

# The case for Continental European long-lease strategies

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# Long lease real estate in pension fund portfolios

## A useful addition to diversified portfolios

### De-risking property exposure

Long lease real estate

- A comparatively low risk form of property exposure
- Focus on lease term and quality of tenants
- Imperfect correlation with traditional real estate

### Supplementing fixed income holdings

Challenges for defined benefit pension schemes:

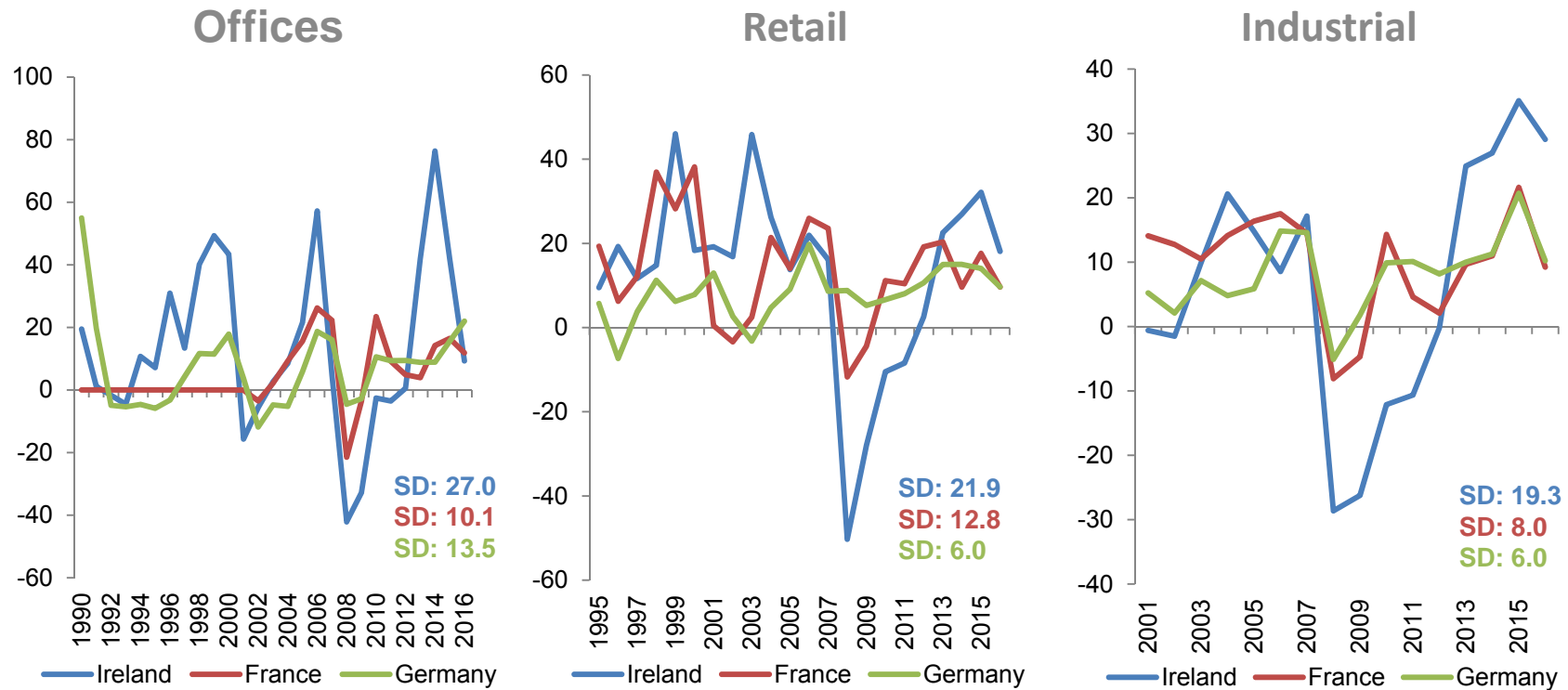
- Underfunding
- Low interest rates and QE
- Short supply of index-linked government bonds
- Liabilities linked to Irish inflation

## Low correlation between long income and traditional assets classes

	Bond	Equity	Real Estate	Long Income
Bond	1.00	-0.20	-0.21	-0.19
Equity	-0.20	1.00	0.40	0.42
Real Estate	-0.21	0.40	1.00	0.92
Long Income	-0.19	0.42	0.92	1.00

# Ireland vs Europe

## Volatility of returns – Real Estate markets



Higher volatility for Irish Returns in major real estate sectors

# Ireland vs Europe

## Low Correlation

	<b>Ireland</b>	Austria	Belgium	France	Germany	Italy	Netherlands	Spain	Denmark	Poland	Sweden
<b>Ireland</b>	<b>1</b>										
Austria	<b>0.5</b>	1.0									
Belgium	<b>0.4</b>	0.7	1.0								
France	<b>0.5</b>	0.5	0.3	1.0							
Germany	<b>0.4</b>	0.6	0.7	0.3	1.0						
Italy	<b>0.4</b>	0.5	0.6	0.2	0.4	1.0					
Netherlands	<b>0.6</b>	0.6	0.6	0.4	0.4	0.6	1.0				
Spain	<b>0.8</b>	0.7	0.7	0.4	0.6	0.7	0.8	1.0			
Denmark	<b>0.5</b>	0.5	0.4	0.5	0.1	0.5	0.5	0.7	1.0		
Poland	<b>0.0</b>	0.1	0.0	0.5	0.1	0.0	0.1	0.0	0.2	1.0	
Sweden	<b>0.4</b>	0.3	0.4	0.4	0.2	0.4	0.6	0.5	0.4	-0.2	1.0

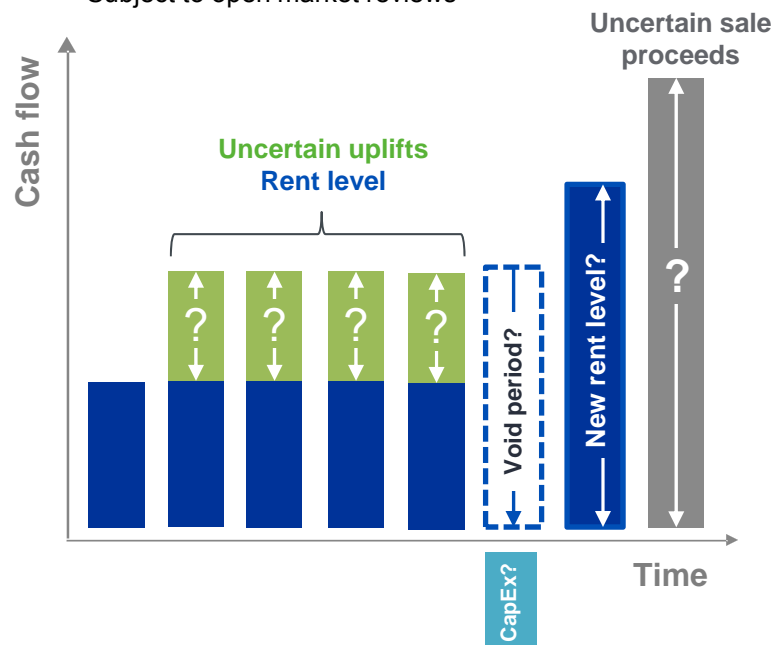
Low correlation with other European Office markets

# Traditional and long-lease property

## Comparison of different strategies

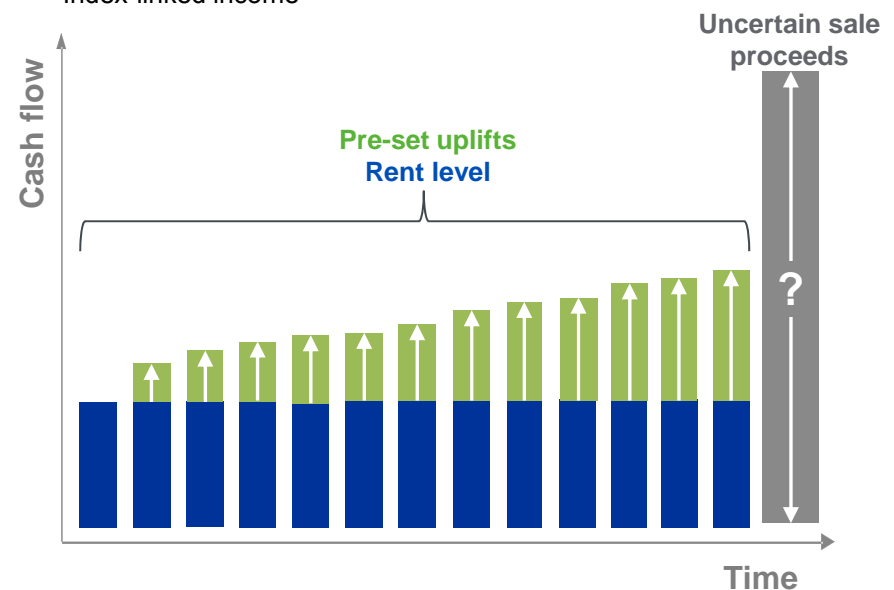
### Traditional property

- Majority of value in **building**
- Generate returns through:
  - Riskier active asset management
  - Shorter leases
  - Subject to open market reviews



### Long-lease property

- Majority of value in **contracted income**
- Generate secure income streams through:
  - Quality counterparties with strong covenants
  - Long leases
  - Index-linked income



# Aviva Investors Real Estate

## Experienced in real estate secure income investing

- Investing in long lease strategies since mid 1990s
- Managing over €4.5 billion in secure income property assets
- Multi-award winning UK long lease fund – one of the first secure income, long-lease fund



UK Property  
Investment Awards  
**WINNER 2016**



UK PROPERTY  
INVESTMENT AWARDS  
**2015 WINNER**

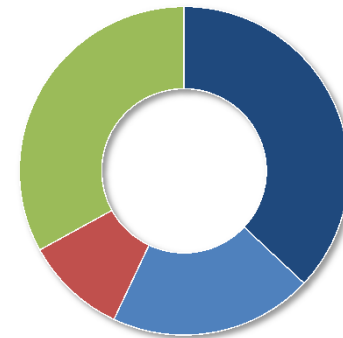
Market leaders in secure income, long lease strategies

# Highly diversified universe of opportunities

## Large Asset Pipeline

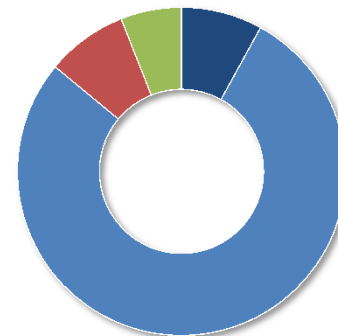


### Geographic overview



- Benelux 37%
- Scandinavia 20%
- Austria 10%
- Germany 33%

### Sector overview



- Logistics 8%
- Office 78%
- Retail 8%
- Others 6%

€5.6bn in deal pipeline over last 12 months

Source: Aviva Investors as at 30 September 2017. Geographic and sector breakdown of reviewed long lease pipeline over the last 12 months. Other includes mixed use and social infrastructure.

# Public occupiers

## Germany and Austria



<b>Size</b>	3,733 sq.m.
<b>Location</b>	Austria
<b>Use</b>	Office
<b>Tenant</b>	Employment Agency of 22nd district
<b>Lease length</b>	15 years
<b>Indexation</b>	100% of CPI p.a.
<b>NIY</b>	4.2%
<b>Estimated Price</b>	€18m

<b>Size</b>	16,563 sq.m.
<b>Location</b>	Germany
<b>Use</b>	Office and Laboratory
<b>Tenant</b>	Environmental Agency of NRW
<b>Lease length</b>	20 years
<b>Indexation</b>	5/80%
<b>NIY</b>	5.0%
<b>Estimated Price</b>	€95m





# Alternative use

## Benelux and Scandinavia

Deal under  
Exclusivity



<b>Size</b>	10,700 sq.m
<b>Location</b>	Netherlands
<b>Use</b>	Car dealerships
<b>Lease length</b>	18 years
<b>Indexation</b>	100% of CPI p.a.
<b>GIY</b>	6.83%
<b>Estimated Price</b>	€16m

<b>Size</b>	16,400 sq.m.
<b>Location</b>	Norway
<b>Use</b>	Social Infrastructure
<b>Tenant</b>	Regional Municipality
<b>Lease length</b>	20 years
<b>Indexation</b>	100% of CPI p.a.
<b>NIY</b>	4.00 – 4.25%
<b>Estimated Price</b>	€50m



Deal under  
offer

Source: Aviva Investors as at 30 September 2017

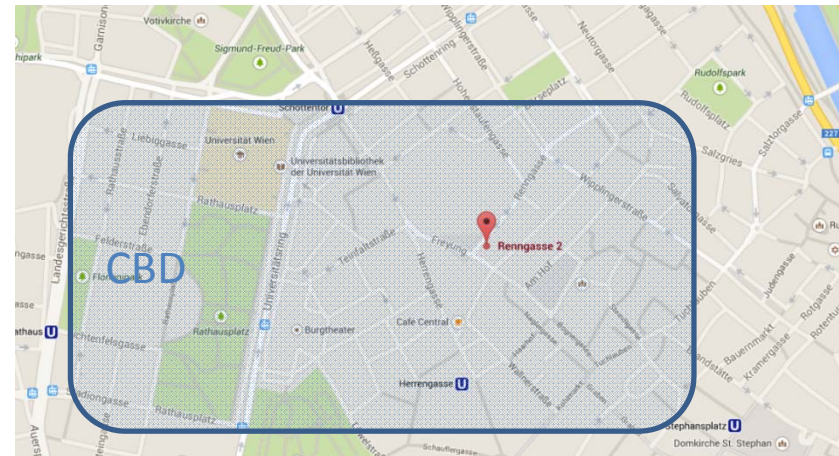
# Creating opportunities

## Amortising Lease in Prime Vienna



- Amortising lease on government tenanted asset
- No terminal value risk. Lease value equals purchase price
- 100% Indexation, annually adjusted based on CPI
- AA (S&P; covered by the Republic of Austria)
- Estimated Investment Volume - €45m

- Prime Core Location in Vienna
- 6,920m<sup>2</sup> of office premises
- Unexpired lease of 47 years (triple net)
- Single tenant is the **Constitutional Court of Austria**



Secure Income - Estimated net spread to the equivalent Bond: 200 – 300bps

# The solution

## Continental European Long Lease

### Secure long-term cash flows

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

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



### Diverse exposure

**Sectors:** Office, Retail, Alternative

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

### Consistent and predictable returns

**Assets:** Core/core+, stable, income producing assets

**Rent reviews:** Indexation of rental income

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**Important information:**

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

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