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Parkway sells 49 percent of Houston office portfolio for half a billion

Real estate investment trust Parkway has sold almost half of its Greenway Plaza and Phoenix Tower portfolio in Houston, Texas, for $512.1 million.

The Greenway Portfolio comprises approximately 5 million square feet in office properties across 11 assets in the Greenway submarket of Houston.

Parkway has formed a joint venture with the Canada Pension Plan Investment Board (CPPIB), TH Real Estate and Silverpeak Real Estate Partners, which jointly invested over half a billion dollars into the portfolio.

CPPIB has acquired a 24.5 percent stake for $141 million. TH Real Estate and Silverpeak will share the remaining 24.5 percent, while Parkway, the US-listed property company, will retain a 51 percent share and will continue to operate the portfolio, providing property management and leasing services.

The joint venture will assume the outstanding $76.2 million mortgage debt secured against Phoenix Tower.

Goldman Sachs is set to provide a $465 million five-year mortgage loan against the remaining properties.

Parkway is expected to see net proceeds of $315.8 million, following the new debt placement and the payoff of an existing $350 million existing term loan.

Located near Houston's Galleria district, the Greenway submarket has good links to the central business district and major healthcare and education hubs.

Hilary Spann, managing director and head of US real estate investments at CPPIB, said: "The Greenway Portfolio provides CPPIB with immediate scale in the Houston office sector, which we expect to benefit from accelerating job creation and continuing population growth."

James Heistand, president and CEO of Parkway, commented: "First, we have established a great partnership with three well-capitalised and highly regarded institutional investors that share our view of the long-term resiliency of the Houston market and the expectation of an eventual recovery in Houston office fundamentals."

He added: "Second, this transaction helps to mitigate risk in a single office campus that represents 57 percent of our company's overall square footage."

"And finally, with approximately $315.8 million of expected net proceeds to Parkway, this joint venture will supply us with additional capital to immediately strengthen our balance sheet while providing us the flexibility to further diversify the portfolio through future acquisitions as the Houston market recovers."

Inside Real Estate Investment Times

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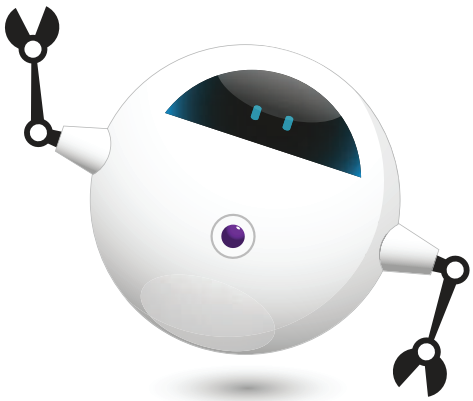


The Leadenhall Building to be acquired for £1.15 billion

Reporter: Theo Andrew | London

CC Land has requested shareholder approval to acquire The Leadenhall Building in London for £1.15 billion.

Also known as the 'Cheesegrater', the skyscraper has been owned and developed by a joint venture between British Land and Oxford Properties since 2010.

Shareholders have given their irrevocable undertaking that they will approve the deal, which must be obtained on or before 28 June 2017. Chinese manufacturer CC Land has already paid £287.7 million to the joint venture.

The building is the tallest in the City of London at 736 feet. It provides 610,000 square feet of office accommodation over 46 floors. Tenants include insurers Aon and MS Amlin, and architects Rogers Stirk Harbour + Partners.

Net rental income for the year to 31 March 2016 was £27 million, and annualised contracted rent for the building is currently £40 million.

Tim Roberts, head of offices and residential at British Land, commented: "We have delivered an iconic, award-winning building let to high calibre occupiers at record City rents. This sale shows continued investor appetite for best in class, well located property in London."

Paul Brundage, executive vice president at Oxford Properties, said: "We have delivered on our strategy of ensuring that The Leadenhall Building meets its potential to become one of the most commercially successful investments in London."

TH Real Estate secures €470 million in debt financing for CHOP portfolio

TH Real Estate has secured around €470 million in refinancing on behalf of its Cityhold Office Partnership (CHOP) portfolio.

Four of CHOP's London assets—60 Great Portland Street, 12-14 New Fetter Lane, Belgrave House and 40 Holborn Viaduct—were refinanced for a combined total of £240 million at 35 percent loan-to-value on a seven-year term.

The remaining £230.9 million was secured on four assets in Paris and two in Hamburg, at 50 percent loan-to-value on a 10-year term.

The debt financing is split jointly between ING Group and Germany-based bank Landesbank Baden-Württemberg (LBBW).

Farrah Brown, head of treasury at TH Real Estate, said: "The prime and core nature of the real estate, moderate-leverage requirements and quality of the sponsors were key factors in attracting a high level of interest from real estate lenders."

"ING and LBBW were able to provide us with significant balance sheet/underwriting capacity and the added benefit of funding in both euro and sterling denominations; these factors have cemented their roles as our key relationship lenders."

CHOP, TH Real Estate's pan-European investment vehicle, currently has €1.8 billion invested in 250,000 square metres of core office space in the UK, France and Germany.

Earlier in February, CHOP sold One Kingdom Street in London for £292 million, which it plans to reinvest throughout Europe.

Jasper Gilbey, fund manager for CHOP at TH Real Estate, said: "CHOP will equally seek to build on both the UK and Continental European facilities as it seeks to grow the current portfolio to over €4 billion via new acquisitions, focusing on core and emerging office markets located in key Continental European cities in the near future."

Real IS hit €1.4b investment volume

Real IS's investment volume increased to more than €1.4 billion in 2016, and it raised more than €1 billion in equity for the first time.

With acquisitions of around €900 million, half of which were located in Germany, and sales of about €500 million, the company's investment volume increased from €1.1 billion in 2015.

Investments were also made in France, the Netherlands, Belgium and Ireland, bringing Real IS's total assets under management to €6 billion

LondonMetric Property has acquired two distribution warehouses for a combined total of £16 million.

The deal reflects a blended net income yield of 5.8 percent and a reversionary yield of 6.4 percent.

A 120,000-square foot regional distribution warehouse in Wakefield was acquired for £9.5 million. It is fully let to One Stop Stores, a Tesco-owned subsidiary, for six years.

Located on a distribution park at junction 31 of the M62, the warehouse serves the north of England and Scotland, accounting for half of One Stop's 750 stores.

In addition, LondonMetric acquired a 49,000-square foot 'last mile' warehouse in Dartford for £6.3 million.

The property is let to Antalis, a European packing distributor, for the next 10 years with a rent review in five years. Built in 2003, the warehouse sits two miles from junction 1A of the M25.

JLL acted for LondonMetric, while the Wakefield vendor was advised by DTRE and the Dartford vendor was advised by Strutt & Parker.

Tritax Big Box Real Estate Investment Trust has invested £29.24 million in a new distribution centre in Oxfordshire.

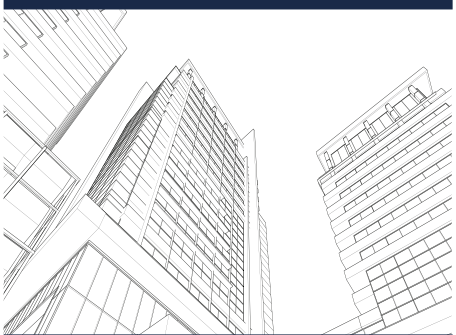
The land purchase and forward funding for Signa Park in Didcot reflects a net initial yield of 5.82 percent.

The 242,067-square foot site has already been pre-let to publishers Hachette UK, part of the multinational media conglomerate Lagardere SCA, and will become its main national and global distribution centre.

Expected to be completed in July 2017 and built to a high specification, the site will be leased to Hachette UK on a 15-year deal, subject to five-yearly upward-only market rent reviews.

£100 million to be invested in Landmark Manchester office development

Reporter: Theo Andrew | Stockholm



Barings Real Estate Advisors has acquired Landmark Manchester and plans to invest £100 million in its development.

Located in the heart of Manchester, the 180,000-square foot office space is due to be completed in 2019.

The 13-story building includes a double height ground floor reception and will have a Building Research Establishment Environmental Assessment rating of 'Excellent'.

According to Barings, demand for office space in Manchester is high, despite the not having agreed a pre-let for the development.

Less than 50 metres from St Peter's Square and the centre of the city's tram network, it is just 15 minute walk from all four of Manchester's mainline railway stations.

Darren Hutchinson, senior director at Barings, commented: "The shortage of new Grade A office supply in Manchester coupled with the healthy demand dynamic from national and international occupiers for space in the city gives us the confidence to proceed with this major project ahead of securing a pre-let."

Sir Howard Bernstein, chief executive of Manchester City Council, said: "We are delighted to welcome Barings's investment into this key site in the city's Civic Quarter and the jobs it will generate."

"Our investment ... has created a world class office environment, complemented by proximity to our universities, which is attracting quality occupiers."

Castlebrooke acquired the site in 2015 and will continue to act on behalf of Barings Estate Advisers as development manager.

at the end of 2016, with a total occupancy rate of just over 96 percent

In January 2017, Real IS also completed the acquisition of the Alpha Tower, a 20,000-square foot office in Amsterdam, for €55 million.

The office block, acquired on behalf of the Real IS BGV VI alternative investment fund, is line with its strategy of core and core plus investments in the Benelux region.

Georg Jewgrafow, CEO of Real IS, commented: "Property still offers a considerable mark up in terms of return compared with government bonds, we anticipate strong demand for our funds this year as well."

According to Jewgrafow, Real IS has plans to raise equity in the mid-triple digit million range this year, and has targeted alternative investment funds in the private customer segment.

In addition, Real IS raised more than €1 billion in equity for the first time in 2016, raising €1.12 billion from institutional investors and €41 million from private investors.

Jewgrafow said: "Our strategy of offering individual and tailor made investment solutions for institutional investors has been very successful. We have reinforced our market position in this segment. Among other things, this is reflected by our winning an individual mandate of a considerable size from a German insurance company last year."

He added: "Along with a broad-based investor group from Germany, we have long term plans to reach international investors with customised offers such as club deals and joint ventures."

Prologis and CBRE pair up to explore UK logistics space with joint venture

Prologis and CBRE Global Investment Partners (GIP) have formed a joint venture, the Prologis UK Logistics Venture (UKLV), focusing on developing logistics real estate in the UK.

UKLV will focus in the East and West Midlands, London and the South East, and will acquire land, develop buildings and operate logistics properties. It will be seeded with 7.6 million square feet of stabilised properties, developments in progress and land.

Prologis will own 15 percent of the joint venture while CBRE GIP will own 85 percent. According to Prologis, the venture has an expected value of approximately £1 billion.

CBRE announced in February that logistics outperformed other industrials and commercial property in 2016, with returns of 8.6 percent, compared to 7.2 percent for all industrials.

The site is being developed by Clowes Developments, and the construction will be completed by Winvic Construction.

Located in a core southeast logistics hub, which has attracted the likes of Tesco and Screwfix, the site is well connected to the A34, M4 and M40 motorways, as well as Dicot Parkway Rail Station.

Tritex REIT was represented by GVA, while JLL represented the vendor Clowes Development Ltd and the development manager Graftongate.

Workspace Group has acquired an office building in London's West End, for £98.5 million.

The building, 13-17 Fitzroy Street, was acquired off-market at a capital value of £1,063 per square foot, representing a net initial yield of 4.6 percent.

The 92,700-square foot office building was acquired from the global consulting company Arup, which has a lease on the building until 2022 at an annual rate of £4.9 million, rising to £6 million in March 2021.

Arup has an option for an early exit, effective from September 2020.

Once Arup has relocated, Workspace plans to reposition the building, which has seven storeys as well as a below-ground floor, as a multi-let business centre and capture significant rental uplifts.

Located close to several central London transport hubs, the property is a short walk from the Crossrail development at Tottenham Court Road.

Thor Equities have acquired two retail units in central Madrid for €43 million.

Totalling 990 square metres across both units, 5 Puerta Del Sol is popular among both tourists and locals. Its neighbours include Apple, Topshop and Zara, as well as the nearby Centro Canalejas project, featuring a shopping centre and luxury hotels and apartments.

TH Real Estate has facilitated the sale of an office in Paris, on behalf of Warburg-HIH Invest Real Estate, for €54.5 million.

The 4,800-square metre building was acquired by Caisse National de l'Ordre des Médecins, the French council of the order of physicians, which will be using the building as its headquarters.

The six-storey office, 4 Rue Leon Jost, is located close to the Courcelles Metro Station in the Paris central business district.

Arlington Advisors and Pensions Infrastructure Platform join forces

Reporter: Theo Andrew | London

The Pensions Infrastructure Platform (PiP) and Arlington Advisors have formed a new partnership targeting on-campus student accommodation.

Arlington Advisers, which already has a significant off-campus portfolio, is currently shortlisted on more than £300 million of acquisitions, including on-campus assets.

The real estate investment manager has invested over £500 million in acquiring more than 7,800 beds across 10 cities in the UK.

According to Arlington Advisors, its partnership with PiP will look to significantly increase this throughout 2017 and 2018, targeting long-term investments supported by growing student numbers.

George Shweiry, chief executive of Arlington Advisors, commented: "We are continuing to see record levels of demand for high-quality, appropriately-priced and well-maintained student accommodation, and universities are increasingly recognising the value in partnering with professional investors and managers."

"In PiP we have a partner with an outstanding commitment to developing UK infrastructure, of which student accommodation is a vital and growing component," Shweiry said.

"I am confident that together we will continue to meet this demand, thereby delivering long term value for students, universities and our investors."

Mike Weston, chief executive of PiP, said: "PiP is focused on core investment that delivers long term, inflation linked cash flows and we see student accommodation as a key growth opportunity in this market that provides these attributes for UK pension schemes."

According to Prologis, the new venture represents strong investor confidence in the UK logistics property market, driven by consumption and ecommerce. It will be Prologis's first venture dedicated to the UK property market.

Gary Anderson, CEO of Prologis in Europe and Asia, commented: "Our customers continue to grow in the UK and this venture helps meet new demand."

He added: "Current opportunities exceed the capacity of our existing funds and partnering with CBRE Global Investment Partners is an efficient way to match available capital with the breadth of prospects in the UK."

Jeremy Plummer, head of Europe, the Middle East and Africa for CBRE Global Investors, said: "Prologis has a highly experienced team on the ground in the UK with a track record of successfully delivering development projects and managing stabilised assets."

"They are the ideal partner for this venture and will help meet our clients' demand for high quality logistics investments in the UK."

Prologis's in-house legal team was assisted by Linklaters LLP, and CBRE Capital Markets and Jones Day advised CBRE Global Investment Partners.

AXA raises €8 billion capital in 2016

Axa Investment Managers - Real Assets raised a record €8 billion of capital during 2016, including €800 million for its AXA CoRE Europe fund which launched last year.

Capital was collected through a diverse range of investors, including retail, global family offices, AXA Insurance companies and small, medium-sized and large institutions, and was split 50/50 between debt and equity.

AXA also saw the final close of its Development Venture IV fund, its fourth generation development fund, which raised more than €600 million, leaving it with an investment capability of up to €2 billion.

Isabelle Scemama, CEO of Axa Investment Managers - Real Assets, said: "We have had a record year in terms of capital raised, underlining the continued appeal of the real assets sector and the attractiveness of the opportunities we have brought to our clients, which cover the entire Real Assets spectrum via both debt and equity."

"We also continued to expand and diversify our client base, with a growing number of small and mid-size institutions, a trend that accelerated with the launch of the AXA CoRE Europe fund, which gives them access to a diversified range of high quality pan-European investments."

TH Real Estate has also acquired a 50 percent stake in the Kamppi Centre in Helsinki, Finland, for €250 million, on behalf of its European Cities Fund.

Barings Real Estate Advisors (BREA) facilitated the sale on behalf of the Nordic Retail Fund.

TH Real Estate has entered a joint venture with Allianz, which owns the other 50 percent.

The 36,600-square metre retail and leisure space is located in the city centre, directly above the Kamppi metro and bus station. It also has 1,500 underground parking spaces.

BREA has recently completed the repositioning of the centre's fifth and sixth floors, increasing the revenue by around 50 percent.

The UBS Triton Property Fund has acquired a West London student accommodation development for £31.5 million.

Orient House, a 58,000-sqare foot development in Fulham, has 184 bedrooms, with the purchase price representing £171,000 per bed.

The fund, belonging to the UBS Asset Management Real Estate & Private Markets (REMP) business, acquired the building from Imperial College London. It will now be managed by Universal Student Living.

The property offers 173 en-suite bedrooms, 11 studio apartments and two common areas, over seven floors.

Orient House is the fourth student accommodation acquisition by UBS Triton, following developments in Newcastle, Durham and Belfast. UBS Triton now has an 800-bedroom portfolio in the sector.

Tudor Toone and Lawson & Partners advised UBS Triton, while the Imperial College London was advised by Knight Frank.

Newmark Grubb Knight Frank (NGKF) has brokered the $83.1 million sale of a New York office building to Zar Property NY.

Sold by Ascot Properties NYC, the office is located on 250 West 54th Street in Midtown Manhattan. The 145,170-square foot property is in close proximity to Broadway, Columbus Circle and Central Park.

According to NGKF, Zar Property plans to increase rents after a complete office refurbishment, with the intent of appealing to both the traditional tenant base of the neighbourhood and Manhattan's technology, advertising, media and information sectors.

Packing a punch

Total investments into the Asia Pacific region have not slowed much, despite the decline in the number of transacted deals for 2016. Experts discuss the issues

Panel participants

Chiang Ling Ng
CEO
M&G Real Estate Asia

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Senior vice president
NAI Global*

Cuong Nguyen
Head of Asia Pacific investment research
PGIM Real Estate

*NAI Global's Asia Pacific offices contributed the information for this discussion

The Asia Pacific real estate market was predicted to enter a period of slower growth in 2016. Was this the reality?

Chiang Ling Ng: In terms of rental growth, the cost-conscious occupier and the new supply of commercial space in most markets have largely kept rental levels in check, with the exception of Sydney and Hong Kong. However, total investments (in dollar terms) into Asia Pacific real estate have not slowed much, despite the decline in the number of transacted deals for 2016.

For Asia Pacific's real estate market, the uncertain outlook for US and European markets helped keep more capital within the region, with significant activity from Chinese investors sending assets offshore within the region.

In the latter half of the year, stricter capital control imposed by the Chinese government led to more onshore investments, and drove up capital values across the spectrum of property types in China. There was also increased interest from overseas investors looking to the Asia Pacific to further diversify their real estate exposure globally, particularly European institutional investors.

Lindsay Fierro: In 2016, major Asian tier-one cities in China, Japan and Thailand were showing continuous growth. On the other hand, Singapore, Hong Kong and Taipei transactions were decreasing due to government regulations to cool down the market.

It is true that in mainland China, 2016 growth was slower than before. However, there was still growth and, given the already enormous size of China's real estate market, this growth continues to be impressive. In 2016, real estate- and construction-related activities accounted for around 14 percent of China's GDP ($1.58 trillion out of a total GDP of $11.3 trillion). The same goes for South Korea. As the interest rate stay relatively low, investment in real estate is still attractive.

In Australia, this did not happen, in fact the commercial property sector in the larger cities is very buoyant with many new developments underway. We have seen an increase in interest and demand for commercial property investments from the US and Canada as well as the Asia Pacific region.

Interest rates remain at historical lows by Australian standards. However, we have some purchasers struggling to gain funding to complete purchases due to local funding restrictions.

New Zealand has seen a continuing strong property market. Positive migration numbers are seeing no lessening in demand for both properties for investment or for users to occupy. Local authority consent procedures can be exhaustive, causing supply to lag behind demand by a considerable time.

Cuong Nguyen: It is hard to sum up the Asia Pacific region in a single view given the dynamism of the markets it comprises. Slower growth was indeed the case for some markets such as Hong Kong, Singapore and Tokyo offices, but for other markets such as Sydney, Melbourne or Osaka, growth momentum is still very positive. Rental growth in these markets has accelerated over the last 12 months, and we expect that this momentum will be carried into 2017.

In the investment markets, activity was a bit slow in the earlier half of the year, driven by political uncertainty following the UK's vote to exit the EU and the US election, but in the last few months of 2016 activity picked up strongly. Though still remaining cautious, investors appeared to start getting more confidence that Asia's political environment was actually more stable than those of Europe and the US, and there would be proactive responses to the moving global political and economic landscapes.

How is 2017 poised to shape up? What are the levels of investment demand, given investors' likely conservative attitude going forward?

Fierro: In 2017, we expect major cities in China to slow down due to the government increasing property tax for having more than one home. There is still a strong demand for residential space, as well as commercial and industrial space, in China's tier-one cities and also often in tier-two cities. Whereas in tier-three and tier-four cities, as well as in villages, there seems in many cases to be an oversupply of residential and commercial space.

Investment demand is quite high, however South Korean institutional investors will keep their approach conservative and risk-averse. In Australia, we believe the investment demand will continue to attract offshore investors and that 2017 will be stronger than 2016. Mining, one of the core industries in Australia, is again picking up with increased investment.

All indications are that property will continue to perform at least to the level of 2016. New Zealand does not see the same market fluctuations that many other countries experience, and with a strong and steady economy, stability of government and unemployment rates remaining at a reasonably low rate, there is little reason to anticipate much change.

Nguyen: We expect that investment sentiment and activity will remain strong in 2017. Surveys that seek to measure investor sentiment from organisations such as Asian Association for Investors in Non-Listed Real Estate Vehicles (ANREV) are all pointing to positive. However, the fact that capitalisation rates are now at historic lows in most markets and the lack of motivated sellers in the market are making it challenging for investors to turn their demand into acquisitions without taking more risks or accepting lower returns.

It seems that taking on more risks through value-added investment would be the preferred strategy for investors in 2017.

This is already being seen in recent transactions in Japan, Australia and South Korea. Assets that need repositioning in terms of capital expenditure or significant leasing risks are attracting more attention from active investors.

Ng: We see ongoing demand to deploy capital outside the region. South Korean, Chinese and Japanese investors all have very different motivations and approaches to real estate investment. For South Korean investors, the motivation is largely to seek secure, direct investments. For most Japanese investors, the key is to source low risk investment via funds for long-term holds.

Chinese investors such as private wealth investors are often looking for relatively short-term hold periods with a higher-return profit motivation, whereas insurance entities are looking for longer-term capital preservation investments in iconic assets in key gateway cities.

The US has been the preferred destination to date, ahead of the UK and Europe. That may change with the sense that the US is not so welcoming of international capital, notwithstanding the exemption to the Foreign Investment in Real Property Tax Act for pension funds—much of the Asian capital is from insurance and bank balance sheets which do not qualify for the exemption and incur substantial tax and other reporting imposts. The UK and Europe may appear 'friendlier' destinations in the near term.

Which sectors are you seeing attract the most interest?

Nguyen: The office sector has attracted the most investor interest in recent years. However, as competition has led to significant yield compression in the sector, investors are expected to shift their interests to other sectors including alternatives such as student housing or hotels.

I think that the retail sector will also soon make a comeback. Investors—particularly cross-border investors—overlooked retail in recent years given the complexity and specialty demand in managing retail assets. However, as retail sales growth is expected to recover, together with stronger economic growth expectation (including Japan), the retail sector will attract more interest.

More stable income yields and opportunity for return enhancement through asset enhancement initiatives or repositioning are indeed key factors that long-term investors are seeking in an uncertain investment environment.

Ng: Typically, investors seek investments that require limited asset management input and hence tend to favour office over retail. Logistics has not had substantial appeal to date, partly due to lot size. I would add that the scarcity of quality assets or portfolio of assets has led many institutional investors to be less selective on sectors, and taking on a macro view of the country's economic potential in their investment thesis.

Fierro: According to the Chinese, hospitality attracts the most interest. Regional cross-border tourists increase heavily. For example, more than five million Chinese visited Japan in 2016.

In other areas, the sector attracting most interest is logistics. There we see a continued high demand on both the export and import side. In addition, there is an enormous demand for logistic space from the booming ecommerce sector. Demand for office space is also continuing to increase. Physical retail space is one of the few areas where rental rates and occupancy rates are dropping. This can be attributed in part to bubble situations in recent years and in part to a shift of more and more retail taking place in ecommerce.

Properties worth $100 million and above, in all sectors, have proven to be quite popular.

For Australia, we believe the strongest interest is in the industrial sector, with continued strong growth in smaller retail units with large format retail remaining static. This is then followed by new or refurbished office space. A shifting trend has seen a rise in the demand for shared space and co-working facilities, a step away from non-standard office environments. This has been the result of technological and communication advances.

In New Zealand, we are seeing demand across all sectors. Investors' preference is either retail or large office structures. Local investors, owner occupiers and investment funds lean towards industrial.

How are real estate investors financing deals? Are they taking on too much debt?

Fierro: The continuation of low interest rates (for example, zero interest in Japan), which encourage investors to get cheap money from banks in order to invest in real estate. In mainland China, real estate investors tend to take on a lot of debt, often ignoring the risks. This optimism probably stems from the fact that in the past 30 years, land and property values kept rising continuously, so that many market players developed an unhealthy confidence and perceive the Chinese real estate market to be an invincible one.

In many cases, the answer could simply be that it varies. Loan to value is approximately 50 to 65 percent. Some real estate investors are funding locally, and in some of the areas we are seeing some buyers purchasing properties with cash whereas other developments have been funded 100 percent upfront. It is unclear if investors are leveraging in their

home country or not. We very rarely have any involvement in financing, however, the majority of investors seem to be sourcing funds through Chinese banks or entities.

Nguyen: Lending conditions in Asia remain broadly favourable in most markets (particularly attractive in Japan), but investors seem to remain disciplined in their use of debt. According to data from ANREV's fund database, the average leverage ratio (debt as a percentage of gross annual value) across the region has stayed broadly stable in the last few years at around 25 percent.

In Japan, even with the extremely low cost-to-borrow and flexibility in lending terms, average leverage was around 50 percent in 2016—much lower than the level seen in pre-global financial crisis years. Value-add and opportunistic funds that typically use high leverage in their investment have also maintained their debt level at 45 percent, on average.

Reasonable use of leverage remains a positive factor supporting real estate investors looking to soften financial risks in the case of market uncertainty, and there's not much concern on this front currently.

Ng: Generally not. We are seeing many investors seeking core assets with long-term income characteristics with a maximum 40 percent target loan-to-value. This is a different period compared to pre-global financial crisis high-leverage deals.

What is investors' preference for structured vehicles such as funds at the moment? And are you seeing any movement from listed to non-listed REITs, and vice versa?

Fierro: Due to the current hot market, which makes the deal transaction cycle shorter, private equity funds take more advantage because they are more aggressive and make decisions with short cycles. REITs haven't become a widespread phenomenon in China, mostly as a result of government regulation making it difficult to operate them.

Financing is often done with a portion of private equity, in some cases including artificial private equity and bank loans.

Moving to Australia and New Zealand, funds and REITs are a different type of investment. Many investors prefer this type of investment, others prefer to directly own or manage their properties. It's a mix between the two—we don't foresee any change here.

Ng: Investors are not switching between listed and unlisted REITs. Both have their roles in a portfolio, but they are very different in terms of risk exposures.

Most consider real estate to be a 'pure play' on the underlying real estate and prefer to avoid listed security volatility.

Are you taking any notice of the fund passporting opportunities being discussed in Asia at the moment? Will these lead to any benefits in real estate for you and your clients?

Fierro: Fund passporting opportunities do not appear to be relevant in mainland China, it seems that this initiative aims more at Australia, Japan, South Korea and New Zealand, and it will possibly also include Malaysia, Thailand and Singapore.

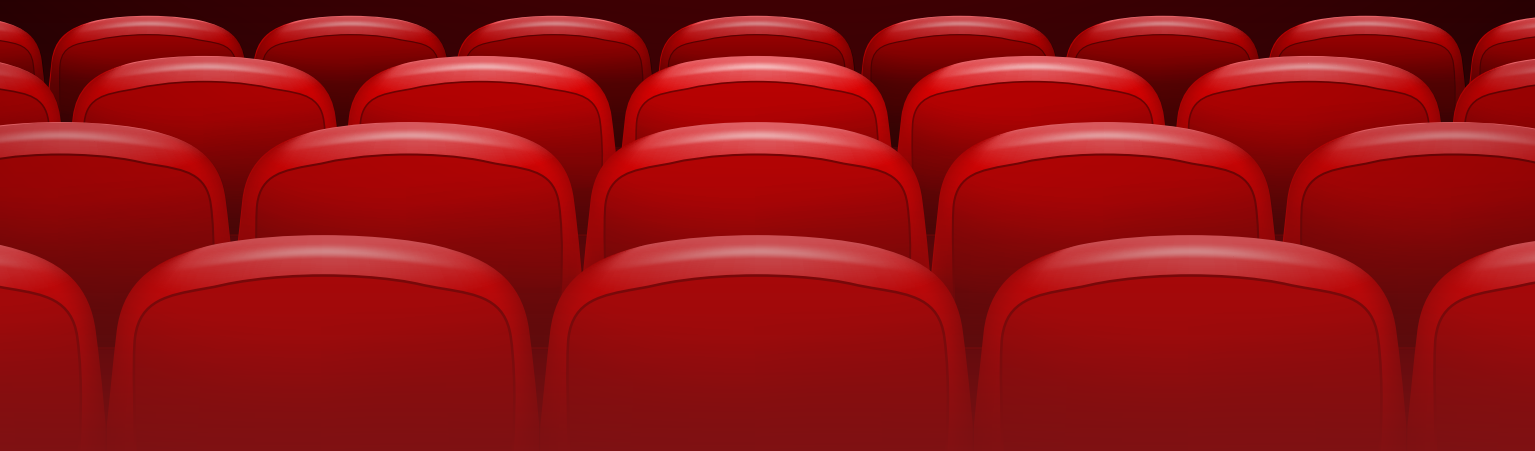
South Korean institutional investors such as pension funds and insurance companies don't work directly with real estate consulting firms. Especially when it comes to international transactions, those funds need accounting firms to manage the project. But such accounting firms don't really have wide networks to list feasible properties. So with the strong partnership of NAI and Deloitte, we are trying to provide properties for sale to South Korean investors.

Australian and New Zealand businesses are aware of the Asian region fund passport opportunities, however it is unknown if they will see any direct benefit from this new system which is expected to commence later this year.

Many clients are either directly investing in real estate by way of direct investment rather than funds. However, it's expected the Asian region fund passport will create many new opportunities for investment in commercial property, whether it is development or passive investments for larger property transactions. **REIT**

It's showtime

A 2016 of returning highs has set the stage for a 2017 in which AEW Europe expects to shine, as Rob Wilkinson explains



AEW completed €3.8 billion worth of transactions across Europe last year, including €3.2 billion in acquisitions. What was the strategy at play in 2016, and did it pay off?

We were pleased with what we achieved last year, although there was less deal flow overall. Our transaction figure has actually increased since these figures were released, as a couple of deals that we did on our debt platform pushed the total to over €4 billion. It was down from 2015, an extraordinary year, but in 2016 we achieved our second-highest level of deals in our history and the capital-raising side was very positive at €3.3 billion.

We've continued to invest across a broad range of strategies, from core deals to opportunistic ones, and have diversified into markets where we have not been very active since the financial crisis. Particularly, we have invested in Spain, Denmark, Copenhagen, Belgium and the Netherlands. We have moved away from focusing on deals in the UK, France and Germany and now look for greater value outside of those markets where prices have increased significantly.

We also noticed a shift from the core space towards core-plus and value-add transactions. For AEW in Europe, deals in the core space fell from about 70 percent of total deal in previous years, to about 50 percent in 2016.

This is mainly driven by pricing—as core pricing has become so expensive, we've increasingly focused on non-core real estate where there is less competition among investors. Last year, we significantly increased our investment in alternative real estate such as the hotel and senior housing space. This is a trend that will increase for us going forward as a diversification play away from the traditional three main sectors.

What effect did the merger with CILOGER have on your plans for 2017?

We brought in over €5.5 billion in assets under management on completion of the acquisition, which meant we had €26 billion in assets under management in Europe at the end of 2016.

It was a sizable but manageable acquisition. If you are trying to merge two businesses of the same size doing exactly the same thing, it can be more complicated, but this was an additional business managing funds for retail investors in France. Apart from the additional scale it brings, CILOGER gives us access to another distribution network, but fundamentally it's not changing what we do.

This is an area of the market that has seen considerable expansion in recent years. Retail investors, as much as institutional ones, are looking for somewhere to invest their money when bonds and equities are not offering very high yields. The equity market has been somewhat volatile and so real estate has been a beneficiary. The growth of this area of our business has been significant, so the merger is more about revenue synergies than it is about cost synergies.

The RESIDYS Fund recently closed. Is French residential real estate a major target for AEW?

Investors' interest in alternative forms of real estate is growing significantly, and residential is one of these.

Interestingly, the residential sector has typically offered very stable but low yields compared to commercial real estate. We are now at a point where the differential in yields isn't that great and investors are leaning towards having more residential in their portfolio.

Last year, we were able to get the RESIDYS Fund from launching in the market to closing in a matter of months, but we've been in French residential real estate for as long as we have existed. This fund is a blend of traditional residential, but has the ability to forward fund development projects, as well as the ability to invest in senior housing projects.

It is an institutional fund, and we got just over €100 million on first close—our target is around €400 million. Traditionally with institutional funds, you often have three or four closings. We are actively working on a number of prospects for the second close.

We have seen some commentary around less capital being raised last year. We bucked that trend, although that may partially be down to the type of projects we were working on. I also think the figures get distorted in some years by some of the largest managers that raise enormous funds of multiple billions.

There is generally still good investor appetite for the right sort of real estate funds. What helps is if you have a specific strategy that an institution cannot replicate, such as residential, logistics or shopping centres. These are specialist asset classes and most investors would acknowledge they're not in a position to manage them. We have managed assets in these sectors for several decades and have a good pipeline of deals.

AEW has also opened a new office in Madrid. How important is on-the-ground knowledge for increasing the Madrid portfolio?

We started investing in the Spanish market again a couple of years ago when we raised a fund to focus on value-add investments. The Paris and London markets had already re-priced to some extent and we started to look into markets such as Madrid where we were of the view that the occupational market was likely to improve but that pricing did not yet reflect this. We completed two office acquisitions there for that fund, and added two retail acquisitions in prime locations for another fund.

As our assets under management have grown significantly in this market, it became important to have resources on the ground. We were delighted when Carsten Czarnetzki, who was already with us in London, agreed to move to Spain and head our business there. Czarnetzki was the manager of the fund that bought the two office assets, so he was familiar with the market and moved to Madrid at the end of last year to open the new office.

The office deals have been successful—one had an occupancy level of about 67 percent at the time of acquisition and that is already up to more than 80 percent.

The two retail properties are both undergoing a redevelopment. One is already fully let to a retailer and the other one is almost there. We were buying into the recovery of the Spanish market, but also accessing real estate with an element of risk to it. The result was a lower price and a higher yield than we would have secured had we bought the properties already delivered and leased. We do see that as an interesting market going forward, and we expect to do further deals in the office and retail sectors, as well as logistics.

Finally, how important is the NGAM brand to AEW as a real estate investment platform? What kind of services does Natixis provide that strengthens AEW's offering?

The wider Natixis Global Asset Management (NGAM) platform we are part of is very important to us. Firstly, it gives investors and the market a high level of reassurance, knowing we are part of a wider banking group.

Secondly, we are lucky that we have a shareholder that supports us in launching new products. That can involve co-investing in funds alongside our investors, creating a significant alignment of interests and also benefitting from their overall financial support.

NGAM has also adopted a multi-boutique model approach across its different asset management businesses. AEW is the real estate part of it, but it has its own powerful brand. The combination of NGAM's support and the strength of the individual brand seems to have worked well for the various asset management businesses over the years. **REIT**

> It helps if you have a specific strategy that an institution cannot replicate. These are specialist asset classes

Rob Wilkinson
CEO
AEW Europe

Block by block

Blockchain could be the foundation of the industry of the future

Launched into the limelight as the platform sustaining bitcoin, blockchain is the little-understood, much-studied technology of the modern investment world. And, while it may not be entirely ready to shine, plenty of players are planning their future architecture around it.

A distributed ledger technology (DLT), blockchain offers a shared database that maintains and updates information immediately, providing a single, shared record of information that, in theory, remains that way forever.

Avi Spielman, founder of Joon Properties, explored the application of DLT to the real estate industry in his 2016 thesis, Blockchain: Digitally Rebuilding the Real Estate Industry, submitted to the Program in Real Estate Development at the Massachusetts Institute of Technology.

Spielman focused on recording property records, exploring the benefits and limitations of blockchain compared to current recordkeeping systems. In his thesis, he described blockchain as "a distributed database holding a public ledger of all transactions".

He said: "What makes the blockchain a transformative innovation is that every node on the network has a complete or partial copy of the blockchain and all historical transactions. These transactions are also timestamped on the blockchain. This eliminates the need for a central database and ensures that a single user is unable to fraudulently manipulate the data."

With regards to real estate, this means property data, including public registry data, could potentially be more easily tracked and recorded each time a property changes hands.

In the Netherlands, Deloitte is currently working with the City of Rotterdam and the Cambridge Innovation Centre (CIC) to develop its proof-of-concept for an application on distributed ledger technology that digitalises lease contracts, allowing start-up businesses to rent office space more quickly and with more flexibility.

The blockchain creates an immutable record of all transactions, meaning due diligence for those transactions is made much easier. Jan-Willem Santing, manager at Deloitte Real Estate & Partnerships, says: "We want to use the blockchain as a single shared source of truth."

"Today it takes a long time to get trusted facts about real estate. A blockchain application can make that more efficient—everyone can be working off of the same information to do their individual job."

Santing suggests that for an appraiser, for example, some 40 percent of time is dedicated solely to collecting data. A blockchain could mean that this information is instantly available and, crucially, reliable.

However, several challenges have been identified with regards to the practical use of the technology. Spielman said in his thesis: "As with

all new technologies, for blockchain to gain widespread traction in the real world, some significant challenges will need to be solved, including standards, privacy, speed and performance."

According to Jacob Boersma, risk services manager at Deloitte, it will strongly depend on the kind of data that is put on the blockchain. He says: "You need to think about which information is made public and which needs to remain private."

Because of the distributed nature of the technology, data stored on the blockchain is very secure, from a robustness and resilience standpoint.

Boersma says: "A blockchain has strong data integrity built in. Once data is on the blockchain, it is practically impossible to tamper with it. It's verified very strongly by the whole network."

He adds, however, that confidential information should either not be placed on a blockchain at all, or only placed on one using strong encryption. He says: "You should be very confident in the encryption you use."

While scalability has been named as a significant issue in other areas of financial services, this may not actually pose such an issue in the real estate space.

Wilfrid Donkers, a director in the real estate financial advisory practice at Deloitte, says: "The volume of transactions is low, especially compared to something like payments, and so the technology is quite fit-for-purpose already."

Boersma adds, however: "At the same time, the open-source community is working to improve the speed of transactions across the board for open blockchain networks."

While more advanced, faster, technology may emerge in the future, it is wise to start with the use cases that are currently available, he says, not only because it already works, but also to "develop literacy in the technology".

Another potential barrier to adoption has been identified in the regulatory regimes that will apply to any new innovation.

Santing points out that "regulation is a broad thing" that will differ depending on the region, while Boersma adds: "There are some countries that are quite hostile, especially towards things like Bitcoin, in their regulation."

That said, in the UK, the Financial Conduct Authority is working with blockchain financial technology companies, and is making an effort to generally support and encourage development in this area of fintech.

Perhaps more significantly, in February the European Securities and Markets Authority also acknowledged a number of potential benefits that distributed ledger could bring to the European markets, including improved efficiency and reporting capabilities, and reduced costs.

In the Netherlands, according to Santing, the public institutions are all showing interest in the technology.

He says: "Naturally, the government can be hesitant, but in the Netherlands the government is looking at it in a positive way and making things happen. They're encouraging people to make pilots and to experiment, in order to better understand a future where blockchain is at the centre of the market."

"There are challenges for investors and regulators, but they want to be proactive in facing those challenges. They want to understand the possible implications of the technology for their industry."

Regarding the Netherlands in particular, Boersma says: "The whole framework of the current regulation is based on legal entities that can be held accountable by the regulator or the government, and held responsible for what they do with their data."

"On a distributed blockchain network, where there is no single legal entity that can be held responsible, we could run into challenges."

"Once something is on a blockchain, it is there permanently. By design, there is no central entity to amend or remove information if it is put on the blockchain illegally"

A major consideration going forward will be making sure there's a bridge between the technological reality and the legal reality. There is no point in having technology that cannot be use for transactions in practice, because it doesn't meet the current legal requirements.

In theory, transfer of ownership can be made much easier through use of a blockchain but, in a legal context, Boersma raises the issue of what happens if ownership has to be transferred without the previous owner's approval, for example in the case of bankruptcy.

This would usually be ordered by a judge, and "this will have to be accommodated by the technological solution", he says.

However, Boersma adds: "If there is a positive attitude towards the technology, then there can be a constructive dialogue with regulators and regulation will not stand in the way."

There are initiatives coming about, but mainly proof-of-concepts, for example around land registry, information sharing and digital identities.

Deloitte's own solution focuses on setting a standard for the real industry as a whole, and putting lease contracts on the blockchain is a first step. Deloitte is taking further steps to facilitate pay-per-use office space, requiring a technology that would allow 'smart offices' to monitor the use of a building in real time, and process payments for the use.

This meeting of the digital and physical worlds is something that is likely to continue with the dawn of the internet of things combined with the possibilities of blockchain technology.

Similarly to Spielman, however, Donkers points out that, at the moment, we are talking about proof of concepts, saying: "The application needs more development in order to be used in a production-environment."

Citing the hurdles that need to be overcome on the route to adoption of a blockchain solution, Spielman said in his thesis: "Without getting lost in the psychology of human nature and the natural resistance to change, there also are industry-specific hindrances that would need to be overcome, starting with convincing all the players in the real estate space that this new technology is the future of recordkeeping in one form or another."

That said, once the technology is developed enough to smoothly solve an existing problem, then users are less likely to realise it's there at all. And this is the eventual aim.

Donkers says: "You shouldn't have to explain blockchain, especially not the details of blockchain, to the users. They should just see a very easy-to-use solution that fixes a problem they experience."

He concludes that, through sharing knowledge, mistakes and all, industry participants can learn from each other, creating products that solve genuine problems facing the industry. He says: "Through sharing knowledge, the industry gets better as a whole, and that is the best way to innovate quickly." **REIT**

A cautious optimism

Real estate may still be generating interest, but fund managers must remain flexible if they're to meet investor expectations. Andrew Moylan of Preqin explains

In November 2016, Preqin surveyed more than 180 private real estate fund managers for its 2017 Fund Manager Outlook report, in order to gauge their views on the issues affecting their businesses over the past 12 months, and to ascertain their outlook for the real estate industry.

The survey found that concern around the pricing and availability of attractive real estate assets remains very high, and many fund managers are having to adapt their strategies or lower their returns targets in response. Despite this, though, fund managers are still confident that they will be able to put more capital to work in 2017 than they did last year.

The private real estate asset class has seen several years of growth. Fundraising has surpassed $100 billion in each of the past four years; fund managers hold a record $237 billion of dry powder; the aggregate value of private equity-backed real estate deals has exceeded $200 billion in the past two years; and three-year annualised performance for real estate funds has outstripped all other private capital asset classes.

Moving into 2017, fund managers are keen to keep putting their available capital to work (see Figure 1). Two thirds of respondents stated that they intend to deploy more capital into assets over the next 12 months than they did in the previous year and 42 percent are planning to invest significantly more. With a quarter of firms surveyed intending to maintain their current level of commitments, just 10 percent said they believe they will invest less in 2017 than last year.

However, with managers seeing greater competition and higher valuations for assets, it is unsurprising that the majority of respondents, 52 percent, see pricing as the biggest challenge facing the market over the next 12 months (see Figure 2). Some 59 percent of respondents have found that pricing for assets is higher than a year ago, and managers are finding it increasingly difficult to find deal opportunities at attractive prices in the current market.

As a result of increasing valuations, real estate managers are now deploying more capital per transaction than in the past. The average deal size has increased from $75 million in 2012 to $110 million in 2016. Fund managers are also modifying their strategies and there has been an increase in portfolio transactions in recent years; these deals accounted for 16 percent of transactions completed in 2016, up from 10 percent in 2014.

Real estate managers stated in the survey that they have seen the biggest increases in competition for lower-risk core assets, possibly in part due to institutional investors increasingly looking to make direct investments into these assets in search of regular income generation. More than half, 55 percent, of respondents said they believe there is more competition for core assets than there was 12 months ago. This is compared to 47 percent who said the same for value-added assets and 41 percent who said the same for opportunistic strategies.

Following the UK's vote to exit the EU in June 2016, the uncertainty in the run up to—and aftermath of—the US election, and concerns over a slowdown in China's economy, the issue of volatility in global markets emerged as the second-biggest challenge facing the real estate industry, cited by 37 percent of firms. Fulfilling investor demands (11 percent) and fee pressures (7 percent) were cited by the smallest proportion of real estate firms, indicating widespread investor satisfaction with the industry as a whole.

As a result of concern over valuations and deal flow, fund managers are having to be flexible in their investment strategies and return expectations. A notable 42 percent of respondents said that the level of competition in the market has caused them to alter their investment strategies, with managers having to change their geographic focus to consider different markets; increase their investments in higher-risk assets in order to maintain returns to investors; or turn their focus to niche asset types. Furthermore, nearly half of those surveyed, 47 percent, said the have reduced their targeted returns for funds they are bringing to market.

Fund managers remain broadly optimistic about their prospects for 2017, despite the challenges they face in a competitive landscape with high pricing. Strong performance has sustained investor appetite for the asset class, but institutions do have concerns about the prospects for future returns. This year looks set to see continued high levels of deals flow from fund managers, but many will have to be increasingly flexible to find attractive opportunities and in order to meet investors' return expectations. **REIT**

Figure 1

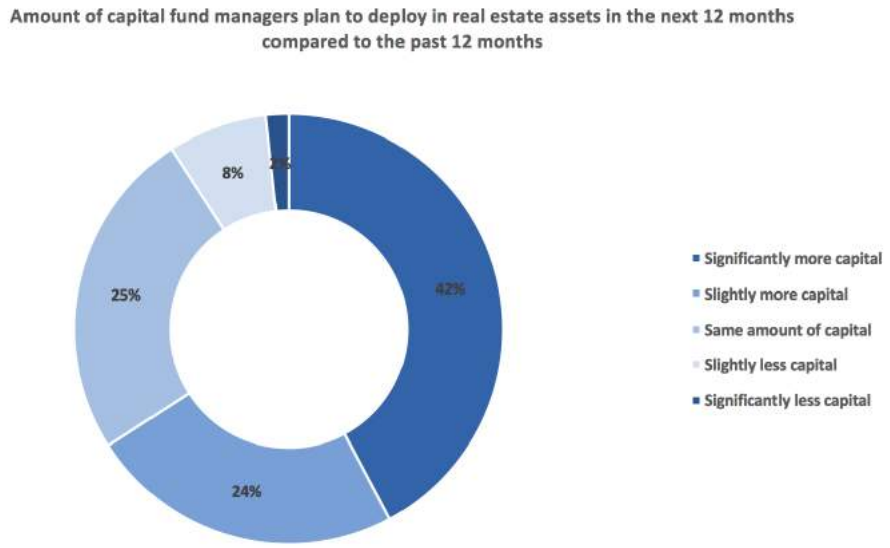
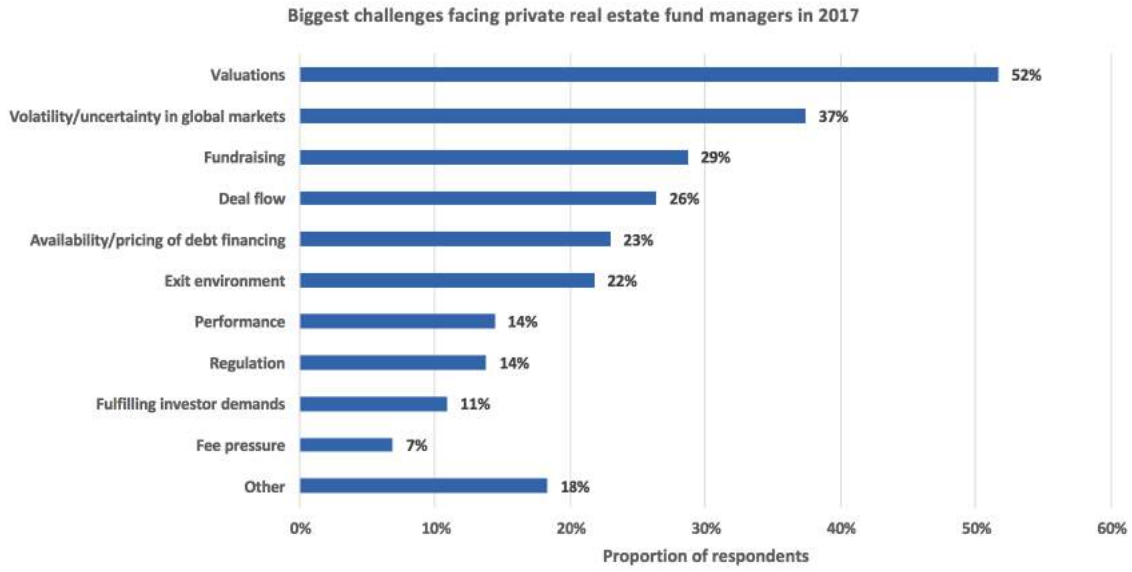


Figure 2



Strong performance has sustained investor appetite, but institutions have concerns

Andrew Moylan, Head of real estate products
Preqin

Having all the variables

Institutional investors need tools and innovations to make their data useful, says Nils Kok of GeoPhy

What does GeoPhy offer on data?

We live in a world of data and, as consumers, it drives the decisions we make. The real estate sector model remains traditional, however, and we, for example, still base valuations on four or five variables and comps, where small adjustments can have a big effect. What GeoPhy wants to change is the way we use data to evaluate investment opportunities and their pricing. GeoPhy has developed a data platform to map and assess the quality of assets and quality of locations in a standardised way, leading to distinct evaluations that are comparable across property types and regions. This gives investors the metrics to benchmark investments in real estate.

In addition to assessing quality of assets and locations, we have developed an automated valuation model, with Fannie Mae, which has a significant portfolio in the single and multi-family spaces, as an early user.

We can now predict the value of a multi-family asset more accurately than a traditional appraisal. We can also use the model for office buildings in the UK, or retail assets in Germany, as an alternative to traditional valuations.

My personal goal is to educate real estate investors on the use of big data until they realise the possibilities of having hyperlocal, high-

frequency information on assets. For partners such as pension funds and insurance companies, we've built the GeoPhy Alpha platform.

It allows these investors have a look-through from the overall portfolio all the way to tenants in individual buildings, enabling a deep understanding of their risk exposure to property types, regions, tenants, and more.

How could better use of data affect the real estate industry in the future?

Traditional valuation models are based on data, but the small number of observations tends to miss small adjustments in cap rates and other variables. I don't think a human being can take hundreds of different variables into account when valuing a property, so automated valuations are the only way forward to achieve a more frequent and precise estimation of value.

Institutional investors need tools and innovations to make data useful. We can now exploit massive amounts of data on much more actual, local indicators of economic activity. Data on restaurants, bars, events and art galleries, in combination with traditional indicators, such as public transport and catchment areas, can be used to come up with precise models for site selection and due diligence purposes.

Generally, institutional investors are excited but cautious about how we fit this into the traditional processes of due diligence, investment decisions and management and monitoring of assets. From excitement to implementation, there is one step that is the most important, and that is education.

This is where investors will start to realise the implications of data, particularly how it can be translated into information, and how it can be utilised in the traditional investment process.

What kinds of trends are you seeing in the institutional real estate sector in North America?

The biggest trend, not surprisingly, is the current uncertainty around real estate prices. These prices are now fairly rich, so we will need significant rental growth in order to meet the market's expectations.

There is also uncertainty about whether the optimism in the economy and the stock market will really materialise over the next six to 24 months. We also don't know if the (very) optimistic predictions of 4 percent economic growth are really going to happen. The economy can easily be derailed, due to, for example, a geopolitical event.

The market is thus in a waiting mode with lower transaction volumes, meaning outflows from the large open-ended funds rather than in-flows. In terms of leverage, we luckily don't see what we saw in 2007, and although the market is expensive, there remains a lot of capital to be deployed. Transactions are still taking place but not with the exuberant optimism of two to three years ago.

Foreign buyers continue to invest for a large share in the US real estate market. Following uncertainty around Brexit and the low European Central Bank rates, which means negative yields in real terms in Germany and the Netherlands, the US doesn't seem a bad place to invest, after all.

How can real estate be convinced to do more with the data available?

We can learn a lot from other industries that take a much more quantitative approach. The data is there, it just needs to be made available. If you are a real estate investor, you can't afford to not start using data or change your investment processes.

It could mean the difference between winning business and decreasing the chances of risks.

This sector is very simple. Once something is seen to be working, wider adoption ensues. We need another six to 12 months for the real estate sector to come to the realisation and then we then need 24 months for the sector to start adopting it.

Do you expect any pushback?

Everything that's different will face pushback. Uber and Airbnb are interesting examples. Funds that use our data for a bottom-up analysis valuation can make better investments, which means they perhaps need fewer analysts for due diligence and underwriting.

More data and more transparency may also imply lower fees. If you take all the buildings globally, real estate is the largest asset class, but if you look at institutional real estate, it's 7 percent of the average institutional portfolio compared to equities that are on average 50 percent. Fixed income and equity are high in transparency and very liquid, and a lot of money is still being made.

I am convinced that the efficient use of data will lead to more capital inflows and more accurate pricing. More data means more money being made by asset managers and pension funds, but in the short term, it is very scary for investors.

A bank may think that its margins will come under pressure and an investment manager may think it no longer gets business, so there will be plenty of resistance, but a sector that is going to be more transparent and more liquid is ultimately going to be a better sector. **REIT**

> The efficient use of data will lead to more capital inflows and more accurate pricing

Nils Kok, Chief economist
GeoPhy

The bigger picture

Considering ESG issues can address social issues and generate healthy returns, says Jun Sakumoto of Avanath Capital Management

Impact investing, considered by some as the 'evolution of philanthropy', is quickly gaining momentum among institutional investors.

According to the Global Impact Investing Network 2016 Global Impact Investing Trends Survey, assets under management in the impact investment market increased by 18 percent between 2013 and 2015, and survey respondents reported an increase from $25.4 billion to $35.5 billion in impact investment allocations during this period.

There are several reasons that impact investing is emerging as an attractive niche opportunity for institutional investors. Firstly, there is a growing consensus that many societal issues, such as housing, healthcare and education, can be best addressed through private equity. Impact investing serves as a market-based solution to fill the gap left behind by government-funded programmes and philanthropic organisations.

There is also an increasing acknowledgment that impact investments offer comparable risk-adjusted returns to traditional ventures.

In fact, more than half of respondents in the aforementioned survey reported that they are investing to achieve risk-adjusted returns, and are finding that impact investments consistently meet, and even exceed, financial expectations.

As a result, major institutions, including pension funds, endowments and foundations, are increasing their allocations to impact investment funds based on the understanding that positive social change need not be at the expense of financial returns. Rather, impact investing serves as a sustainable model for generating profit.

As investment strategies evolve to respond to market needs, investors are deploying more capital to underserved sectors.

One primary example of these allocations lies in affordable and workforce housing. Market fundamentals point to a prevailing need for quality affordable housing in the US.

On a national scale, more than a third of US households pay more than 30 percent of their income toward rents, and of this third, 16.5 percent of households are severely cost-burdened, meaning they are spending more than 50 percent of their income on rent.

The growing imbalance between supply and demand of affordable housing is placing enormous pressure on low-income families and communities. Spending as much as half of one's income on rent is untenable in the long term, and detracts from other areas such as health, access to food, and education. This gap in the market presents an opportunity for investors to capitalise on unmet demand by preserving and enhancing quality affordable housing in rent-burdened markets across the nation. While there is a

definite need for new affordable product, there is an even deeper need to preserve the existing supply of affordable assets.

For example, according to a report, The State of the Nation's Housing, from the Joint Center for Housing Studies at Harvard University, an estimated two million rent-controlled units will expire over the next decade, 64 percent of which are supported through the Low-Income Housing Tax Credit programme. These units are at risk for redevelopment into expensive market-rate apartments.

Institutional investors recognise the shortage of affordable housing as a societal issue that can be addressed through private capital. By acquiring and repositioning existing affordable assets, investors can preserve the diminishing stock of affordable product for low-income families, while also achieving strong, consistent risk-adjusted returns.

Measuring social and financial impact

One of the primary challenges with impact investing is measuring and justifying impact. How does one measure social impact relative to financial return on investment?

The 2016 Institutional Real Estate Allocations Monitor report by Cornell University's Baker Program and Hodes Weill & Associations found that the percentage of institutions that consider environmental, social and governance (ESG) principles in their investment decisions increased to 29 percent in 2016, up from 16 percent in 2015. The actual implementation of ESG principles in portfolio and asset management is a critical factor that institutions are increasingly evaluating in their impact investments.

In the affordable housing sector, there are two primary areas of focus that deliver ESG impact while also positively impacting the bottom line.

The first is social programming. Through social services such as after-school programmes and financial literacy courses, multifamily owners can increase resident satisfaction and retention, which in turn minimises turnover.

Multifamily investors often underestimate the expenses associated with turnover, which undermines asset performance. At Avanath, our affordable housing portfolio has an average resident turnover rate of 15 to 20 percent, while comparable market-rate properties generally have a much higher turnover of 50 to 70 percent.

From a financial perspective, a lower turnover rate improves operational efficiency and creates higher overall occupancy, thereby generating stable cash flow and attractive returns.

With regards to social impact, providing quality living environments that are also affordable contributes to the overall stability of a neighborhood, and could have positive implications for society at large. Ancillary social benefits can include a reduction in crime, improved health, and higher quality of life for residents.

The second area of focus is sustainability. Social and financial impacts can also be measured in terms of sustainability initiatives that optimise water and energy efficiency.

By adhering to environmental principles, investors can reduce operating expenses associated with water and energy usage, boosting overall net operating income.

For example, at one of our affordable housing communities in Sacramento, California, we replaced 12,600 square feet of turf with drought-tolerant landscaping to achieve a 30 percent reduction in water usage. These water conservation efforts resulted in nearly $10,000 in annual savings, a significant long-term financial gain.

By integrating resident support services and sustainable practices, owners can yield significant, lasting environmental and social benefits.

In doing so, investors can enrich the quality of life for underserved communities while simultaneously generating strong risk-adjusted returns for themselves.

The bottom line

There is a growing understanding that there is both a profit and social impact to be made by preserving access to quality affordable housing for low-income families.

In 2017 and beyond, impact investing will continue to rise in prominence, primarily because the case is being proven that solving society's biggest issues does deliver competitive returns.

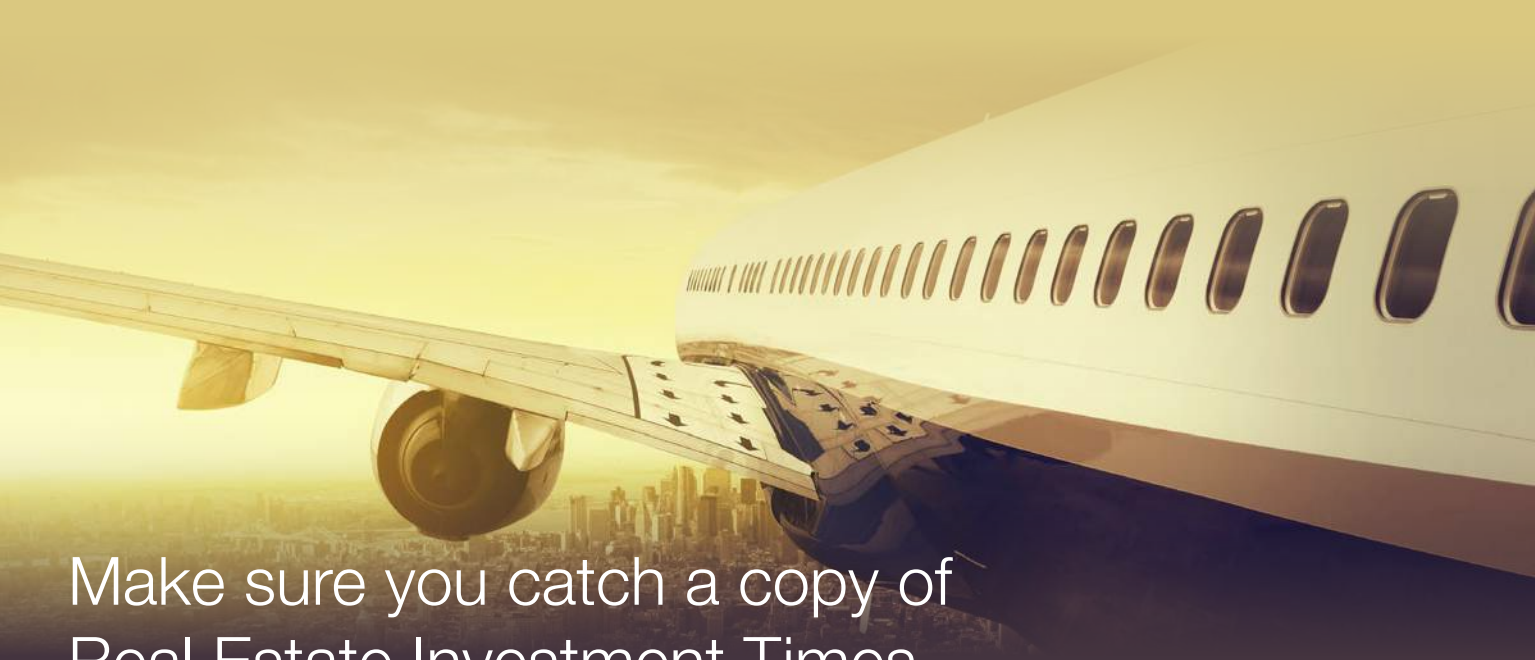
The limited supply and virtually unlimited demand for affordable housing in the US creates a unique investment opportunity to respond to what the market needs, and to do so in a way that is both sustainable and profitable for institutional investors. This growing demand means that quality affordable assets will always be nearly full, which translates to stable cash flow.

Across our national portfolio of 60 affordable and workforce properties totaling 7,000 units, our average occupancy rate is over 98 percent—an indication that property level renovations and social services can positively affect the performance of affordable assets.

Beyond the provision of deeply needed affordable housing, investors can restore and transform communities that have historically been underserved by institutional capital. Financial returns are simply an added reward to helping these communities thrive. REIT

> Investors can restore and transform communities that have historically been underserved by institutional capital

Jun Sakumoto, COO
Avanath Capital Management



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Comings and goings at Colliers International, Atrium, Union Investment, and more

Colliers International Germany has appointed Mattias Leube as CEO.

Leube joins from AXA Asset Managers where he has been head of German real estate business for the past six years. Prior to that, he was at Duetsche Bank for eight years as managing director for corporate real estate in Europe, the Middle East and Africa (EMEA).

He will replace Achim Degen, who returns to the Munich office as market leader.

Luebe will report to Chris McLernon, CEO of Colliers International EMEA.

McLernon commented: "I am confident that Matthias Leube will have a significant impact on our future growth as CEO of Colliers International Germany and complement our existing leadership team exceptionally well."

MSCI, the US-based equity provider, has appointed Will Robson as global head of real estate applied research.

He joins from the Abu Dhabi Investment Authority (ADIA), where he worked for almost five years, most recently as a senior real estate research specialist.

Previously, he was an economist at the Royal Mail before moving to M&G Real Estate as a research economist.

In his new role, Robson will be part of a global team of researchers based in London, responsible for providing insight into the challenges facing institutional investors and helping translate these into products and services.

Sebastien Lieblich, global head of real estate research, said: "Will Robson's experience working with owners and managers of real estate in both developed and emerging markets gives him a global perspective on the challenges that investors in this growing asset class confront daily."

He added: "His insights will help us as we seek to address challenges that range from global asset allocation to lease level income trends in specific locations. We are pleased to welcome him to MSCI."

Atrium European Real Estate has appointed Liad Barzilai as CEO, with immediate effect.

Barzilai, who has been with Atrium for almost nine years, was previously chief investment officer, a position he held for the past two years.

He replaces Josip Kardun who announced his resignation, to pursue other business interests, in December 2016.

The move, previously planned for 31 March, has been brought forward following a smooth handover of responsibilities and because of Barzilai's knowledge of the company's operations.

Barzilai said: "When I accepted the role of group CEO I had every confidence in Atrium's prospects based on my previous history with the group. After reacquainting myself with the strong team, I am confident

in Atrium's strong foundations that will underpin its future growth. I am very excited to be able to officially step into my new role, slightly sooner than previously anticipated."

Chaim Katzman, chairman of Atrium, said: "I am very pleased that Liad Barzilai has been able to draw on the extensive and in depth knowledge of the company, which he has gained with Atrium over the last almost nine years, to accelerate the process of him taking the reins of the group. I have every confidence that he is the right person to lead the group and to continue to deliver value for our shareholders."

He added: "I would also like to thank our departing CEO, Josip Kardun, for his contribution to Atrium and wish him luck on his future endeavours."

Union Investment Real Estate (RE) is dividing its investment activities into two regional units, Europe and overseas, and shaking up its leadership team accordingly.

The changes are coming about under new chief investment officer Martin Brühl, who was appointed to the position in December 2016, and will be effective from March 1.

Former head of European investment activity Philip La Pierre will now head up the overseas business in the office sector, taking on international investment in five markets across the Americas and Asia-Pacific.

Martin Schellein, who joined Union Investment in 2009, will take over as head of investment management for Europe, moving on from his previous position as team manager for real estate transactions in the continental European markets, excluding Germany, Austria and Switzerland.

Union Investment RE will also have additional dedicated units for the retail and hospitality sectors. Henrike Waldburg remains in charge of retail investments and Andreas Löcher will continue to be responsible for global hotel investments.

Brühl said: "In 2016, our specialist investment teams handled global acquisitions and sales with a total value of €4.6 billion."

He added: "We are aware that the bar for investment management has been raised even further since last year."

"Against this backdrop, we are delighted that all our senior management positions are filled by outstanding individuals who have grown with the company and benefit from comprehensive deal experience combined with an excellent network of contacts in their respective markets."

Marcel Sedlák and René Popík have moved up the ranks at HB Reavis as the property developer shakes up its a leadership team.

Sedlák has been named as CEO of Germany, while Popík has joined the board of HB Reavis Poland.

Sedlák joined the company in 2001 as a project lawyer before becoming chief investment officer in 2006 and joining the board in 2010.

He was previously a lawyer at Slovak firm Lehnert & Co and private equity group AZC.

Responsible for business opportunities in Germany, Sedlák will be targeting workspace solutions and will continue building on the company's Turkish operations.

Popík, who joined HB Reavis in 2007, has played a key role in the company's Polish operations after being appointed head of development in 2012. Previously, he worked real estate developer Saller Group.

In his new position on the board of HB Reavis Poland, Popík will lead the company's development in the country, which it demms its second-most important market.

Pavel Trenka, CEO of HB Reavis Group, commented: "Both Marcel Sedlák and René Popík are instrumental parts in our operations at HB Reavis.

Marcel successfully headed up the acquisitions team between 2006 and 2010. In his new role, he is charged with spearheading operations in Germany is vital to our strategy in bringing our real estate know-how to new markets.

He added: "Both changes are significant to our company's leadership, and I strongly believe they will contribute to the growth of HB Reavis as well as to the personal development of key members of senior management." **REIT**

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