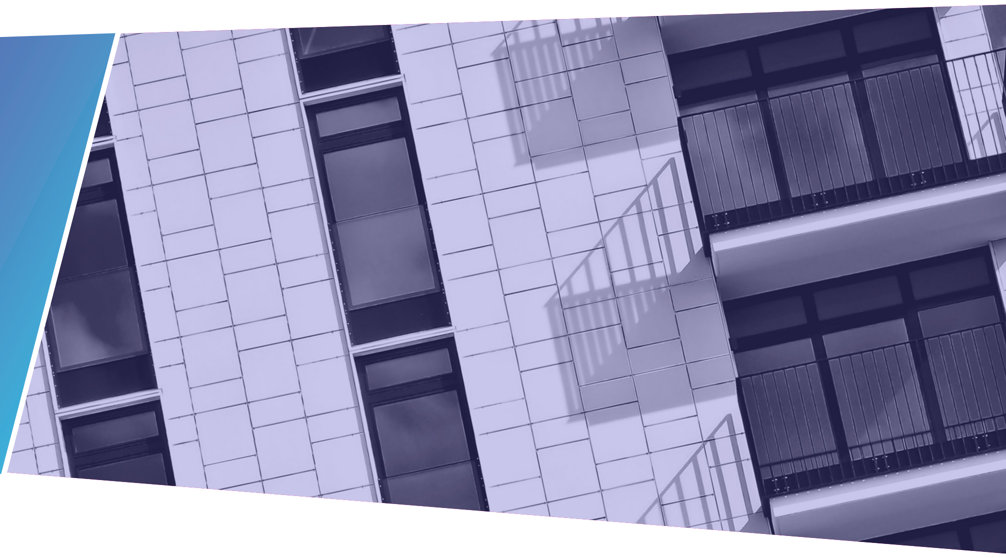


Quarterly Report Q4 2023 Irish Property Fund

INVESTMENT MARKET

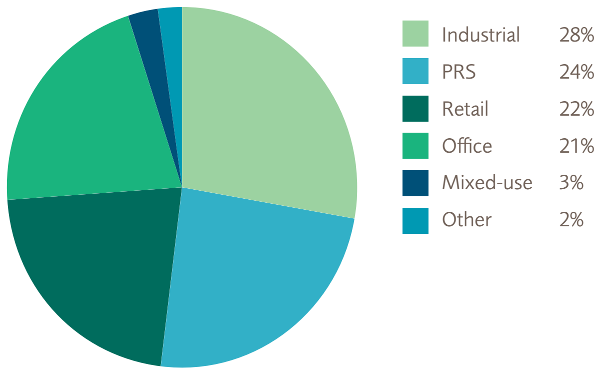
Investment activity in Q4 remained somewhat muted, with approximately €440m in capital value transacted over the period. The number of transactions was low, and the capital value number was supplemented by the relatively large sale of an Amazon logistics centre in Baldonnell Business Park for €225m. The activity in Q4 brought the total value of deals transacted in 2023 to just around €1.84bn (according to Knight Frank), which shows a decline in average investment volumes from previous years.

Of the more notable Q4 deals was the sale of Trinity Point (located in Nassau Street, overlooking the south side of the Trinity College campus) to a government entity (the Office of Public Works, or OPW, which tends to transact in property on behalf of many government bodies). The purchase price was reported to be €40m, which translates into €900 per square foot. The OPW was already in occupation of four of the six floors, the remaining being currently vacant. Also notable was the sale of Chancery Court, a six-story mixed-use property with 34,000 square feet of office accommodation with basement parking, supplemented by four two-bedroom multi-family units. Located close to St Stephens Green, the reported purchase price was €15m, which would represent an income yield of 9% (income yield is contractual income divided by the purchase price). The purchaser was reported to be Sretaw PR. The building was notable in that 69% of the rental income was generated by state tenants. This is advantageous to a building owner as rental income secured to government tenants tends to have a lower risk profile.

Only two office deals above €50m transacted in 2023, the purchase of one of the George's Quay blocks by the French fund manager Corum, in Dublin 2, for a reported €81m, and the purchase of Waterside in Citywest in Dublin 24 (along the Naas dual carriageway) for €65m. Prime office yields (the relationship between the contractual rent and the investment value for the best-in-class buildings) are now estimated to be between 5% and 5.25% (Knight Frank). However, with such low transactional volume, it is difficult to define investment yields in the Dublin property market at this time.

The pie chart shows the breakdown of investment activity by sector, and it sets out the increased investment demand for the industrial sector, which is driven by the very strong growth of the occupational market. Over the year, the PRS (Private Rented Sector, which tends to refer to entire apartment buildings that are owned and operated by a single entity) represented close to one quarter of deal activity, but as the year progressed, deal volume slowed considerably, and this sector only represented 1% of Q4 2023 investment deals. The slowing deal activity is driven by the increased costs of both construction and of debt financing. Also notable is the low volume of investment activity (under 25% over the year), in the office market, for a sector that tends to drive the highest volume of activity in the investment market. The fundamentals of the office occupational market are discussed in the office occupational section.

Total investment spend by sector, all 2023



Source: Knight Frank Research

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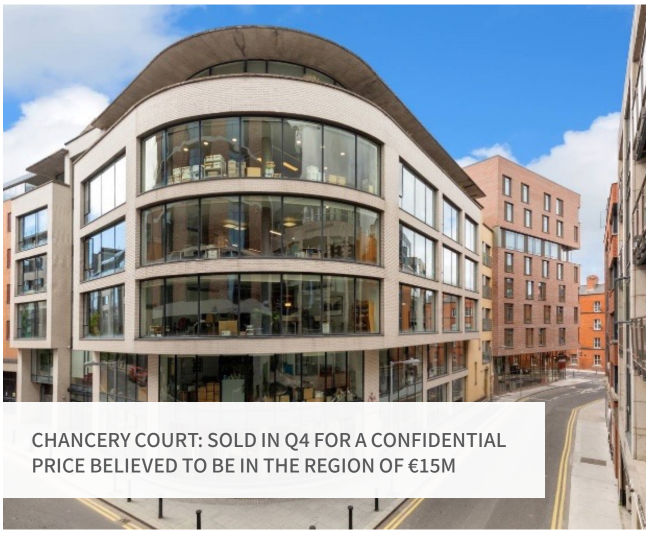
A large proportion of the 28 investment transactions in Q4 involved deals within the retail sector. These included a collection of buildings in Grafton Street that transacted for a total of €13.5m, and the Opera Lane scheme, located just off St. Patrick's Street in Cork city centre, for a reported €20.6m. Tralee Town Centre also traded for €6m. This is a mixed-use scheme, composed of three separate blocks of student accommodation / holiday apartments, a five-storey car park, and two office suites. Most of these properties were acquired by Private Irish buyers.

The retail sector has experienced rental growth from an increase in occupational demand for well-located assets. However, this rental growth has been negatively mitigated by outward yield moves, producing value falls in this sector.

Institutional investors remain relatively inactive in the transaction market, and several factors are influencing deal volume, including adjustment to the new cost of capital (based on the increased cost of debt financing), rebalancing of allocations (the ratio of real estate assets held relative to other asset classes such as equities and bonds), and poor liquidity levels (poor transaction volume means it can be more challenging to sell assets) in the market.

TRINITY POINT: SOLD IN Q4 FOR A REPORTED €40M



CHANCERY COURT: SOLD IN Q4 FOR A CONFIDENTIAL PRICE BELIEVED TO BE IN THE REGION OF €15M

GEORGE'S QUAY HOUSE, DUBLIN 2, ACQUIRED BY CORUM IN Q3 2023

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OFFICE OCCUPATIONAL MARKET

Office occupational take up reached 367,000 square feet (Knight Frank) in Q4 2023, which brought the total in 2023 to 1.382 million square feet. The uncertainty created by successive interest rate increases over H2 2023, combined with political uncertainty and the now established hybrid working practices, all contributed to this low transactional volume.

Take up by quarter 2023	Sq Ft
Q1	282,000
Q2	406,000
Q3	327,000
Q4	367,000

Source: Knight Frank Research

The trend established over recent quarters of smaller deal sizes, relative to pre-Covid times, continued into Q4 2024. Knight Frank reports that 30 of the 41 deals completed in the quarter were for space of less than 10,000 square feet. The two largest deals were for just under 40,000 square feet in 124-127 St Stephens Green in Dublin 2 (the tenant was Intercom), and the 35,700 square-feet letting to Yahoo in the Exo Building in Dublin 1. The latter is a newly built 17-story office building constructed on East Wall Road, close to the Three Arena.

Approximately 69% of letting activity was accounted for in city-centre locations. The largest suburban office letting deal was the Laya Healthcare letting of 25,000 square feet in Cherrywood Business Campus in South County Dublin. Greencore leased over 10,000 square feet in the Dublin Airport Office market (Dublin Airport Central). The total of 52,000 square feet of suburban letting activity represented a relatively strong Q4 compared to recent periods.

Reviewing 2023 in totality, just under 60% of office letting activity occurred in the city centre, and two thirds of that activity transacted in the Dublin 2 sub-market. In terms of occupiers, the TMT sectors (Technology, Media and Telecommunications) accounted for four of the top 10 letting deals in 2023. This sector represented 28% of office take-up, followed by Financial Services (22%) and Professional Services (16%).

The vacancy rate in the Dublin office market increased to 14.4% (flat from the end of Q3). This number is being influenced by the withdrawal of some buildings for both redevelopment and, at times, conversion to alternative uses. It is also currently influenced by delayed completions of buildings under development. These completions are anticipated to increase the total available stock in H1 2024, at least initially. However, it is notable that the vacancy in new high-specification, centrally-located office stock is low, as these buildings command strong occupational demand at this time.

Demand for space with strong environmental credentials continues strong, while those older buildings with poorer specification are attracting much lower interest from prospective tenants. It is also notable that the 'equilibrium' vacancy rate (the rate that is healthy in the market, that provides reasonable latitude for tenants to move and have reasonable choice when considering a choice of premises, and the level that avoids occupational shortages and resulting 'bubble' rents) is between 6% and 8%. It is important that the current vacancy rate is viewed in that perspective.

The grey space market continues to influence the occupational dynamics. CBRE reports that subletting deals accounted for 17% of all activity in Q4 2023, and this included the largest letting deal referred to above, in 124-127 St Stephens Green. Over 2023, subletting and assignments accounted for 26% of take-up, also reported by CBRE. The grey market itself is a result of the changing occupational market that has developed from increased hybrid working. This space, that is now surplus to requirements, was contracted (leased) prior to pandemic, before the emergence of alternative working arrangements with office occupiers.

Letting activity showing the proportion attributed to 'grey market' activity, over the period since Q4 2022

FIGURE 5: Dublin Office Take-Up By Deal Structure (%)

Source: CBRE Research

Prime rents are reported to be at €62.50 per square foot in the strongest locations, which shows little movement in recent quarters. It is reported that some deals are involving increased tenant incentives, which translate into reduced effective rents (the actual rent the landlord receives, taking account of the incentives in the form of periods of free rent).

Looking forward, Knight Frank estimates that approximately 600,000 square feet of office space is reserved (so is subject to a pending deal that is under commercial negotiation and legal documentation). Pending demand is reportedly strong in the Professional Services sector. The TMT (Technology Media and Telecommunications) and government sectors also reportedly have requirements coming in the near to medium term.

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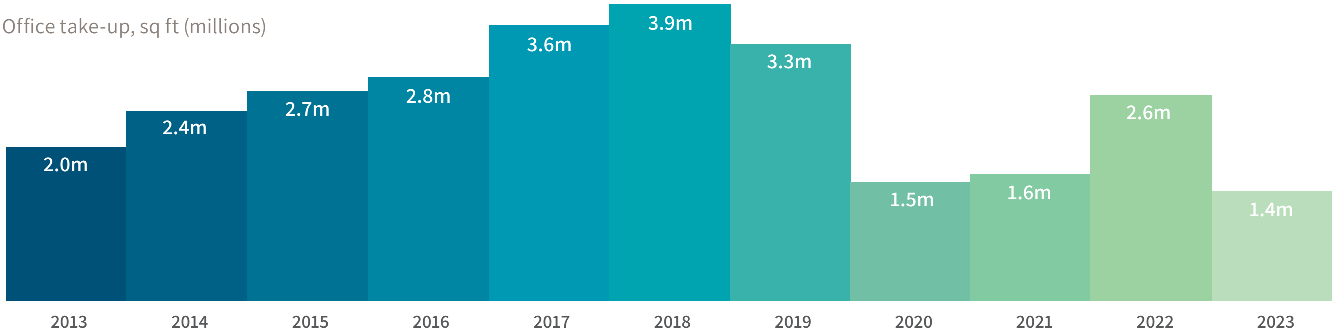
OFFICE OCCUPATIONAL MARKET (CONTINUED)

Office development of just under 800,000 square feet was completed over 2023 (Knight Frank), and it is notable that all this new space is located in the city centre. A further two million square feet is scheduled for completion over 2024, and reportedly 38% of this space is already pre-leased (binding occupational contracts are already in place). The estimated space scheduled for delivery in 2025 is reportedly notably lower (27% of this is already committed) and the scheduled 2026 delivery involves just three buildings (and includes the Harcourt Square development that is contracted to KPMG as its future city centre campus).

The letting activity in 2023 was the lowest for several years.

Office take-up, sq ft (millions)



Source: Knight Frank Research

RETAIL OCCUPATIONAL MARKET

The retail occupational market enjoyed a positive year over 2023. Retail sales growth, in terms of both volume of transactions (+0.8% year-on-year to November 2023) and in terms of total value of transactions (+3.9% year-on-year to November 2023) showed positive growth. This is despite the impact of rising inflation and cost of living, which tends to negatively impact consumer sentiment. The mitigants to these negative factors are the continuing full employment and the continuing population growth in many parts of the country, particularly the Dublin area. Net inward migration is a factor in the continuing population growth.

Footfall in the major shopping streets and in retail schemes has recovered to pre-pandemic levels at weekends but continues to be notably lower on weekdays due to the growth of hybrid working practices. A more insightful metric is the ratio of retail sales versus footfall, which is called the 'conversion rate' (of successful sales per customer). Bannon Commercial, a property consultancy firm, has reported that this is at an all-time high.

Vacancy on the principal shopping streets (Grafton Street, Henry Street in Dublin and on St. Patrick's Street in Cork city) has fallen materially. Occupancy in the major shopping centres is also strong. Retail Parks and suburban / neighbourhood centres are performing very well, the former driven by the continuing strength of the housing market.

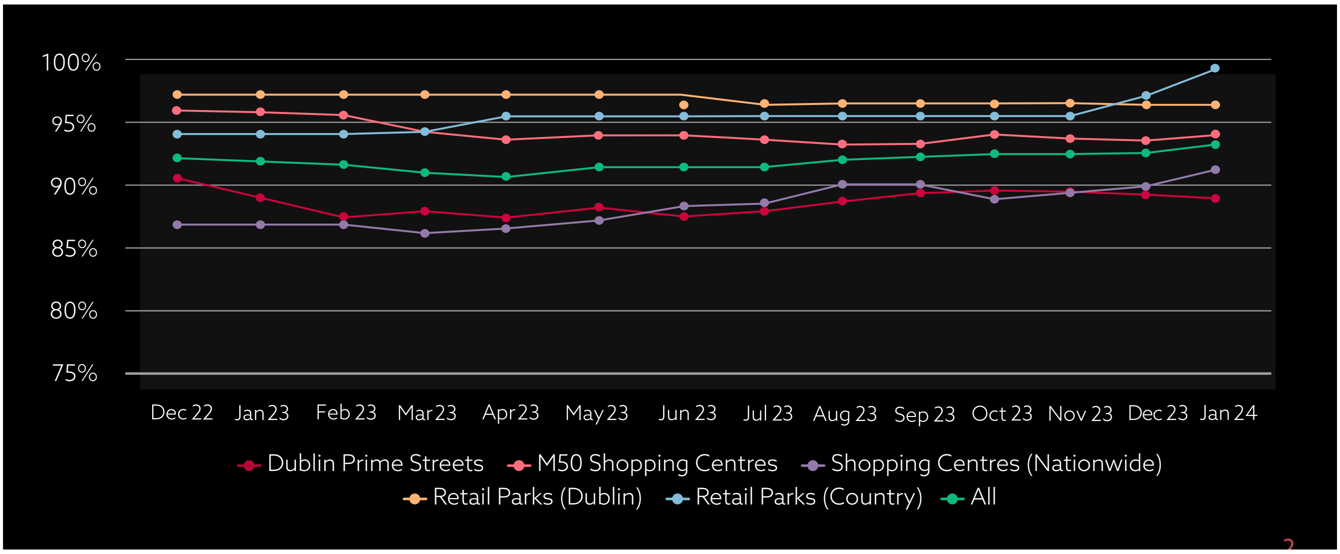
RETAIL OCCUPATIONAL MARKET (CONTINUED)

The table below tracks the occupancy of the various retail sub-sectors since year-end 2022. It shows the steady occupancy of the retail parks, followed by the M50 (suburban Dublin) shopping centres, followed by the prime high street units and provincial centres.

Lease lengths in high street units continue to have tenant termination options after year five of the term (usually), to provide retailers with the flexibility to exit the lease, in the event of changing economic conditions. The retail business is highly dependent on disposable income and, due to the ever-changing economic conditions, flexibility in occupational lease lengths has become a feature of the high street leasing market. This is despite the strong growth in retail sales in recent quarters.

Retail rents are at €475 to €500 ITZA (in terms of Zone A) for the better buildings on Grafton Street, and at close to €285 per square foot ITZA in the Henry Street submarket.

Bannon retail occupancy tracker



Source: Bannon

INDUSTRIAL MARKET

Leasing take-up volumes continued to be robust with over one million square feet being absorbed over Q4 2023. This brought the total absorption for 2023 to 3.2 million square feet. Consistent with the position earlier this year, occupational demand continues to be very strong, but the decline in take-up is driven by the lack of available product for letting.

Rents continue to increase and prime rents are now at close to €13 per square foot in the very strongest locations with modern facilities. Well-located older buildings still command rents in excess of €11 per square foot. Vacancy is at under 2% in the strong locations around Dublin.

The sub-sectors still in highest demand are the North-East (around the M1 and M2 motorways), and the M7 corridor. These areas account for over 70% of letting activity over 2023, consistent with trends established in recent years.

The supply pipeline expects to deliver over 1.2 million square feet into 2025, and it was reported in late Q4 2023 that approximately 40% of this new stock is already pre-leased to prospective tenants.

The fundamental drivers of occupational demand continue to be the continued increase in e-commerce penetration (increased consumer on-line shopping, to the detriment of bricks-and-mortar shopping) and adapting supply chains (which means more inventory is stored to guard against unexpected situations such as pandemics or political events).

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FUND STATISTICS

Total returns (gross)	
Q4 2023	-2.42%
1 Year	-7.97%
3 Years (annualised)	+0.26%
5 Years (annualised)	-0.72%
10 Years (annualised)	+7.25%

Property income yields	
Office	6.4%
Retail	6.9%
Industrial	4.1%
Portfolio	6.3%

Source: Irish Life Investment Managers. Data is accurate as at end of quarter four (31 December 2023).
The pricing basis of the fund changed in January 2020 from acquisition to disposal basis.

THE PORTFOLIO >

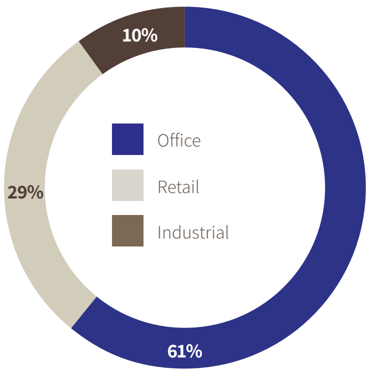
38 BUILDINGS

250 TENANCIES

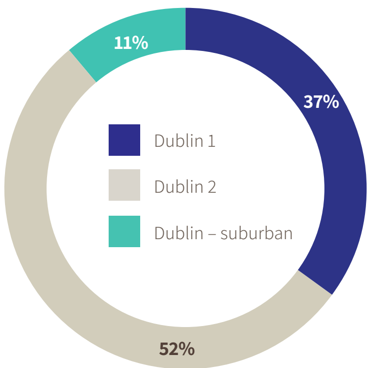
-2.42% TOTAL Q4 RETURNS (GROSS)

Source: Irish Life Investment Managers. Data is accurate as at end of quarter four (31 December 2023).

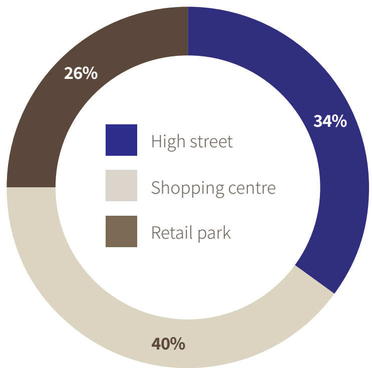
Sector Weightings:



Office Sub-Sector Weightings:



Retail Sub-Sector Weightings:



Source: Irish Life Investment Managers. Data is accurate as at end of quarter four (31 December 2023).

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FUND ACTIVITY

The Fund has no leverage (so it has no mortgage financing). However, the negative capital moves in the investment market nevertheless influence all property values, including those in the Fund. The strong fundamentals in the portfolio are still in place, so the value falls are not being driven by property-specific events such as lease terminations and resulting vacancies in buildings that are held within the Fund, but by predominantly by market driven yield movement. The Fund has very strong 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.

The weighted average unexpired lease term across the Fund is five years across over approximately 250 tenancies.

> Rent collection rates in the Fund are at close 100% for Q4, which demonstrates its strong income profile.

> The Fund has agreed three lease re-gears in the office portfolio (a lease restructure negotiated to suit the needs of both landlord and tenant, that tends to increase lease duration), two of which have been legally documented, and the other is in process. These deals are all accretive (value-enhancing) to Fund performance.

> One retail lease re-gear was agreed and documented in late Q4 with a strong tenant in the Henry Street sub-market.

> This letting activity is an important part of portfolio management as it continues to strengthen the income profile of the Fund.

> The Fund vacancy rate at the end of Q3 2023 was at approximately 7.5%.

> We are continually looking to optimise the portfolio and continues to review sales opportunities and recycling of capital into investment opportunities within the existing portfolio.

> The Fund has a well-constructed portfolio of assets, with a strong income profile and low vacancy.

> 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.

OUTLOOK

The European Central Bank (ECB) has refrained from raising interest rates since September 2023, and the consensus view across forecasters is that a cut in rates is expected at some stage in 2024. This is an important barometer of investor sentiment in the real estate market, as most holdings in this asset class are leveraged to some degree.

Fairly significant valuation adjustment has already been absorbed by most property sectors, and valuations (in the MSCI benchmark index across all real estate) are down close to 13% over 2023. Most of the value falls are as a result of yield adjustments, as occupancy across the sectors continues to hold quite steady, except perhaps in certain areas in the office market (older and more peripheral locations, as set out above). Continued, less pronounced yield adjustments are expected though 2024, until a base is established by patterns in transactional activity. However, the occupational fundamentals still remain strong, so this valuation impairment looks to be more of a result of current macroeconomic conditions than due to problems in the entire real estate asset class.

Scheduled real estate loan refinancings are likely to continue to exert pressure on investors. The increased cost of debt financing will put pressure on banks' loan books, and it is likely that asset sales will materialise in instances where refinancing is not successful.

The office occupational sector is likely to continue to witness a divergence by both environmental specification and location factors. Strong occupational demand will likely continue for buildings with high specification and strong location. Furthermore, buildings that have been designed with latitude for subdivision will continue to be more attractive investments, as these assets will provide flexibility to adapt to changing occupational demands. Some buildings with very large floor plates may experience difficulties in this time of increased demand for smaller space. There will be opportunities for the repurposing or redevelopment of those office buildings where real estate requirements have evolved to drive alternative uses in buildings and locations that are now less attractive to office occupiers.

In the industrial/logistics sector, we anticipate continued moderate rental growth, as occupational demand continues to outstrip supply in this sector.

The retail sector continues to experience moderate rental growth based on increased occupational demand. The retail parks are expected to continue their strong performance, supported by a strong housing market and, in particular, by the higher level of refurbishments on-going as a result of lower new stock levels on the market. Suburban centres continue to experience low vacancy and the city centre high streets continue to recover from the pandemic-driven slump, with low vacancy and reasonable rental growth.

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.