



Overview of investment conditions: Real Estate

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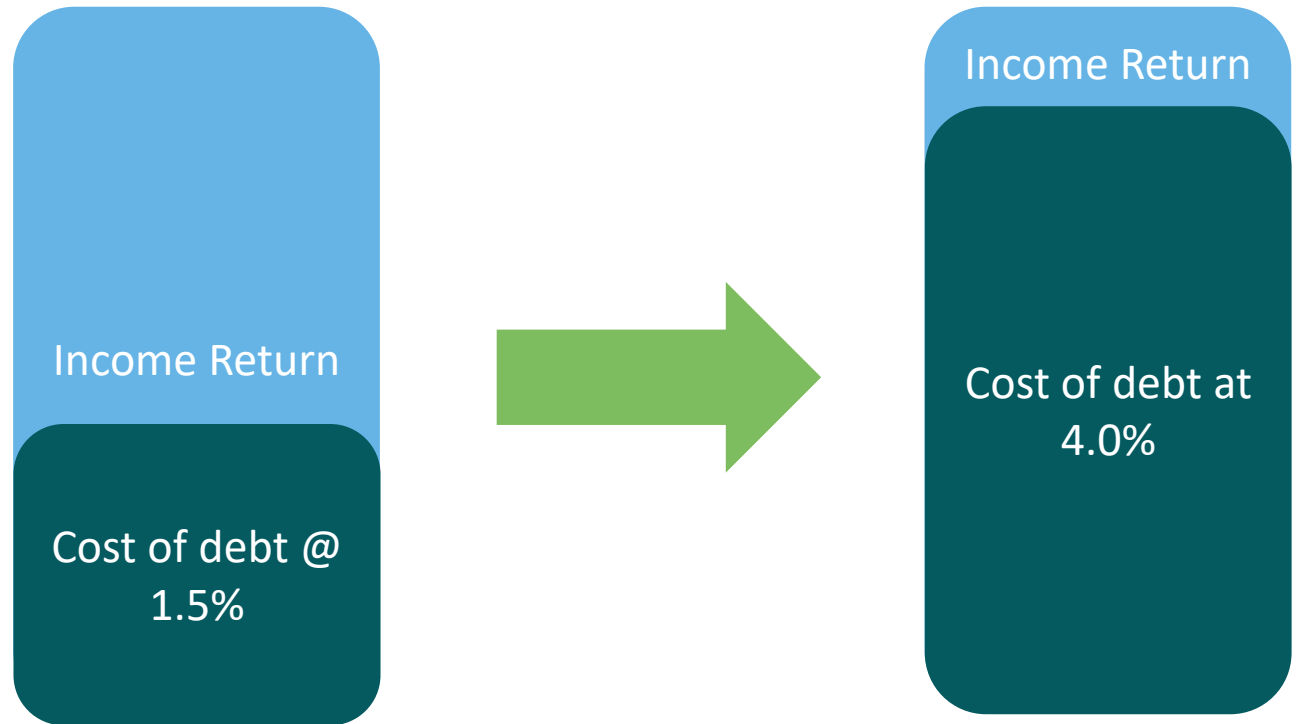
Who benefits from inflation?

What ChatGPT said:

- Real estate
- Commodities
- Financial Services
- [Some] Equities
- Infrastructure

What it did **NOT** say:

- High margin / spread
- Distress from refinancings

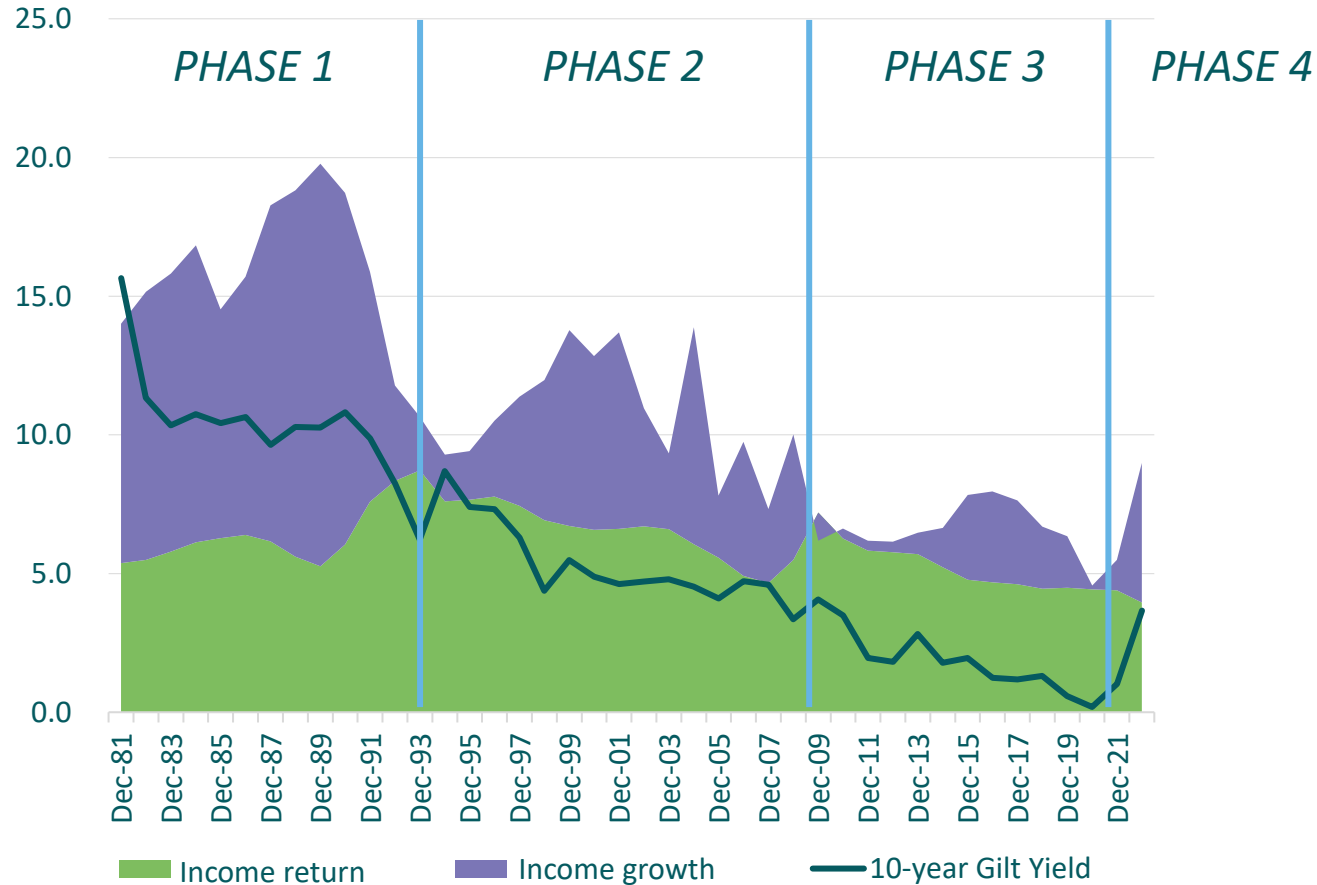


Real estate – three distinct phases – about to start the fourth

Equities – the dividend yield is negligible

Real estate

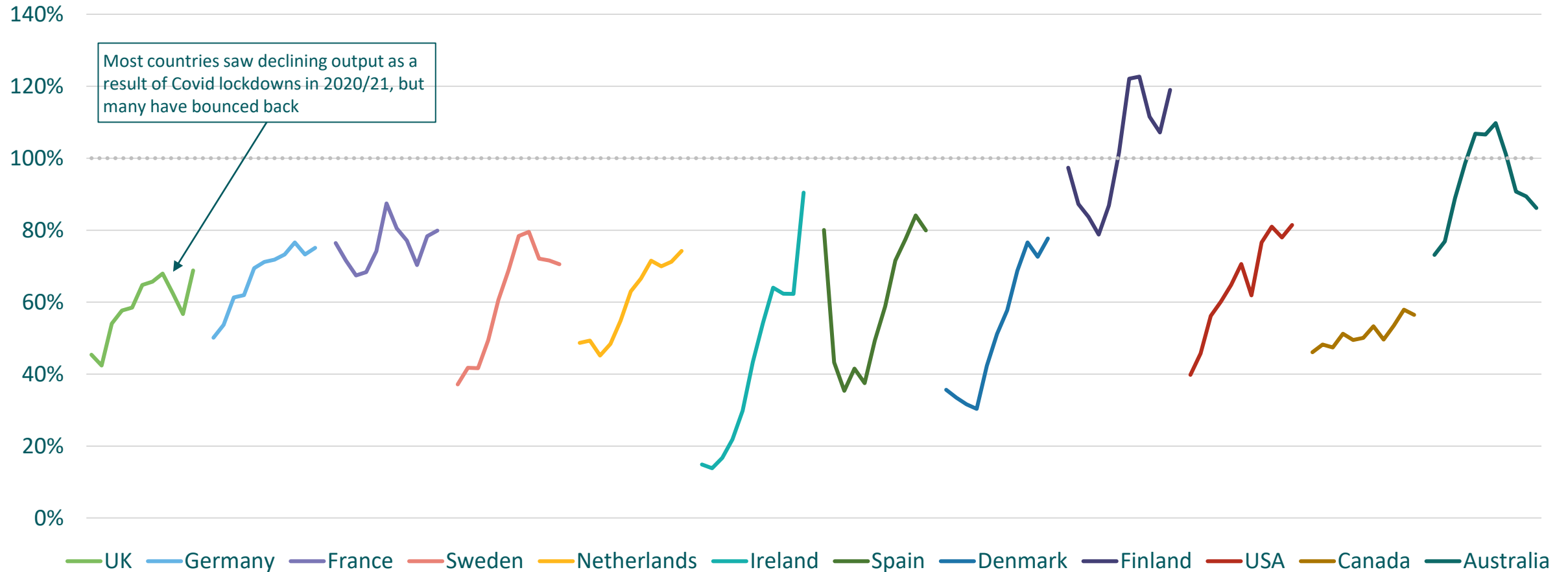
Past performance is not a guide to future performance.



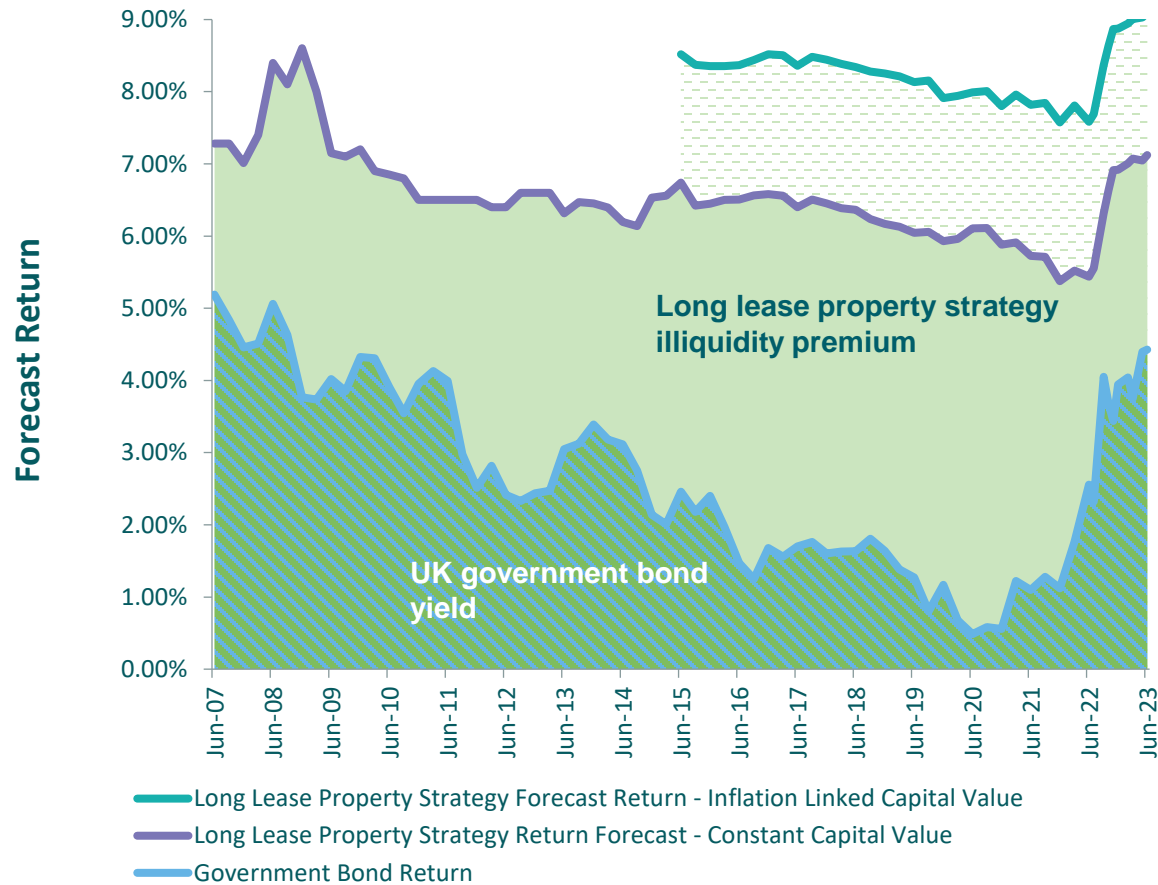
- PHASE 1
 - Income < Risk free
 - High growth
- PHASE 2
 - Income \approx Risk free
 - Medium growth
 - High leverage
- PHASE 3
 - Income \gg Risk free
 - No growth
 - Low leverage
- PHASE 4??
 - *Income \approx Risk free*
 - *Growth – in places*
 - *High income – in places*

Where is the growth? - Residential undersupply

New homes built as a proportion of housing target / estimated demand | 2012-22



Where is growth? Long income – explicitly linked to inflation



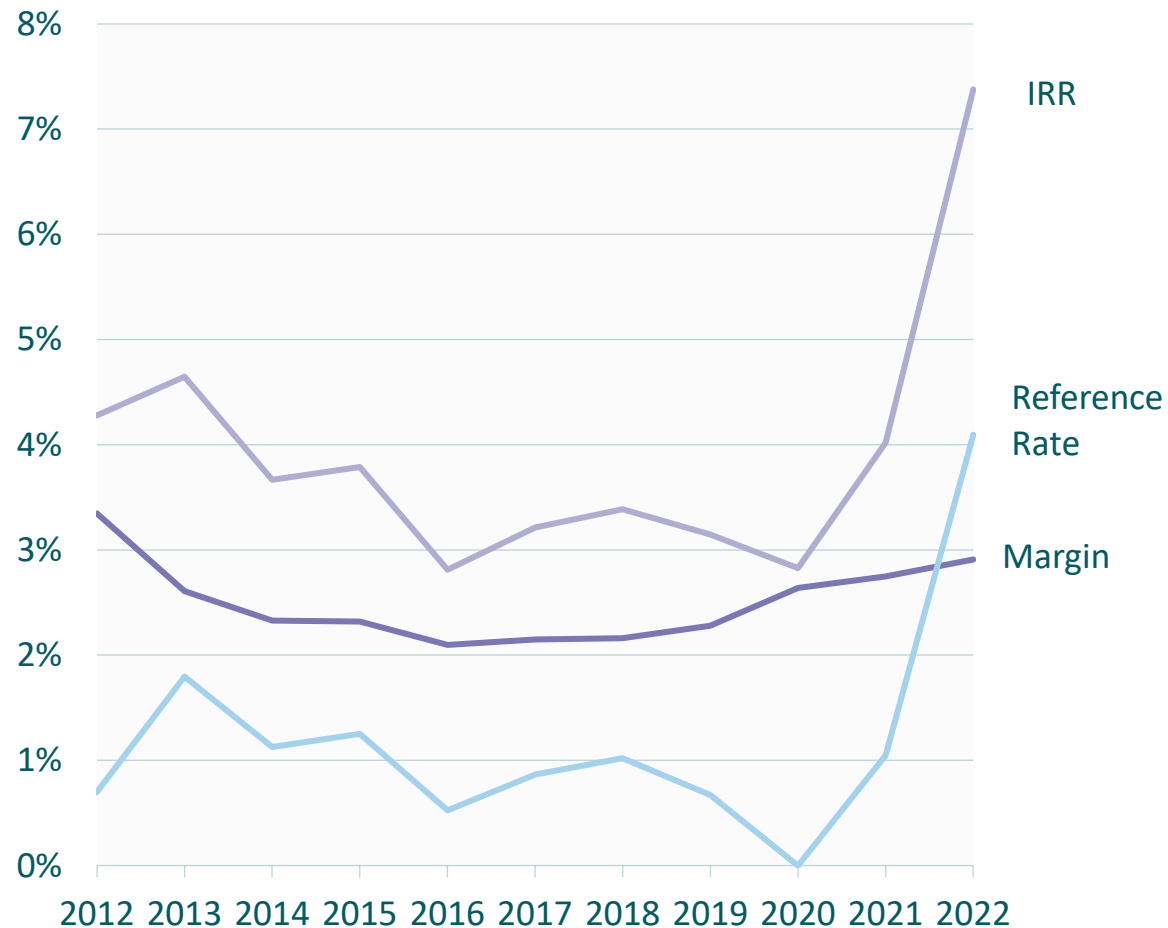
Example – A quality office building



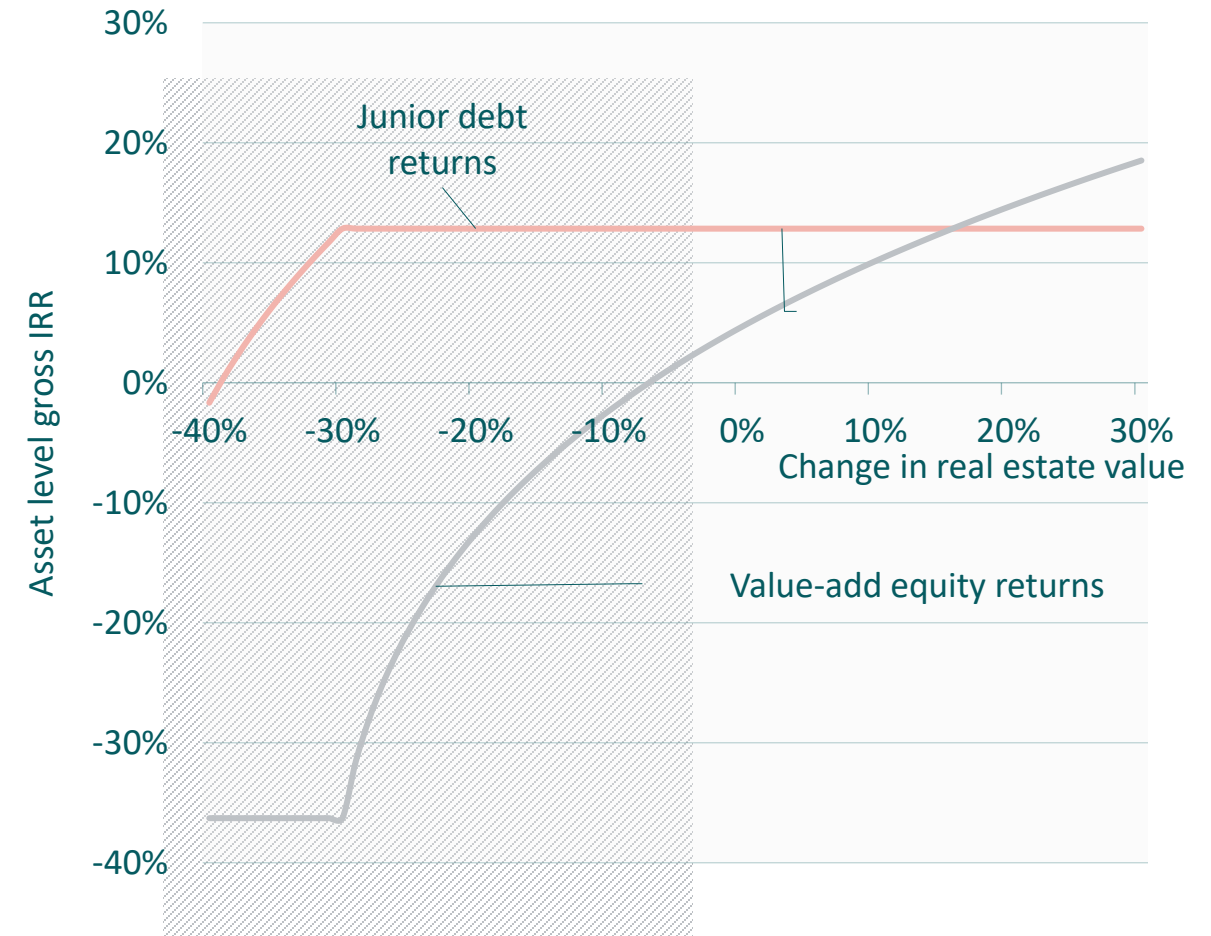
- WPP Plc
- Tenant rated 'BBB+'
- South Bank campus (expected completion April 2024)
- 22.5 years
- Anticipated BREEAM New Construction 'Outstanding' and EPC 'A'

Where is the high income – Real estate debt

A senior loan – margins and rates increasing

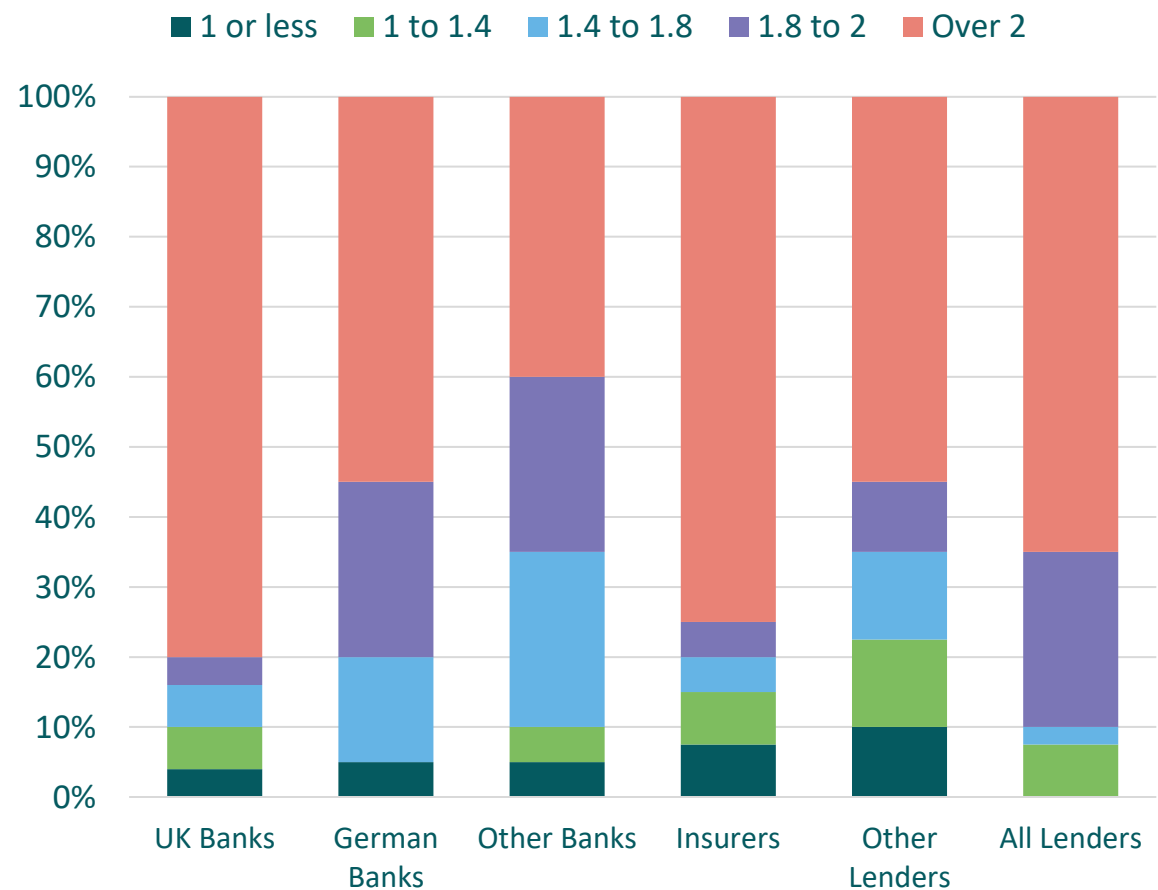


A junior loan – stylised example

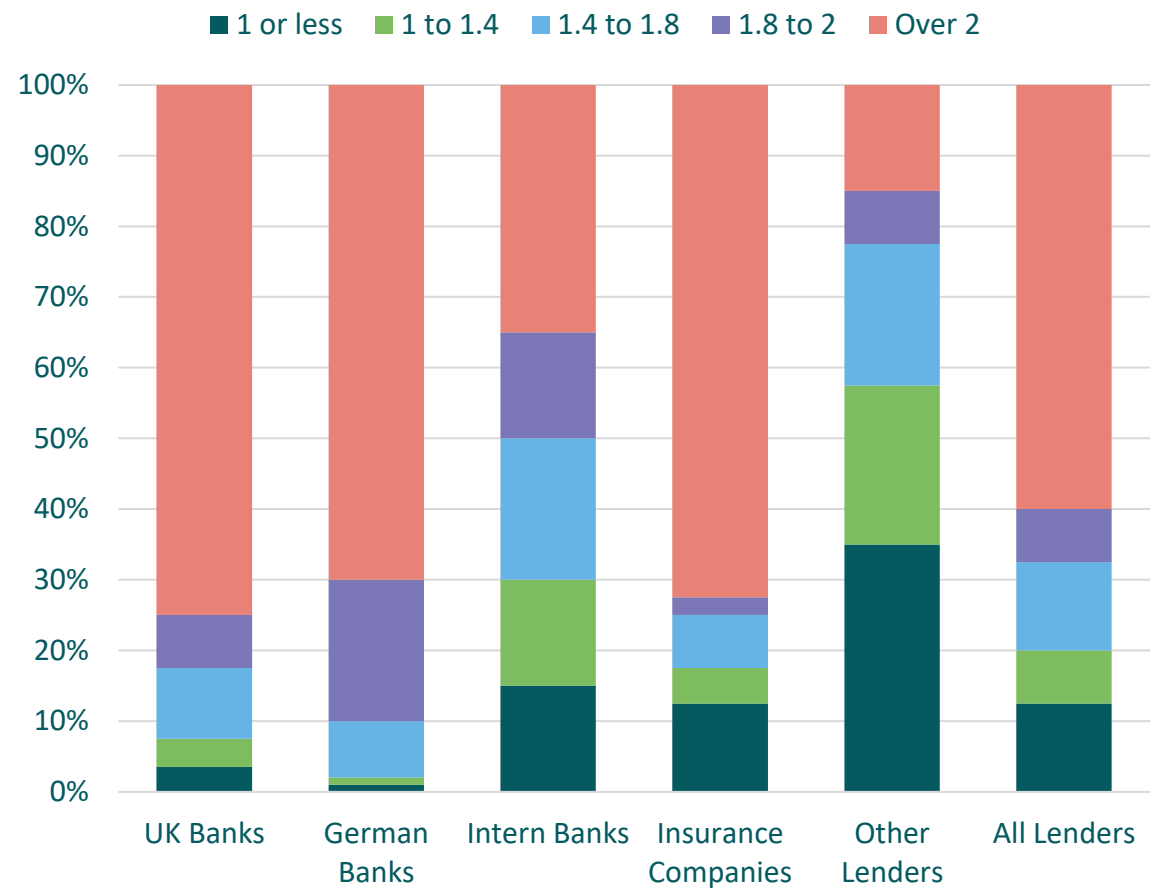


Why - Large variation in loan book security by both lender type and size...

Outstanding loan % of value by loan ICR band and lender type, 2019



Outstanding loan % of value by loan ICR band and lender type, 2022



Source: Bayes Business School Commercial Lending Report YE 2022 & YE 2019 (August 2023).

Conclusion

Real estate benefits from the current environment

- Because there is growth
 - In residential
 - In long income
- Because there is distress
 - In real estate debt, mostly junior, in cases in construction
- But there are risks
 - Hybrid working
 - ESG and capital expenditure
 - A potential recession

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