

European Secure Income Market Insight

Irish Social Housing

Alpha Real Capital

Q4 2020

Summary

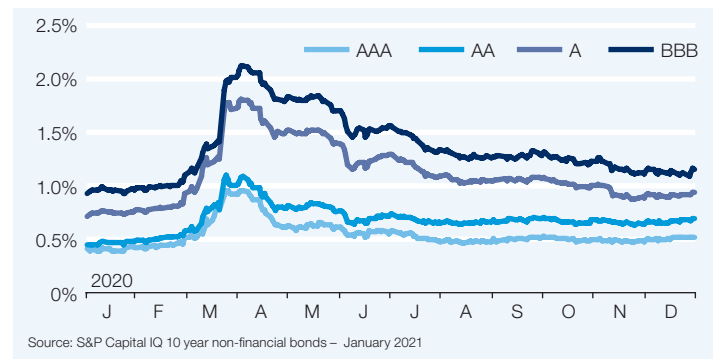
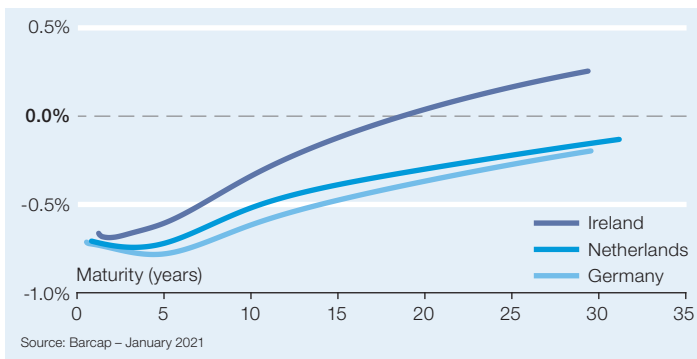
- Despite the resurgence of subsequent Covid-19 waves and the restatement of lockdowns across continental Europe, investors have responded positively to the news of numerous effective vaccines seeing a slight rise in Euro yields from their record lows.
- Alpha currently invests in Germany, the Netherlands and Ireland as key European markets.
- This Market Insight focuses on Irish social housing, a secure income asset class which simultaneously provides an inflation linked government backed income stream, whilst providing a positive social and environmental impact.

Macro picture

10 year nominal Bund yield	-0.61%	Irish HICP (y/y)	-1.1%
German CPI (y/y)	-0.3%	Dutch CPI (y/y)	1.0%

Sources: ONS, Barcap, 31 December 2020 or latest published figures

Macro overview



Inflation and bond yields

- Low yields make alternative assets such as commercial ground rents particularly attractive for investors in their quest for yield.
- The ECB bolstered its coronavirus bond-buying programme to €1.8trn after a second wave hit to the eurozone's economic recovery.
- EA inflation was unchanged in November confirming stabilisation at cyclical lows. EA inflation is expect to finish 2020 at current levels and start recovering in 2021.

Euro credit spreads

- Investment grade credit spreads continued to compress to the year to December, a trend which has persisted since June.
- After initial volatility in April, investment grade credit spreads have narrowed with all corporate spreads lower than pre-Covid levels due to a 'flight to quality' by investors.

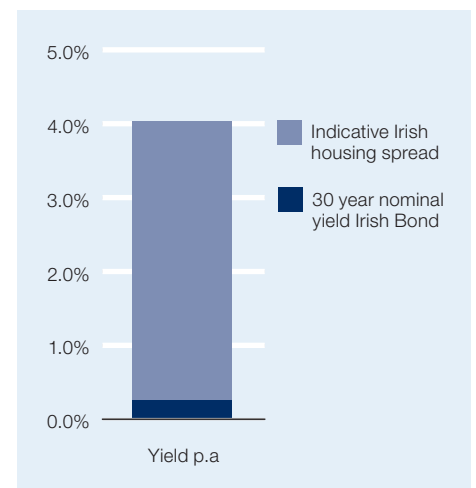
Insight Focus: Irish social housing opportunity

- Alpha has executed transactions in this space and has a strong pipeline (the estimated market opportunity is c.€3bn)
- Alpha's target is to build the portfolio of Irish social housing assets to €500m+ over the next 36 months

Key outcomes for investors:

- Attractive risk adjusted returns:** property net initial yield 3.5% – 4.5% without leverage; 5%+ for development funding pre-leased projects; returns net of landlord opex.
- Security:** Government backed income security; local authority as direct tenant takes all vacancy risk during the 25-year lease term. Income stream security akin to government bond returns.
- Inflation hedge:** three-yearly rent reviews to HICP (upwards and downwards).
- Diversification:** strong diversifier compared to commercial assets; Portfolio diversification across various locations (initially Dublin, Cork and Galway) and asset types; apartment blocks and houses.
- Exit:** as freeholder, each house / apartment provides highly liquid (real estate) underlying security.
- ESG:** Supportive of the Irish Government's objective to increase social housing to alleviate the housing crisis in Ireland and upgrading of existing homes provides a measurable environmental rating enhancement.

Indicative Irish Housing spread over 30-year Irish nominal bond



Source: Alpha Real Capital (for illustrative purposes only). Data as at 30 December 2020. The future returns and opinions expressed are based on Alpha Real Capital internal forecasts and should not be relied upon as indicating any guarantee of return from an investment managed by Alpha Real Capital nor as advice of any nature. Source of government bond spreads: S&P Capital IQ – 31st December 2020.

Untapped opportunities – European Long income

A combination of low or negative European government and corporate bond yields and an uncertain macroeconomic environment have led institutional and other real money investors to seek alternative sources of long-dated secure income to meet their liabilities.

Key characteristics

- Institutional and other real money investors should consider investing in European Long Income Property to achieve an attractive risk-adjusted yield pick-up over low yielding European government and corporate bonds to help meet their liabilities.
- Long Income Property, which is real estate let on long leases, generates low volatility, secure, inflation-linked contractual income-based returns, that are less sensitive to rising rates than liquid alternatives.
- The returns are expected to be less volatile through market cycles than those of traditional real estate, whilst providing an inflation hedge for both the income received and capital values over time.
- Long Income Property valuations are less sensitive to interest rate fluctuations than more liquid secure income alternatives and so potentially more defensive against rising rates.

European context

- The Eurozone has a large pool of freehold, owner-operated (over 69%)¹, high quality, income generating assets that are well-suited to Long Income Property.
- Acquirers and asset owners of European real estate are increasingly accepting Long Income Property as a way to release capital, benefiting from a permanent covenant-lite source of finance that reduces refinancing risk and can lower their weighted average cost of capital.
- To invest successfully, Alpha believes it is crucial to understand what investors are trying to achieve and proactively originate opportunities to meet their requirements as well as the long-term needs of asset owners.
- The investment focus and choice of structure should be driven by the relationship between income security, covenant risk and asset quality whilst also considering the impact on Environmental Social Governance (“ESG”).

¹ Private Debt Investor, May 2019

Other thought leadership pieces

More available to view at alpharealcapital.com/news



Commercial ground rents

Investment opportunity in a time of adversity



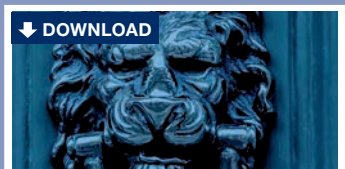
Commercial ground rents as a compelling fixed income alternative

With bond yields at all-time lows, where else can investors turn for contractual cashflows?



European Long Income Property

Secure real asset-backed income for pension funds and insurers



Lifetime Mortgages

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

Contact Alpha Real Capital

Please get in touch with your usual Alpha Real Capital representative or contact:

Hattie Walton

+44 (0)207 391 4568

hwatson@alpharealcapital.com

Alpha Real Capital

For more information about Alpha Real Capital LLP, its funds and key personnel visit: www.alpharealcapital.com

Alpha Real Capital is authorised and regulated by the Financial Conduct Authority.

Important notice: This document has been issued by Alpha Real Capital LLP. This document and any related materials are intended as general marketing only and do not in any way constitute or form part of any offer, invitation or solicitation to sell or issue or to purchase, subscribe for, underwrite or otherwise acquire any securities nor shall they or any part of them nor the fact of their distribution form the basis of, or be relied on in connection with any contract or investment decision in relation thereto. Promotion of interests in investment funds is restricted in the EEA under the Alternative Investment Fund Managers Directive 2011/61/EU (the AIFM Directive) and, consequently, this document is only directed at persons in the EEA to whom interests in investment funds such as that contemplated by this document may lawfully be marketed pursuant to the AIFM Directive. In the United Kingdom, this document is intended for distribution only to persons who: (i) have professional experience in matters relating to investments, who are investment professionals, high net worth companies, high net worth unincorporated associations or partnerships or trustees of high value trusts and investment personnel of any of the foregoing (each within the meaning of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005) (FSMA); or (ii) to whom it may otherwise be lawful to communicate it (each a Relevant Person). This document is not directed at and may not be acted on by anyone other than a Relevant Person. Persons who are not Relevant Persons should not rely on this document, nor take any action upon it, but should return it immediately to Alpha Real Capital LLP. By accepting this document and not immediately returning it, by your action, you warrant, represent, acknowledge and agree that: (i) you are a Relevant Person; (ii) you have read, agree to and will comply with the contents of this Important Notice; and (iii) you will not rely on, and will conduct your own analysis and/or other verification in relation to, any data set out in this document and will bear the responsibility for all and any costs incurred in doing so. Where this document is communicated to you by an unauthorised person, this communication is exempt from the general restriction in section 21 of FSMA on the communication of invitations or inducements to engage in investment activity. The information contained herein is not to be used for any other purpose or made available to anyone not directly concerned with your evaluation of the possibility of requesting further information regarding the content of this document. The distribution of this document and other information in connection with Alpha Real Capital LLP may be restricted by law in certain jurisdictions and persons into whose possession any document or other information referred to herein comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. If you are in any doubt about the investment to which this communication relates, you should contact an authorised person specialising in advising on investments of the kind in question. No reliance may be placed for any purpose whatsoever on the information or opinions contained in this document or on its completeness. This document is not intended to provide, and should not be construed as or relied upon for legal, tax, financial, business, regulatory or investment advice, nor does it contain a recommendation regarding the purchase of any interests in any entity. No liability whatsoever (whether in negligence or otherwise) arising directly or indirectly from the use of this document is accepted and no representation, warranty or undertaking, express or implied, is or will be made by Alpha Real Capital LLP or any of its affiliates or any of their respective directors, officers, employees, advisers, representatives or other agents (Agents) for any information or any of the opinions contained herein or for any errors, omissions or misstatements. None of the Agents makes or has been authorised to make any representation or warranties (express or implied) or as to the truth, accuracy or completeness of this document, or any other written or oral statement provided. Some statements contained in this document, or in documents referred to in it, are or may be forward looking statements. Actual results may differ from those expressed in such statements depending on a variety of factors. Any forward looking information contained in this document has been prepared on a number of assumptions which may prove to be incorrect and accordingly, actual results may vary. Past performance is not a guide to future performance. The information contained in this document is strictly confidential and may not be released to any third party without the prior written agreement of Alpha Real Capital LLP.