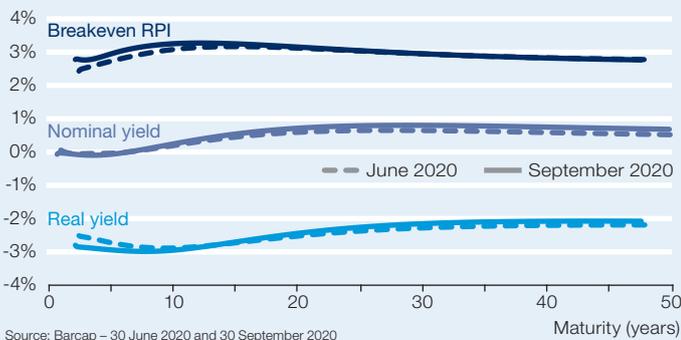
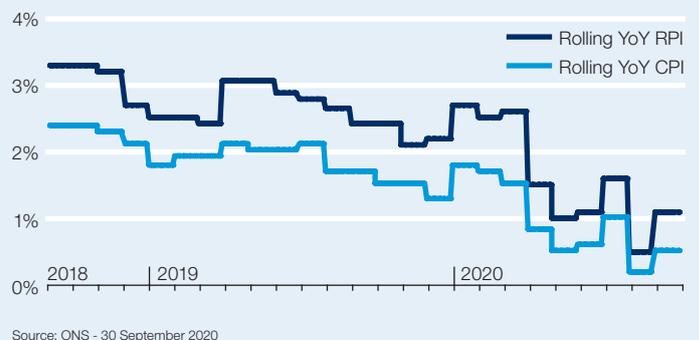


## Rates, inflation and credit spreads

### Gilt yield curves

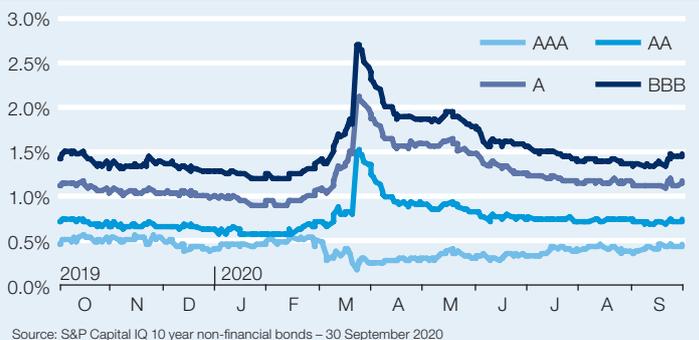


### 12 month rolling inflation

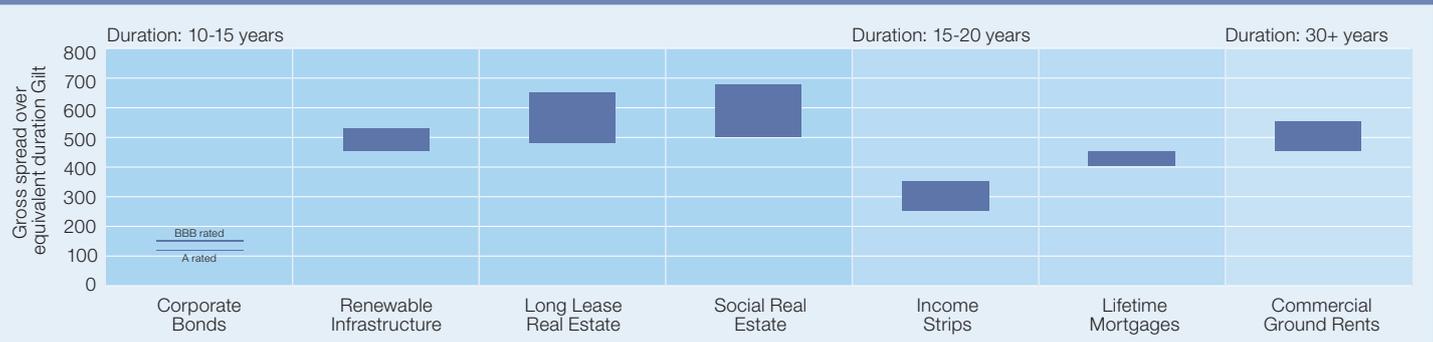


- Real Gilt yields have fallen slightly over the quarter at the shorter end of the curve, primarily driven by the increase of short-term inflation expectations.
- Whilst inflation has ticked up in the most recent period, both RPI and CPI remain at relatively low levels.
- Investment Grade bonds have benefited from a “flight to quality”; credit spreads for UK Investment Grade bonds are now tighter than pre-Covid levels.

### Credit spreads



## Secure income market update



### Spreads remain compelling for secured long income assets

- Resilience has been demonstrated across Long Lease real estate markets, most notably for high quality Income Strips, Social Real Estate and Commercial Ground Rents, as valuations have been stable over the Covid-19 period.
- Due to limited movement in Gilt yields over the quarter and the pricing stability of Secure Income assets, spreads over Gilts for these illiquid asset classes have remained relatively constant.
- Yields available for Renewables Infrastructure and Lifetime Mortgages remain broadly unchanged.

### Asset class definitions

- Renewables Infrastructure:** 15+ year inflation-linked cashflows from unlevered wind and solar infrastructure assets subject to Feed-in Tariff (FIT) or Renewable Obligation Certificate (ROC) regimes.
- Long Leases:** 15+ year inflation-linked leases on commercial real estate. Traditional sale & leasebacks fall within this market.
- Social Real Estate:** 15+ year inflation-linked leases on real estate assets that accommodate or facilitate social activities or services.
- Income Strips:** 30+ year inflation-linked leases on commercial real estate where the lessee has an option to purchase the real estate back at the end of the lease for a nominal amount (e.g. £1).
- Commercial Ground Rents:** 100+ year inflation-linked leases on commercial real estate, with a higher degree of rental and value cover than a traditional sale & leaseback.
- Lifetime Mortgages:** portfolio of loans from individual borrowers aged 55+ seeking to release equity from their property; the coupon rolls up (rather than cash-pay) and the mortgage is repayable on death or when entering long-term care.

## Social Real Estate: A £50 billion secure income opportunity?



Real estate assets with societal benefits  
Social real estate (“SRE”) comprises physical assets across a range of sectors, which accommodate or facilitate social activities or services, delivering positive outcomes for the people and communities that those assets serve. Broadly, they fit into the groupings of housing, healthcare and education. These broad groupings include a variety of asset types, such as those in the table below:

Social Real Estate  
A £50 billion secure income opportunity?

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Housing	Healthcare	Education
<ul style="list-style-type: none"> <li>• Senior living / retirement</li> <li>• Extra care</li> <li>• Affordable housing including key worker</li> <li>• Student</li> <li>• Homelessness</li> <li>• Specialised supported</li> </ul>	<ul style="list-style-type: none"> <li>• Care homes</li> <li>• Specialist care homes</li> <li>• Primary care</li> <li>• Secondary care</li> <li>• Private treatment / specialist clinics</li> </ul>	<ul style="list-style-type: none"> <li>• Day nurseries</li> <li>• Primary, secondary and Special Educational Needs and Disability facilities</li> <li>• College or university faculties</li> </ul>

### Key take-aways

Secure income assets can deliver high-quality, inflation-linked cashflows and attractive returns. With strong investor appetite for these assets, looking outside the established sectors for the next big opportunity could both unlock value and support the swift capital deployment of secure income allocations.

### Social Real Estate could be just that opportunity, offering investors:

- **Favourable market dynamics:** a ‘perfect storm’ of structural demographic demand, coupled with inefficient and insufficient stock, underpins an urgent need for capital investment. With public finances stretched, private capital will be needed to support the delivery of assets across housing, healthcare and education sectors – an opportunity that could be over £50 billion
- **Tangible ESG benefits:** investments in Social Real Estate can deliver quantifiable societal benefits, satisfying investors’ Social targets as part of ESG and SRI strategies – a diversified portfolio could deliver £3-4 of social value for every £1 invested
- **Very compelling investment outcomes:** a multi-sector Social Real Estate strategy could deliver high-quality, long duration, inflation-linked cashflows at spreads of 5%+ p.a. over comparable index-linked gilts.

↓ Download our latest Social Real Estate CDI white paper

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A scalable, diversifying Cashflow Driven Investment for defined benefit pension schemes

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## Alpha Real Capital

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