ILIM

Life \ Pensions \ **Investments**

Quarterly Report
Q2 2022
Pension Irish Property Fund

Helping people build
better futures

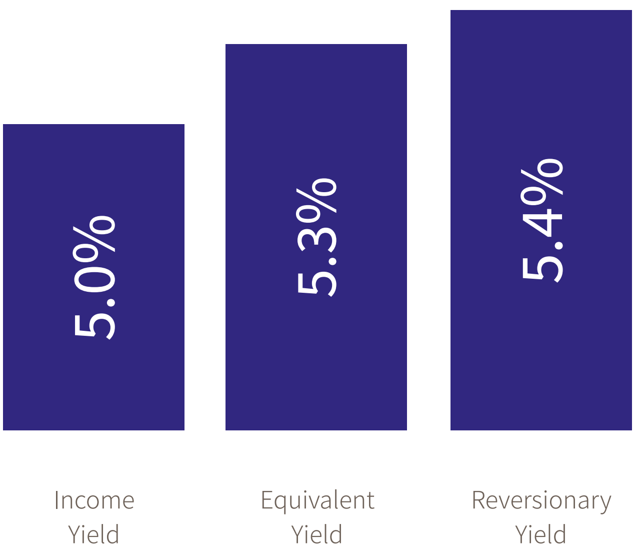
FUND CHARACTERISTICS

AT A GLANCE ▼

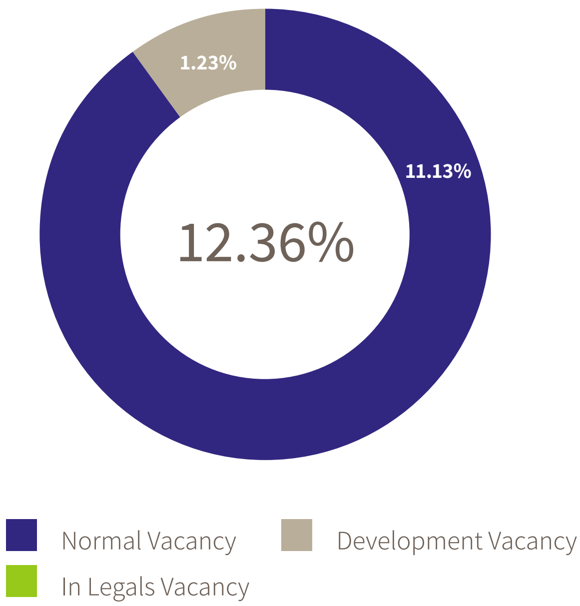
NAV	GAV	NO. OF ASSETS	GRESB 2021
€1.58bn	€1.90bn	72	★★★★

FLOOR AREA (SQ FT)	PASSING RENT PA	MARKET RENT PA	WAULT
3.5m	€86.1m	€94.4m	6.26 yrs

YIELD PROFILE ▼

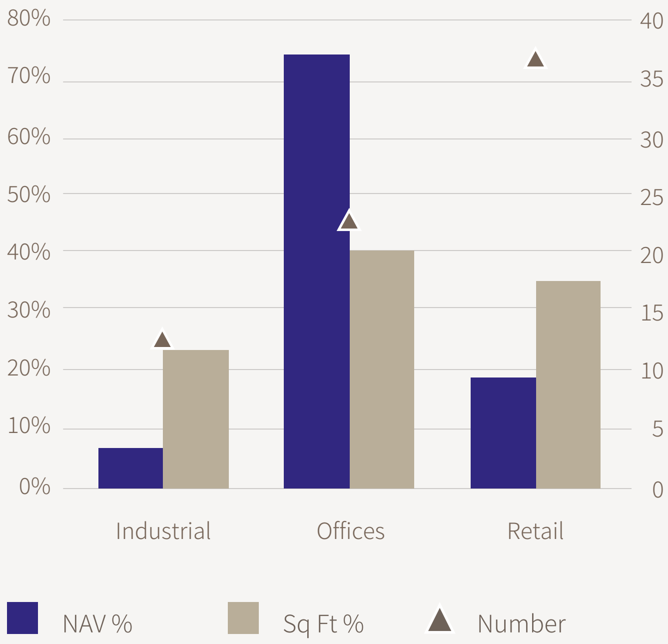


VACANCY ▼



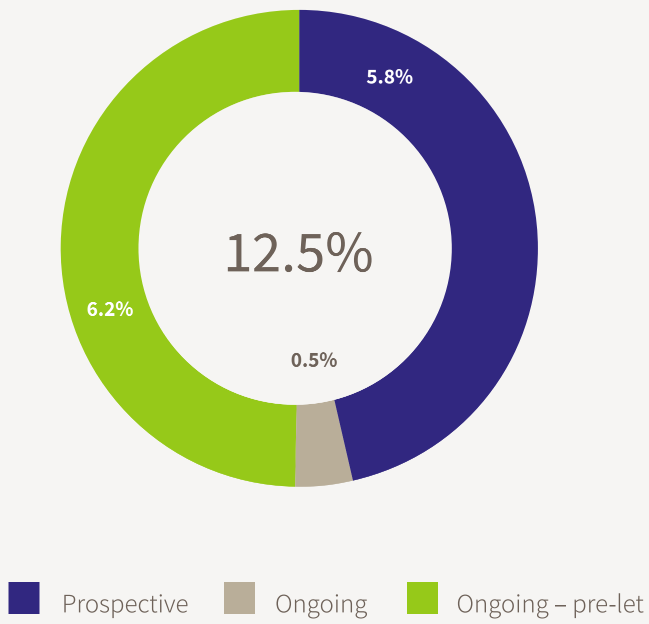
PERFORMANCE

SECTOR

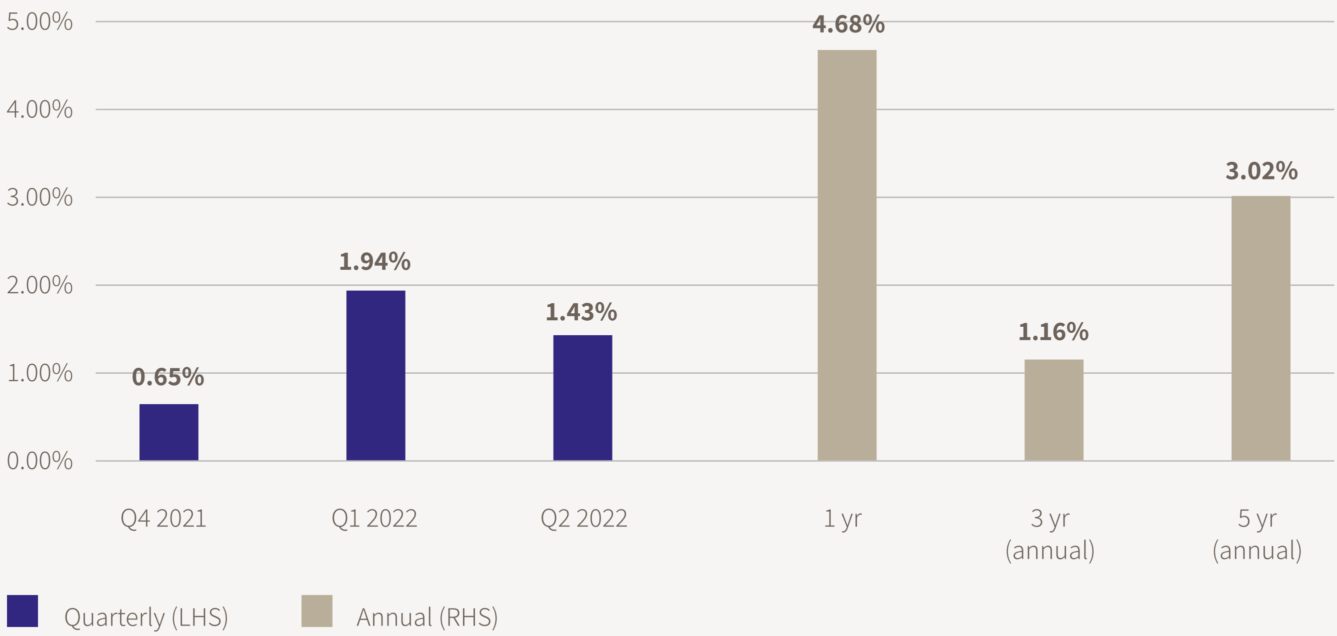


DEVELOPMENT OF ASSETS

as % of NAV



FUND PRICE PERFORMANCE



MARKET COMMENTARY

Despite obvious challenges, the Irish economy has performed well through the first half of 2022. The ERSI anticipates GDP growth to be 6.8% for the full year, reducing to 4.8% in 2023. Strong export growth is driving these numbers. Modified domestic demand (a measure of economic activity that excludes certain types of activity such as intellectual property and aircraft leasing) for 2022 and 2023 is projected to be 4.4% and 3.3% respectively.

However, challenging headwinds exist. Inflation, which is typically positive for property returns through rental growth, is having more negative impact due to the outsized growth in energy and construction costs.

Inflation is expected to exceed 7% in Ireland during 2022. In June, consumer prices had risen 9.1% compared to 12 months previous. Inflation in both the US and the Eurozone is running at over 8.5% year-to-date. While this is expected to abate across the globe during 2023, the extent to which rising energy prices, brought about by the war in Ukraine, are influencing inflation remains a concern beyond the short term. In addition, the impact on rising construction costs is likely to have a negative impact on delivery of new product, particularly in the residential and office sectors.

Rising interest rates as a tool to temper inflation is causing increased borrowing costs, and may put upward pressure on yields, which have been at record low levels in many European markets and are, therefore, more susceptible to marginal moves in debt costs.

So far, the investment market has remained positive with no noticeable impact on asset pricing. However, activity seems to have slowed since the middle of the second quarter (Q2) 2022.

Investment

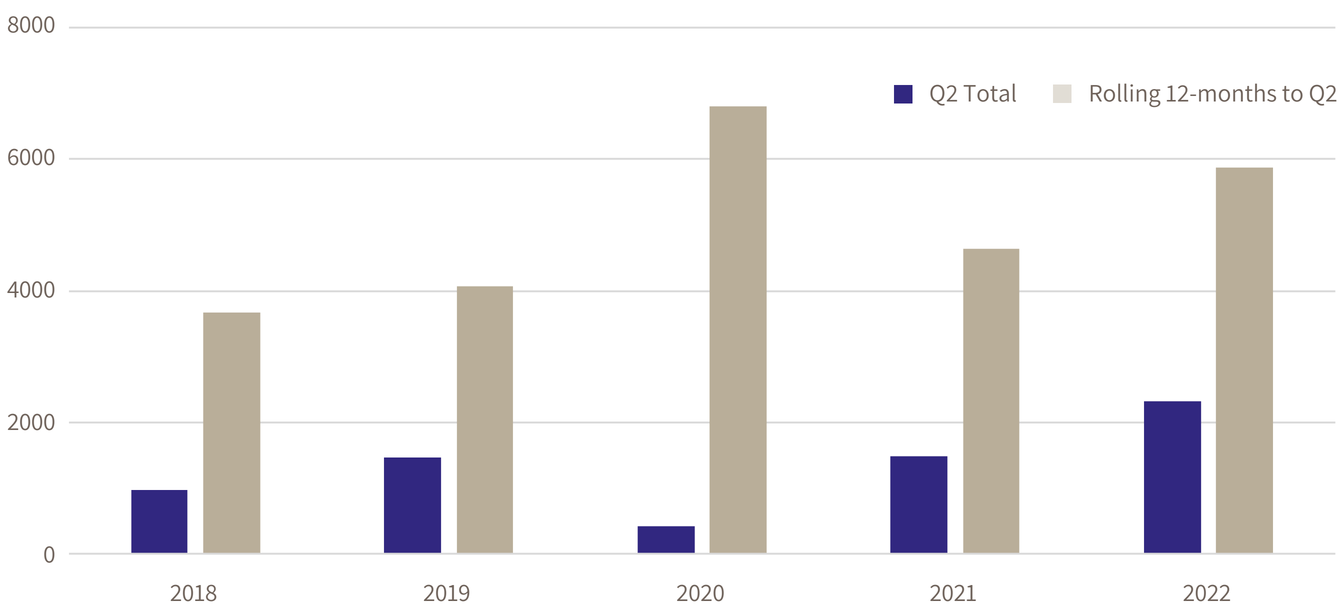
In general, the investment environment is shifting to a degree. The increase in interest rates is feeding through to produce increased cost of debt, and as most real estate is partially leveraged, this is expected in influence values. The flux in the cost of debt, after such a sustained period of low interest rates is causing investors to pause, and this is slowing momentum in the investment market. This is a global macro trend, as opposed to a trend that is only influencing the Irish market.

In Ireland, approximately €2.3bn of investment transactions completed in Q2. This includes the buy-out of Hibernia REIT (a publicly traded office REIT), by the Canadian investment manager Brookfield, for close to €1.1bn. Investment activity has been close to €3.1bn in H1, including Hibernia REIT, which compares with the 10-year average annual transaction activity of €3.8bn.

Of the investment spend in Q2, 51% was in the office sector, and investor activity continues to focus on prime locations and assets with modern specification and secure income streams.

The prime office yield remains at 4% (possibly a little lower for the best-in-class assets), and at 5.25% in the suburbs.

Investment Volumes (mn)



Source: CBRE Research, 30 June 2022

MARKET COMMENTARY (CONTINUED)

41 GRAFTON ST. LEASED TO LEGO DURING Q1 FOR A RENT OF €500,000PA

4-5 HARCOURT ROAD, DUBLIN 2. SOLD BY HENDERSON PARK TO REINVEST ASSET MANAGEMENT FOR €65M IN Q2

Other office transactions in the period included the sale of blocks 1-3 Founders District in Belfield (south Dublin) for €97.5m and the sale of 4-5 Harcourt Road (Dublin 2) for €65m.

In the Industrial / Logistics sector, approximately €220m of investment transactions completed in H2, taking investment year-to-date to almost €400m. This compares very strongly to the 10-year average quarterly investment of €70m. Institutional investors again drove demand in this sector.

Industrial deals included the sale of a unit in Greenogue Logistics Park (in southwest Dublin along the N7) for €68m, a number of units in Kylemore Park West (south-west Dublin, inside the M50), and units in Northwest Business Park (northwest Dublin, located between the N2 and N3) for €7.9m and €6m respectively. Yields continue to compress, with some deals reflecting income returns <4%.

The residential sector accounted for approximately 25% of transaction activity in Q2. Four transactions, each close to or over €100m in lot size were the most notable deals in this sector. A total of 380 units located in both Wyckham Point and Dundrum View were transacted as part of the corporate sale of Hibernia REIT (while this portfolio was for the most part office stock, some residential buildings made up some mixed-use schemes). Otherwise, deals were concluded in Citywest in Dublin 24, in St. Edmund's, close to Liffey Valley Shopping Centre (both in west Dublin), and on the Malahide Road.

International capital continues to review investment opportunities in Ireland, as yields continue to be higher than comparable investment products in the UK and Europe.

Office

Office leasing activity in Q2 closed approximately 498,000 square feet (sq ft) of space, through 56 transactions, representing the strongest Q2 since 2018 and bringing the total take-up during H1 to 990,000 sq ft.

The strong employment market in professional services, financial services, and technology is driving strong tenant demand, and in addition to the deals already closed, a further 1.2m sq ft is currently reserved and expected to close in H2 2022. This will return annual office leasing take-up back towards the long-term average of 2.3m sq ft.

The largest letting of Q2 2022 was the deal to accommodate the US software company ServiceNow at 60 Dawson Street Dublin 2, in over 88,600 sq ft. Otherwise, the most notable letting was the deal with Waystone (also a US technology firm) for almost 52,000 sq ft in 35 Shelbourne Road. While the lettings mentioned above were quite large, the fact that 56 deals were transacted over Q2 shows the health in tenant demand.

The technology sector accounted for 36% of lettings, followed by 29% for financial services and the business services share of office take-up was at 20%.

Tenant demand continues to grow for higher quality modern office buildings with good environmental specification. CBRE estimates that approximately 1.78m sq ft is under construction and due for delivery by the end of H2 2022. Of this, over 800,000 sq ft is already pre-let and another 270,000 is reserved. Of all the space scheduled for delivery for the remainder of 2022, approximately 60% is either contractually leased or subject to advanced negotiations.

It is being reported that short- to medium-term tenant demand is at over 2.8m sq ft, with over 80% of demand focused on city-centre locations. Demand is spread over the technology industry (27%), professional services (21%) and financial services (16%), while the public sector, consumer services and manufacturing / industrial / energy sectors have also registered interest in new space. The spread of tenant demand across so many sectors is reassuring for the strength of the office sector.

Prime rents continue to rise slowly. The top rents are currently at €62.50 per sq ft and CBRE anticipates further rises over H2 2022. Prime rents in the stronger suburban sub-markets (south) are at €29.50 per sq ft, while rents in the north and west sub-markets are at €20.50 and €18.00 per sq ft, respectively.

Vacancy across Dublin city centre is at 7.3% but vacancy for Grade A buildings is lower at 6%. In the strongest sub-markets (Dublin 2 / Dublin 4), the vacancy rate is at 6.7% and that of the Grade A buildings in these sub-markets is at 5.2%.

Vacancy in the suburban markets is at 10.2%, while the rates for Grade A buildings in these submarkets is at just under 8%. This shows that demand is high for buildings with good specifications and the rate of take-up of newly constructed buildings shows that absorption is matching delivery of new product.

MARKET COMMENTARY (CONTINUED)

Industrial & Logistics

Tenant demand in industrial and logistics continues to be very strong. Approximately 533,000 sq ft of take-up was recorded (in 24 transactions) and, while this is behind Q1 take-up, the total volume of leased space of over 1.5m sq ft is a very strong attestation of the logistics sector. The H1 number was a 30% increase on the same period in 2021, and leasing agents expects strong activity to continue into H2 2022.

The size of stock continues to grow, based on strong demand fundamentals. Of the deals completed in Q2, a total of 33% of stock transacted was pre-letting activity, and a further 4% of transaction activity was for newly completed product.

The stronger locations experienced most activity, and the M2 corridor has seen an expansion in the stock in this location. This sub-market accounted for 35% of the letting activity in Q2, and over 30% of all activity in H1 2022. The M1 and N3 sub-markets (the areas along the M1 and N3 roads) accounted for over 35% of letting activity, so this area of north Dublin totalled close to 70% of letting activity in Q2. The proximity to the airport, Dublin Port and the Port tunnel makes this an ideal location for most logistics operators. The next most desirable location is the N7 corridor (along the motorways that service the south and west of the country), which accounted for just under 20% of transactional activity.

It is notable that over 40% of letting activity was for buildings between 50,000 and 100,000 sq ft. Traditionally, most lettings tended to be for space under 10,000 sq ft, and this demand for larger demises supports the view that the logistics sector is continuing to see a structural shift in the use of these facilities. Demand is being driven by changing supply-chain management and a migration towards online retail distribution as a result of the changing political and socio-economic environment (BREXIT, international conflicts, and pandemic-related matters) and by a flux in consumer behaviour.

Tenant demand is also stronger for buildings with strong environmental credentials (the best-in-class buildings are securing rents in excess of €11.50 per sq ft), although, such is the strength of tenant demand, older buildings (in the better locations) continue to command strong rents (transactions are producing rents of €10.50 per sq ft).

Retail

Transactional activity in the retail market continues to be sluggish, although sentiment is improving and resulting in an increased level of negotiations in some of the stronger sub-markets. The most significant letting in H1 was the transaction in 41 Grafton Street, with LEGO, which followed the Lulemon letting in 2021.

The welcome news is that a number of deals are reportedly in negotiation and conclusion of these deals would be a welcome to the Street, after what has been a difficult time since the onset of the pandemic. Several notable brands have expressed an interest in the Dublin high streets in recent months.

It is reported that the UK brand Russell & Bromley has also signed a lease on Grafton Street, which would be a strong endorsement of the sub-market. Canada Goose is also reportedly in negotiations, after having occupied a unit on a short-term basis later in 2021 and into early 2022. A common feature of the current market is retailers' preference to trial a concept through a short-term 'pop-up', with a view to making a long-term commitment to a particular sub-market.

GRAFTON STREET

Footfall in the city centre continues to improve on weekends, while it lags pre-pandemic levels during weekdays.

Outside the high street, retail parks continue to report strong performance, which is driven, to a degree, by the strong housing market. Suburban shopping centres are also performing reasonably well, with footfall in the stronger locations approaching pre-pandemic (2019) levels. Letting activity has improved in these centres and a number of deals closed in Q2. For example, Zara has committed to significantly enlarge its footprint in Blanchardstown Shopping Centre.

Increasing inflation may act to curb consumer demand and may challenge extensive expansion in the retail sector.

Residential

Residential transactions accounted for 25% of the investment market in Q2, which is below the average of the past number of years solely due to the inclusion of the Hibernia REIT buy-out, which was heavily weighted to the office sector.

The first formal sales processes of the year were launched during Q2, which included a 413-unit scheme in Newmarket Square, Dublin 8 at a guide price of €210m, and a 376-unit scheme in Clongriffin, Dublin 13 known as One Three North at a guide price of €200m. These propositions will test the elasticity of the private residential sector pricing in the face of rising interest rates. Current yields for residential schemes, which range from 3.50 to 3.75% for prime stock, are likely to prove vulnerable to increased debt costs.

In addition, while general inflation traditionally triggers rental growth, the specific impact of the current round of inflation may very well result in a net negative for the residential market as construction costs continue to rise and consumers feel the pinch of rising food and energy prices, reducing affordability in other areas.

Marginal rental increases continued to be a feature of the residential market in Q2, and the current supply / demand imbalance is set to be a feature of the market for some time to come. Combined with the continued net exodus of private landlords from the market, these dynamics will help underpin the professional PRS product into the future.

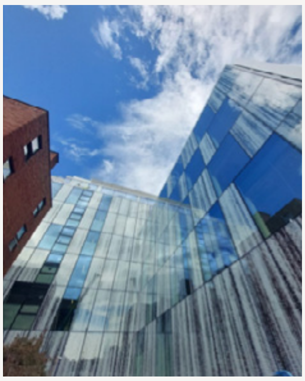
FUND ACTIVITY

Office Leasing

Baggot Energy has entered into a new lease for first floor space in Hambleden House, Pembroke Street. This office property, which extends to approximately 40,000 square feet (sq. ft.), is now fully let to seven occupiers. The new lease with Baggot Energy is a short-term contract for a period of three years and breaks back to a rent per sq. ft. of €53.00.

Retail Leasing

The Fund has completed a new lease with Mountain Warehouse in Limerick One Shopping Park. This will add to the excellent line-up of occupiers already situated in the park, such as The Range, Boots, Dunnes Stores, Harry Corry, and Next. Unit 12a extends to approximately 7,000 sq. ft. and the agreed rent will equate to €26.00 per sq. ft., increasing the Fund's income by €181,000 per annum following the expiry of a nine-month rent free period.



Cadenza Development

The construction of Cadenza – a new 113,000 sq. ft. office property in Earlsfort Terrace, which has been is pre-let to Intercom – has entered its final stage. The feature foyer received its bespoke seven-metre-tall glazing during the second quarter, which curves from Earlsfort Terrace onto Adelaide Road. These are some of the tallest panes of glass to have ever been used in Ireland. The unique stone veils are currently being installed to complete the building's façade, which will give it a distinctive character.

All utility connections and mechanical and electrical plant have been installed. Final finishes are progressing, as well as groundworks to accommodate the sunken gardens, which will act as lightwells to the lower ground floor space.

ENVIRONMENT, SOCIAL AND CORPORATE GOVERNANCE

ILIM Property is defining a Net Zero Pathway which will provide a framework for the reduction of greenhouse gas emissions, energy use, energy intensity targets, renewable energy use, and the use of circular economy principles in new developments. The Net Zero Pathway is ongoing.

Across the real estate Funds, ILIM reviews key environmental impacts on a quarterly basis, including:

> **Energy Consumption:** reducing like for like energy use where ILIM is directly responsible by 15% by December 2024 (based on a 2019 baseline);

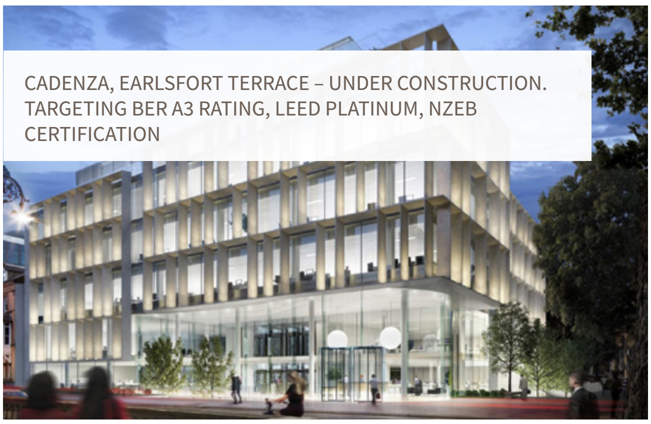
> **Renewable Energy:** procuring 100% of electricity from renewable sources, where economically or operationally feasible;

> **Greenhouse Gas Emissions:** reduce like for like Scope 1 and 2 emissions by 25% by December 2024 (based on a 2019 baseline), and define and measure Scope 3 emissions in line with best practice by December 2024;

> **Water use:** reduce like for like water usage by 10% by December 2023 (based on a 2019 baseline); and

> **Production of Waste:** divert 100% of waste from landfill.

1 GEORGE'S QUAY, DUBLIN 2 – REDEVELOPED IN 2017. BER A3 RATED, LEED PLATINUM



CADENZA, EARLSFORT TERRACE – UNDER CONSTRUCTION. TARGETING BER A3 RATING, LEED PLATINUM, NZEB CERTIFICATION

As a responsible investor, ILIM adopts an active ownership approach across its real estate assets, which aims to maximise the medium to long-term value for its clients. ILIM uses its ownership to constructively engage with property managers, encouraging better standards and management processes covering financially material ESG risks.

At asset level, ILIM has developed an Environmental Management System (EMS) to manage sustainability impacts, risk, and opportunities across its real estate portfolios. The EMS also aims to improve resilience and performance in ILIM's portfolios and assets. The EMS was established to deliver commitments set out in the ILIM ESG policy and covers all aspects of the direct real estate investment management life cycle for all real estate operations.

GRESB
2021

The Pension Fund has continued to improve and deliver on ESG and has been awarded 4 Stars in the 2021 GRESB Real Estate Assessment for both its standing stock and developments with a score of 85 for standing stock. In defining a net zero pathway for the reduction of greenhouse emissions, a particular focus has been placed on data collection over the past 12 months. Analysing this data provides the Fund with a transparent, science-based decarbonisation pathway to identify and measure greenhouse gas (GHG) reduction targets aligned with the Paris Agreement. This has involved working closely with occupiers to share operational GHG emissions and develop practical solutions to achieve reductions. ILIM is also working to understand the footprint of embodied carbon in its developments and targeting net zero for these projects.

During the third quarter, ILIM Property undertook a materiality assessment covering key areas including environmental, social, and economic issues. A broad range of Internal and external stakeholders, including investors, were contacted to gain a better understanding of the key issues to their business and what steps ILIM Property should be making to enhance ESG performance. The materiality assessment recognised that ESG targets are becoming critical to investment value as potential EU legislation will mean more stringent measures being imposed on the built environment.

The Fund is classified as an 'Article 8 Fund' under the Sustainable Finance Disclosure Regulation (SFDR).

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.

The author cannot make a personal recommendation for any person and you should seek personal investment advice as to the suitability of any investment decision or strategy to your own needs and circumstances. Any comments on specific stocks are intended as an objective, independent view in relation to that stock generally, and not in relation to its suitability to any specific person.

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