TEESSIDE PENSION FUND
Q1 2025

CBRE

Quarterly Report
Prepared: 3 June, 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 March 2025 , the portfolio comprised 35 properties located throughout the UK, with a combined value of £524.7m. This reflects an overall Net Initial Yield of 5.57%, and an Equivalent Yield of 5.76%.

The portfolio comprises principally prime and good secondary assets. High Street retail, retail warehouse, foodstores and industrial comprise 98.6% of the Portfolio by capital value. There are 92 demises and a total net lettable area of 2,813,264 sq ft.

The portfolio has a current gross passing rent of £31,161,368

per annum against a gross market rental value of £29,309,722 per annum.

The weighted average unexpired lease term is 9.4 years to the earlier of the first break or expiry and 10.1 years to expiry, ignoring break dates.

teesside pension fund

Fund Summary

Total Pension Fund Value (December 2024)	**£5,580m**
Real Estate Weighting (long term target allocation)	9.4% (10%)
Direct Portfolio Value (March 2025)	£524.7m

Direct Portfolio

Direct Portfolio Value (March 2025)	£524.7m
Number of Holdings	35
Average Lot Size	£15.4m
Number of Demises	92
Void rate (% of ERV) (Estimated UK Benchmark)	1.4% (7.0% – 9.0%)
WAULT to Expiry (break)	10.1 years (9.4 years)
Current Gross Passing Rent (Per Annum)	£31,161,368
Current Gross Market Rent (Per Annum)	£29,309,722
Net Initial Yield	5.57%
Reversionary Yield	5.70%
Equivalent Yield	5.76%

Portfolio Highlight (Q1 2025) – Sainsburys Limborough Road, Wantage, Acquisition

The Fund has successfully completed the simultaneous Regear and Acquisition of Sainsbury, Limborough Road, Wantage — a dominant, index-linked foodstore in Oxfordshire. The acquisition was completed at a purchase price of £38,100,000, equating to a Net Initial Yield of 4.50%

UK Economic Commentary

- The UK economy recorded 0.1% growth in Q4 after a flat Q3 and registered 0.8% GDP growth over the course of 2024. This growth has been primarily driven by the services sector as manufacturing and construction struggled with inflation and now is impacted by the potential for tariffs.
- Inflation dipped below the Banks 2% target in September but has been increasing due to an uptick in food and energy prices, services inflation and base effects. Headline CPI fell by 20bps to 2.8% in February, below expectations but driven by erratic price changes in niche segments. Core inflation also fell 20bps to 3.5% while services inflation remained unchanged at 5%. We expect price pressures from energy and wages to see inflation peak in late 2025 above 3% but to return to target by the end of 2026.
- Wage growth remains strong with nominal earnings (excluding bonuses) growing 5.8% or 2.2% in real terms. This sustained period of real income growth has benefitted households but also contributed to the persistence of core inflation. We expect some labour market softening over the course of 2025 in response to rising business costs, namely increases in employer NICs and the minimum wage. However, we don't expect unemployment to peak above 5% representing a relatively tight labour market.
- Consumer demand was weaker than anticipated in 2024, hampered by rising uncertainty in conjunction with high interest rates leading people to save. The savings ratio has risen from 4.5 to 12% since 2022 driven almost exclusively by non-pension savings. We expect that falling interest rates, a continuation of real income growth along with more certainty will create an environment for stronger consumption activity.
- The Bank of England cut the base rate to 4.25% in May 2025. We expect two further cuts from the Bank in 2025 which will provide a further signal of a more sustained economic recovery. We forecast GDP growth of 1.3% and 1.7% in 2025 and 2026 respectively.
- Currently the largest risk to the outlook centres on the US and tariffs. President Trump announced the UK would be subject to a 10% import tariff alongside a 25% tariff on car imports. The UK managed to avoid the level of reciprocal tariffs placed on China and the EU. However, reduced activity with the UK's 2nd largest trading partner will likely impact growth on the downside, with the latest OBR estimates showing tariffs could reduce growth by 0.6%.

UK Real Estate Market Commentary

- The CBRE Index recorded an All-Property Total Return of 2.1% throughout Q1 2025. This is slightly lower than the Q4 2024 result of 2.9% due to softer capital value growth throughout the quarter of 0.7%.
- All-Property rental values maintained steady growth throughout Q1 2025, increasing 0.8%. This follows rental values rising by 0.9% in Q4 2024. The first quarter result means that rental values have increased by 3.2% over the 12 months to March 2025. This higher than the 2.9% 12-month growth to Q4 2024.
- All-Property total returns were driven by the Retail and Industrial sectors in Q1 2025, which posted total returns of 2.8% and 2.3% respectively. Retail performance was largely driven by income return, while the Industrial sector recorded the highest capital value increase of 1.1%. The Office sector saw capital values increase for the second consecutive quarter, rising by 0.4%. This meant that total returns for the office sector was 1.7% in Q1 2025.
- UK commercial real estate markets saw £8.9 bn of investment transactions in Q1 2025. This means investment volumes have totalled £52.4bn over the last 12-months. Investment this quarter was 61% down compared with transaction volumes reported in Q4 2024, and the quarterly total is 27% lower than that of Q1 2024.
- For the main sectors, the Office sector (£3.1bn) saw the most investment throughout Q1, followed by the Living (£2.3bn) and Industrial (£1.3bn). The office sector was the only sector to register an increase in investment volumes quarter-on-quarter and year-on-year, rising by 8% and 66% respectively, albeit from a very low base. All other sectors recorded year-on-year declines in investment volumes, with the Living sector the most resilient, as volumes were 4% lower than Q1 2024 levels.
- Domestic investors maintained their majority share of UK investment, contributing 55% of transaction volumes in Q1 2025. The quarterly result meant that domestic buyers have contributed 54% of investment over the past 12 months.

Investments

Sales

The Fund made no disposals this quarter.

Acquisitions

The Fund successfully completed the acquisition of Sainsburys, Limborough Road, Wantage. The acquisition saw the Fund acquire a dominant indexed linked Foodstore for a purchase price of £38,100,000 equating to net initial yield of 4.50%

Direct Portfolio Analysis

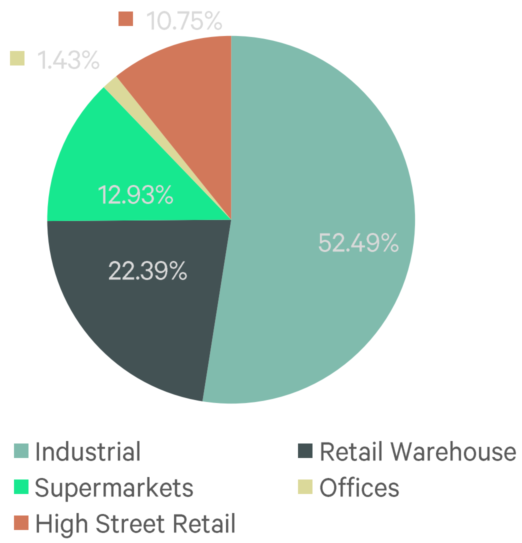
Top Ten Holdings (by Capital Value)

No.	Asset	Sector	Value	% of Direct Portfolio
1	WASHINGTON - Radial 64	Industrial	£50,600,000	9.6%
2	Wantage – Limborough Road	Foodstore	£38,100,000	7.3%
3	SWINDON - Symmetry Park	Industrial	£31,800,000	6.1%
4	LONDON - Long Acre	High Street Retail	£31,000,000	5.9%
5	ST ALBANS - Griffiths Retail Park	Retail Warehouse	£30,500,000	5.8%
6	THORNE – Capitol Park	Industrial	£30,000,000	5.7%
7	YEOVIL - Lysander Road	Industrial	£28,000,000	5.3%
8	BIRMINGHAM - Bromford Central	Industrial	£20,800,000	4.0%
9	PARK ROYAL - Minerva Road	Industrial	£19,850,000	3.8%
10	TONBRIDGE – Tonbridge Retail Park	Retail Warehouse	£19,650,000	3.7%
		Total	**£282,500,000**	**57.2%**

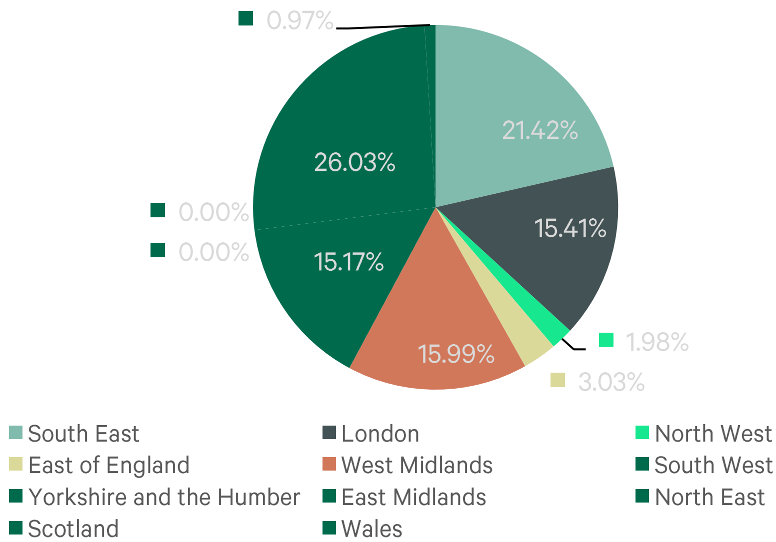
We will seek to extend the weighted average unexpired lease term (WAULT) of the portfolio, as well as diversifying the lease expiry profile.

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)

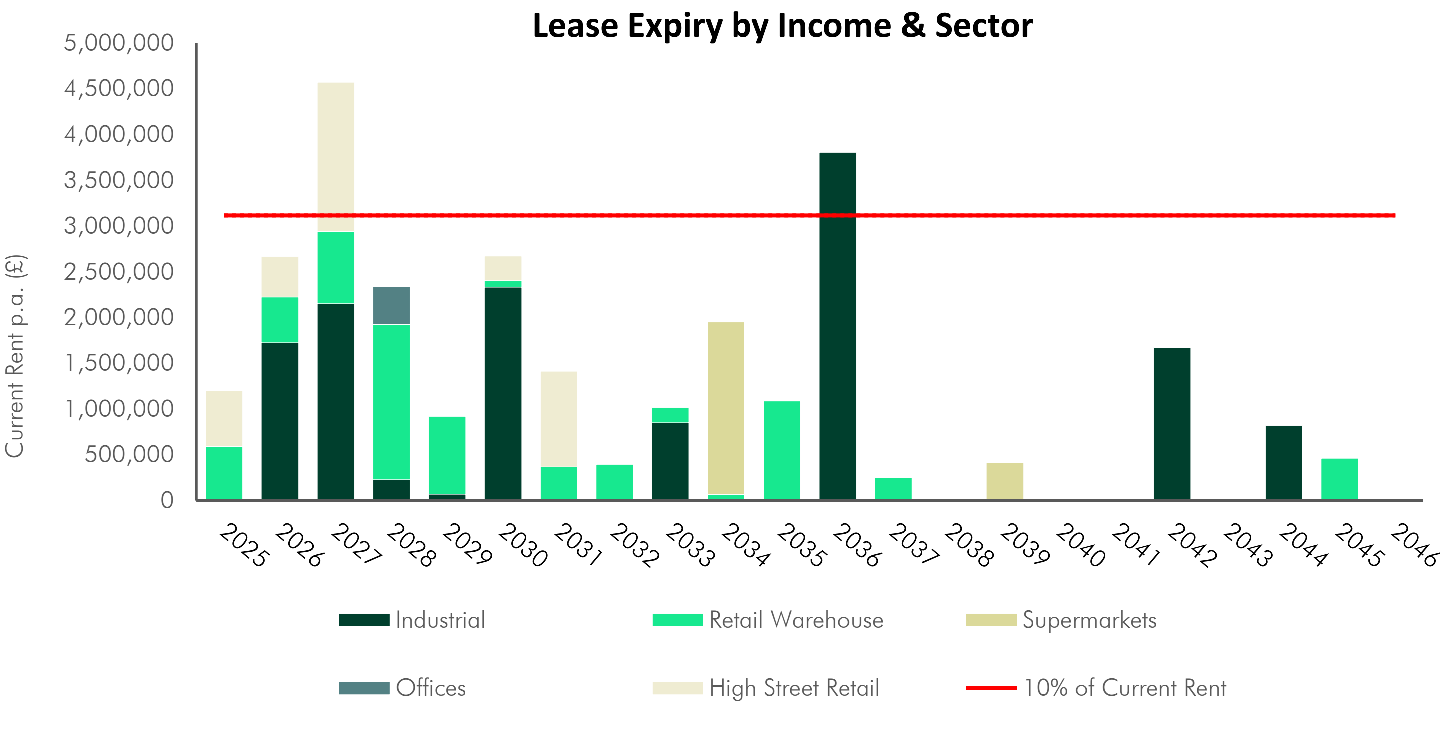
Top Ten Tenants (by Contracted Income)

The Portfolio has 92 demises let to 65 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	12.2%	82/100	Medium-Low Risk
2	B&Q Ltd	Retail	3	£2,084,211	6.7%	92/100	Medium-Low Risk
3	Iceland Food Limited	Industrial / Retail	2	£1,892,500	6.1%	57/100	Medium-High Risk
4	Sainsburys Supermarkets Limited	Retail	1	£1,830,416	5.9%	92/100	Medium-Low Risk
5	Omega Plc	Industrial	1	£1,670,903	5.4%	84/100	Medium-Low Risk
6	Leonardo UK Ltd	Industrial	1	£1,653,120	5.3%	94/100	Medium-Low Risk
7	Zara UK Limited	Retail	2	£1,580,000	5.1%	89/100	Medium-Low Risk
8	Unipart Logistics Limited	Industrial	1	£1,077,000	3.5%	82/100	Medium-Low Risk
9	Royal Mail Group Limited	Industrial	1	£1,074,000	3.4%	17/100	High Risk
10	Libra Textiles Ltd	Industrial	1	£1,050,000	3.4%	93/100	Medium-Low Risk
			Total	£17,718,937	56.9%		

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 Mar 24 – Mar 25			3 Year (p.a.) Mar 22 – Mar 25			5 Year (p.a.) Dec 19 – Dec 24		
	TPF	Index	Variance	TPF	Index	Variance	TPF	Index	Variance
Income Return	5.79%	5.83%	(0.04%)	5.47%	5.45%	+0.02%	5.46%	5.50%	(0.04%)
Capital Return	0.46%	1.78%	(1.32%)	(2.95%)	(5.35%)	+2.40%	3.42%	(2.26%)	+5.69%
Total Return	6.39%	7.70%	(1.31%)	2.60%	(0.17%)	+2.76%	9.22%	3.12%	+6.10%

* 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 – March 2025
The Fund has concluded missives with B&Q, extending their lease by an additional 13 years, resulting in an effective 15-year term. The rent will be £252,000 per annum, and this agreement will resolve the longstanding service charge dispute at the asset.

Carpetright, Tonbridge – March 2025
The Fund has agreed an Agreement for Lease (AFL) with Superdrug, subject to planning, for the occupation of the vacant Carpetright unit at Tonbridge Retail Park. The AFL is based on a 10-year term with a tenant break option at year 5, and an annual rent of £150,000.

Unit C, Congleton – March 2025
The Fund has agreed Heads of Terms with a party to occupy the vacant Unit C at Congleton Retail Park. The terms include a 15-year lease with a tenant break at year 10, an annual rent of £85,000, and rent reviews every five years, linked to compounded Consumer Price Index (CPI) increases.

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

Unit 6, Bromford Central – March 2025
The Fund has reached a settlement on a substantial, longstanding dilapidations claim at Unit 6, Bromford Central. This agreement concludes all current dilapidations claims at the estate.

Halfords, Dorchester Retail Park – March 2025
The Fund has agreed Heads of Terms with Halfords to renew their lease for an additional 5 years at the current passing rent.

Portfolio Arrears Update – As at 03 June 2025

The table below details the collection statistics for Q1 2025. Rent due for the quarter totalled £7,531,901.33 of which £7,339,490.19 has been collected, reflecting a difference of £192,411.14.

Collection Milestones	Rent Due 25/03/2025	Quarter Date 25/03/2025	Week 1 01/04/2025	Week2 08/04/2025	Week 3 15/04/2025	Week 4 22/04/2025	After 29/04/2025	Difference
Total (£)	7,531,901	3,890,087	2,070,089	448,581	33,750	47,137	896,984	192,411
Collection Target (%)			92.0%	96.0%	98.0%	99.0%		
Total Collections (%)		51.7%	79.1%	85.1%	85.5%	96.1%	95.9%	

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

March 2025 – 95.85%
December 2024 – 96.57%
September 2024 – 92.9%

The total collectable arrears on the entire portfolio as at March 2025 is £1,213,102. This is higher than normal due to timing as many of the sums due on 1st June have not yet been allocated and a number of tenants have not paid the third instalment of their March quarter rents (where they pay monthly). 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 (CPR Realisations Ltd (in administration))

We have provided a summary of the top ten tenants with the greatest arrears. These tenants account for 86.8% (£1,052,580) of the total collectable arrears:

Sainsbury 's Supermarkets Limited (Wantage) – Total arrears of £576,382 (47.5% of the collectable arrears). This relates to the March quarter rent and insurance premium. The rent has been paid to the previous management agent and we are arranging for this to be transferred.

Iceland Foods Limited (Swindon) – Total arrears of £157,081 (12.9% of the collectable arrears). This relates mainly to the June 2025 monthly rent, that was due on 1st June.

B&Q plc (St Albans) – Total arrears of £106,616 (8.8% of the collectable arrears). This mainly relates to the third monthly instalment of the March 2025 quarter's rent, which we are continuing to chase. They also have service charge arrears and we are working with the tenant to resolve their queries.

HWS Restaurants Limited (Ipswich) – Total arrears of £42,018 (3.5% of the collectable arrears). This relates to the last 5-months' rent, service charge and insurance, which have been rebilled in accordance with the administration and we are liaising with the insolvency practitioner over payment.

B&Q plc (Arbroath) – Total arrears of £35,892 (3.0% of the collectable arrears). This relates solely to their latest rent and service charge, which were due on 1st June and 28th May respectively. We are chasing for payment.

Marks and Spencer plc (Tonbridge) – Total arrears of £29,997 (2.5% of the collectable arrears). This relates mainly to the June 2025 monthly rent, that was due on 1st June.

Halfords Limited (Arbroath) – Total arrears of £27,111 (2.2% of the collectable arrears). This relates mainly to their May 2025 quarterly rent, that was due on 28th May. We are chasing for payment.

River Island Fashion Limited (Lincoln) – Total arrears of £26,777 (2.2% 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. In addition the June 2025 monthly rent, that was due on 1st June has not yet been allocated.

Iceland Foods Limited (Tonbridge) – Total arrears of £25,707 (2.1% of the collectable arrears). This relates mainly to the June 2025 monthly rent, that was due on 1st June.

B&M Retail Limited (Bingley) – Total arrears of £25,000 (2.1% of the collectable arrears). This relates solely to the June 2025 monthly rent, that was due on 1st June.

The remaining £160,522 (13.2% of the collectable arrears) of arrears is spread across 38 tenants, ranging from £24,202 to £75.

Lending Update

Debt Investment Portfolio	Sector	Loan Limit	Drawn Balance	Interest Rate	Fully Drawn Income p.a.	Maturity	LTV	ICR
Chester Greyhound	Retail	£19.06m	£19.06m	3.70%	£0.71m	Nov-25	58.47%	2.94x
St Arthur Homes	Affordable Housing	£25.37m	£17.37m	5.40%	£1.37m	Nov-26	55.00%	1.34x
Preston East	Industrial & Logistics	£18.78m	£18.78m	5.21%	£0.98m	Jun-27	64.32%	1.76x
Bordon	Industrial & Logistics	£11.3m	£11.02m	5.54%	£0.63m	Jun-29	52.48%	1.57x
Verdant	Infrastructure	£25.0m	£25.0m	8.25%	£2.06m	Oct-26	25.00%	0.93x
TOTAL CURRENT		**£99.5m**	**£91.2m**	**5.77%**	**£5.74m**		**49.6%**	**1.68x**

As at 25 March 2025, the Fund had five committed loans, of which £91.2m of the combined £99.5m limits had been drawn. These loans produce a blended return of 5.77%.

The Bank of England base rate was cut by 25bps to 4.5% in February, with the 3 and 5 year swap rates reducing by 16bps and 5bps respectively. Both were at 3.94% on the quarter date. The Bank of England has commented that it is adopting a 'reactive' approach to monetary policy, with the need to balance inflationary pressures with economic growth. In practice this means that further base rate cuts are expected, although opinion remains divided on timing.

CBRE Lending are continuing to see good opportunities in the lending space across multiple sectors, including stabilisation bridges, refinances and development opportunities. We have also seen increasing demand from lenders, leading to meaningful price compression across most sectors. Investment loan pricing is now in the 150-200bps margin range for 55-60% LTV on good quality assets, with this now extending to sectors such as retail and office which had been pricing wider until recently.

Our general perception is one of cautious optimism in the market, with a degree of stability around rental growth and yields, and positive movement anticipated on finance rates.

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 <£19.1m since completion. There were a number of asset management initiatives at the scheme in Q1 2025 including; agreeing an AFL on Unit 6 to JD gyms and on Unit 5 to Tapi. Furthermore, the Borrower has extended the Unit 8 KFC lease and achieved a higher rent.
- St Arthur Homes: A £25.4m loan secured against a portfolio of 329 shared ownership units of which 245 have been refinanced to date. The next drawdown is expected in Q2.
- 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 13.5 years. The loan closed in June 2024.
- Verdant: A £25.0m Bridge Loan Facility to Verdant Regeneration Limited. The Loan was provided to support the Borrower with infrastructure and enabling works at the 176-acre site in Ilkeston, Derbyshire. Works continue to progress.

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.

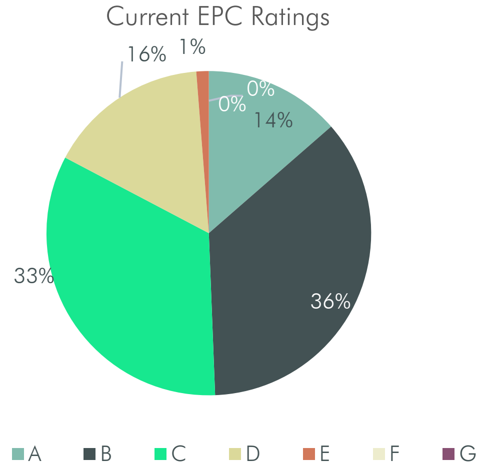
Environmental – sustainable factors will continue to play a part in the definition of 'prime' real estate, and buildings that don't meet the increasingly competitive standards are likely to become obsolete faster. Occupiers will demand that their buildings adhere to the highest environmental standards.

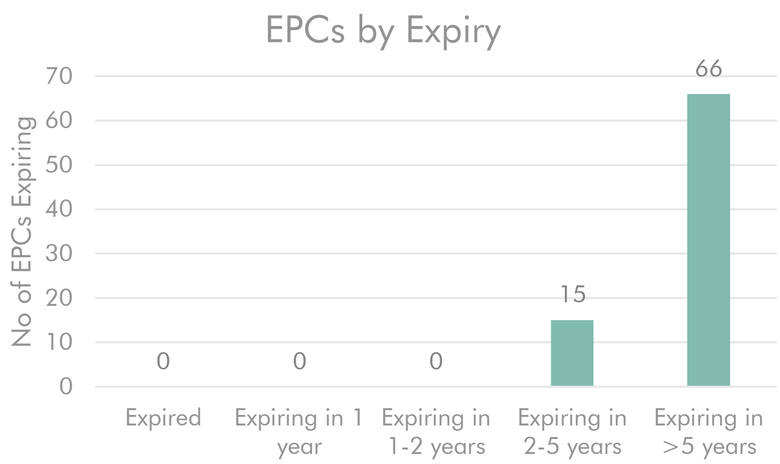
Social - real estate's impact on the local community and on a company's workforce are becoming equally important. Buildings that contribute positively to the world are, therefore, likely to be more resilient than those that do not, and as such, are likely to benefit from increased occupier demand, leading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





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