Agenda Item 13

TEESSIDE PENSION FUND Q4 2024

CBRE

Quarterly Report
Prepared: 26 February, 2025

Fund Objectives

Teesside Pension Fund's primary objective is to create a sustainable income stream to match its long-term pension liabilities. This is achieved through investing in a wide range of asset classes, of which Real Estate is one.

The objective of the direct property allocation is to create a portfolio which produces a consistent total return, over the long term, to meet Teesside Pension Fund's liabilities.

Portfolio Strategy

The portfolio will hold core and core plus properties, over the long term, diversifying the portfolio through different property types, unit sizes, occupier businesses, income expiry and geographical regions.

Stock selection will be favoured over a default asset allocation bias, with a focus on maintaining a long-term overweighted position in industrial and retail, alongside an underweight position in offices.

We will seek to extend the weighted average unexpired lease term (WAULT) of the portfolio and diversify the lease expiry profile.

Individual assets will be well suited to the current occupational market, whilst offering future flexibility. Properties will be leased to good quality businesses on institutional lease terms together with some index-linked assets.

Responsible Investment

In line with Teesside Pension Fund's Responsible Investment Policy, CBRE considers Environmental, Social and Governance issues (otherwise known as ESG criteria) as part of its investment decision making process and ongoing asset management.

Executive Summary

As of 25th December 2025 , the portfolio comprised 34 properties located throughout the UK, with a combined value of £488.7m. This reflects an overall Net Initial Yield of 5.64%, and an Equivalent Yield of 5.84%.

The portfolio comprises principally prime and good secondary assets. High Street retail, retail warehouse and industrial comprise 94% of the Portfolio by capital value. There are 91 demises and a total net lettable area of 2,751,651 sq ft.

The portfolio has a current gross passing rent of £29,296,042

per annum against a gross market rental value of £27,532,556 per annum.

The weighted average unexpired lease term is 8.7 years to the earlier of the first break or expiry and 9.5 years to expiry, ignoring break dates.

teesside pension fund

Fund Summary

Total Pension Fund Value (September 2024)	£5,483m
Real Estate Weighting (long term target allocation)	8.9% (10%)
Direct Portfolio Value (December 2024)	£488.7m

Direct Portfolio

Direct Portfolio Value (December 2024)	£488.7m
Number of Holdings	34
Average Lot Size	£14.4m
Number of Demises	91
Void rate (% of ERV) (Estimated UK Benchmark)	1.5% (7.0% – 9.0%)
WAULT to Expiry (break)	9.5 years (8.7 years)
Current Gross Passing Rent (Per Annum)	£29,296,042
Current Gross Market Rent (Per Annum)	£27,532,556
Net Initial Yield	5.64%
Reversionary Yield	5.60%
Equivalent Yield	5.84%

Portfolio Highlight (Q4 2024) – Unit 1 Bromford Settlement Dilapidations Settlement

The Fund has reached a favourable dilapidations settlement at Unit 1, Bromford Central following the vacation of the previous tenant. The settlement totalled £125,000. This settlement concludes one of two settlements at Bromford Central, with the funds being recirculated to refurbish the assets with a view to reletting.

UK Economic Commentary

- Real GDP showed no growth in the 3 months to November owed to slowing services sector output. Against the backdrop of no growth in Q3, the UK economy slowed towards the end of 2024.

- Since falling beneath the BoE's target, inflation has steadily risen reaching 2.5% in December. The increase has been caused by stubborn services inflation (4.4%) and nominal wage growth (5.6%) in addition to falling energy prices being removed from the year-on-year calculation. We expect inflation will remain marginally above but close to target for the remainder of 2025 as core signals abate, albeit slowly.

- The labour market remains relatively tight with unemployment at 4.4% and redundancies remaining low, particularly for a period of low growth. The tight labour market continues to drive strong nominal and real earnings growth. We don't expect unemployment to peak above 4.5% in the medium term.

- Despite bond market volatility linked to the US as well as the UK's current fiscal position we anticipate most economic indicators point towards 2 further interest rate cuts in 2025, following the 19th February 2025 cut down to 4.5%. We anticipate falling debt costs in addition to real earnings growth and improved business and consumer confidence will be conducive to increased consumption and investment in 2025 with GDP growing 1.5% and 1.8% in 2025 and 2026.

- The key risk to the outlook is the stickiness of core and wage inflation which if more volatile than we anticipate would lead to less rate cuts and lower growth. Business responses to an increase in minimum wage and NIC could also alter our inflation outlook. Businesses increasing prices would provide upward pressure while a reduction in wage increases would likely be deflationary, according to a survey of 51 major retailers by the BoE both are equally likely.

UK Real Estate Market Commentary

- The CBRE Index recorded an All-Property Annual Total Return of 7.7% over the course of 2024. The annual figure was driven by quarterly total returns of 2.9% in Q4 2024, as capital values increased by 1.5% over the quarter, and increased by 1.8% throughout the year.

- All-Property rental values increased by 2.9% throughout 2024, after rental values grew by 0.9% in Q4 2024. Rental value growth picked up in Q4, after rising by 0.7% in Q3 2024. However, annual rental growth was slightly below 2023, which saw rental values increase by 3.6% over the year.

- The Retail and Industrial sectors posted the highest total returns for the quarter, with 3.7% and 3.5% respectively. The Industrial sector recorded higher capital value growth of 2.3%, however Retail total returns continue to be driven by income return, which was 1.8% throughout Q4 2024. The Office sector posted a total return of 1.7% throughout the quarter, and also saw capital values begin to recover, as capital values increased by 0.3% in Q4.

- Investment in UK commercial real estate markets totalled £16.8bn in Q4 2024, which brings total investment throughout 2024 to £53.6bn. Investment increased by 63% throughout Q4 2024 compared with Q3 2024. There was also a 20% increase in the annual figure compared with 2023 which saw £44.8bn transacted throughout the year.

- Domestic purchasers had the largest share of UK real estate investment for the second consecutive year, with local investors accounting for 56% of transaction volumes. This follows 2023, where domestic buyers represented 55% of investment volumes. Overseas buyers however were more active in larger deals, accounting for 57% of transaction volumes for lot sizes above £100m.

- Looking to 2025, investors are still targeting the Industrial and Living sectors, as these sectors have exhibited from stable vacancy and income growth resulting from tight demand-supply dynamics. Investors also continue to seek exposure to alternative sectors such as Data Centres and Senior Living as emerging technology and demographic trends favourably affect these assets.

Investments

Sales

The Fund made no disposals this quarter.

Acquisitions

The Fund is currently under offer to acquire a southeast based supermarket. The transaction is expected to conclude in Q1 2025.

Direct Portfolio Analysis

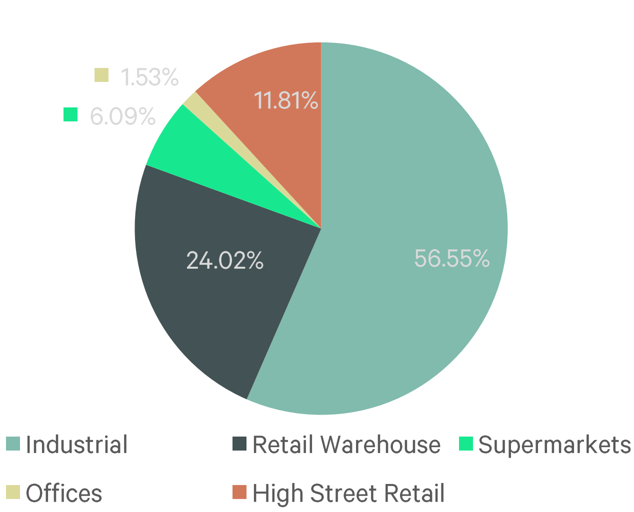
Top Ten Holdings (by Capital Value)

No.	Asset	Sector	Value	% of Direct Portfolio
1	WASHINGTON - Radial 64	Industrial	£50,600,000	10.4%
2	SWINDON - Symmetry Park	Industrial	£31,800,000	6.5%
3	LONDON - Long Acre	High Street Retail	£31,000,000	6.3%
4	ST ALBANS - Griffiths Retail Park	Retail Warehouse	£30,500,000	6.2%
5	THORNE – Capitol Park	Industrial	£30,000,000	6.1%
6	YEOVIL - Lysander Road	Industrial	£28,000,000	5.7%
7	BIRMINGHAM - Bromford Central	Industrial	£20,800,000	4.3%
8	GATESHEAD - Team Valley	Industrial	£20,300,000	4.2%
9	PARK ROYAL - Minerva Road	Industrial	£19,850,000	4.1%
10	TONBRIDGE – Tonbridge Retail Park	Retail Warehouse	£19,650,000	4.0%
		Total	**£282,500,000**	**57.8%**

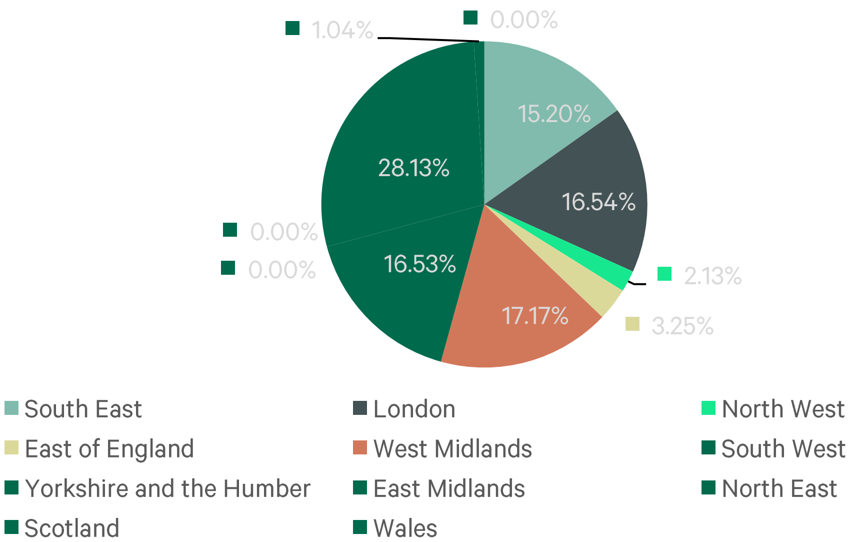
We will seek to extend the weighted average unexpired lease term (WAULT) of the portfolio, as well as diversifying the lease expiry profile.

In addition to recommendations on industrial purchases, we may also recommend alternative and long-let investments that offer good covenants, attractive yields and long unexpired terms; these may include hotels, car showrooms, healthcare, leisure, supermarkets and student housing.

Sector Allocation (by Capital Value)



Geographical Allocation (by Capital Value)



Direct Portfolio Analysis (continued)

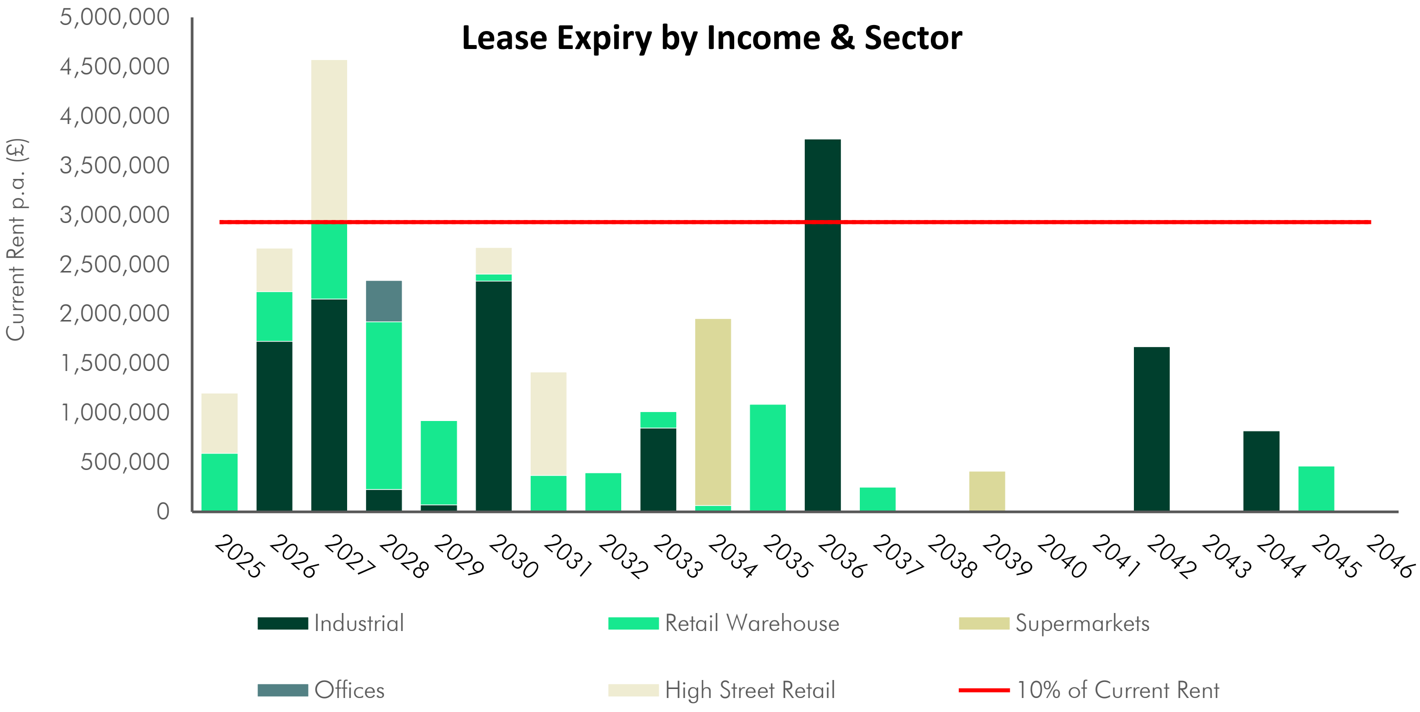
Top Ten Tenants (by Contracted Income)

The Portfolio has 91 demises let to 64 tenants. Of the top ten tenants, 80% have an INCANS classification of Medium-Low Risk or better, a strong rating. A summary of the top ten tenants' covenant strength is detailed below.

#	Tenant	Sector	Leases	Contracted Rent p.a.	% of Portfolio Rent	INCANS Global Score	INCANS Category
1	BAE Systems Global Combat Systems Munitions Ltd	Industrial	1	£3,767,977	12.9%	88/100	Medium-Low Risk
2	B&Q Ltd	Retail	3	£2,084,211	7.1%	92/100	Medium-Low Risk
3	Iceland Food Limited	Industrial / Retail	2	£1,892,500	6.5%	57/100	Medium-High Risk
4	Omega Plc	Industrial	1	£1,670,903	5.7%	92/100	Medium-Low Risk
5	Leonardo UK Ltd	Industrial	1	£1,653,120	5.6%	94/100	Medium-Low Risk
6	Zara UK Limited	Retail	2	£1,580,000	5.4%	89/100	Medium-Low Risk
7	Unipart Logistics Limited	Industrial	1	£1,077,000	3.7%	83/100	Medium-Low Risk
8	Royal Mail Group Limited	Industrial	1	£1,074,000	3.7%	17/100	High Risk
9	Libra Textiles Ltd	Industrial	1	£1,050,000	3.6%	93/100	Medium-Low Risk
10	Halycon Fine Art Ltd	Industrial	1	£848,628	2.9%	87/100	Medium-Low Risk
			Total	£16,698,339	57.0%		

Key Lease Expiries / Income Risk

There is a focus to mitigate against lease expiry risk, by either purchasing properties where the lease expiry profile does not match that of the portfolio or through active asset management. The graph below identifies the years where more than 10% of the portfolio income is due to expire.



Property Portfolio Returns

The below table demonstrates the Portfolio's return compared to a reference index over the past 1, 3 and 5 years. The CBRE Property Index* is provided for illustrative purposes only:

	1 Year Dec 23 – Dec 24			3 Year (p.a.) Dec 21 – Dec 24			5 Year (p.a.) Dec 19 – Dec 24		
	TPF	Index	Variance	TPF	Index	Variance	TPF	Index	Variance
Income Return	5.88%	5.83%	+0.05%	5.48%	5.45%	+0.04%	5.57%	5.50%	+0.07%
Capital Return	0.86%	1.78%	(0.92%)	(1.90%)	(5.35%)	+3.44%	2.32%	(2.26%)	+4.58%
Total Return	6.79%	7.70%	(0.91%)	3.68%	(0.17%)	+3.84%	8.15%	3.12%	+5.02%

* Note that the CBRE Property Index is not the performance benchmark for the Portfolio.

Investment Management Update

We continue to seek long-let institutional stock in a range of sectors, primarily industrial, retail warehousing and supermarket sectors to deliver the secure index-linked income streams identified within the Fund's strategy. The Fund's requirement is regularly articulated to the investment market, and we receive a substantial number of investment opportunities each week.

Asset Management Update

B&Q, Arbroath Retail Park – December 2024

The Fund has agreed to terms to regear B&Q's lease for an additional 13 years, creating an effective 15-year term. The rent will be £252,000 per annum and will bring an end to the historic service charge dispute at this asset.

Carpetright, Tonbridge – December 2024

The tenant recently entered Administration. The Fund has entered into letting discussions with a prospective tenant with lease terms currently being negotiated.

BAE, Washington – December 2024

The Fund has agreed terms for a reversionary lease with BAE Systems plc. The term will be extended until December 2042, and the break clause moved out to December 2037. The rent will be reviewed annually at a fixed uplift of 3% pa. In return for the extension, the Fund will provide 3 months rent-free to the tenant. The lease is expected to complete by the end of Q1 2025.

M&S, Congleton – December 2024

M&S currently occupies unit A1 at Congleton. The tenant has a lease expiry in June 2025. The Fund is continuing negotiations towards an early lease renewal settlement with the tenant.

Royal Mail, Gateshead – December 2024

Royal Mail currently occupies the Fund's holding within Team Valley Trading Estate. The Fund is currently in rent review negotiations to settle the forthcoming September 2025 review, following positive rental growth within the region.

Portfolio Arrears Update – As at 26 February 2025

The table below details the collection statistics for Q4 2024. Rent due for the quarter totalled £7,417,129.58, of which £7,170,537.44 has been collected, reflecting a difference of £246,592.14.

Collection Milestones	Rent Due 25/12/2024	Quarter Date 25/12/2024	Week 1 01/01/2025	Week2 08/01/2025	Week 3 15/01/2025	Week 4 22/01/2025	After 29/01/2025	Difference
Total (£)	7,417,129	5,381,910	594,641	352,397	597,695	7,965	235,930	246,592
Collection Target (%)			92.0%	96.0%	98.0%	99.0%		
Total Collections (%)		72.6%	80.6%	85.3%	93.4%	93.9%	96.6%	

The rent collection across the entire portfolio in the previous three quarters has reflected the following.

December 2024 – 96.57%
September 2024 – 92.9%
June 2024 – 98.9%

The total collectable arrears on the entire portfolio as at December 2025 is £361,988.

The Collectable Arrears exclude the following:

Tenants that have overall credit balances on their accounts
Tenants with recent charges raised within the last month
Tenants that are insolvent

Below is a summary of the top ten tenants with the greatest arrears.

B&Q plc (St Albans) – Total arrears of £132,578 (36.6% of the collectable arrears). This mainly relates to the third monthly instalment of the December 2024 quarter's rent, which we are continuing to chase. They also have service charge and insurance arrears, and we are working with the tenant to resolve their queries.

Leonardo UK Limited (Yeovil) - Total arrears of £48,688 (13.5% of the collectable arrears). This relates solely to a backdated rent review increase that was invoiced recently. We are chasing the tenant for payment.

Iceland Foods Limited (Swindon) – Total arrears of £30,018 (8.3% of the collectable arrears). This relates to the recharge of the head landlord's service charge. The tenant has queried these charges, which we are seeking to resolve.

B&Q plc (Arbroath) – Total arrears of £24,564 (6.8% of the collectable arrears). This relates solely to service charge arrears and a dispute over charges. These arrears will be paid as part of the lease renewal process.

Encore Property Management (123 Old Brompton Road) – Total arrears of £15,000 (4.1% of the collectable arrears). This relates solely to latest charge for the lift replacement loan repayment and has been chased.

B&M Retail Limited (Ipswich) – Total arrears of £14,599 (4.0% of the collectable arrears). This relates solely to the December quarter's service charge.

Halfords Limited (Dorchester) – Total arrears of £11,994 (3.3% of the collectable arrears). This mainly relates to the third instalment of the December 2024 quarter's rent, which we are continuing to chase.

River island Fashion Limited (Lincoln) – Total arrears of £10,777 (3.3% of the collectable arrears). This relates mainly to the misallocation of the May 2022 rent. We continue to work with the tenant to resolve this.

Aldi Stores Limited (St Albans) – Total arrears of £10,566 (2.9% of the collectable arrears). This relates solely to a balancing service charge sum, which we are continuing to chase.

HWS Restaurants Limited (Ipswich) – Total arrears of £9,506 (2.6% of the collectable arrears). Although there are service chargers that have been recently raised, this mainly relates to the monthly rent for February.

Footnote: This tenant (HWS Restaurants Limited) entered voluntary administration in January 2025. The administrator has proposed an assignment of the lease. Discussions are ongoing.

Lending Update

Debt Investment Portfolio	Sector	Loan Limit	Drawn Balance	Interest Rate	Fully Drawn Income p.a.	Maturity	LTV	ICR
Chester Greyhound	Retail	£19.17m	£19.17m	3.70%	£0.71m	Nov-25	58.5%	2.71x
St Arthur Homes	Affordable Housing	£25.37m	£17.37m	5.40%	£1.37m	Nov-26	55.0%	1.36x
Preston East	Industrial & Logistics	£18.78m	£18.78m	5.21%	£0.84m	Jun-27	53.7%	1.80x
Bordon	Industrial & Logistics	£11.30m	£11.02m	5.54%	£0.63m	Jun-29	52.5%	1.53x
Verdant	Infrastructure	£25.00m	£25.00m	8.25%	£1.59m	Oct-26	25.0%	N/A
TOTAL CURRENT		**£99.6m**	**£91.3m**	**5.77%**	**£5.75m**		**49.7%**	**1.96x**

As at 31 December 2024, the Fund had five committed loans, of which £91.3m of the combined £99.6m limits had been drawn. These loans produce a blended return of 5.77%. In the period, the loan to Verdant Regeneration was closed and fully drawn down. The facility is a bridge loan to support the Borrower with infrastructure and enabling works at New Stanton Park in Derbyshire. Tranche C (Unit 3) of the Preston East loan was also drawn down, taking the total drawn loan balance to the facility's £18.78m limit.

The Bank of England base rate was cut by 25bps to 4.75% in November, however SONIA 3-year swap rates actually increased by 0.39% in the quarter, reflecting market sentiment that future rate cuts may be slower than previously anticipated. At 4.11% on 31st December, the 3 year swap was within 3 basis points of the full year average of 4.09%. Economic indicators such as inflation and bond yields continue to fluctuate, and while financial markets anticipate further BoE based rate cuts, opinion is divided on the timing of these.

We are continuing to see good opportunities in the lending space across multiple sectors, in particular stabilisation bridge loans where borrowers need short term finance post development in anticipation of a more favourable sales market in the future.

Existing Loan Portfolio

- All existing loans are performing in line with their loan agreements. All are covenant compliant and all interest and amortisation payments have been made on time.
- Chester Greyhound: A £20.0m senior loan to fund Aprirose's acquisition of Greyhound Retail Park, Chester. Ongoing scheduled amortisation has de-levered the loan to <£19.2m since completion. On 22nd July 2024, Carpetright, a tenant at the scheme, went into administration. The Borrower has now agreed an 'agreement for lease' with Tapi, who have taken over the Carpetright brand.
- St Arthur Homes: A £25.4m loan secured against a portfolio of 329 shared ownership units of which 245 have been refinanced to date.
- Preston East: An £18.8m loan secured against 4x long-let, Grade A logistics units near Preston.
- Bordon: An £11.3m loan secured against a fully let logistics unit in Bordon, Hampshire with a WAULT >14 years. The loan closed in June 2024.
- Verdant: A £25.0m Bridge Loan Facility to Verdant Regeneration Limited. The Loan has been provided to support the Borrower with infrastructure and enabling works at the 176-acre site in Ilkeston, Derbyshire.

Titan Investors – Bordon, Hampshire

Titan Investors – Preston East Unit 3, Preston

Responsible Investment Initiatives

Environmental, Social, and Governance (ESG) criteria are increasingly prominent in investment decision-making and will influence the attractiveness of investments going forward. CBRE will ensure that responsible investment is at the forefront of the strategy and that ESG factors are considered within each investment and asset management initiative. This will help ensure that the investment portfolio remains resilient over the long term. We have summarised the relevance of each of the ESG factors below. As the importance of ESG grows, we will expand upon these with portfolio-level principles and asset-specific initiatives.

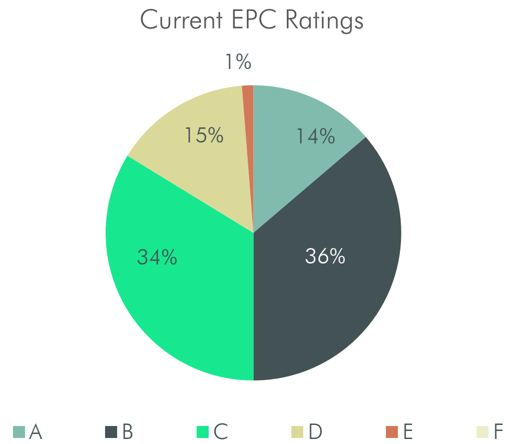
Environmental – sustainable factors will continue to play a part in the definition of 'prime' real estate, and buildings that don't meet the increasingly competitive standards are likely to become obsolete faster. Occupiers will demand that their buildings adhere to the highest environmental standards.

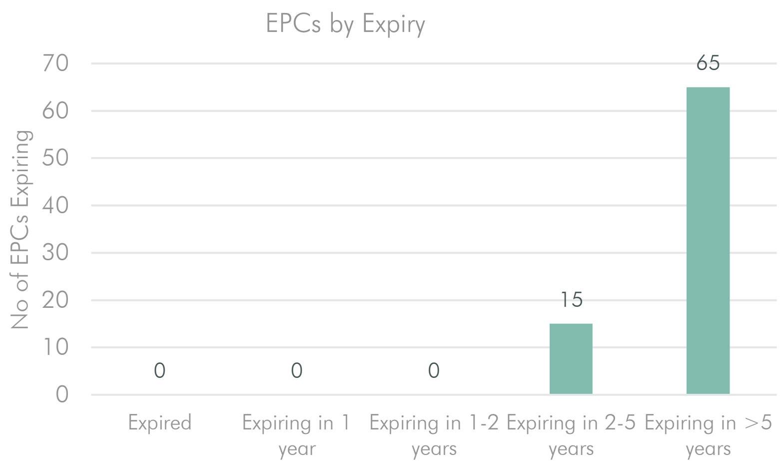
Social - real estate's impact on the local community and on a company's workforce are becoming equally important. Buildings that contribute positively to the world are, therefore, likely to be more resilient than those that do not, and as such, are likely to benefit from increased occupier demand, leading to future rental and capital growth.

Governance - market participants will increasingly question the governance and management practices of their partners and supply chain. Rigorous standards will mean businesses will need to become more transparent and engage with their stakeholders to ensure access to the best opportunities.

Minimum Energy Efficiency Standards (MEES)

Teesside Pension Fund's property Portfolio currently complies with MEES regulation. The Fund has undertaken a strategic review of the Portfolio to ensure continued compliance with incoming regulations in 2025. Energy Performance Certificates (EPCs) are used to measure compliance. A breakdown of the current ratings and expiry profile across the Portfolio is detailed below:





Fund Advisor Contacts

Investment Advisors – CBRE Capital Advisors

Andrew Owen
Senior Director
Andrew.Owen@cbre.com
020 7182 2474

Rob Quinn
Associate Director
Rob.L.Quinn@cbre.com
07 786 275 221

Graeme Rutter
Executive Director
Graeme.Rutter@cbre.com
020 7182 2000