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The Real Deal on Real Estate After BREXIT

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BISLDCLS\PUBLIC\SALES-MARKETING\HIDDEN-LABELS

The Barings Real Estate Edge



Global Platform, Local Execution → One of the largest **global** real estate platforms with **local**, experienced investment **professionals**; asset, operations, project management, and research teams in core, value-add and opportunistic strategies across property sectors and structures

Four Quadrant Investor → **Better investment insights** as an active investor in private and public equity and debt, offering pricing and trend visibility

Trusted Partner → **Fiduciary** culture, **alignment** of interests, **transparency** and a history of delivering on client investment objectives

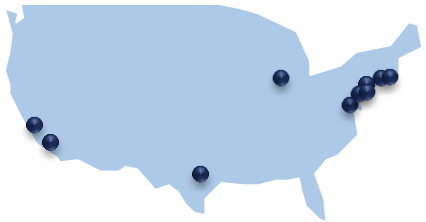
Disciplined Risk Manager → No style drift, **risk-priced investing** with a focus on providing clients with **superior risk-adjusted returns**

Sponsor Commitment → **Stable ownership**, **long-term** and cycle tested **perspective**, on-going **commitment** and focus on global **asset management**

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Global Real Estate Platform – Local Execution

United States



Barings Real Estate offices

11 offices

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Boston, MA	Oakland, CA
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Dallas, TX	Stamford, CT
Glastonbury, CT	Washington, DC
Newport Beach, CA	

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13 offices

London	Madrid
Amsterdam	Milan
Berlin	Munich
Düsseldorf	Paris
Frankfurt	Rotterdam
Hamburg	Stockholm
Helsinki	

Asia Pacific



2 offices

Hong Kong[1]
Tokyo

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As of June 30, 2016. Includes Barings Real Estate and its subsidiaries.

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Barings Real Estate European Platform

$4.2 billion AUM

104+ Employees

13 Offices

Full service encompassing

Investment & Portfolio Management	Asset Management	Research & Strategy	Business Development

Capabilities

Real Estate Equity	Real Estate Debt	Real Estate Securities	Separate Accounts



As of June 30, 2016.

For professional investors only

European Real Estate Activity Pre BREXIT

Allocations continued to increase driven by strong returns, diversification and lack of correlation to other assets

European real estate particularly attractive to international investors on a risk adjusted basis

- Perception that other regions at more advanced stage of current investment cycle
- Multi speed recovery of underlying markets

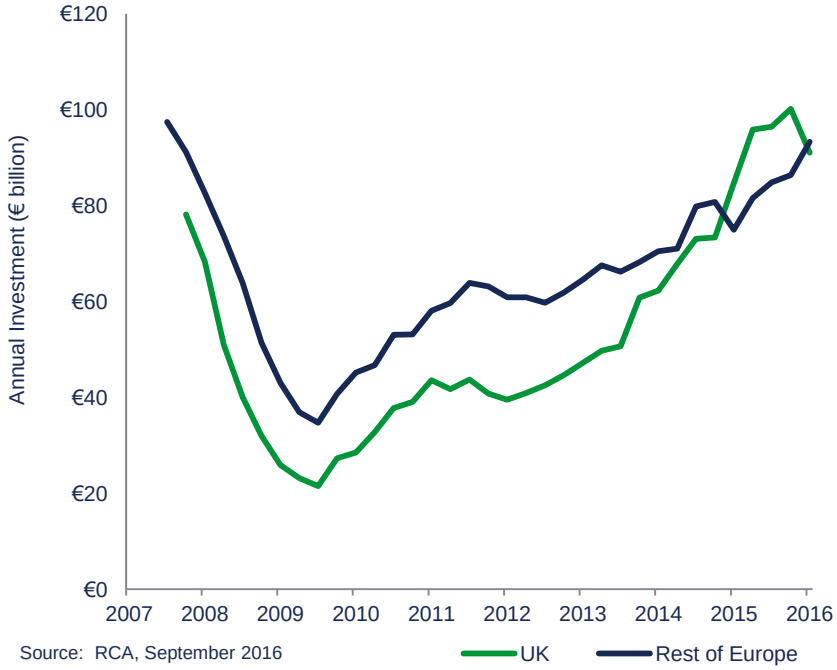
Markets well positioned in terms of supply / demand dynamics

- Resilient occupational market with falling vacancy levels
- Constrained development pipelines

LTV ratios on deals on average 30% lower than pre-GFC. More diverse range of lenders and originators

Transaction volumes high in historical terms but easing in some European markets – reflecting maturity of cycles

European Real Estate Capital Flows



Source: RCA, September 2016

Background To BREXIT Vote

- To counter anti EU sentiment Cameron agrees to re-negotiate UK membership of EU and hold referendum
- May 2015 – Conservative Party wins election – EU re-negotiations begin in earnest
- 23 June 2016 – Referendum held - ‘Leave vote’ wins by 52% to 48% (72% turnout)
- Unexpected outcome – for general public, commentators, bookmakers – as well as capital markets
- 12 July 2016 – Teresa May replaces David Cameron as UK Prime Minister
- Article 50 of Lisbon Treaty likely to be invoked early next year - negotiations will be protracted, complex and challenging

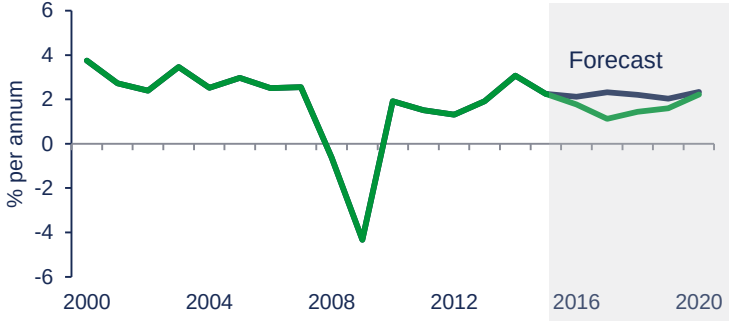
Impact of Leave Vote – "The Storm Before The Calm"

UK Economic Activity: GDP v PMI



Source: Markit, ONS, September 2016

UK GDP (pre & post referendum)



Source: Oxford Economics

Market reflected prevailing negative sentiment

- Loss of AAA credit rating
- FTSE 100 / FTSE 250 fall sharply
- Currency devaluation (GBP fell to 30 year low versus USD)

Summer provided time for reflection

- Government leadership rapidly re-established
- Support from Bank of England - interest rate reduced to 0.25%. QE stimulus of £60bn
- Feel good factor following outstanding GB medal haul at Olympics

Recent economic indicators indicate significant resilience

- Oxford Economics forecasts downgraded but still positive - GDP 2016 at 1.8% (down from 2.1%) and GDP 2017 at 1.1% (down from 2.3%)
- Purchasing Managers Index (PMI) series rebounded markedly in August - from sharp decline in July
- Retail sales surprisingly surge in July (released in August)
- UK increasingly likely to avoid technical recession – shallow correction and return to growth

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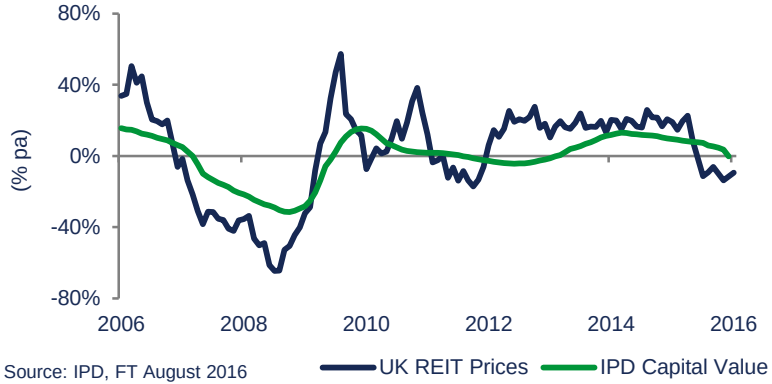
Short Term : Impact of Leave Vote For UK Real Estate

Sharp fall in REIT values – in particular those exposed to London

	Discount to NAV, June 28	Implied Yield Expansion
Land Securities	-36%	139bps
British Land	-40%	153bps
Intu	-22%	41bps
Hammerson	-34%	122bps
Great Portland	-36%	122bps
Derwent	-36%	131bps
Workspace	-32%	187bps

Source:EPRA

UK Property Cycle: IPD Capital Values v REIT Prices



Source: IPD, FT August 2016

UK CRE open ended funds

- BREXIT aftermath saw gating of eight UK property funds - caused by redeeming retail investors
- Arguably a logical move - assess consequences of BREXIT / adjust NAV's to reflect
- Some real estate sales took place – but few and far between
- Markets now stabilised - some managers re-opened funds / slashed "fair value" pricing

Some larger development schemes "on ice"

- 1.4m sqft skyscraper at 22 Bishopsgate – under review

Capital values for central London offices – CBRE

- July (-6%) August (-0.8%)
- Capital flows have been falling since high watermark - June 2015

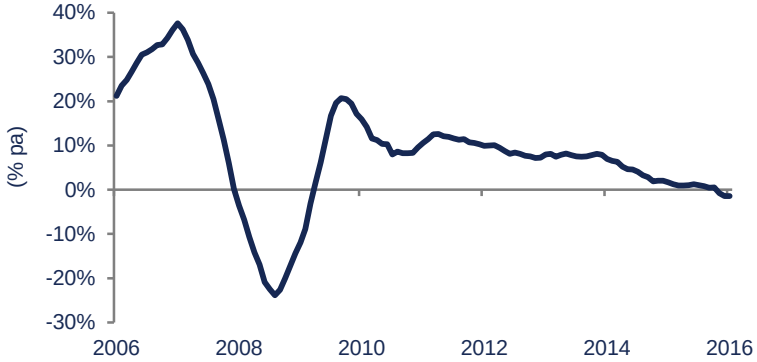
Too early to draw firm conclusions

- Market uncertainty qualifications - now being relaxed by valuers
- Transaction data more evident (investment / occupational markets)
- Q3 IPD number will be telling and strongest indicator to date of true impact of BREXIT
- Consensus is that markets have stabilised - albeit on lower transaction volumes - but pricing appears resilient

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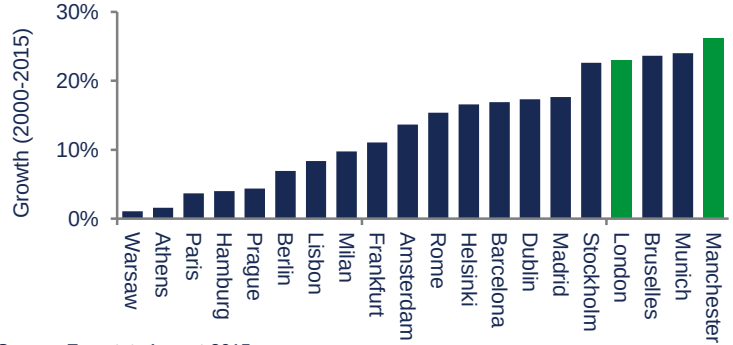
Looking Ahead : Downside Impact of Leave Vote For UK Real Estate

Prime Central London: House Price Growth



Source: Knight Frank, August 2016

European Top 20 Cities: Population Growth



Source: Eurostat, August 2015

Slower UK growth forecasts and uncertainty surrounding BREXIT likely to negatively influence sentiment

- Higher risk premium required for UK real estate
- Many adopting 'wait and see' approach, particularly those who are not under any time pressure to realise / invest capital

Delayed corporate investment decision making

- Business needs clarity for capital expenditure

Pockets of London market subject to elevated risk

- City of London at risk from financial services firms relocating to mainland Europe; though in our opinion this risk is relatively low
- Recent 'cooling off' of super prime residential market likely to be further accentuated by BREXIT

Freedom of movement for workers

- Free movement of people within the EU was generally considered positive for the UK, especially London
- BREXIT will likely limit these benefits – most notably there is potential for knock on impact in the level of demand for housing and business premises

Looking Ahead : Signs of Resilience from UK Economy and Real Estate Sector

Encouraging political backdrop

- Swift transition to new leadership - commitment to what is do best for UK

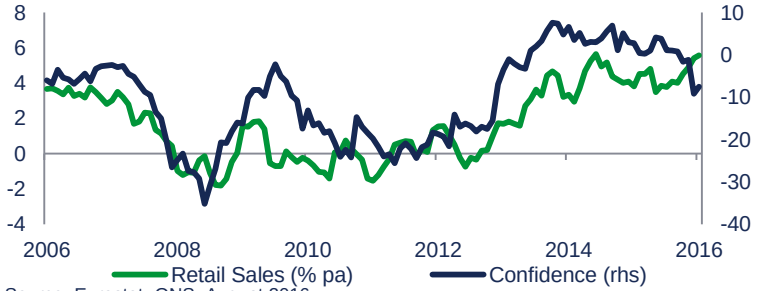
Supportive policy and currency

- Monetary: Interest rates “lower for longer” and extra QE
- Fiscal: Stimulus at Chancellor’s Autumn statement (23rd Nov) – infrastructure spending?
- Currency: Supportive of UK exports, but imports costs rise

Resilience in economic and occupational market data

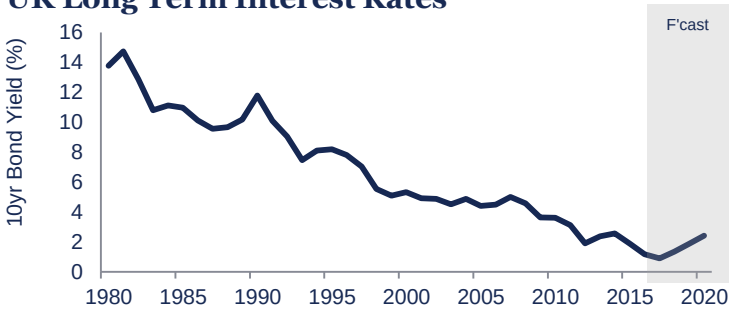
- Unemployment rate remains low
- Retail sales growing strongly and consumer confidence rebounds
- Low office vacancy / resilient take up
- Constrained development with much of current pipeline pre-let
- Internet is a huge structural driver for prime retail and logistics

UK Consumer Confidence v Retail Sales



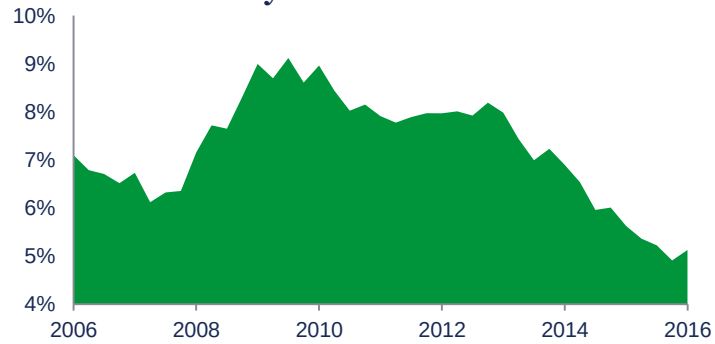
Source: Eurostat, ONS, August 2016

UK Long Term Interest Rates



Source: Oxford Economics, September 2016

UK Office Vacancy



Source: Cushman and Wakefield, August 2016

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Looking Ahead : Signs of Resilience from UK Economy and Real Estate Sector

One of the world's most liquid and transparent real estate markets

- Domestic and international capital remains active

Property - in particular core – is a bond substitute

- Low interest rates maintain pressure on yields
- Extension or new cycle?

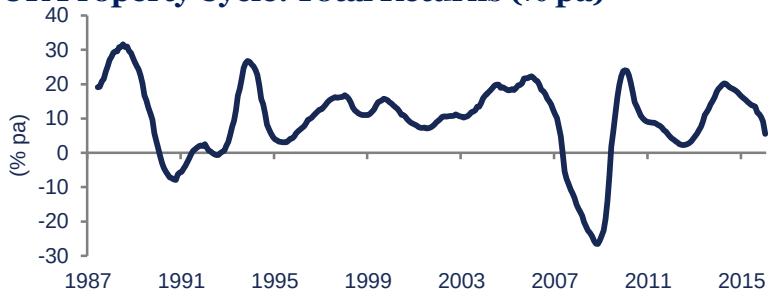
Devaluation of sterling enhances value of UK property for overseas investors

- 80 Central London deals post-Brexit, of which 80% from overseas

In time an increase in value add strategies – particularly if softening of "non core" pricing

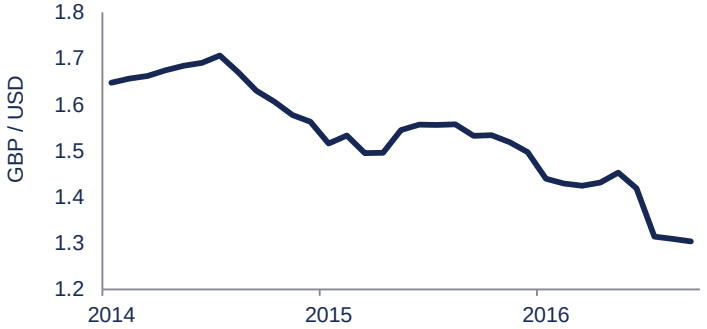
- Probability of secondary income cashflow interruption is higher

UK Property Cycle: Total Returns (% pa)



Source: IPD Monthly Index July 2016

Exchange Rates: GBP / USD



Source: OECD, FT, September 2016 *Sep 16 as at 19/09/2016

Property v Bond Yields

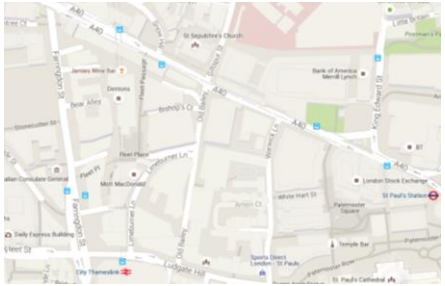


Source: IPD, FT, August 2016

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Nexus Place, London – Core Transaction



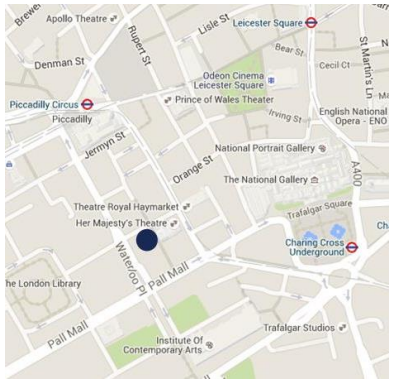


- Acquired October 2013 – in advance of formal marketing campaign - £128m
- West City / bordering Mid Town - near Farringdon Station (Crossrail)
- Fully let Grade A redevelopment - completed in 2010
- Core characteristics – improving location but structurally under rented:-
  - Refinanced in December 2013 realising annual interest savings of £2m
  - Pro-active surrender / reletting 11th floor increasing income from £46 p/sq ft to £55 p/sq ft
  - Completed rent review on 5th floor increasing income from £38 p/sq ft to £52.50 p/sq ft
  - Surrendered second floor – aiming to realise circa 60% income growth on reletting (£36.84 p/sq ft to £60.00 p/sq ft)
- Setting new rental tone for the entire building
- Capital value £181.5m (as at 30 June 2016)
- Projected IRR[1]: 20.1% unlevered / 35.7 % levered

1. Underwritten returns are based on information provided by Barings Real Estate Research, Regional Offices, Portfolio Management, and other sources. They are based on property level and micro/macroeconomic assumptions and, as such, are subject to revision and cannot be guaranteed

Waterloo Place, London – Value Add Transaction





- Acquired October 2014 – “off market” from private investor - £35m
- Improving West End micro location
- Ground and five upper floors
- Rent passing at acquisition: £1,754,399
- Opportunity to reposition – high quality offices / restaurant at ground – capex £15.5m programme
    - VP secured in August 2015
    - Planning consents / change of use (restaurant)
    - Re-gear headlease to 125 years
    - Refurbishment completing February 2017
- Terms now agreed to let restaurant at 103% above underwriting ERV
- Current overall ERV: £3,203,632 pa (as at September 2016)

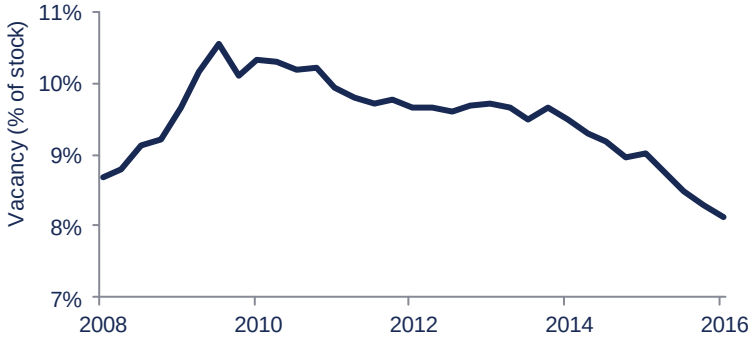
Looking Ahead : Impact of Leave Vote For European Real Estate

Euro GDP (pre & post referendum)



Source: Oxford Economics

European Office Markets



Source: Cushman & Wakefield, September

* Top 25 markets only

BREXIT risk limited if soft exit is achieved

- Economic outlook for Eurozone is only slightly weaker following UK referendum
- Oxford Economics GDP projections for 2016 remains unchanged, marginal 2017 downgrade from 1.8% to 1.5%
- Paradoxically, the softer the BREXIT, the greater the political risk for EU disintegration

Favourable outlook for occupier demand (falling vacancy and rising take up)

- Demand could be boosted for some other cities if some financial services firms relocate from London – e.g. Paris, Frankfurt, Amsterdam and Dublin etc

Core European markets may benefit from extra capital from the most risk averse investors

Earlier cycle Value Add European markets will see increased flows as markets recovery continues and rental values gradually increase

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Conclusion – Why Europe Now?

UK and Continental Europe on real estate continues to be an attractive asset class - driven by strong returns, diversification and lack of correlation with competing asset classes

- Strong underlying fundamentals e.g. occupier demand / supply constraints / high levels of liquidity / lower leverage levels
- Increasingly attractive for investors seeking yield in their portfolios
- Lower interest rates likely for longer will continue to drive demand

UK remarkably resilient

- Political and economic stability
- Opportunities across the risk spectrum – core / value add + opportunistic (asset by asset)
- Currency now an additional incentive
- More rational pricing for core and value add assets
- Bumps in the road as we negotiate exit from EU

Approach to implementation is key

- Local expertise / execution is critical - deal sourcing, asset and property management
- Research led investment process / disciplined risk management approach
- Strong alignment of interest with your manager – a partnership
- Need a manager with few conflicting mandates

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