

EUROPEAN PENSION FUNDS REVEAL MOST IMPORTANT FEATURES IN LONG INCOME PROPERTY INVESTMENT MANAGERS AND STRATEGIES

Research¹ from Alpha Real Capital LLP (“Alpha”), the specialist manager of long income assets, reveals what institutional pension fund investors value most² from Long Income Property³. The latest research was prompted by findings from December 2019⁴, which uncovered 84% of professional investors believe the level of investment in long income property from pension funds will rise over the next two years, with one in five (20%) anticipating a ‘dramatic’ increase.

Alpha’s new research, conducted with 125 institutional pension fund investors across the UK, Ireland and Continental Europe⁵ found those surveyed value risk management (24.5%) most in a long income manager, followed by performance track record (22.4%), competitive fees (21.3%) and origination capability (20.5%).

In total, 25 institutional professional investors were interviewed in each of the five countries, with the respondents demonstrating several marked differences in the responses from each country, as well as some countries indicating some common values.

The table below summarises what investors from each country believed is the most important factor when assessing the attractiveness of a long income property strategy:

Country	Factor	% selected as “very important”
Germany	Expected long term performance	68%
Ireland	Distribution yield	60%
Netherlands	Terminal value / re-letting risk	100%
Switzerland	Expected long term performance	72%
UK	Terminal value / re-letting risk & ESG	68%

In assessing the attractiveness of long income strategies, 68% of UK pension funds surveyed believe that ESG factors (relating to long lease property assets or managers) are “very important”, higher than the “very important” scores for factors such as distribution yield, expected long term performance, and income security.

Just 64% of German and Swiss respondents believe that “income security” is at least “somewhat important” in assessing the attractiveness of long income property. This is in contrast to the 100% score from UK and Dutch pension funds. Only 24% of German pension funds surveyed believe that terminal value / re-letting risk is a “very important” factor, compared to 100% in the Netherlands and an average across all geographies of 54%.

In assessing the attractiveness of a long income property strategy, how important are the following factors?	Very important	Somewhat important	Worth considering
Expected long term performance	66.4%	27.2%	6.4%
External macro factors such as inflation and interest rates	58.4%	36.0%	5.6%
Terminal value/re-letting risk	53.6%	39.2%	7.2%

¹ Alpha Real Capital commissioned the market research of 125 institutional investors who help manage pension funds. These pension funds ranged in size from <£300m to schemes >£5bn, with 84% of respondents sized £300m-1bn.

² Respondents voted for their top 3 factors

³ Long income property is real estate let on long-dated, typically inflation-linked leases for between 15-200 years. It comes in several different structures including commercial ground rents, income strips (amortising) and other long lease property such as sale and leasebacks.

⁴ Alpha Real Capital commissioned the market research firm Pureprofile to interview 50 professional investors. They included institutional investors such as pension funds and insurers and real estate professional investors. The research was conducted in December 2019 – interviews were conducted online.

⁵ (Switzerland, Germany and The Netherlands)

Income security	52.0%	32.0%	16.0%
ESG	48.0%	42.4%	9.6%
Distribution yield	46.4%	51.2%	2.4%

Hugo James, Partner and Head of Long Income, Alpha Real Capital, said: “With increasing interest in long income property as an asset class, it is interesting to see the differing priorities of pension fund investors within each country. There is, however, a degree of commonality in valuing the importance of long-term returns with the need to understand the risks involved in investing in the asset class.

Managers will need to demonstrate to their investors that they understand and can quantify these risks to provide confidence that expected returns will materialise for investors. At Alpha, our transaction rating processes are a key component of our investment strategy to mitigate risk, and we encourage investors to build their confidence in long income property and increase their exposure to this growing asset class.

“In relation to ESG factors, these are becoming increasingly important to our investors and we believe they must be a key part of the investment process when considering long income property assets.”

Alpha Real Capital is well positioned to capitalise on the growing investment opportunity set and investor demand for long income property assets. In the last year we invested more than £1.1bn in long income assets across commercial ground rents, long lease property, social real estate and renewables on behalf of our funds and clients. Since, December 2017, the value of long income real estate assets in our funds has increased by 65% from £2.3billion to £3.8billion.

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About Alpha Real Capital

Alpha Real Capital is an investment services group focused on income security from real assets. We invest in asset-backed income from real estate, infrastructure, and lending, with an emphasis on long income and inflation protection. Alpha has a strong team of more than 120 staff and partners with over £3.8billion of assets under management. Established in 2005, Alpha is jointly owned by Phillip Rose, members of the Alpha management team and companies ultimately owned by PS Gower Personal Settlement.

Alpha operates across diversified investment markets, managing listed and unlisted property vehicles, open and closed-ended property vehicles, UK and international funds, and working with large institutional investors as well as private investors, family offices and wealth managers.