

Cheyne Impact Real Estate:

Overview and Comparison to UK BTR

Introduction

There are obvious reasons to be cautious on the outlook for commercial real estate in the UK. The retail, hospitality and office sectors face particularly obvious challenges from the economic and behavioural disruption of COVID-19, in a real estate market still digesting the impact of Brexit.

Against this backdrop, investors are increasingly turning their attention to the residential sector and in particular Build-To-Rent (BTR). The ever present demand for residential accommodation (the most essential use of property) in a country where challenges in achieving first-home ownership remain acute presents a compelling narrative for BTR to be seen as a defensive asset class, offering an attractive and stable yield, decorrelated from broader real estate and equity markets.

We believe Cheyne's impact real estate strategy offers a higher stabilised yield versus BTR investing, with an even more defensive profile as the asset class is substantially immunised from wider economic activity. In addition its social impact is independently audited and, in its latest audit was found to be "having a real impact on individual lives" and "providing a new standard of what should be possible". (*The Policy Institute at King's College London, Cheyne Social Property Impact Audit 5, Feb 2021*)

Cheyne's Passion for Impact Real Estate

From its origins as an alternative credit and convertible bonds investor in 2000, Cheyne identified the dislocation and opportunity in real estate debt in the aftermath of the 2008 financial crisis. Since then, Cheyne has grown to be one of the leading players in European real estate, leveraging its strength in fundamental credit analysis to choose strong and stable counterparties with which to partner on real estate projects.

Cheyne's Real Estate division, led by Ravi Stickney, comprises 36 investment professionals and represents nearly half of Cheyne's GBP 6 billion in assets under management.

Cheyne was one of the earliest players in impact real estate, seeking to capitalise on our knowledge of real estate while delivering a real social impact to under-supported, disadvantaged and vulnerable members of society.

We have a dedicated impact real estate team of four individuals (with an additional two joining shortly) who are passionate to deliver on our dual ethical and investment mandate. Ravi's leadership of the division is supported by Cheyne's Co-Founder and Head of Responsible Investing Stuart Fiertz, who was a key architect of Cheyne's launch in real estate impact in 2014 and actively participates in the investment industry dialogue, speaking frequently at events on ESG and impact investing.

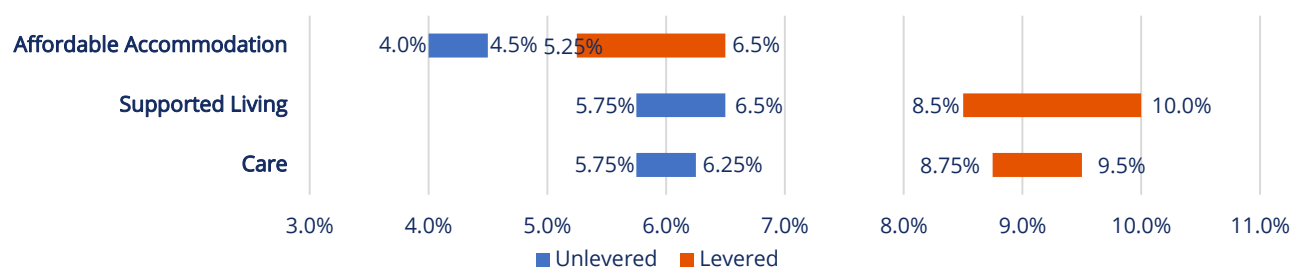
Impact Real Estate – Cheyne's Areas of Focus

Affordable Rent	Properties typically leased to local authorities or housing associations who sub-let to eligible tenants to help meet their social housing obligations. Eligibility criteria depend on income, requirements due to disability, children, and state of accommodation.
Supported Living	Accommodation provided alongside support services to help people live independently, including the elderly and people with learning and/or physical disabilities. Homes can be purpose built or purchased and repurposed. Such homes would be leased to care charities.
Care	Our strategy seeks to develop new care homes or acquire existing care homes, and enter into long term, stable leases typically with care operators. We seek to ensure a greater provision of beds to the social sector.

Key Characteristics

- Cheyne is **one of the most experienced players** in UK impact real estate, with a proven track record in impact investment origination
- One of few players with **in-house development capabilities**, enabling us to **buy or build our properties** as best suited for each investment
- Our properties are predominantly leased on **long term leases** to councils, housing associations, charities and care home operators
- Leases are typically 20-40 years, fully repairing and insuring, with explicit inflation linkage, delivering a **secure, long-term, inflation-linked income stream**
- We believe in a **diversified approach** across tenant type, counterparty and location
- The strategy's social impact is **independently audited** and reported on to investors by an external party

Expected Stabilised Yields Across the Portfolio



Key drivers within the expected ranges include:

- Lease counterparty: Councils attract the tightest yields – but benefit from the cheapest financing yields and best LTVs
- Lease length: Within the typical 20-40 year range, longer leases attract tighter yields, but offer greater longevity
- Deployment channel: In-house development enables higher origination yields than purchased assets

Cheyne Impact Real Estate: Comparison to UK BTR

Higher stabilised yields, particularly on a leveraged basis

Yield on our affordable housing investments are slightly lower than those on typical BTR investments, at 4.0%-4.5% and 4.25%-4.75% respectively. But the incorporation of supported living and care impact investments, which attract higher yields, delivers an overall blended portfolio gross unlevered yield which exceeds those on typical BTR investments.

The use of leverage – available at lower cost and higher LTVs than for BTR, as our properties are typically leased to high quality counterparties on a 20-40 year term – delivers levered yields on our impact investments which materially exceed typical levels for BTR, at 6.9%-8.1% versus 5.2%-6.3%.

Reduced risk profile

Our strategy is predominantly to lease our properties to high quality counterparties on a 20-40 year term. This reduces vacancy rates from typically 5.2% for BTR investments (source: Savills) to essentially zero, as our credit risk is with the lease counterparty rather than the underlying tenants. In some cases, we can even pre-let on long term leases prior to completion – something that is unusual for traditional BTR schemes.

Our lease counterparties are, in turn, substantially de-risked as the underlying tenants typically receive government benefits for all or a large part of their rental payments. As our properties are affordable, they are substantially de-risked as there is excess demand for our properties.

Furthermore, BTR models typically assume a level of rental growth which exceeds UK wage growth, creating a setup that can quickly lead to unaffordable rent levels.

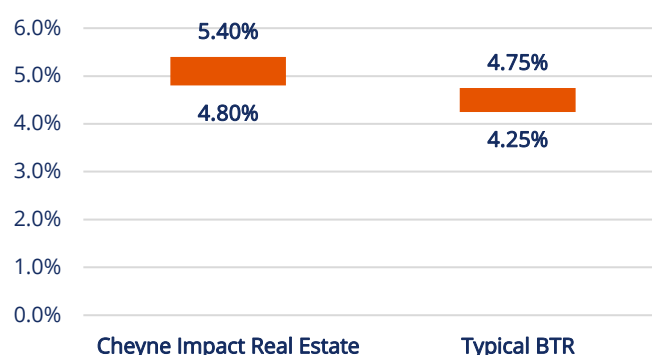
No direct exposure to lease costs

BTR investors are exposed to rising maintenance costs, and the ongoing cost of managing tenants and properties, including re-letting costs. Cheyne's model is de-risked from these factors as we enter into fully repairing and insuring leases (FRI) where our lease counterparty bears these risks.

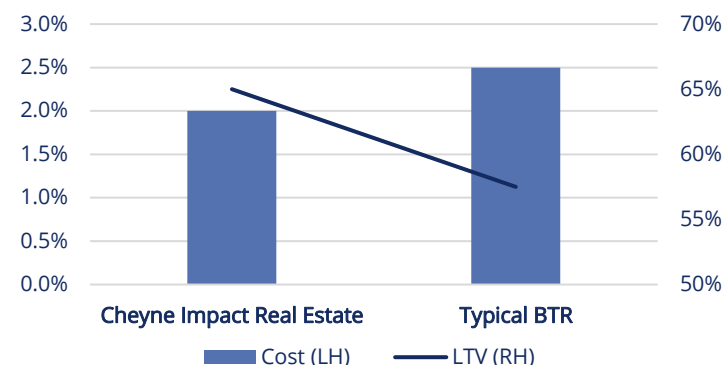
Explicit inflation linkage

BTR investors are exposed to house price inflation, which is historically more exposed to GDP than inflation. Our leases are explicitly inflation linked, providing a more targeted protection for investors concerned about value erosion through inflation.

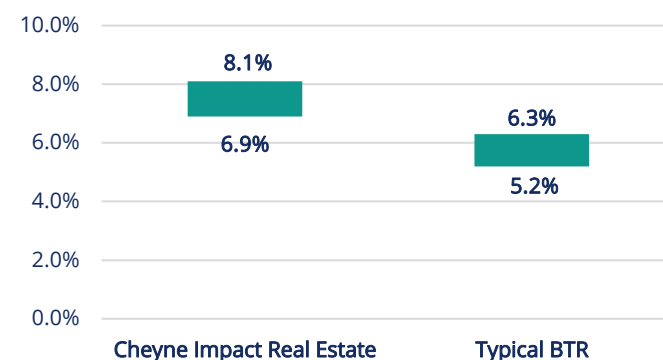
Gross Unlevered Income Yield Comparison



Typical Financing Terms Comparison



Gross Levered Income Yield Comparison



Source for figures: Cheyne Capital assessment.

Key People

Cheyne's Impact Real Estate team comprises four dedicated investment professionals, with a further two joining shortly. The Impact investment team is an integral part of Cheyne's real estate team, bringing substantial synergies of knowledge, experience and contacts across investment origination, analysis and modelling, structuring and financing and asset management. The Impact investment team sits within the wider UK team, with particularly close integration on investment origination, as well as the legal and business management units of the real estate team.

Managing Partner and CIO Real Estate Ravi Stickney	IMPACT REAL ESTATE	Alok Rege	Andrew Sergeant	Adele Sanderson	Jack Greenhalf	Darren Carter ¹	Matt Floyd	Ehtizaz Chaudhry
	UK	Arron Taggart	Anna Bulach	Richard Howe	Filippo Alessandria	Isobel Dench	Sivert Jartfort	
			Rob Turner	Theo Hajoglou	Harry Chapman	Evgenia Shirokova		
	LEGAL	Lydia Boos	Reena Banga					
	BUSINESS MANAGEMENT	Richard Lang	Julija Duseviciute	Sophie Turner ²	Chesley Fagan	Morgan Ryan ²	Lily Wade	
	GERMANY	Daniel Schuldes	David Renshaw	Lennart Weinhold	Michael Fournier			
	FRANCE	Raphael Smadja	Antoine Richard	Charles Lefebvre				
	STRUCTURED CREDIT & SYNDICATION	Sa'ad Malik	Zoya Khortova	Valeska Weber	Rebekah Seevathean			

¹ Part-time, consultancy basis, ² Morgan Ryan is currently covering Sophie Turner's maternity leave

As at 1st May 2021. This list does not include all of Cheyne Capital's employees. The above table comprises all members of the Cheyne Real Estate division, which manages a number of real estate debt and equity strategies. No assurance can be given that any particular individual will be involved in managing the strategy for any given period of time. Personnel may change.

Ravi Stickney – Head of Cheyne Real Estate



Ravi is head of Cheyne's real estate division, which manages assets of £3 billion investing across the real estate capital structure including senior debt, mezzanine debt, structured real estate credit, special situations and real estate equity, primarily in the UK, France and Germany. Ravi joined Cheyne in 2008 and has 20 years' experience in real estate.

Previously he was on ING Bank's proprietary investments desk (2005 to 2008), with sole responsibility for managing a sizeable portfolio of European commercial real estate credits and CMBS. Prior to that, he was at Lehman Brothers (2002 to 2005), structuring and executing UK and European CMBS/RMBS and commercial real estate mezzanine loans. Ravi acted as sole operating advisor to the restructuring and eventual sale of the first distressed UK CMBS deal, and he continues to play an active role in the direction of various distressed European real estate credits. He began his career on the UK commercial real estate desk at Ernst & Young in 1998.

Stuart Fiertz - Co-Founder of Cheyne Capital and Head of Responsible Investment



Stuart Fiertz is the Co-Founder, President and Director of Research of Cheyne Capital, and has over 30 years' experience in investment research and management.

Prior to establishing Cheyne in June 2000, Stuart was responsible for credit research and customised portfolio solutions in Morgan Stanley's convertible bond practice, following several years in credit and equity research at Lehman Brothers and Merrill Lynch.

Stuart is passionate about responsible investing and was a key architect of Cheyne's launch in social impact in 2014. Stuart participates actively in the investment industry dialogue, speaking frequently at events and summits. He is a CFA® charterholder, CAIA designee, council director of the Alternative Investment Management Association (AIMA), chairman of the AIMA Alternative Credit Council and a Founder & Trustee of the Standards Board for Alternative Investments. Stuart was educated at the International School of Geneva and at Dartmouth College where he was awarded a BA degree in Political Science and Economics.

Alok Rege – Impact Investment Manager



Alok joined Cheyne in 2016 and focuses on investment origination and structuring.

With over 13 years' experience in operational residential and care investments, Alok leads the underwriting, execution and overseeing of investments within the Impact Real Estate team.

Before joining Cheyne, Alok was Head of Underwriting at CBRE for residential investment transactions. Prior to this, he was Senior Analyst at Sunrise Senior Living responsible for JV and portfolio management alongside overseeing asset operations.

Alok earned a BSc in Mechanical Engineering and an MSc in Engineering Management both from the University of Exeter, followed by an MSc in Finance from Grenoble Ecole de Management.

Andrew Sergeant – Business & Portfolio Manager



Andrew has over 13 years' experience with Cheyne. He is responsible for all portfolio management and structural aspects of the strategy including cash management, hedging, tax compliance and corporate governance.

Andrew is an approved director in Jersey under the JFSC and also holds several UK directorships.

Prior to Cheyne, Andrew held trading support positions at Deutsche Bank, JP Morgan, and Citibank.

Andrew earned a First Class BA from the University of Leicester in 2003 and holds an Investment Management Certificate issued by the CFA Society.

Impact Examples

New build BTR scheme with an allocation of homes for local key workers

The investment will comprise 144 new-build flats in the New Cross area of Manchester and within minutes of the City Centre. 35% of the homes will be made available to local key workers at a discount to market rent, without compromising on quality or services. The scheme aims to create high quality new-build homes for key workers in heart of Manchester



New build care homes to alleviate pressures of the NHS and local authorities

Working in conjunction with a care operator, the investment will deliver three new build care schemes across the UK which will provide 206 care beds, all with en-suite wetroom facilities, with 35% of the beds made available to local authority or NHS funded residents. Public-funded residents will have access to the same high quality facilities and care services as any of the private pay residents.



Supported accommodation for adults with learning disabilities

The investment comprises the purchase of properties in the open market, which are then adapted and refurbished for use by Thera Trust, a not-for-profit social sector organisation, to support adults with acute learning disabilities. The homes are typically 2-4 bed, good quality properties in safe neighbourhoods. The properties are subject to a 20-year inflation-linked FRI lease with Thera Trust, with tenant rents covered by housing benefits paid directly from the local council to the social sector organisation.



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