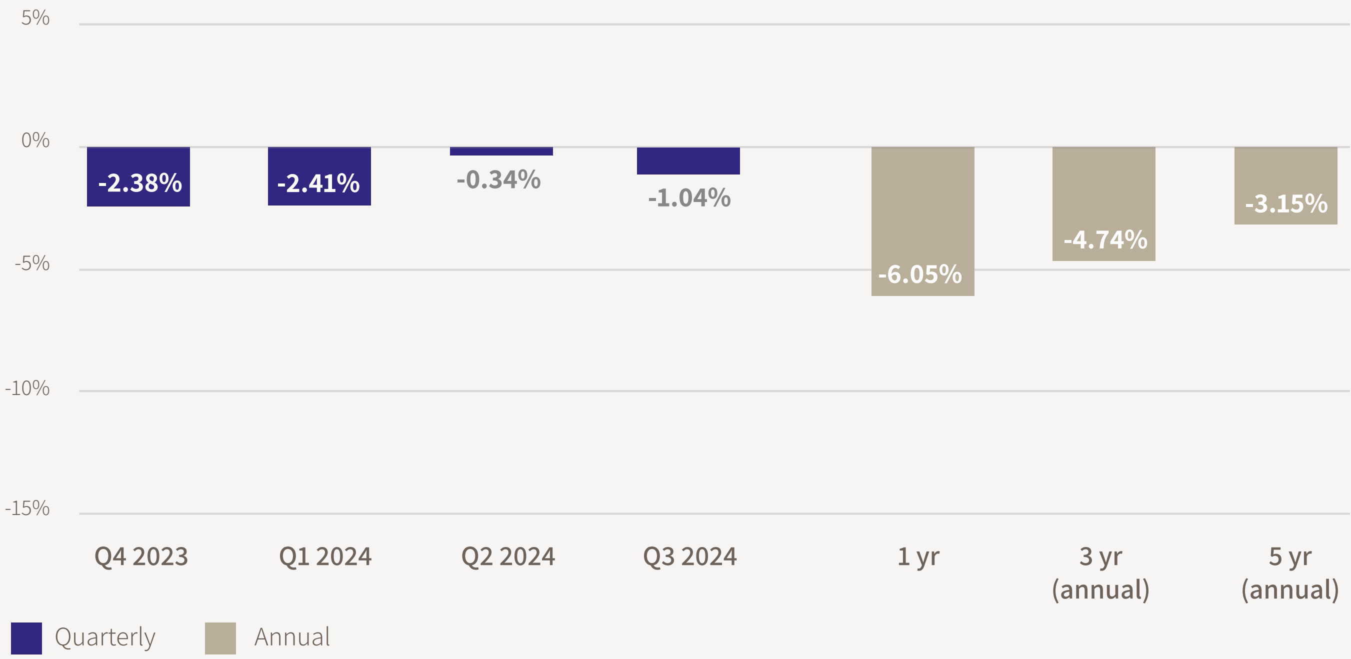


PERFORMANCE

SECTOR



FUND PRICE PERFORMANCE

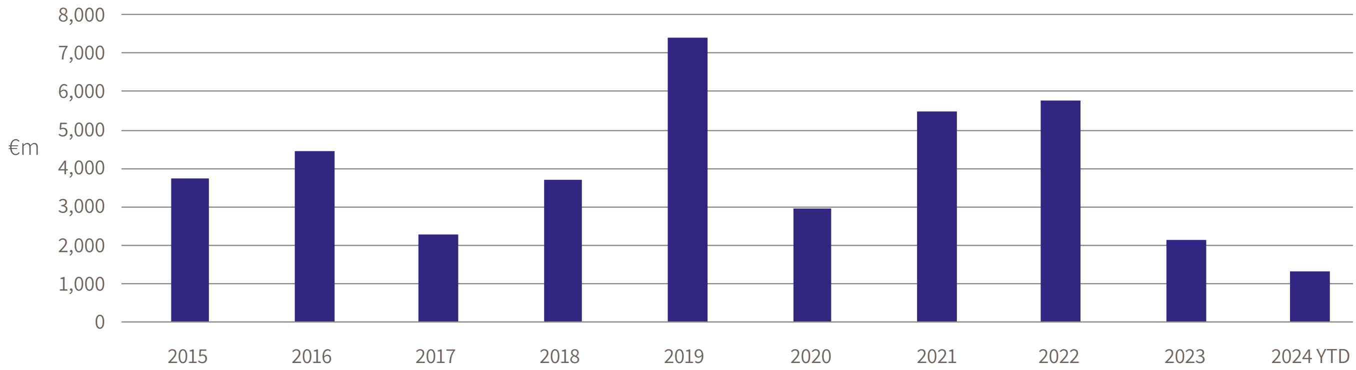


MARKET COMMENTARY

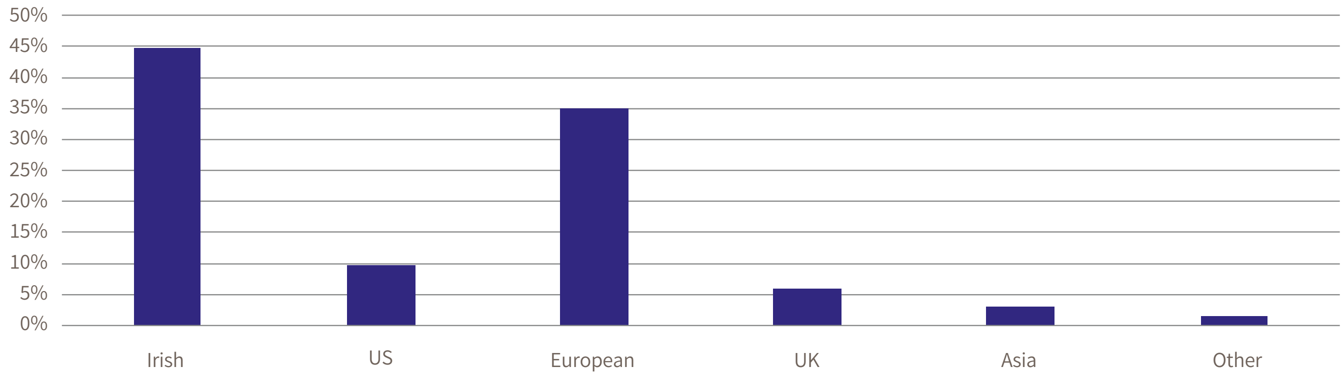
The relatively restrained investment market for Irish real estate recorded some notable activity in Q3, with buyers chasing available stock and the macro picture continuing to make its investment case more appealing. Turnover of investment-grade property is believed to be close to the Q2 total of €595m, bringing the year-to-date (YTD) quantum to in excess of €1.3bn.

Valuations have stabilised across the sectors at this point. Combined with the trajectory of interest rates downwards, it appears property yields have now passed their peak. The MSCI Ireland Property Index recorded its first positive quarter in Q3 since Q2 2022, suggesting that income has now eclipsed the impact of valuation decline.

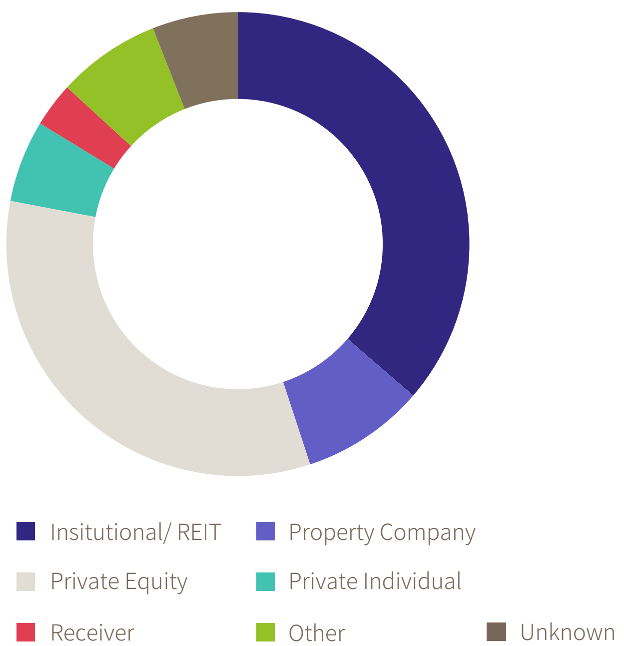
Investment Turnover 2024 YTD



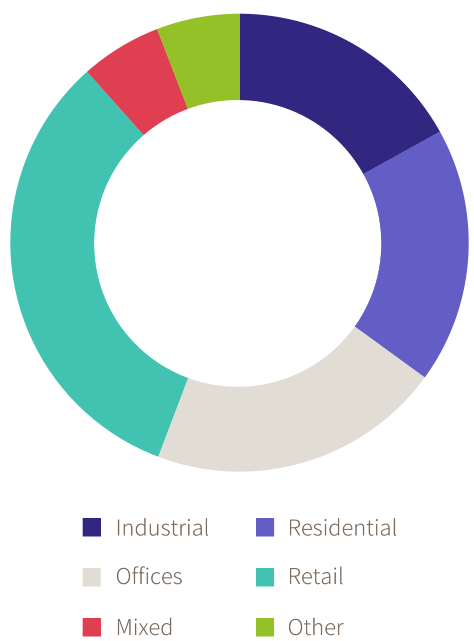
Investors by Nationality 2024 YTD



Vendors by Investor Type 2024 YTD



Investment By Sector 2024 YTD

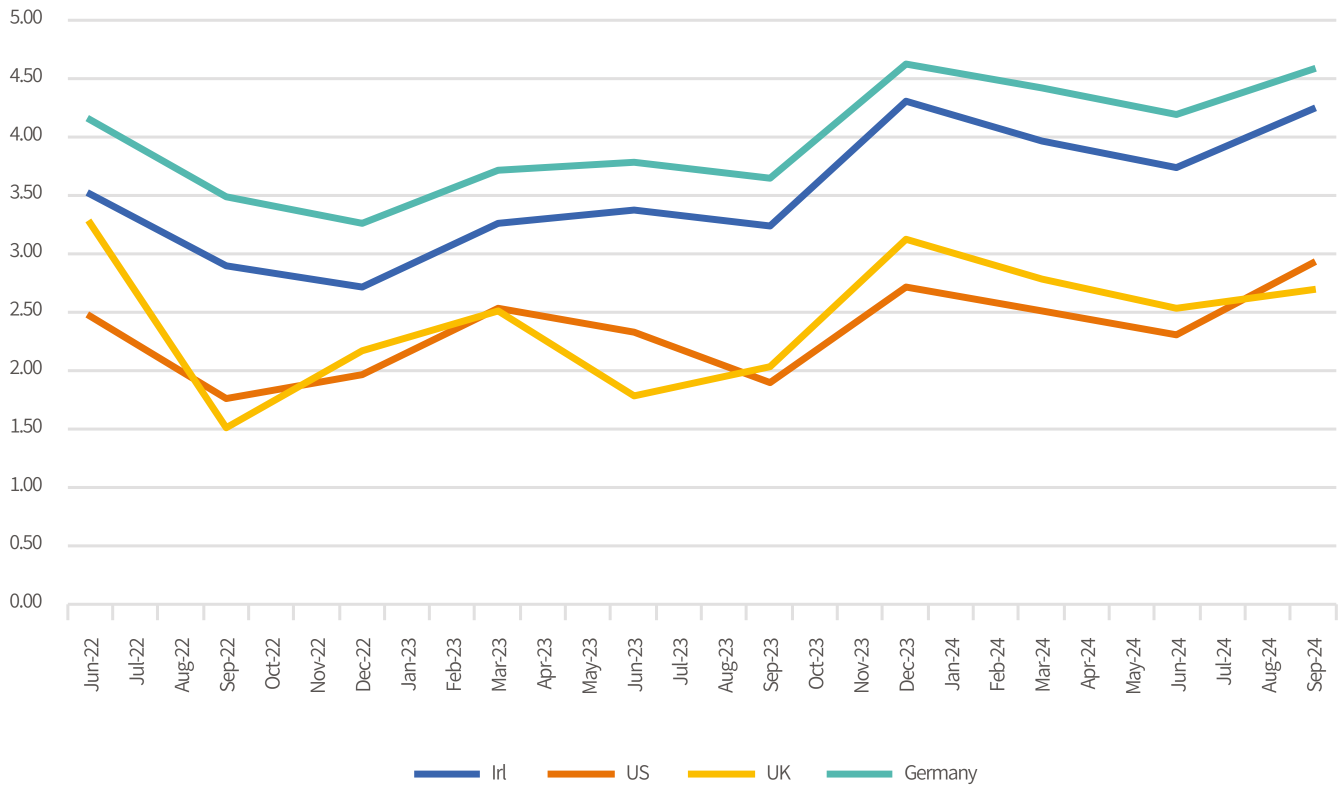


Source: Savills

MARKET COMMENTARY (CONTINUED)

The reduction in interest rates in Q3, and the current relative value of property demonstrated by the yield gap to local and major bond rates, suggests a more active market could be burgeoning.

Irish Property vs. 10yr Government Yields: Spreads



Source: Bloomberg, MSCI

While this data reflects the total market in MSCI's Ireland index, it is notable that most transactions currently taking place are of higher yielding assets, representing more significant spreads for active investors. MSCI's hedonic yield series tracks transaction data, which calculates the most recent yield on Irish office transactions at 8%, which would represent a spread of 5.5% against Irish 10-year bonds.

The absence of a core market is defining the difference in current trade from the 10-year annual average of excess €4bn. There are drivers of both supply and demand deficiencies for this market.

While some transactions completed or on-going in Q3 have been the result of default, distress has been relatively limited and confined to secondary quality assets. Moreover, the debt on several high quality, large properties has been successfully refinanced in recent months. It remains to be seen what will feed the core market.

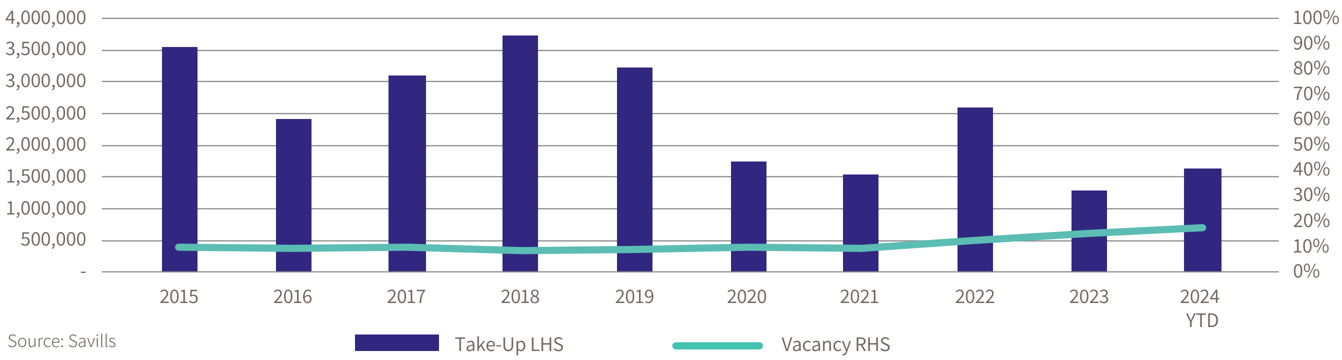
From a demand perspective, fund raising for real estate vehicles has been dominated by opportunistic or value-add strategies, with the aggregate capital raised at low levels compared to the norm. Existing funds, including some managed by ILIM, are allocating more capital to improving existing assets rather than new acquisitions to ensure that their portfolios remain relevant in the face of changing occupier requirements.

Office

Heightened activity was seen in the office occupational market in Q3, primarily in the agreement of terms for several large lettings in Dublin city, while these largest deals will take some time to contract and be reflected in the standing metrics for that sector. The most notable news in Q3 was Workday's decision to re-locate to 480,000 sq. ft. at College Square, a new development bounded by D'Olier and Townsend Streets in Dublin 2.

Take-up in Q3 was recorded at 550,000 sq. ft., and a notable decrease in pipeline of new stock from a height of 2.8m sq. ft. in 2022, to 515,000 sq. ft. at end Q3.

Office Take-Up & Vacancy



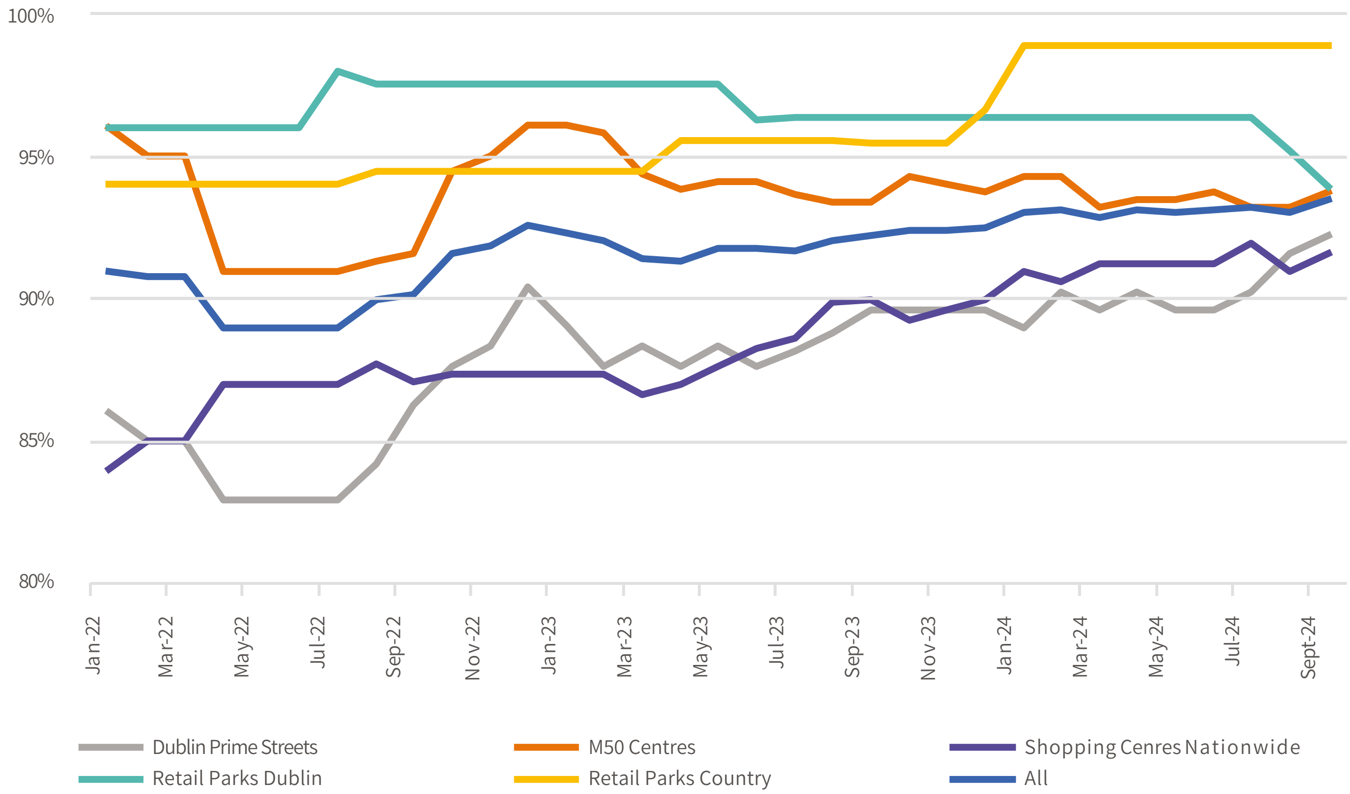
Source: Savills

Retail

The retail sector has remained surprisingly resilient to the rise in inflation and cost of living on consumers. However, a notable negative impact is being seen across the food and beverage sector. Rental growth is now a feature of certain parts of the market, a somewhat obvious result of the reduction in vacancy and recovery of footfall across the different locations. Retail parks' performance has been the highlight, and experiencing healthy investor activity of late.

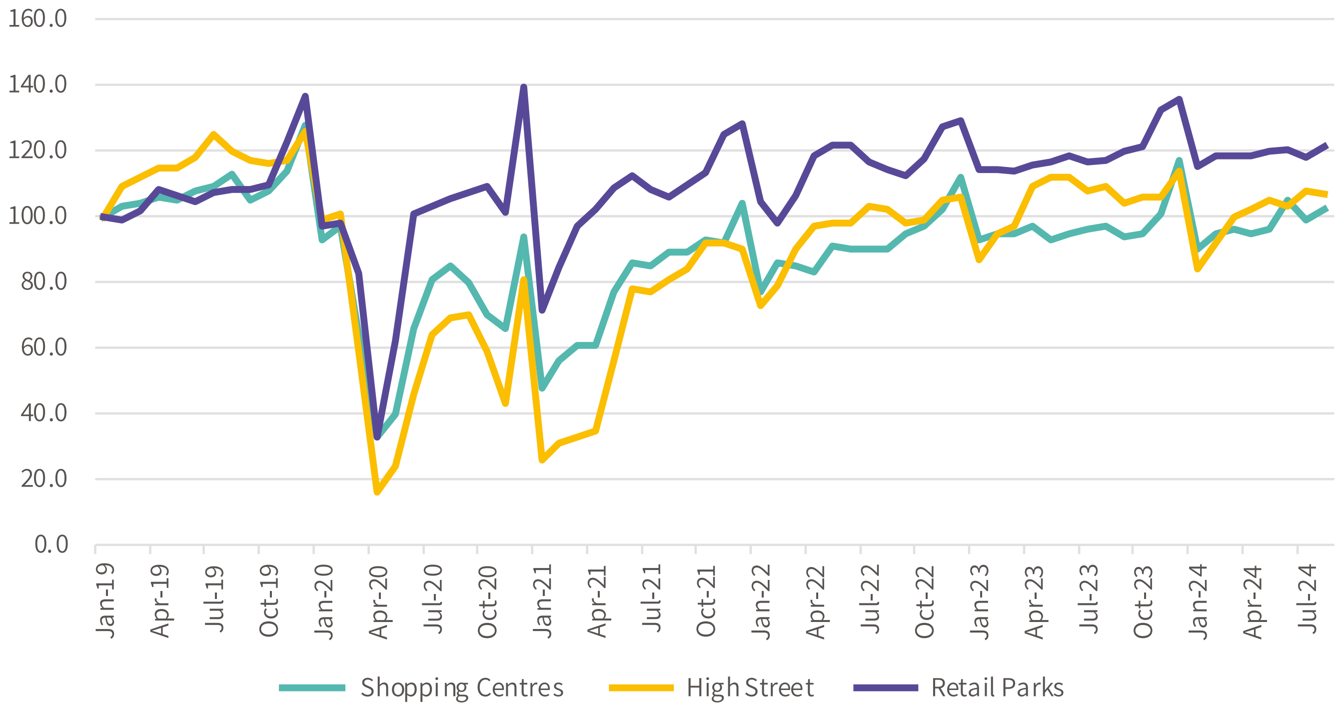
Irish Life completed a new lease with Mango in the recently redeveloped 112/113 Grafton Street, which will be open for trade in early 2025. This is a relatively large format unit on the Street, offering approximately 3,000 sq. ft. of retail accommodation at ground level and 13,000 sq. ft. overall.

Retail Schemes Occupancy



Source: Bannon

Retail Destination Footfall



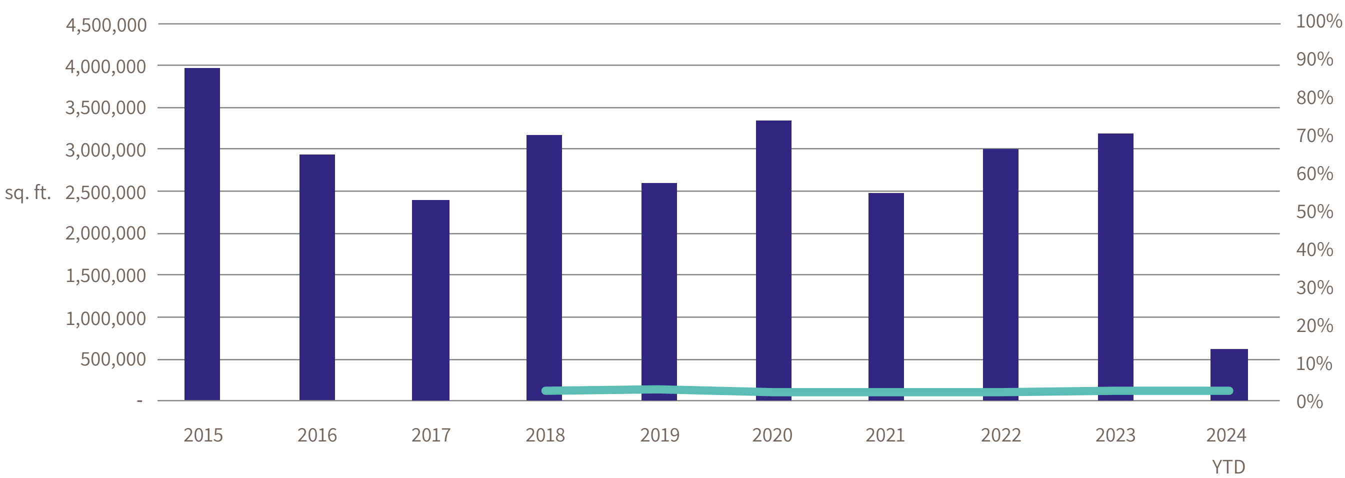
Source: Bannon

Industrial

The industrial market has been characterised by high levels of demand, matched by piecemeal supply, generating strong rental growth for the past five years. Take-up so far in 2024 of 610,000 sq. ft. has been materially lower than previous years; however, Savills is tracking a current demand for excess 2.3m sq. ft.

The largest letting of the quarter was to Jysk, a Danish retailer, which took a 100,000 sq. ft. unit in Western Business Park.

Industrial Take-Up & Vacancy



Source: Savills

OUTLOOK

Active investors in the market are benefitting from a large yield spread, albeit transactions are generally of secondary quality properties at lower-than-average lot sizes. In the absence of availability of prime stock, this level of pricing is expected to continue in the short term.

Fund raising and investor intentions data suggests that core investors will return initially for prime industrial/logistics and residential property, where yields are typically lower than in other sectors.

A notable improvement in the occupational market for prime offices has begun, with several high-profile lettings under negotiation across Dublin. Prime rents are being maintained, and a reducing supply of modern stock could result in rental growth in this segment of the market in the medium term.

Valuations have stabilised following a reduction in interest rates. The future direction of values should be more sensitive to transactional evidence during the next phase of the cycle, and we expect heightened investor activity to lead to capital growth as confidence returns to the investment market.

FUND UPDATE

The sale of 100/101 St. Patrick's Street was completed in Q3, a vacant retail unit in Cork's main retail thoroughfare. This was a non-core asset for the fund, which had previously been leased on a long-term basis to the Arcadia Group.

Building on successful leasing across the retail portfolio in recent times, DID Electrical signed for Limerick One Shopping Park, where it replaced Argos on new lease terms, extending the term to 2036 at a rent of €25 per sq. ft.

Negotiations are on-going with several parties regarding Unit 2, which was formerly occupied by Smyth's Toys and can be sub-divided into smaller units.

The first on-site stages of the redevelopment of 1 Adelaide Road commenced in Q3, with Hegarty Demolition stripping back the existing structure and preparing the site for full demolition. The new building is due to be delivered in 2027 and will form a high-specification office extending to excess 150,000 sq. ft. A lease for that new building was signed post quarter end with Deloitte, which will be paying a rent equating to €60 per sq. ft. for a term of 25 years from completion.

The fund scored five stars in the latest GRESB accreditation for 2023, putting it in the top quintile of funds in its category. The five-star rating is applicable to both standing and development assets, for which different standards are applied due to their divergent operational particularities.

ESG

ILIM believes that prudent integration of ESG factors into physical property investment decisions will lead to more sustainable long-term returns, helping to manage risk and enhance growth opportunities. ILIM adopts an active ownership approach across the real estate assets in which it invests on behalf of its clients, and aims to maximise the medium- to long-term value for its clients.

Regarding standing assets, this involves constructively engaging with property managers, encouraging better standards and management processes covering financially material sustainability risks. At asset level, ILIM has developed an Environmental Management System (EMS) to manage sustainability impacts, risk and opportunities across its clients' real estate portfolios. The EMS also aims to improve resilience and performance in clients' portfolios and assets, thereby avoiding a significant diminution in value which might result from poor environmental management, and which may lead to the 'stranding' of a real estate asset.

In all new developments, key elements of globally recognised sustainability standards, including LEED (Leadership in Energy and Environmental Design), WELL Building Standard and net-zero carbon, are integrated, while being mindful of broad environmental considerations.

As part of the real estate acquisition process, a comprehensive due diligence is conducted that includes financial, physical, governance, regulatory, market, environmental and social considerations. The due diligence process includes a technical assessment against material ESG themes. These technical assessments result in Property Improvement Plans which seek to improve ESG impacts and put the asset on a pathway to net zero to reduce its carbon emissions.

ILIM participates in the Global Real Estate Sustainability Benchmark ("GRESB") and has set specific ambitions relating to energy, water, and waste and wellbeing, together with a robust reporting regime to monitor performance against those aims, and to provide a basis for engagement with tenants and other stakeholders across its clients' property portfolios.

This process is implemented for acquisitions, refurbishments and new developments. LEED platinum is explicitly focused on new developments. These procedures provide guidelines to reduce the exposure of ILIM's clients and their assets to risks associated with or arising from environmental problems or issues. In 2023, ILIM was awarded green stars in all the managed property funds that participated in GRESB, and is the largest participant in Ireland in GRESB. A green star is reserved for the top 20% of over 2000 participants globally in GRESB.

The Pension Fund received five stars in GRESB in 2023 (based on an assessment of 2022's activity). In addition, ILIM was ranked first in Europe in management out of over 1,000 participants, demonstrating its leadership in sustainable property management and development.

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.

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