

# IAPF ANNUAL INVESTMENT CONFERENCE 2019 'Evolution'





# Evolution of European Long Lease Strategies

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# Evolution of European long lease strategies

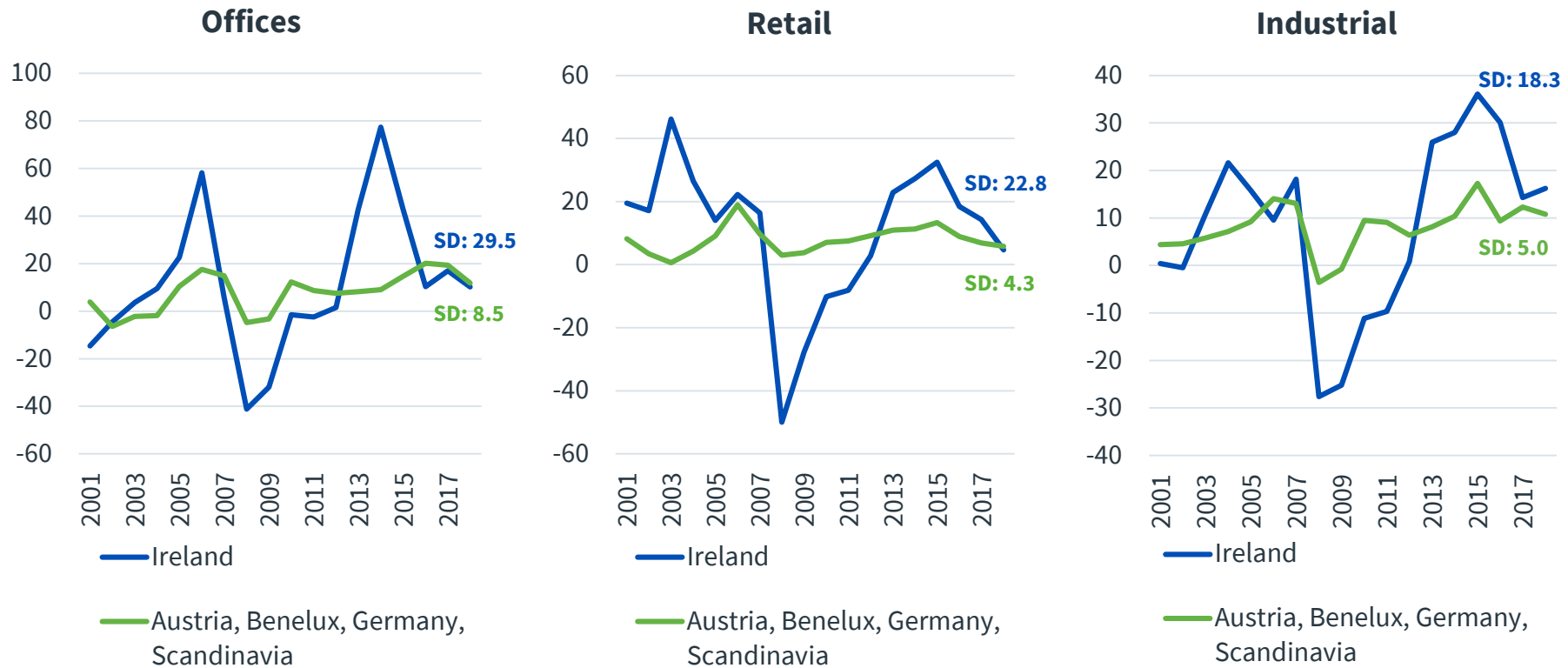
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31 March 2019

# Ireland vs continental Europe

## Volatility of returns



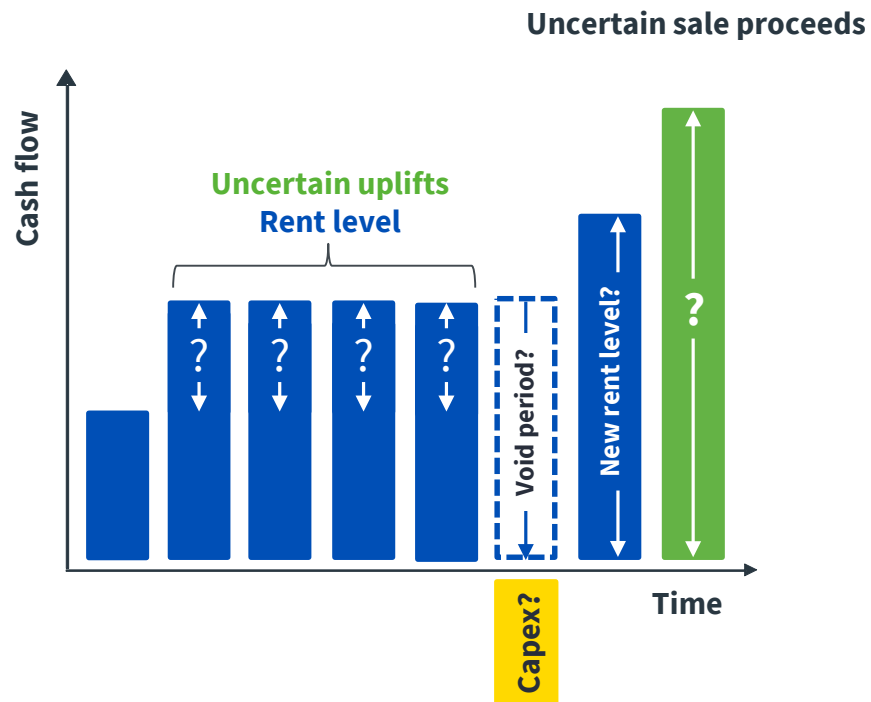
Higher volatility for Irish returns in major real estate sectors

Source: Aviva Investors, PMA, March 2019

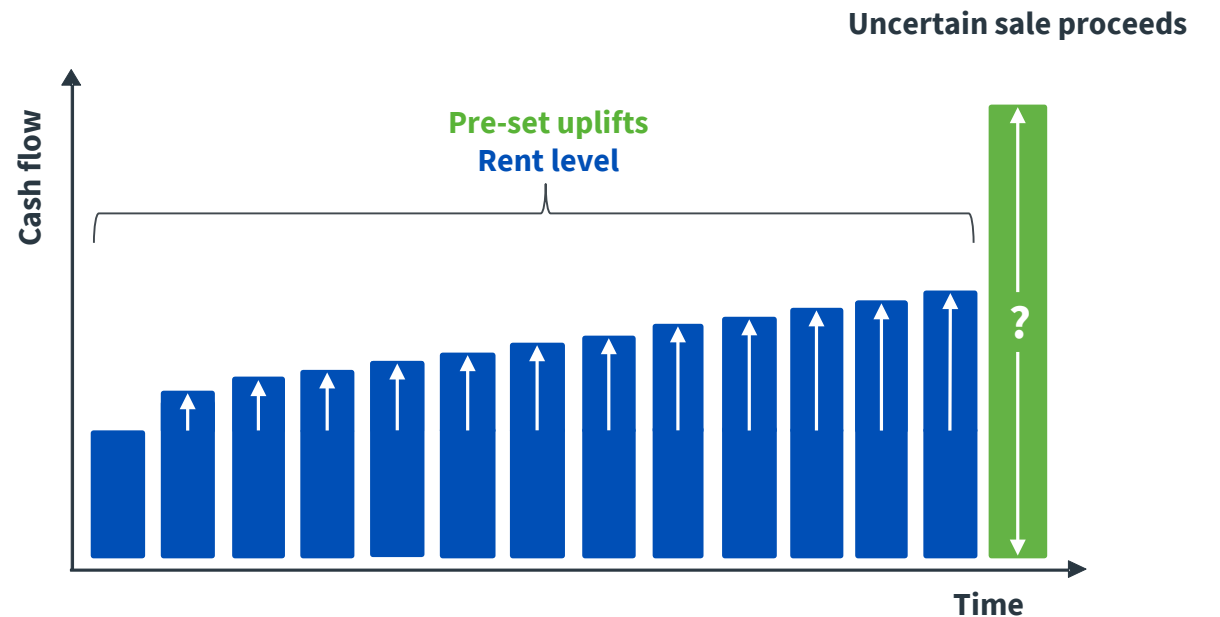
# Traditional and Long Lease property

## Comparison of different strategies

### Traditional property



### Long Lease property

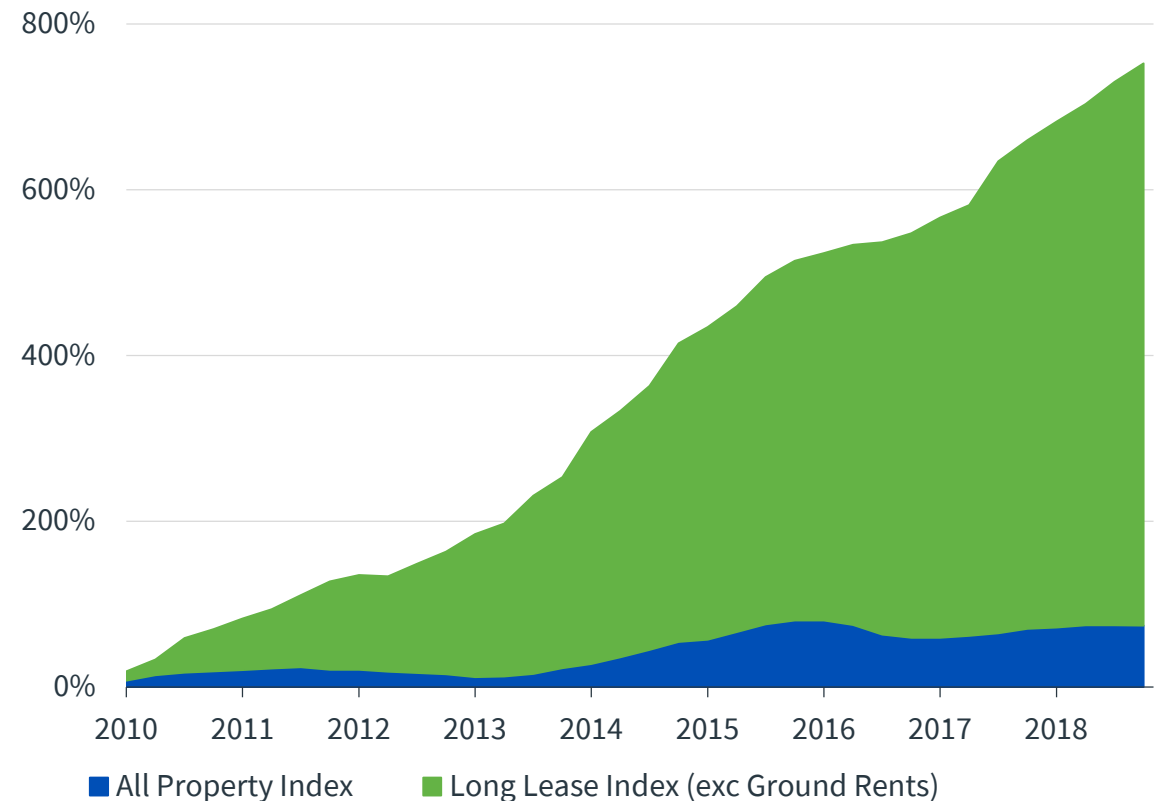


Source: Aviva Investors, 31 December 2018

# Evolution of the Long Lease market

- Addressed growing demand from UK institutional investors for secure, predictable and inflation-linked cashflows to meet their long-term liabilities
- The UK Long Lease market grew from £2bn to £15.6bn of assets since 2010
- Since 2016 European Long Lease funds address institutional investors' increasing demand for cashflow matching investments

## Exceptional growth in UK



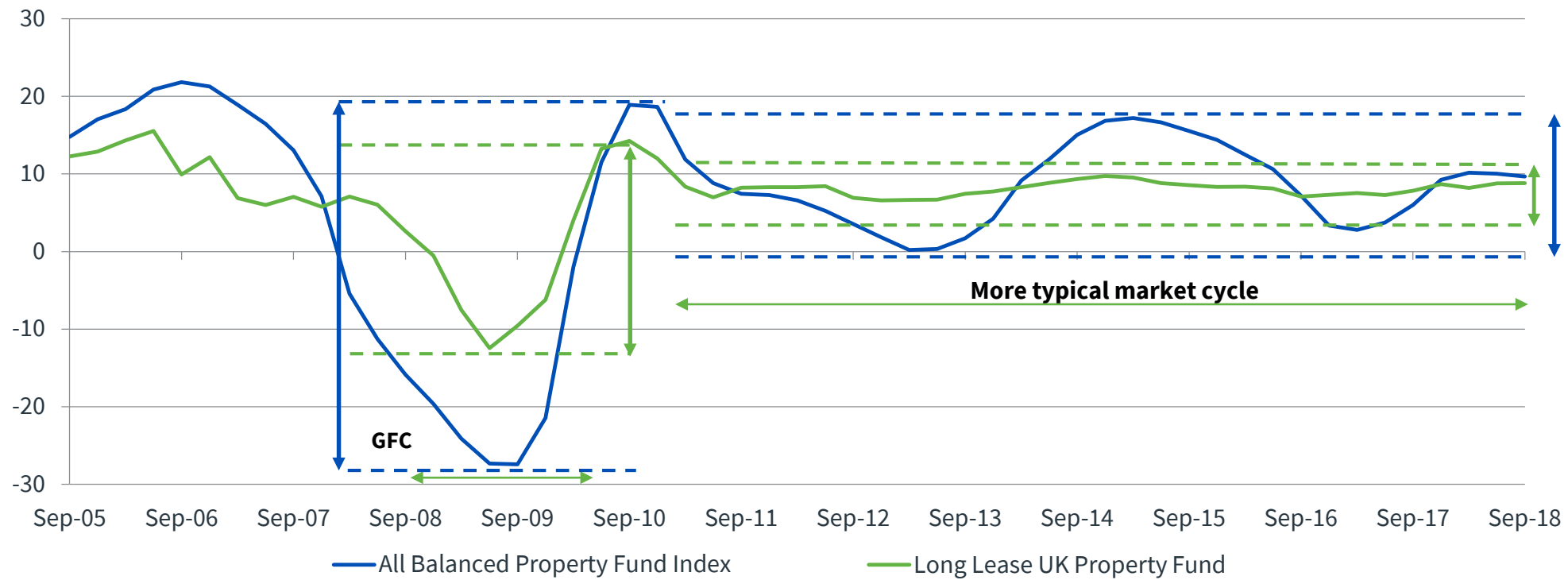
Over 650% Increase in long lease market value over an 8 year period

Source: MSCI IPD (Investment Property Databank). Long lease real estate figures based on all long lease funds in the MSCI IPD UK quarterly universe benchmark, as at 31 December 2018

# Long Lease Real Estate exhibits lower volatility

## Long Lease Real Estate outperforms direct real estate in cyclical downturns

### Total return comparison – Long Lease property funds and Direct Real Estate



**Past performance is not a guide to future returns.**

Source: IPD November 2018, annualised performance



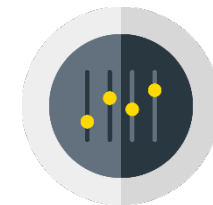
# Long Lease Real Estate in pension funds' portfolios

## A useful addition to diversified portfolios

Two motivations for adding Long Lease Real Estate to pension portfolios:

	Challenge	Measure	Advantages
<b>Growth portfolio</b>	Real estate has performed well, but cycle may come to an end	Add to real estate portfolio	<ol style="list-style-type: none"><li>1. lower volatility than traditional RE in Ireland</li><li>2. increases diversification</li><li>3. more resilient in downturns</li></ol>
<b>Liability matching Portfolio</b>	Underfunding due to low interest rates and QE	Supplement fixed income holdings	<ol style="list-style-type: none"><li>1. higher returns due to illiquidity premium</li><li>2. within acceptable risk bucket</li><li>3. Inflation protection and secure cashflows support CDI strategy</li></ol>

Target: de risk



Target: cash-flow increase



Source: Aviva Investors, January 2019



# Long Lease Real Estate in pension funds' portfolios

A useful addition to diversified portfolios



**Target return:** Net income return 4% - 5% p.a.

## Secure long-term cash flows

**Lease length:** At least 15 years to expiry

**Tenants:** Public and private with strong covenants

## Diversification: Sectors, tenants, and countries

**Sectors:** Social Infra, Office, Retail, Logistics, Alternative

**Countries:** Continental Europe; focus on Germany, Austria, Benelux and Scandinavia

## Consistent and predictable returns

**Assets:** Core, stable, income producing assets

**Rent reviews:** Indexation of rental income

Source: Aviva Investors, January 2019. \* The target return is not guaranteed

# Diversification: Strategic Sectors

Focus on locations where people want to live, work, play and learn

Social Infra	Office	Retail	Logistics	Alternatives
				
<p>Social infrastructure in sustainable locations used by public sector tenants (e.g. schools, universities, kindergartens, retirement homes) offers stability and diversification</p>	<p>Locations that are sought after by long-term occupiers</p>	<p>Assets benefitting from strong convenience attributes to capitalise on long term structural trends</p>	<p>Supply chain logistics assets that are positioned to benefit from e-commerce and long-term trade flows</p>	<p>Alternative sectors offering yield premium and low correlation with GDP (e.g. leased hotels, student housing, car showroom or parking)</p>

High diversification across asset classes and tenants

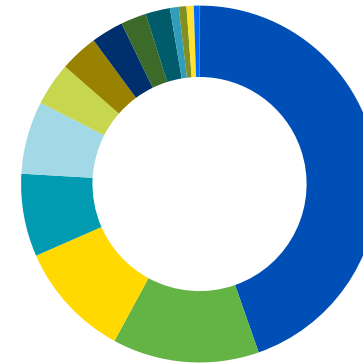
Source: Aviva Investors, 31 December 2018

# Highly diversified universe of opportunities

## Strong and well diversified deal pipeline

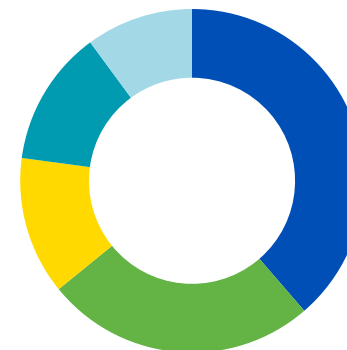


### Geographic overview



- Germany 45%
- Netherlands 13%
- Belgium 11%
- Norway 8%
- Denmark 7%
- Austria 4%
- Finland 3%
- Poland 3%
- France 2%
- Switzerland 2%
- Latvia 1%
- Hungary 1%
- Ireland 1%
- Sweden 1%

### Sector overview



- Office 39%
- Alternative and Mixed Use 37%
- Social Infrastructure 17%
- Logistics 13%
- Retail 8%

€5.7bn in deal pipeline over last 12 months

Source: Aviva Investors, December 2018. Geographic and sector breakdown of reviewed long lease pipeline over the last 12 months

# Investment examples: Benelux

## Office with laboratory facilities

**Rationale:** Danone Innovation Centre is a grade A research and office facility for Danone’s special nutrition business “Nutricia” on a 15 year lease with a 5-year extension option.



<b>Location</b>	Utrecht, Netherlands
<b>Use</b>	Research facility
<b>Tenant</b>	International Blue Chip Corporate
<b>Covenant</b>	BBB+
<b>Lease length</b>	14.4 years
<b>Indexation</b>	100% CPI
<b>Avg. CoC return</b>	5.4% p.a.
<b>Purchase Price</b>	€70-75m



Source: Aviva Investors, 31 December 2018



# Investment examples: Scandinavia

## Social infrastructure

**Rationale:** Very stable asset in the educational sector on a 20 year lease with a AA+ government tenant offering an additional upside potential of alternative use of the site.

<b>Location</b>	Kristiansand, Norway
<b>Use</b>	Social infrastructure Educational
<b>Tenant</b>	Regional Municipality
<b>Covenant</b>	AA+
<b>Lease length</b>	20 years
<b>Indexation</b>	100% CPI p.a.
<b>Avg. CoC return</b>	3.8% p.a.
<b>Purchase Price</b>	€40-45m



Source: Aviva Investors, 31 December 2018



# Cash flow matching through secure real estate income

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## Meeting client investment needs

### Investors needs

Long term income stream

High level of security

Higher yields than bonds

Diversification of income

Inflation protection



### European Long Lease Real Estate

Typical lease lengths of 15+ years to expiry at acquisition

Secure long-term cash flows, from strong tenant covenants from both the public and private sectors

Net income target returns 4-5% p.a.

Diversification across sectors, tenants, and countries across Continental Europe

Predictable returns through indexation of rental income

# Key risks

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Past performance is not a guide to future performance.

The value of an investment and any income from it may go down as well as up and the investor may not get back the original amount invested.

Where funds are invested in real estate infrastructure, investors may not be able to switch or cash in an investment when they want because real estate infrastructure may not always be readily saleable. If this is the case we may defer a request to switch or cash in units. Investors should also bear in mind that the valuation of real estate is generally a matter of valuers' opinion rather than fact.

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# Important information

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# THANK YOU

Matthias Hübner

