

November 2019

ESG and diversification in a real estate portfolio: Why investing in the European Residential Property sector?

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Opportunities with non-domestic European property

Access to sectors and strategies, diversification, risk reduction and return possibilities

For most investors, a step outside of their domestic property market rapidly **expands the opportunity** set (and improves diversification) as local markets typically represent only a fraction of the overall property universe.

Non-domestic property investments can provide more choice with **new sectors and strategies**.

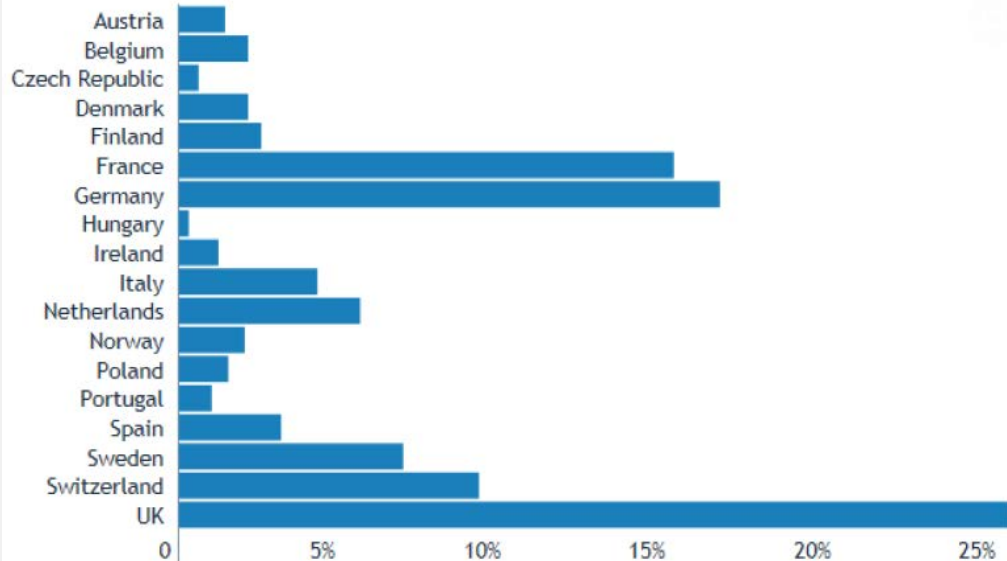
Many investors, often incorrectly, associate non-domestic property investments with higher risk than domestic ones.

This often leads to investors choosing higher-risk strategies for their non-domestic investments, relative to domestic.

Non-domestic property can provide an efficient way of achieving **higher risk-adjusted returns through diversification** of the entire portfolio.

Investing in a direct, diversified, global or regional portfolio is only possible for the very largest investors. Hence, **indirect investments are the entry route** for most investors thinking about a diversified, non-domestic, core property allocation.

Estimated European property market sizes (% of total European market)



Source: MSCI, June 2017

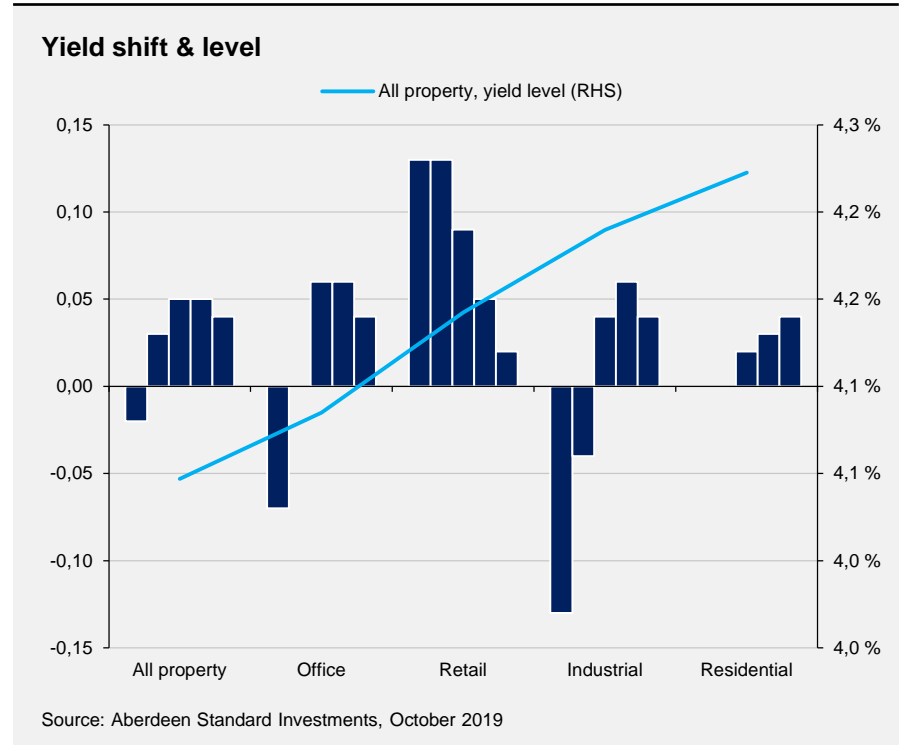
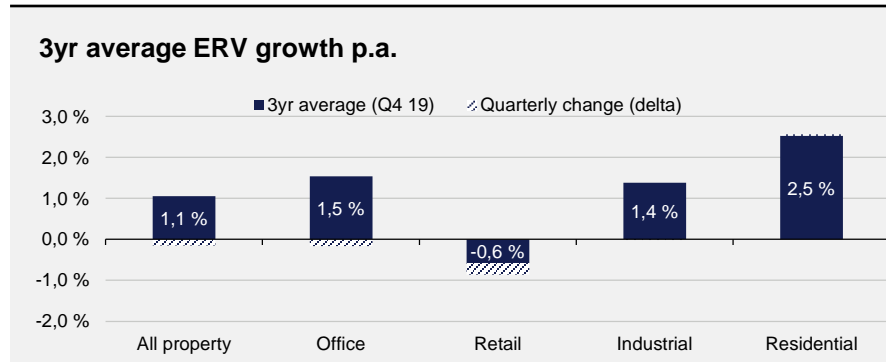
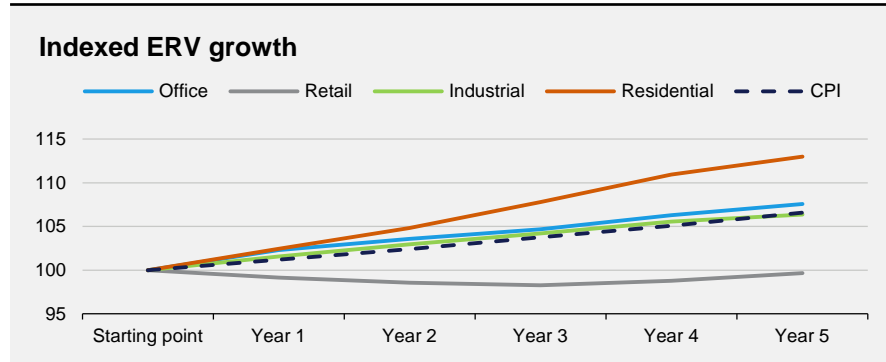
Source: Aberdeen Standard Investments, October 2019

01

Real Estate Market Trends
Near term outlook

ERV growth and yield movement

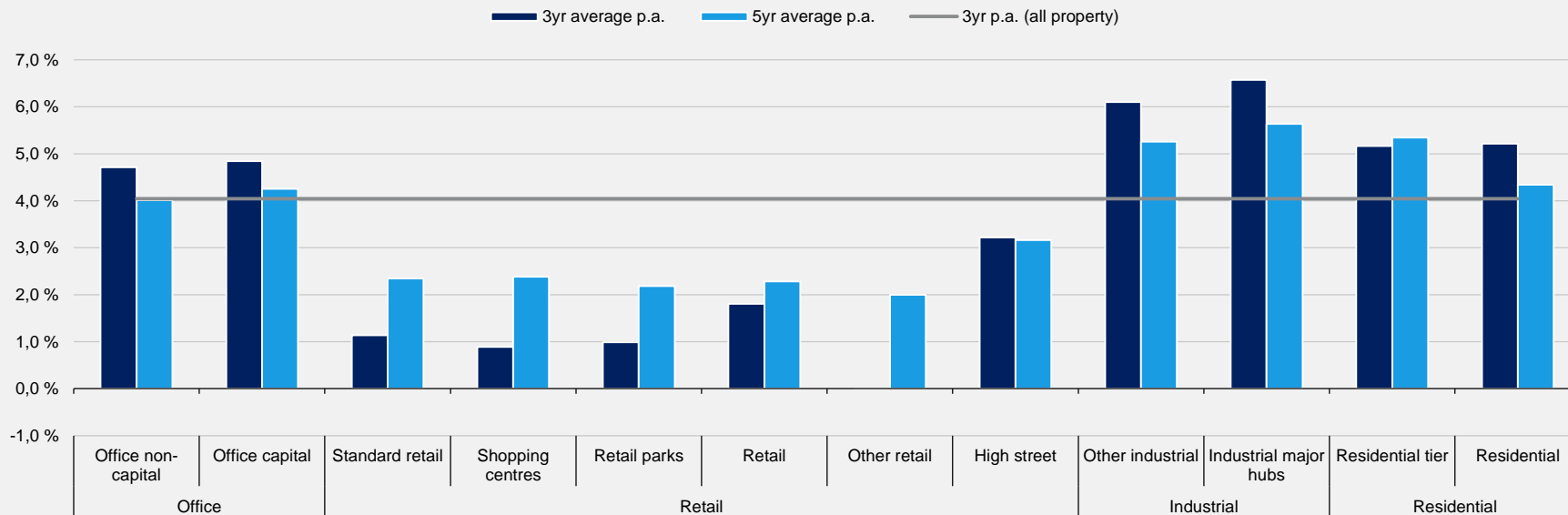
Continued rental growth for most European markets while minor yield compression



European total returns

Break down by sector: Expected returns relatively front loaded, except for retail overall

3 & 5 yr total returns p.a.



Source: Aberdeen Standard Investments, October 2019
Absolute returns, local currency, non-risk adjusted, ungeared, annualised data



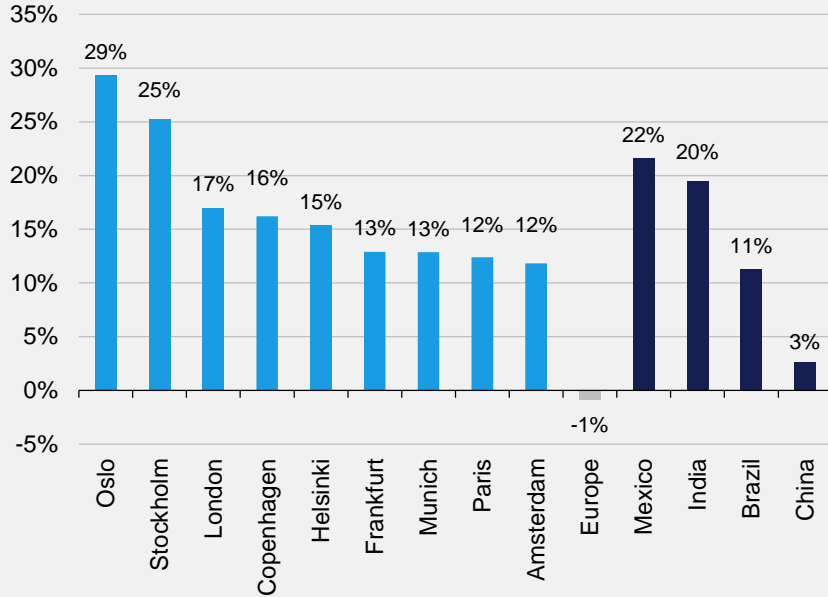
02

Rationale for residential

Urbanisation across western Europe creates strong demand growth for residential

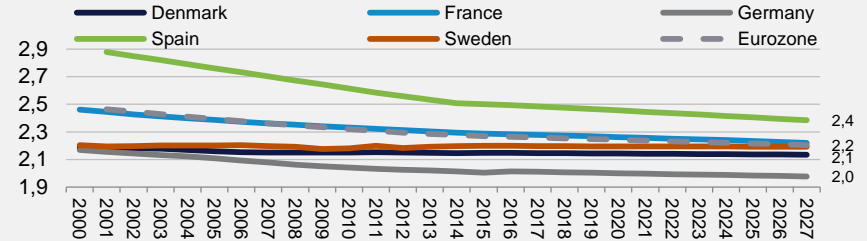
'Winning Cities' attract strong inflows of population and households are shrinking

Projected population growth 2015 - 2035



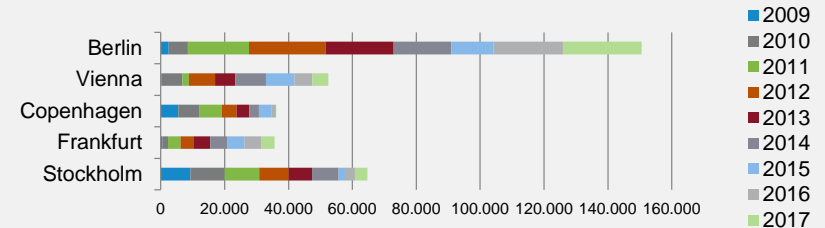
Source: United Nations 2018, World Urbanisation Prospects; Projections are not guaranteed

Average number of persons per households



Source: Oxford Economics, September 2018

Cumulative shortfall of housing units across Europe



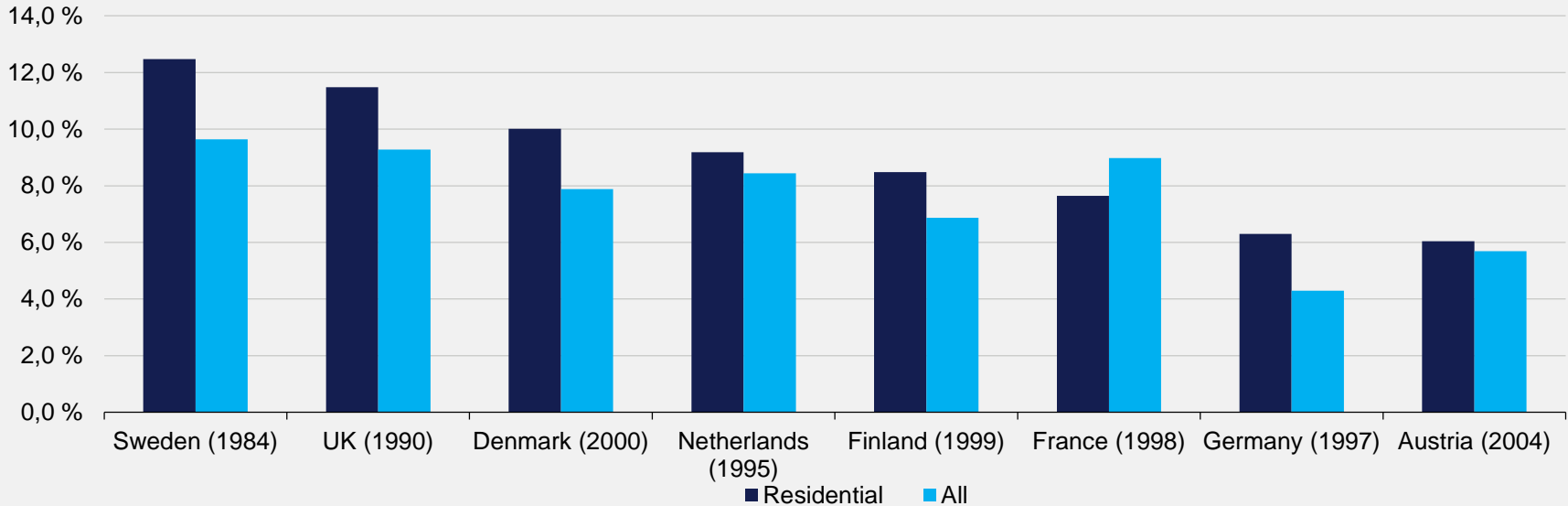
Source: national statistics agencies, Aberdeen Standard Investments, 2018

Residential properties have outperformed over the long-term

Minimal vacancy, stable income return with strong potential for rental growth

Historic outperformance for residential in most markets*

Total returns (%p.a.)



*Since index (IPD/MSCI) launch to end 2017

Source: MSCI, 2018; **Past performance is not a guide to future results.**



03

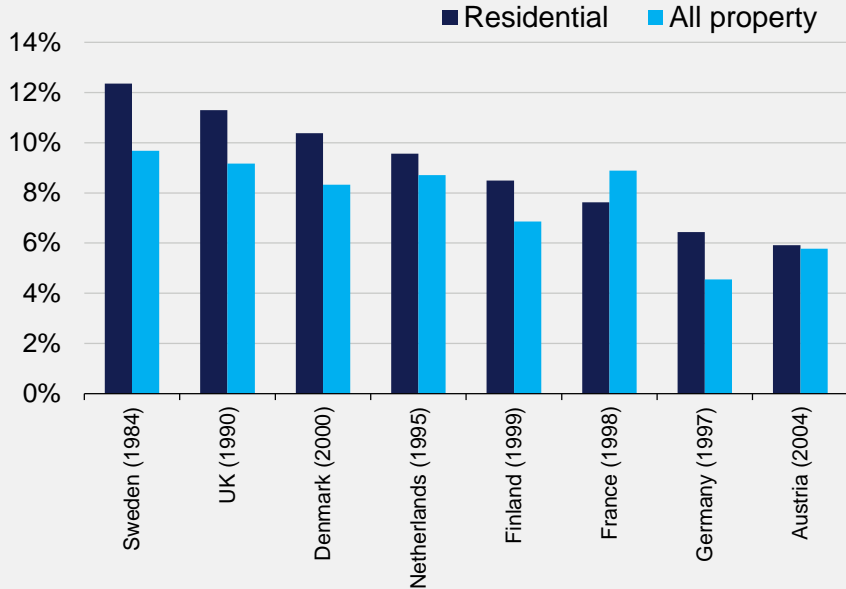
Returns and regulation

The case for investing outside one's home market is diversification and spreading of risks

The strong performance of European residential continued in 2018

Minimal vacancy, very secure, stable income return with strong potential for rental growth

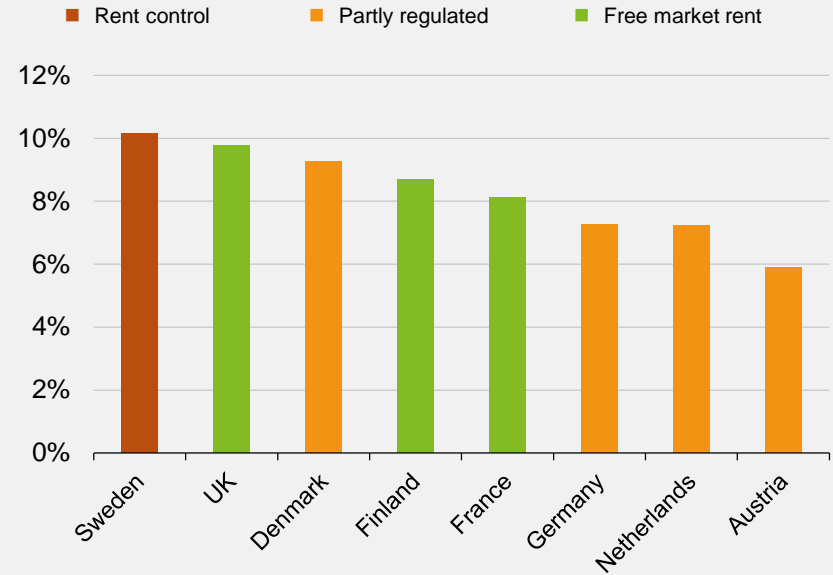
Total return p.a. since index (IPD/MSCI) launch to end 2018



Past performance is not a guide to future results

Source: MSCI/IPD, March 2019

Total return by rental regulation status, 2014-2018 p.a.



Past performance is not a guide to future results

Source: MSCI/IPD, March 2019

Why do we see increasing political discussions about rent control?

A struggle to provide affordable housing for population in cities across Europe

Berlin's Housing Shortage: No Improvement in Sight

Up to 12,000 people desert Paris each year

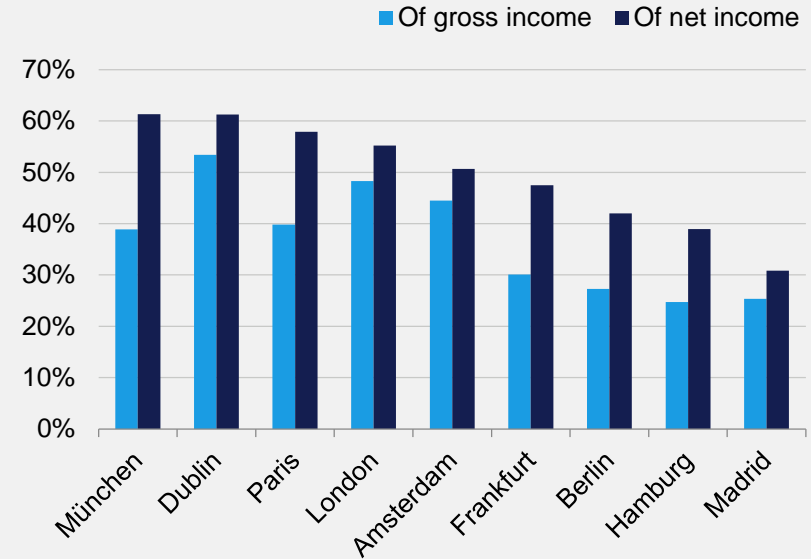
The housing paradox: what can local municipalities do?

London needs £4.9bn a year in affordable housing grant, say Khan and G15

Amsterdam's Plan: If You Buy a Newly Built House, You Can't Rent It Out

Sources: Various media articles, 2019

Percentage of income spent on renting a one-bedroom apartment for an average nurse's salary



Sources: Local statistics for salaries and rents, estimated tax burden by Aberdeen Standard Investments, August 2019

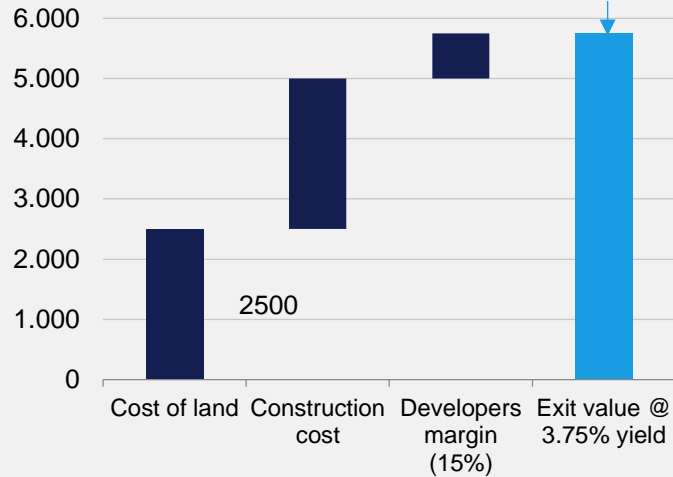
Residential regulation alone not likely to solve the affordable housing challenge

Supply side needs to be stimulated too

Required rents for new residential supply in Germany

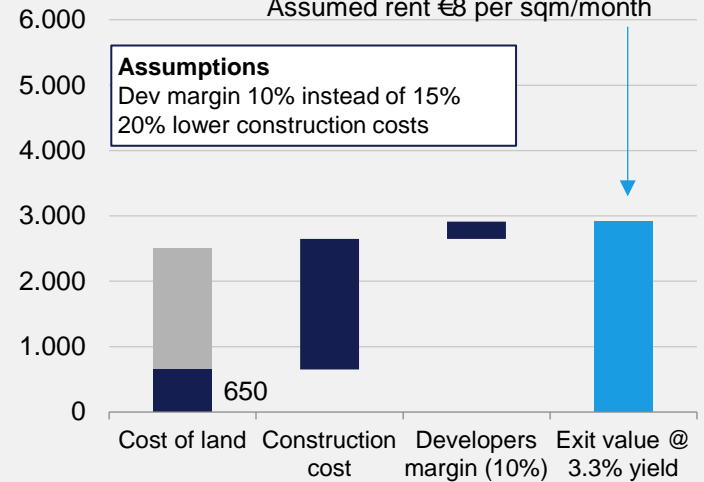
Fringe big city development

Required rent €18 per sqm/month



Affordable housing

Assumed rent €8 per sqm/month



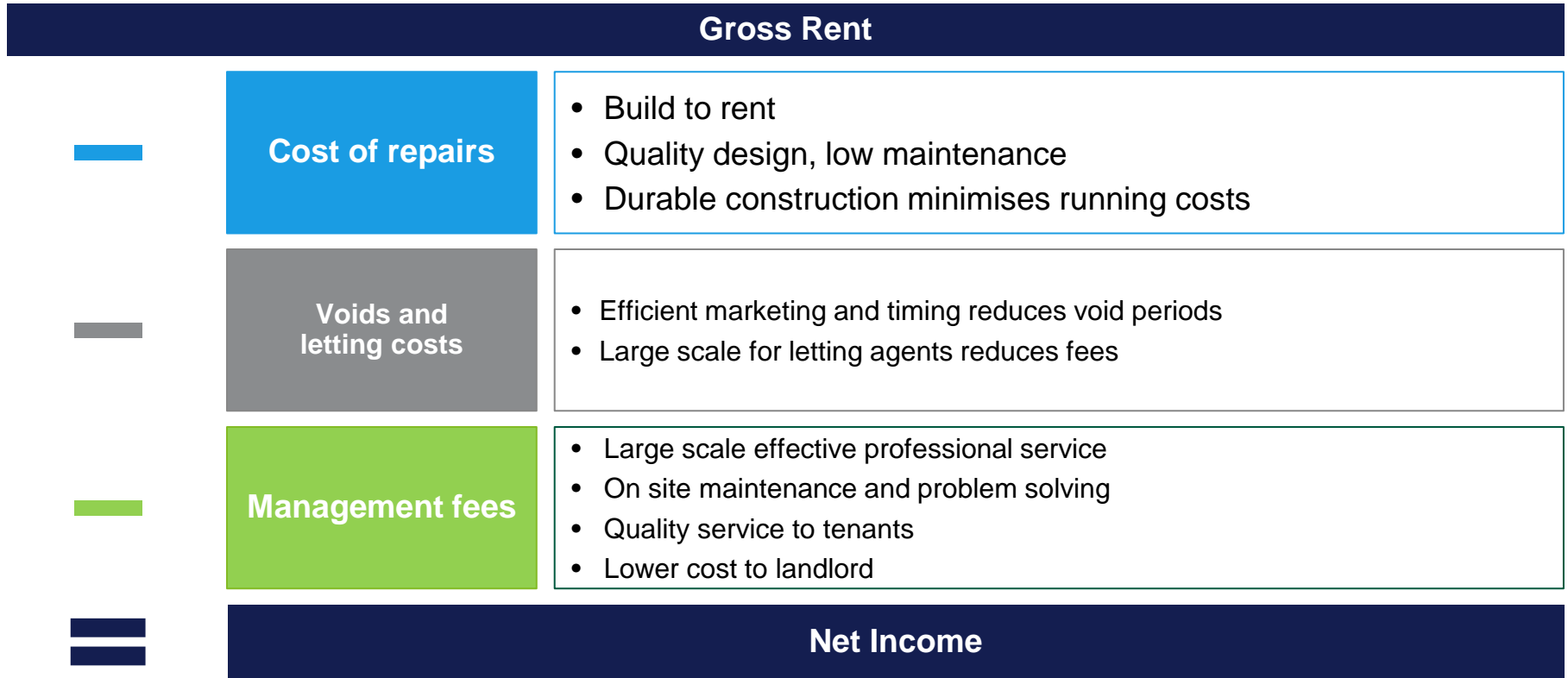


04

Happy tenants = happy landlords

What makes a residential investment a successful investment?

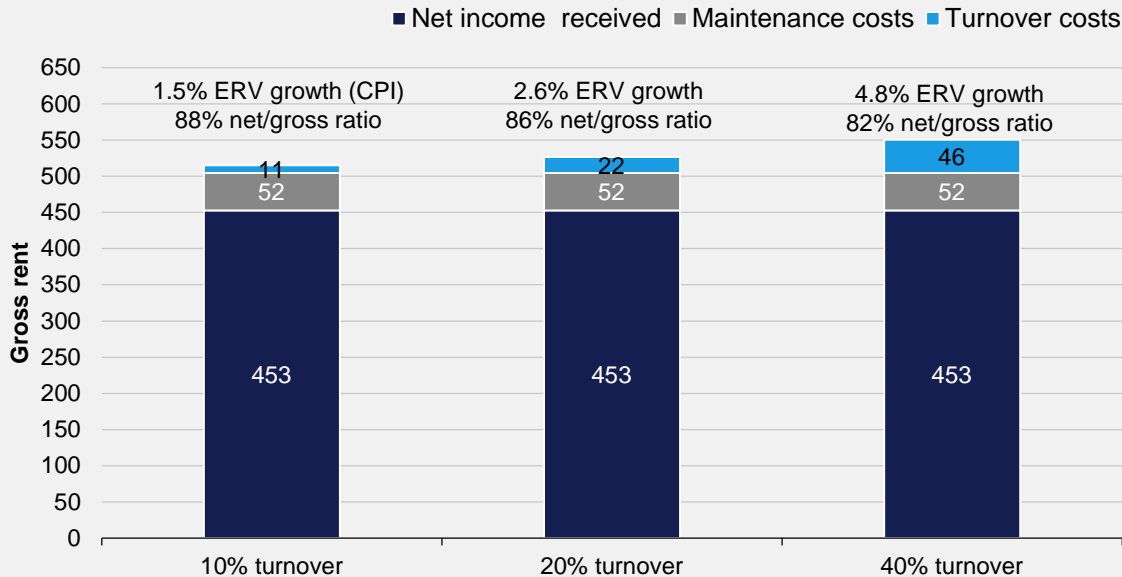
Residential returns: Enhancing net income via improved operational efficiency



Why rent control also can be a good thing for landlords

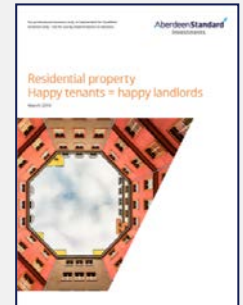
Happy tenants = Happy landlords

Net income received in three scenarios – what rental growth is required to compensate for higher turnover?



Source: Aberdeen Standard Investments, February 2019

Country	Typical lease duration	Typical turnover
Germany	11.8 years	8%
Sweden	10.0 years	10%
Spain	10.0 years	10%
Austria	8.5 years	12%
Netherlands	6.3 years	16%
Finland	5.0 years	20%
France	3.7 years	27%
Belgium	3.3 years	30%
UK	2.5 years	40%



Our insights influence the design and management of our investments

Efficient design has increased the rent per square metre for little additional cost

In our experience tenants consider the space they need and the affordability they have overall, not the rent per square metre

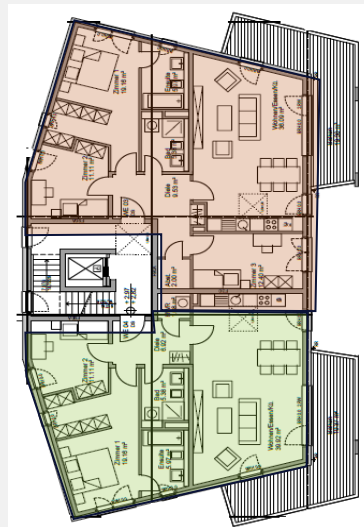
In this illustration (asset is located in Dortmund):

- Scheme comprised 11 'houses' with 3 floors each
- We agreed the purchase price on a gross square metres basis
- We knew smaller apartments achieve higher rent per square metre and let swiftly
- We reconfigured layout which:
 - Added 5% to construction cost (incl. balcony)
 - Added c.20% to ERV
 - Broadened the occupier base

Before: €2,045 ERV/month

3 room apartment, ~90m², €945 ERV

4 room apartment, ~115m², €1,100 ERV



After: €2,490 ERV/month

3 room apartment, ~82m², €945 ERV

3 room apartment, ~81m², €945 ERV

2 room apartment, ~49m², €600 ERV



Source: Aberdeen Standard Investments (August 2018)

Source: Aberdeen Standard Investments, October 2019



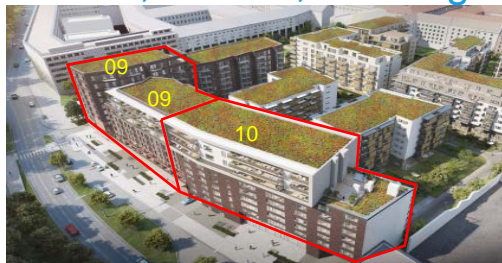
05

How to select assets

Focus on location, affordability and sustainability

Property contracted in 2018

Austria, Vienna, Erdberger Lände 36–38 // Status: Closed



For illustrative purposes only. Past performance is not a guide to future results. Map data ©2019 Google
Source: Aberdeen Standard Investments, October 2019

Property details

- Location:**
- Vienna is the capital of Austria and comprises about 1.9 million inhabitants
 - The site is located in Vienna's 3rd district at the 2-lane-road "Erdberger Lände", close to the Danube channel and to the famous Prater area.
 - Erdberger Lände 36-38 is located about 3.5 km East from the city centre.
 - The development consists of 10 sections. A new park of about 7,000 sqm is built on site.
 - Bus station: 0.5 km, metro/tram station: 0.5 km, central station: 5.6 km

- Property:**
- Targeted completion: Q4 2019
 - 244 apartments with a rental area of 14,083 sqm
 - 2 commercial units with a rental area of 2,335 sqm
 - Secured lease contracts with supermarket chain Hofer (10y) and drugstore DM (7y)
 - 113 underground parking spaces whereof 63 are let to the supermarket
 - Apartments are delivered with kitchens and high quality wooden floors, floor heating system, window blinds, modern bath with rooms with accessories
 - High energetic efficiency standard, certified with Austrian rating "Klimaaktiv Bronze"

- Letting:**
- Letting will be realised by the purchaser; commercial pre-let by vendor
 - Ø residential rental assumption: 12.37 €/sqm/month

- Apartment mix:**
- Balanced unit mix of 2- to 4-room apartments, focussed on 2 and 3 room units
 - 2 rooms (65%), 3 rooms (29%), 4 rooms (6%)
 - Average apartment size is 58 sqm

- Purchase price:**
- ca. € 66.8m with a full recovery of VAT (20%)

- Initial yield:**
- 3.9% gross initial yield
 - 3.7% net initial yield

- Deal structure:**
- Asset Deal
 - Forward funding - staged payments according to progress

Our focussed strategy always starts with **Triple A** locations

Performance will ultimately be determined by investing in suitable properties at affordable prices in places where people want to live

Affordability	<ul style="list-style-type: none">• Rents – average asking rents for two bed flats• Costs of commuting (eg annual travel pass)• Average earnings (typically >33% to housing costs a challenge)
Accessibility	<ul style="list-style-type: none">• Travel time to major place of work• Proximity to transport hubs• Future transport upgrades
Amenity	<ul style="list-style-type: none">• Retail – convenience and quality and vitality• Leisure facilities and green spaces (an established sense of place)• Schools and community facilities
Demographics	<ul style="list-style-type: none">• Population structure• Proportion of 20 - 40 year olds• Population growth 20 - 40 year olds
Housing Market	<ul style="list-style-type: none">• % In PRS sector• Level of new development (starts and completions)• Large scale improvements to the area.

Source: Aberdeen Standard Investments, October 2019

ESG in action

Development projects, asset management and retro-fit opportunities



Sustainable developments – Vienna

- Two of the fund's forward funding developments in Vienna will be classified as highly efficient. The energetic standard will achieve the high level of the Austrian standard "klimaaktiv - Bronze".



Sustainable asset management programmes – Helsinki

- Installation of solar power systems producing some 8.5 MWh/a per asset and saving potentially 15 k€/a at fund level
- Installation of water-saving constant current faucet nozzles in bathrooms will save up to 25% of water usage



Low carbon investment – Helsinki

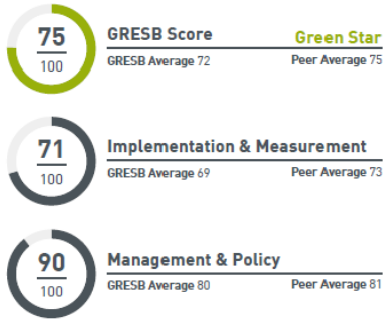
- 15 out of 16 assets show the potential for geothermal drilling.
- Replacing district heating with geothermal heating enables energy savings of 40-50% (heating and electricity combined)



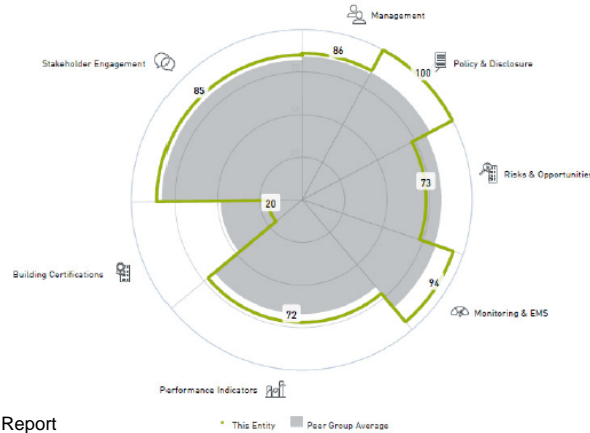
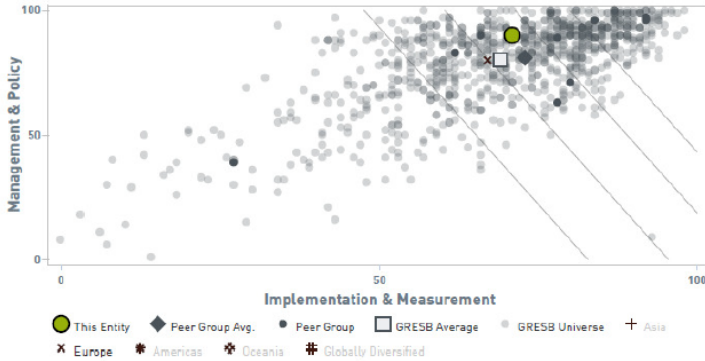
Source: Aberdeen Standard Investments, LeaseGreen, December 2018

Global Real Estate Sustainability Benchmark (GRESB)

At ASI funds receive their taylor made ESG impact measures to meet highest standards



GRESB Statistics	Wider Benchmark	ASPER
New entrants average score	58	
Europe average score	71	75
Global average score	72	



Source: Aberdeen Standard European Residential Property Fund GRESB 2019 Benchmark Report



06

Summary

Diversification away from home biased portfolios within the residential sector

A pan-European strategy aims to deliver robust, defensive returns with reduced country risk

Rationale

- **Accessibility to sectors and strategies** outside of the domestic property market rapidly expands the opportunity set for institutional investors
- The local, domestic market typically only represents a **fraction of the investment universe**
- Non-domestic property can provide an efficient way of achieving higher risk-adjusted returns through **diversification** of the entire portfolio
- Investment in multiple sectors and markets can **actively reduce single country and sector risks** and therefore **increase risk-adjusted returns**

Residential

- Residential has **lower volatility than commercial property and strong historic long term returns**, it may be an **robust portfolio diversifier**
- **Income with growth potential achievable** via improved operational efficiency and market rental growth
- Residential property exhibits **very strong demand/supply fundamentals**, particularly in Europe's leading cities
- Supply is not keeping pace with population growth, **positive implications for long-term rents and capital values**
- Residential property is **less impacted by technology changes** than commercial property

Strategy

- **Invest in large, high quality, purpose-built** residential blocks for the long-term
- Follow strategic **AAA-location** approach (*Affordability, Accessibility, Amenity*)
- Long-term **focus on sustainability** – aiming to enhance the quality of the social and built environment
- Improve operational efficiency to **maximise income returns and rental growth, minimise vacancy**
- Multi country strategy **reduces risk through diversification**



Our flagship pan-European residential real estate fund

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