Real Estate Investment Strategy

2022

RASAMEEL

BACKGROUND

Rasameel would like to give some insights about future trends in global real estate markets, with an aim to share the best investment strategies we believe would be best for investors to focus in 2022.

GLOBAL REAL ESTATE OUTLOOK – HIGHLIGHTS

Investment
Capital markets on track for recovery

Work Dynamics
Corporate strategy continues to adapt

ESG

Sustainability
Momentum around ESG persists

Offices
Physical office space remains in demand

Retail
A multi-speed recovery in retail emerges

Logistics
Logistics demand set for record year

Hotels
Delta variant slows lodging recovery

Residential (Living)
Secular demand drives increased activity

Student Housing
Strong fundamentals & outlook for next years supported the yields compression

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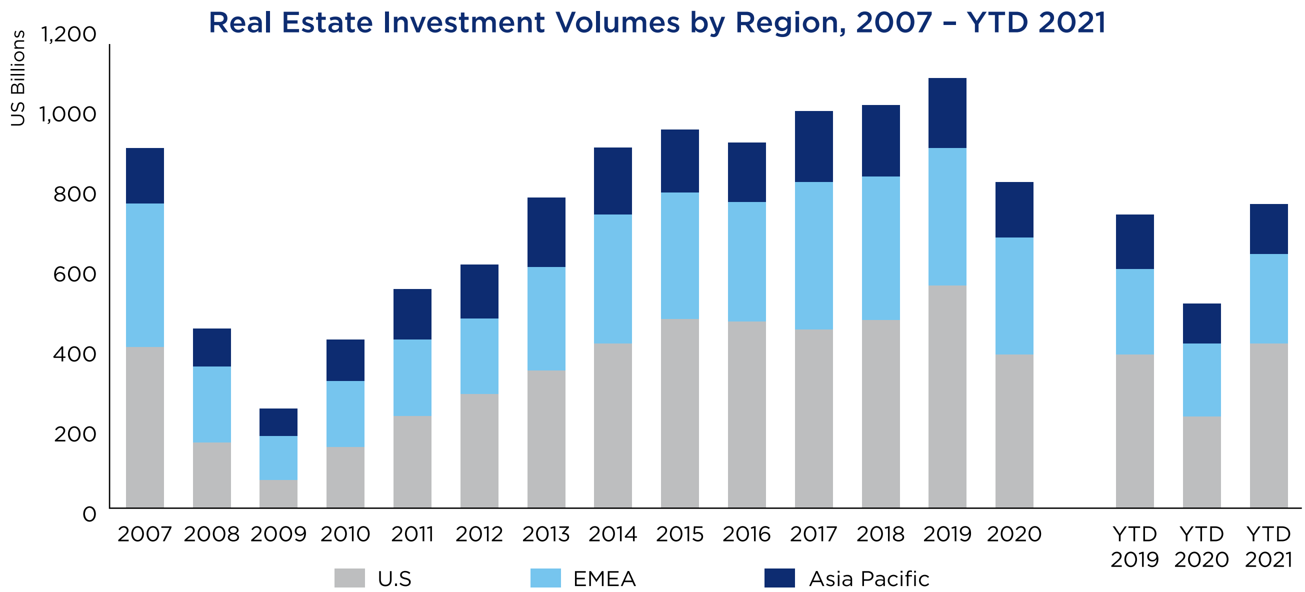
Global Capital Flows/Investment

- The real estate capital markets continued their recovery in Q3-2021 with some markets posting record year-to-date investment activity. Globally, transaction volumes totaled US$292 billion during the quarter, up 77% year-on-year. Capital markets activity in the Americas and the largest economies in EMEA drove quarterly growth. Activity this year is tracking a modest 4% above 2019 levels.
- Travel restrictions began to subside in the third quarter of 2021, but disparate, rapidly changing travel requirements limited a broader recovery in cross-border investment. Cross-border activity was up 46% year-on-year in Q3-2021 but remains 15% down on pre-COVID norms. Portfolio diversification continues to be pronounced in markets with an intense appetite for gaining exposure to sectors benefiting from demographic growth and resilient end-user demand. Living has seen US$219 billion of investment year-to-date, an 80% increase over 2020 levels and 36% above 2019.
- Diminishing operational uncertainty and rising institutional allocations are bolstering liquidity in the commercial real estate markets. However, many prospective investors are struggling to deploy capital efficiently and at scale, particularly in growing and lower-risk segments of the capital markets. Debt market liquidity is still strong, with the lender pool continuing to diversify across sectors and asset profiles.
- With investor conviction amplified and returning to more facets of the market, competition for on-market deals has climbed markedly. Robust bidder pools are resulting in a higher frequency of bids per transaction and upward pricing pressure, with pricing reaching new records for in-favour sectors and assets.



Source: JLL, October 2021

Work Dynamics

- The corporate occupier world continued its transition in Q3-2021 and is adjusting to fluctuating patterns of COVID. In 2022, and in what will be a long period of sustained change afterward, organizations will need to be flexible, agile and, above all, adaptable to shifting demands to facilitate their ongoing transformation. According to JLL latest report, hybrid is here to stay and there will be no return to the old 'normal'.

Sustainability

- The third quarter of 2021 continued to lock in strong commitments towards climate action. Over 980 corporations have committed to Science Based Targets so far in 2021, eclipsing all previous years combined since the Science Based Target Initiative (SBTi) was launched in 2015. By another measure, ESG fund flows continued to grow according to Morningstar. The latest data available (Q2-2021) shows global flows into ESG funds reached US$139.2 billion, compared to US$80.0 billion in the same quarter a year ago.

- According to the JLL Responsible Real Estate Survey, 32% of investors strongly agree that occupiers will increasingly demand green and sustainable space. On the flip side, 42% of occupiers strongly agree their employees will increasingly demand green/sustainable space. JLL predicts that this, together with the ongoing upswing in climate commitments on behalf of corporates, point to a supply/demand imbalance for net zero carbon space in coming years.

Office Sector

- Overall sentiment and activity in office markets across the globe are improving, although at differing speeds. Q3-2021 global leasing volumes are 39% higher than a year ago; however, they remain 25% lower than Q3-2019, showing that the recovery, although underway, is far from over. All regions are below Q3-2019 volumes, with the U.S. lagging the most (-31%), followed by Europe (-26%) and Asia Pacific (-4%). On an encouraging note, global net absorption turned positive in the Q3-2021 for the first time since the onset of the pandemic.
- Tenant-friendly conditions persist in most markets with occupiers continuing to be cost conscious, while landlords are eager to attract tenants and are offering incentives packages accordingly. Even so, highlighting the ongoing trend of occupier 'flight to quality', rents for premium or prime buildings have edged up in some markets. Consequently, this best-in-class transition may cause medium to long-term obsolescence risks among outdated B and C-grade stock.

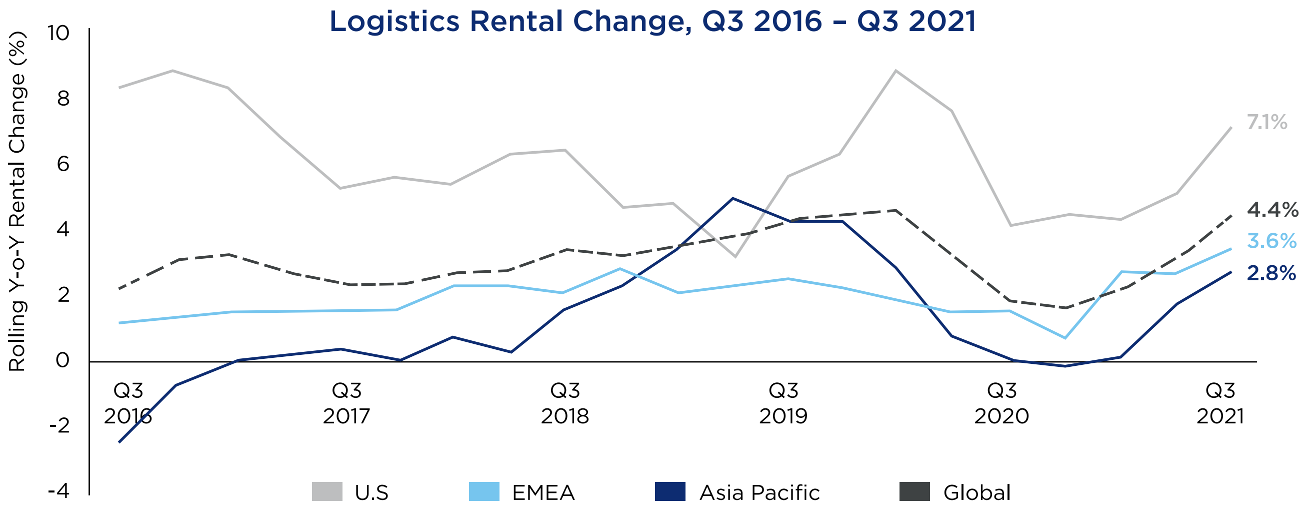
24 markets in Europe; 50 markets in the U.S.; 22 markets in Asia Pacific
Source: JLL, October 2021

Retail Sector

- Global retail markets are recovering at varying rates, subject to each country's COVID situation, economic conditions and expected return of international visitors. Leasing activity continues to pick up in many major retail markets, with prime space highly sought-after in countries with high vaccination rates and eased containment measures. In markets where restrictions have been tightened recently, notably across the Southeast Asia region, many retailers remain concentrated on servicing domestic consumers and opening stores in suburban locations. The recovery in leasing activity continues to lag in markets that are largely dependent on international tourism spending.
- Well-capitalized operators are shifting their focus forward and committing to new expansion plans. While some retailers continue to ask for more attractive and flexible lease terms, there are a number of rapidly expanding operators willing to negotiate fixed rents and longer leases in order to secure retail space. As a result of improving sentiment, a handful of markets reported prime rental growth during the Q3-2021.
- By the end of 2021, the global e-commerce market is predicted to have grown by 17% year on year to $4.92 trillion in revenues. However, this is a drop from the market's outstanding 26 percent surge in 2020. For the next three years, sustained double-digit growth is expected, creating a huge opportunity for companies that have yet to offer their clients an online sales channel.

Logistics Sector

- Demand for logistics space remained extremely robust across all three regions in the third quarter of 2021. With supply tight, aggregate vacancy rates are sub-5% in both the U.S. and Europe. These supply and demand dynamics are supporting solid rental growth across all three regions. Given ongoing disruption to supply chains, a key focus for the remainder of the year will be on ensuring that global supply chains remain resilient during the peak shopping season.
- The U.S. is set for a record year following a very active quarter. Logistics & distribution and 3PL operators have all experienced increased demand accounting for over 28% of total leasing volumes in Q3-2021. In Europe, 2021 is also expected to break records. Supply is struggling to keep up with demand and vacancy reached a historic low of 3.8%. Across Asia Pacific demand also remained robust during Q3-2021 with e-commerce firms and 3PL operators remaining the key demand drivers.



U.S. based on 55 city markets; Europe based on 10 national markets;
Asia Pacific based on 31 city markets (staggereg starting point for some markets)

Source: JLL, October 2021

Hotel & Hospitality Sector

- The lodging industry's rebound slowed in Q3-2021 given the prevalence of the Delta variant. The recovery continues to favour leisure resort destinations, with urban markets gradually seeing green shoots in performance.
- In the U.S., the rally in demand faltered due to the Delta variant inhibiting travel, with RevPAR (revenue per available room) levels in YTD August 2021 equalling 77% of 2019 levels. In Europe, hotel occupancy is improving across the major European cities following the lifting of restrictions, but they remain in the 20%-36% range. Border closures and travel restrictions in Asia Pacific continued to impact the hotels market in the third quarter, although China is a bright spot, fuelled by domestic demand.

Residential (Living) Sector

- Secular demand is still spurring investment activity across the Living spectrum globally. With structural factors continuing to drive portfolio reallocation from investors, the Living sector is one of the main beneficiaries. Total investment volumes in Living reached US$92 billion in Q3-2021 globally, with quarter-on-quarter growth in the Americas (+33%) and EMEA (+23%) and a drop in Asia Pacific (-18%).
- Multifamily maintained its status as the most liquid asset type in the U.S. in Q3-2021, while complementary segments such as single-family residential attracted increased attention. In Europe, investor interest in multifamily, along with single-family and affordable housing, continues unabated. Confidence in the student housing investment market is slowly improving and expected to be more in 2022 and beyond. In Asia Pacific, Japan remained the most active market for multifamily in Q3-

2021, while the build-to-rent (BTR) market in Australia is gaining momentum. There are still very few projects operational in Australia, but the number planned and under construction continues to grow.

Student Housing Sector

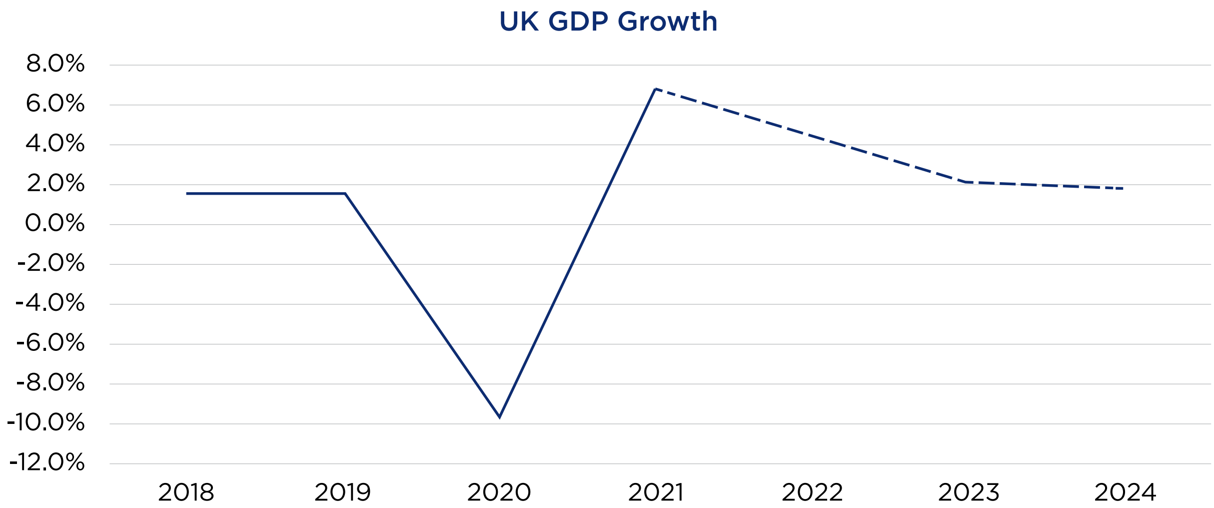
- While travel restrictions were lifted in those targeted cities globally whom contain the best-in-class high ranking universities, and student visas are now back to pre-Covid period, the occupancy levels are back quickly with strong performance for the current academic year 2021/2022.
- Compression in yields (NIYs) is witnessing in main countries mainly in UK while global investors injecting significant investments into the sector to benefit from further compression in yields and gain the premium at exit.
- Interest from investment managers is expected to grow over the next few years, while private equity is likely to make up more than half of investment demand in 2022.

ECONOMIC CONTEXT

UK & US Economy

The UK economy continues to recover at a rather fast pace. Driven mainly by household consumption, it is set to regain pre-pandemic levels in 2022. From start to peak, it will have taken just under two years to recover from the Covid-19 pandemic, much faster than the four years it took the economy to recover lost ground after the financial crisis of the past decade.

However, as the initial recovery drive abates, economic growth will naturally and gradually slow. After GDP growth of 6.9% expected for 2021, S&P forecast 4.6% growth in 2022, with GDP still benefiting substantially from the recovery drive. In 2023, growth will likely slow to 2.2%, and then to 1.9% in 2024, returning to pre-covid levels.

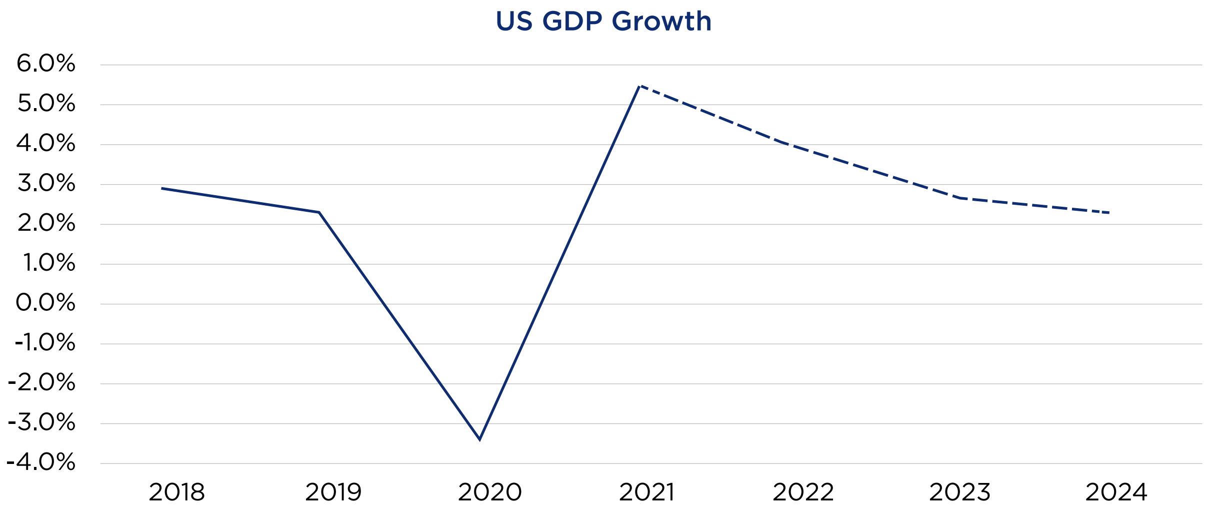


Source: S&P Global Ratings Economic Research: Economic Outlook U.K. Q1 2022: Onward And Upward

Government stimulus, particularly through the furlough scheme, has also been successful in softening the blow with unemployment and the reduction in UK household income both lower than expected.

The US economy has also witnessed a significant recovery in 2021 as Covid-19 infection rates subsided and vaccination rollouts progressed, allowing more people to get outside and spend.

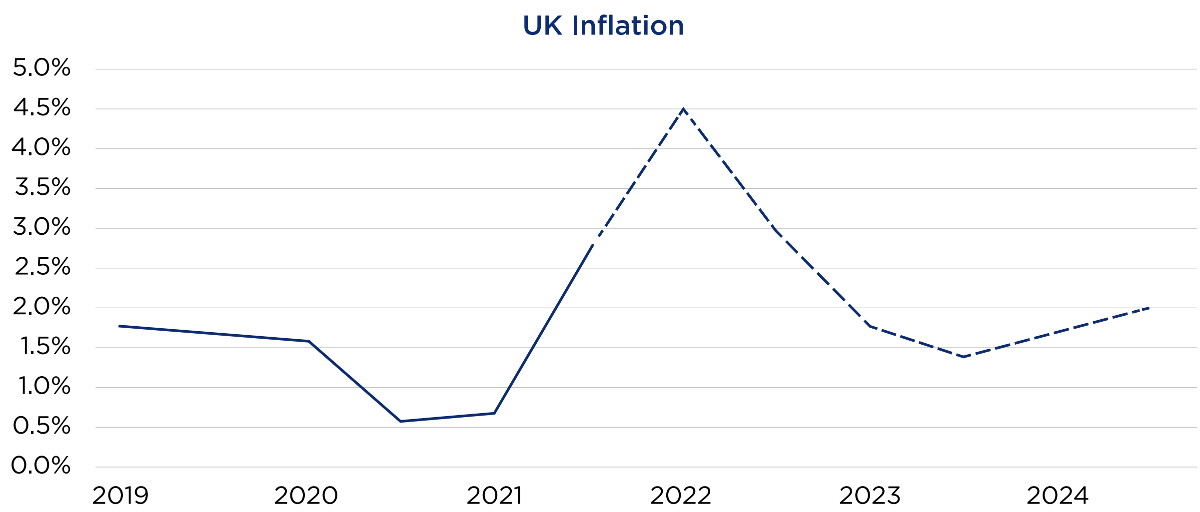
Supply-chain disruptions are the largest stumbling block for the US economy, although there are signs that these issues are easing. GDP growth of 5.5% is expected for 2021, this will be a 37 year high. S&P also forecast 3.9% growth in 2022 with continued economic demand from healthy balance sheets. In 2023, growth will likely slow to 2.7%, and then to 2.3% in 2024.



Source: S&P Global Ratings Economic Outlook U.S. Q1 2022: Cruising At A Lower Altitude

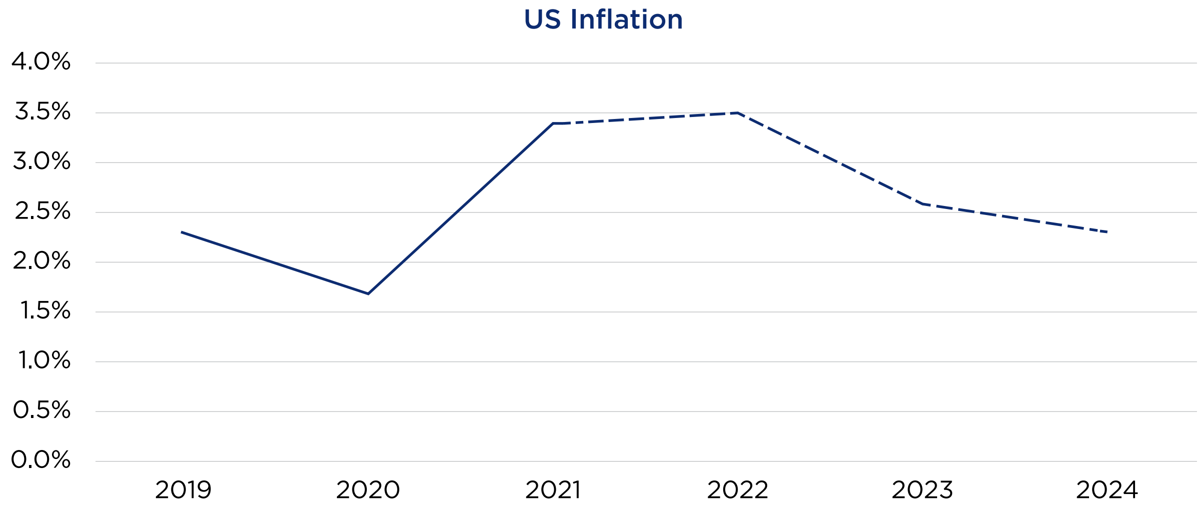
The strength in economic output was, in part, a result of the enormous legislative response to both the pandemic and to the human hardship it caused. This includes laws passed in 2020 and 2021 by Congress, chief among them the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the Consolidated Appropriations Act, and the American Rescue Plan Act. Successive rounds of substantial fiscal support have boosted economic activity since March 2020 and are projected to continue to do so through 2023.

Inflation



Source: S&P Global Ratings Economic Research: Economic Outlook U.K. Q1 2022: Onward And Upward

On average, UK consumer price inflation ended 2021 at 4.6%, well above the Bank of England's (BoE) self-imposed target of 2%. S&P expect inflation to average at 4.5% in Q1 2022 but noted that it's important to recognise that excess inflation is currently still predominantly driven by global and domestic supply-chain constraints, globally higher prices of raw materials, imported goods that use them and most importantly higher fuel and energy prices. Whilst inflation increase even more in 2022, S&P forecast it will fall thereafter and end 2022 just above 2%.

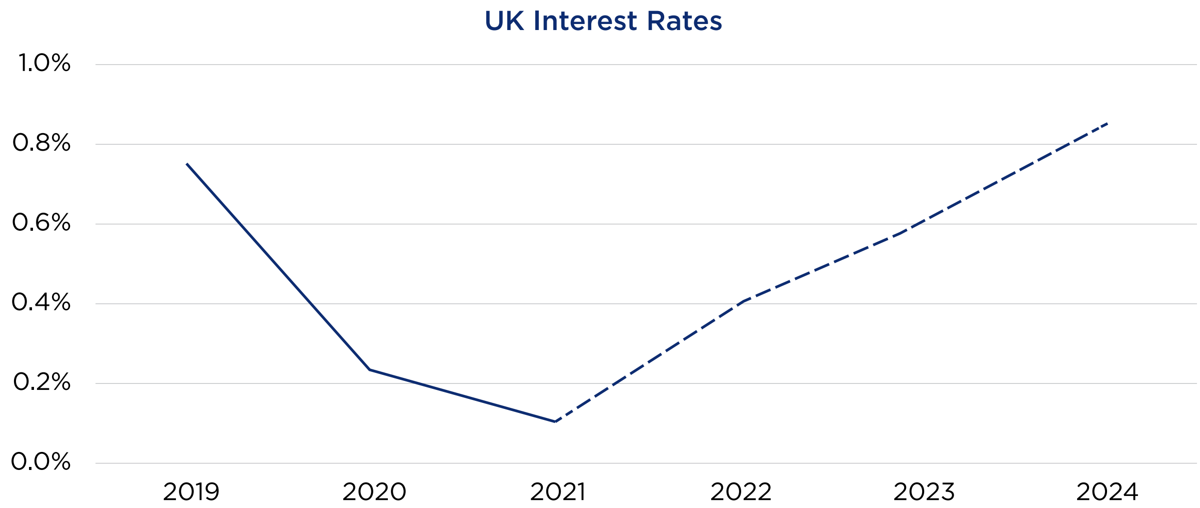


Source: S&P Global Ratings Economic Outlook U.S. Q1 2022: Cruising At A Lower Altitude

US inflation picked up dramatically in Q4 2021, with various price indicators reaching multidecade highs. Inflation is expected to reach 3.5% in 2022 however, S&P pricing pressure to slowly ease in 2022, but only reach the Fed's flexible average inflation target by second-half 2023. Both the slow easing of labor supply constraints, as pandemic fears subside and more people get vaccinated (and rejoin the workforce), and tighter monetary policy will likely cap slow price increases later in 2022. Moreover, negative real wages squeezing household purchasing power will also help moderate inflation

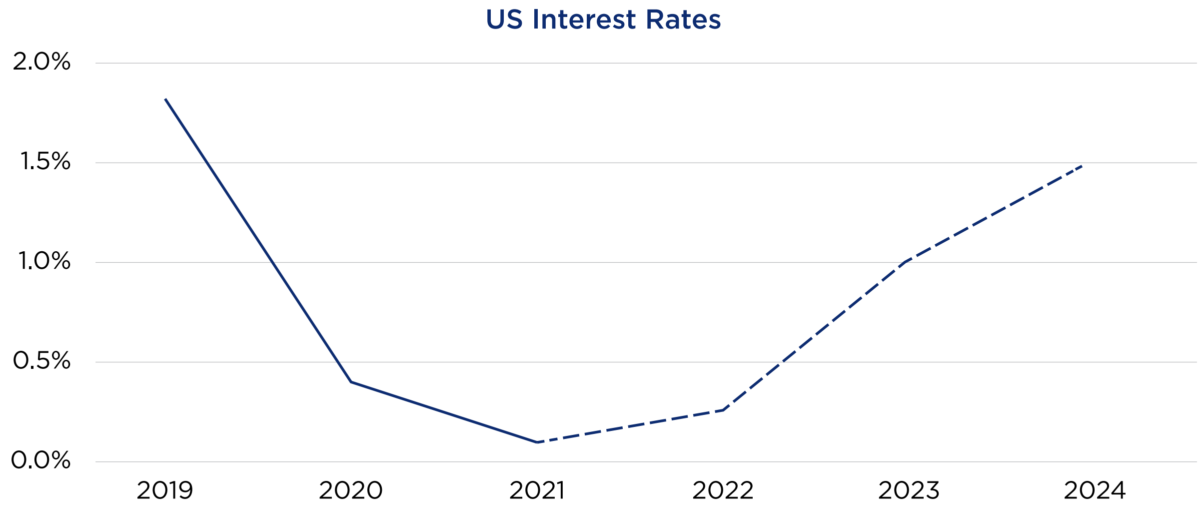
Whilst inflation climbs worldwide, research from BlackRock confirms that returns from both real estate and infrastructure have positive correlation to inflation, especially when it is combined with high economic growth. Real assets are able to capture inflation through greater income growth due to higher rent growth and occupancy. The risk of accelerated expense growth is primarily mitigated through (1) contractual adjustments in leases or contracts, (2) expense pass-throughs, (3) higher replacement costs, and (4) beneficial leverage.

Interest Rates



Source: tradingeconomics.com/united-kingdom

UK interest rates increased by 15bps to 0.25% during the Bank of England's (BOE) December meeting for the 1st time since the onset of the pandemic. Beginning of February 2022, BOW announced another raise in interest rate by 25bps which resulted the current interest rate at 0.50%. S&P forecasts that interest rates might be settled reasonably in 2022. Any effects on the economy as a whole, even when still in recovery mode, should be limited, if not offset altogether by the beneficial effects of keeping inflation well anchored.



Source: S&P Global Ratings Economic Outlook U.S. Q1 2022: Cruising At A Lower Altitude and Reuters Fed to hike in Q4 next year; inflation to remain above target until 2024

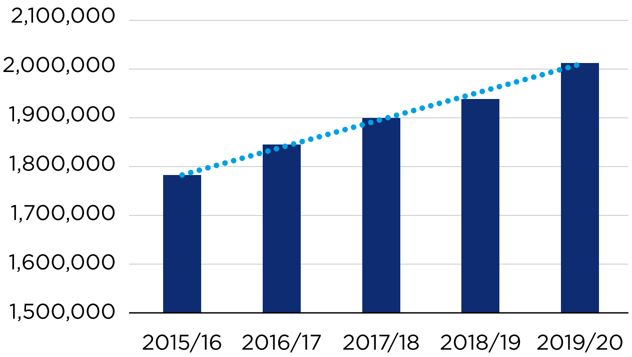
US interest rates are at an all-time low however the Federal Reserve Systems policymakers noted that given the outlook for the economy, labour market and inflation it may become warranted to increase the federal funds rate sooner or at a faster pace than previously anticipated. S&P therefore forecast that the Federal Reserve System will increase interest rates in September 2022 to around 0.25%. Economists in a Reuters poll have then predicted this will be followed by two more hikes in Q1 and Q2 2023 reaching 1.0% at the end of 2023 and 1.5% in 2024.

Whilst interest rates are increasing, they remain at historically low levels and still provide a wide gap to property yields.

OCCUPIER MARKET

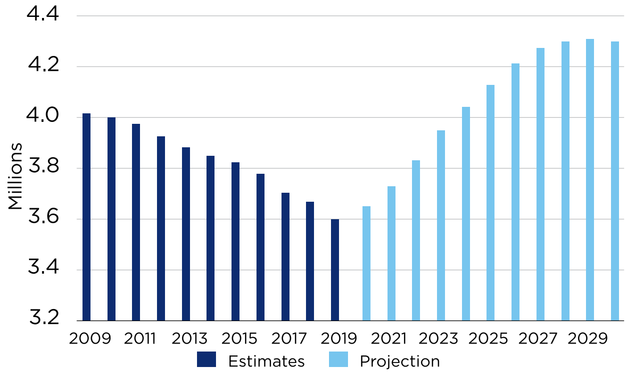
UK Student

Growth in UK Full Time Students



Source: HESA Student Enrolment Data

UK Total 15-19 Years Population

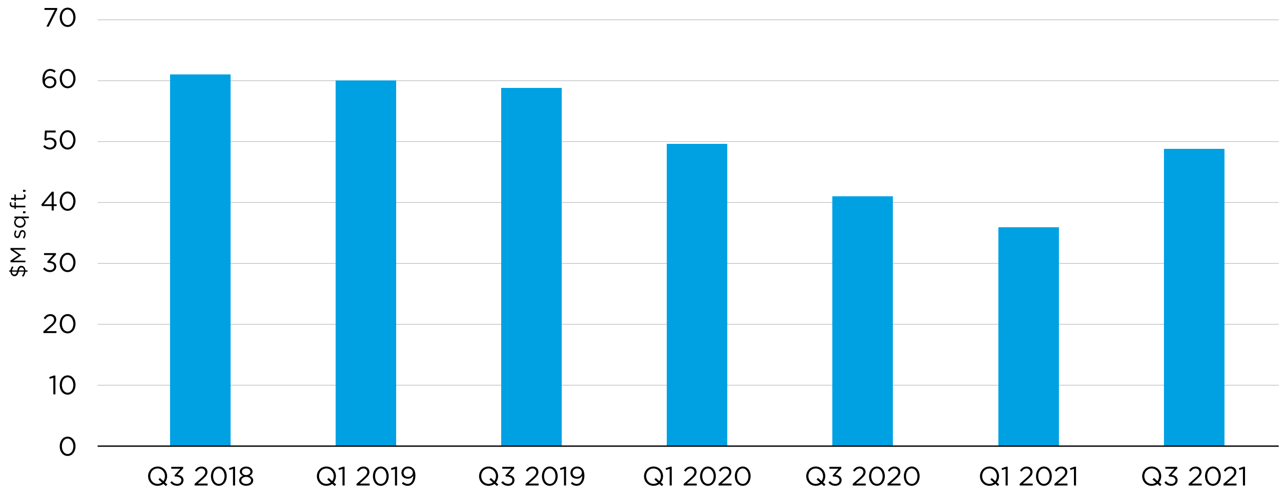


Source: ONS Population Data

As of the end of Q3 2021, 90% of student beds were let, this compares to 83% in September 2020 showing the bounce back of the UK student sector. Unite has reported 94% occupancy in 2021-22, up from 88% occupancy in 2020-21, with rental growth of 2.3%. Alongside this return to typically high occupancy levels, there has also been very strong application growth of over 240,000, driven by domestic and non-EU international students. This increase has helped fill the void of EU students who were not able to attend due to Brexit. Looking forward, the number of 18-year-olds in the UK is projected to grow by more than 160,000 over the next decade, with a boost to domestic demand boding well for the sector's outlook and giving buyers comfort to re-engage in the sector at scale.

US Offices

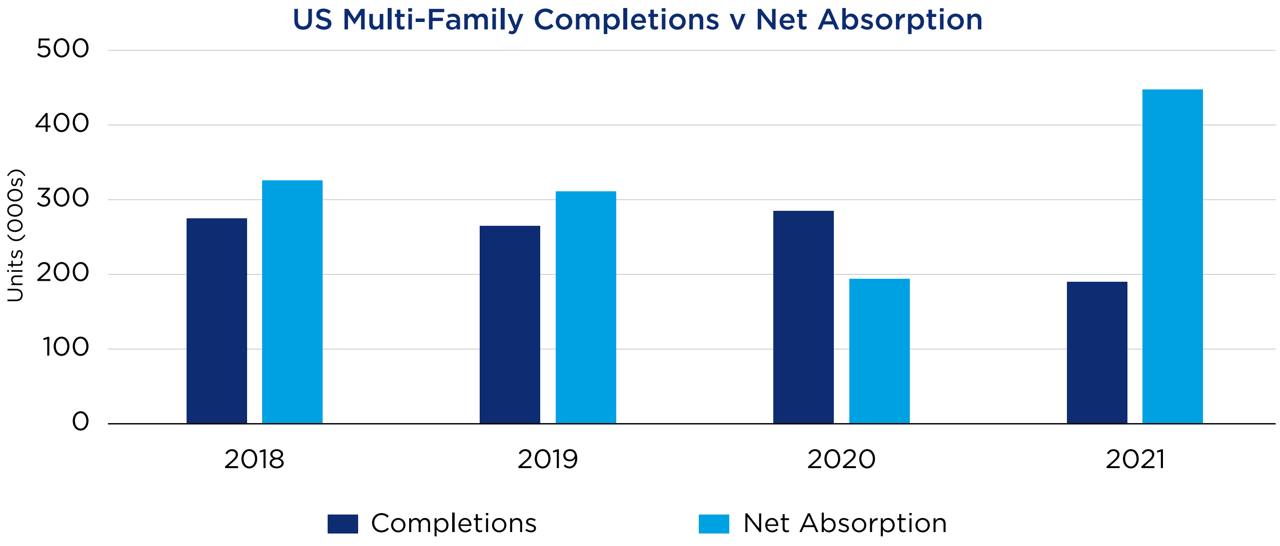
US Office Leasing Activity



Source: CBRE Q3 2021 US Office Figures

US office leasing continues to strengthen and in Q3 2021, it was at the highest level since Q1 2020. Despite more balanced hybrid working plans, this increased activity is expected to continue with the crucial role that physical offices play at the forefront, along with tenants looking to upgrade space and provide a desirable destination for their staff.

US Multi-Family



Source: CBRE Q3 2021 US Multifamily Figures

US Multi-Family continues to go from strength to strength. In Q3 2021, net absorption of 251,500 units was the highest quarterly total since CBRE began tracking the multifamily market in 1994 and almost certainly will contribute to a record annual total which currently stands at 450,000 units. With a strong pipeline under construction, completions are also expected to continue to grow. The rise in demand has been fuelled by job and wage growth, strong consumer confidence and easing of Covid restrictions.

INVESTMENT MARKET

With economic growth and a resurgence of inflation in the UK and US, investors of all types from pension funds to individuals are looking for real estate investment opportunities, particularly where there are long investment grade leases or in the favoured defensive sectors of housing and logistics.

This has driven prices up, with purchase yields on modern logistics assets being a clear barometer of this, with purchase yields as low as 2.75% in the US and 3.00% in the UK being achieved.

RASAMEEL INSIGHTS & STRATEGIES

Based on our intensive review and analysis of the global real estate markets and trends as well as various brainstorming meetings internally and with our strategic global advisors and biggest real estate market experts in the international markets, we would like to summarize the strategy and criteria as per the below:

- Targeted Countries/Markets: UK and US.
- Rationale: We believe those two markets to remain attractive for new investments but need to respond to pricing in some sectors being too high to provide an attractive income return to investors. This encourages us to consider both different investment products, as well as value-add development transactions, supported by the strength of the economy and occupier demand.
- Sectors:
  1. UK
     a) Student Accommodation
  2. US
     a) Manufacturing
     b) Residential Developments
     c) Logistics Developments
     d) Office
  3. Please refer to the below for more details

United Kingdom Strategies

Student Accommodation Investments

While the student accommodation sector was negatively impacted with respect to occupancy during the 2020/21 academic year, its impact was a lot less than most people expected, and has bounced back for the 2021/22 academic year. The demographic fundamentals, including the number of 18 year olds due to rise 25% by 2030, are very strong. There is also a pent up demand for face to face teaching along with demand from overseas students, with the desire for an English taught university education undiminished, and increasing demand from Asia. With such investments continuing to provide a premium over private rented accommodation, we find this sector very attractive.

At Rasameel, we continue to grow our diversified portfolio of modern Purpose-Built Student Accommodation ("PBSA") properties located in prime/strong student's cities and servicing the best, highly ranked, and well-known universities in the UK, generating a consistent risk-adjusted income streams for all investors throughout the holding period.

United States Strategies

Manufacturing Investments

There is a resurgence in the manufacturing sector in the US, driven by domestic and international politics, the strength of the economy and disruptions to supply chains for goods arriving from overseas. Attractive 15+ year leases are available on new properties or sale and leasebacks of existing properties, typically with annual fixed rent uplifts. The tenants themselves will have made a significant capital investment into the facility, with heavy and technologically advanced machinery which is expensive to move and which encourages them to stay beyond lease expiry.

Residential Developments

With yields on multi-family investment opportunities as low as 2.75% at present, buying existing investments is expensive. However, there is an opportunity to work with best in class developers for the creation of new homes. COVID-19 has encouraged a more flexible approach to working, with a great many employees being able to work from home for at least part of the week. This is encouraging a movement of tenants out of city centres to suburbs where they can enjoy more space, and for many to move to a different State, all of which is creating significant demand.

Logistics Developments

The demand for the acquisition of newly developed logistics properties is intense. Rather than compete for the end product, we would prefer to construct it, finding occupational tenants during construction. With logistics providers being impatient for space, so long as the macro and micro locations work, which can often be established by analysing existing users in the area, the letting risk can be managed. While planning would be in place, this strategy could also include phased developments, with an opportunity to secure a pre-let on some of the land.

Office Investments

In the beginning of 2021, most companies continued to demand non-essential offices and job tasks to be carried out remotely, as was the case throughout 2020. Nevertheless, in the second half of 2021, companies started returning partially to the office, leading to a strengthening of the US office market that is projected to continue in 2022.

Although the spread of the Delta and Omicron versions has halted some of the momentum, a return to pre-Virus normality was seen as a positive sign by business executives throughout the second and third quarters of 2021. A return to a traditional office setting in 2022 might be less of a concern for office workers if medical advances in vaccinations and their ability to decrease the severity of symptoms continue as expected.

At Rasameel, we would like to emphasize on the importance of well-selected office investment opportunities, each supported with a strong story, fundamentals, trends, tenants, nature of businesses, occupational markets ...etc.

Sources:

S&P Global Ratings Economic Research: Economic Outlook U.K. Q1 2022: Onward And Upward, S&P Global Ratings Economic Outlook U.S. Q1 2022: Cruising At A Lower Altitude, tradingeconomics.com, Reuters Fed to hike in Q4 next year; inflation to remain above target until 2024 and ONS data. Knight Frank: Trends Global Real Estate Investment. JLL Global Real Estate Perspective November-2021: Summary.

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