Market Opportunity in the indirect real estate space and our immediate deployment capacity

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A common theme across real estate markets is the apparent dichotomy of rental strength and capital stress, which is very unusual. It presents an opportunity for investors who have the capital reserves to secure a high return, as existing owners face unbearable pressure from unitholders, bondholders and bankers. The key is to ensure the risk management of that return, as catching a falling knife will lead to a messy outcome.

The easiest option from a risk adjusted point of view is probably the **listed REIT market**, especially many of the stocks which firstly hold many of the **most modern**, **green assets** and secondly have very **strong balance sheets** – a consequence of learning from the near catastrophic share price collapses during the GFC. The higher leverage approach of private equity real estate, without the pressure of public market scrutiny, is ripping many funds into pieces today.

Focusing on the **PERE sector**, we see three principal areas of opportunity at present.

Firstly, **simple secondary transactions**, where LPs are under pressure to realise capital at a time when distributions from funds have been behind schedule since Covid-19. Furthermore, LP's are looking to reduce exposures to weak markets (albeit typically too late) and hence pan European or US funds with meaningful office allocations are being offered with substantial discounts, and pan Asian funds with high China allocations are in similar territory.

We come back again to the falling knife analogy – and the key in pricing these secondaries means a deep understanding of the underlying value basis (the spread between prime and secondary rentals has probably never been wider) and the financing secured on the assets – which in many cases implies zero equity value on the assets.

This leads to the **second opportunity**, in larger and more complex secondary / **recap situations** working with GPs as well as the LP base. We have seen a number of these transactions take place over the last 12 months, particularly for funds coming to the end of their terms where the liquidity in the market is simply not there at the desired exit value, and the ability to refinance or extend is not possible without a further equity injection. Typically, this may involve a combination of debt and equity to resolve financing deadlines and strengthen the balance sheet, albeit with a likely cost of dilution to the existing LPs and a renegotiation of the GP terms.

The **third opportunity**, which we can source through **our existing fund investment relationships**, are more **asset specific**, where funds' own assets which are too big to sell singly in present market conditions, or require CapEx in excess of the fund's capitalisation and require outside co-investment. For example, we are aware of a large portfolio of new apartments, leasing above underwriting, in North America, where the GP is looking to bring co-investors into a new platform to take the assets out of the fund. Interestingly, this would be more of an attractively priced core plus deal rather than a value add or distress opportunity, but with very low risk attached. Another recent example would be to coinvest into a European data centre (including industrial land and fibre optic infrastructure) company – the company needs CapEX to roll our its platform in a growth sector, but low cost capital is hard to access even for what is probably the most in demand sector of the real estate market.

Looking through our pipeline **in this tranche we see approximately $1bn at the deal level** and we could assume given the relationships we have with the GPs, that we would have good line of sight to deploy say **$100-200m of equity in both the US and Europe**. Of note, we also have a pipeline of over 100 fund and co-investment opportunities.

Of the relevant **late stage primaries**, expansion capital and co-investments reviewed since the start of 2024 we have identified 10 which would fit into our strategy, mainly into our favoured sectors of logistics and residential in US, Europe and Japan, with **allocatable capital of between $300-$500m** – again these are not competitive auction opportunities but existing relationships we have as an investor in the market.

Reverting back to the **secondaries market**, we are aware of secondary LP stakes particularly in pan European value add funds which are being offered at **substantial (30%+) discounts to NAV**, either due to the sector allocation of the underlying assets, LTV ratios above 50%, or sellers under stress due to the illiquidity of other positions in their portfolios. On the latter side, this includes funds we are invested in and have access to other LPs. We are also aware of major positions in Pan Asia funds being offered at similar discounts, but this is mainly due to China allocations within those portfolios and we would tend to avoid emerging market risk. **We consider it feasible to allocate a further €100-200 million with some certainty – the actual number could be much larger.**