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# Alpha Real Capital

*Investment case for Commercial Ground Rents*



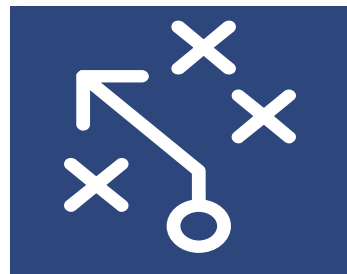
*Presenter: Patrick Grant, Partner and Co-Head of Long Income*



**What are they?**



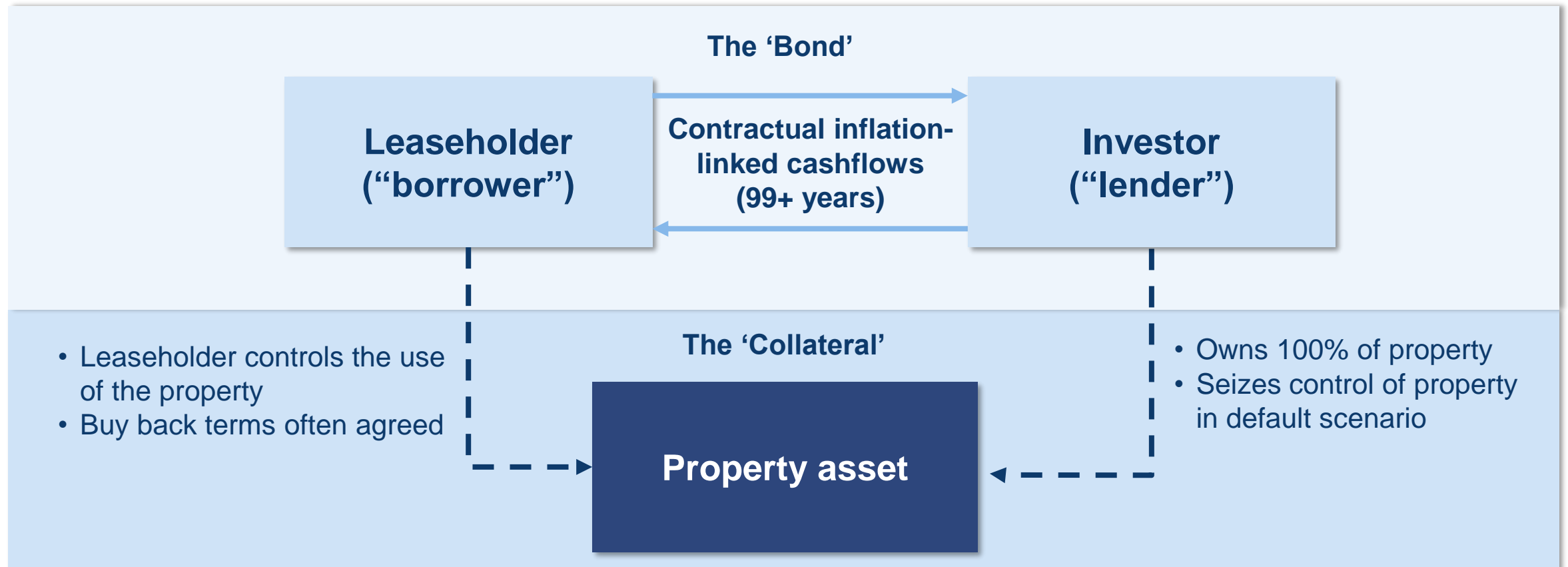
**Why is it an attractive opportunity?**



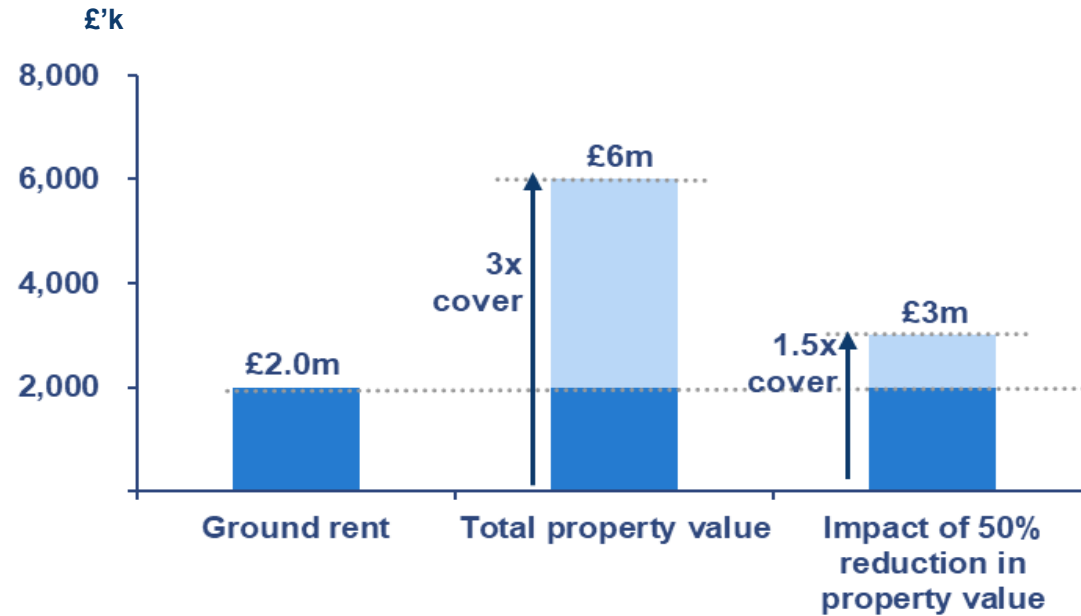
**How to make the most of the opportunity?**

**Commercial Ground Rents (CGR) – A real estate owner or acquirer sells the freehold land to an investor and simultaneously agrees a long-term lease with them to continue using a real estate asset**

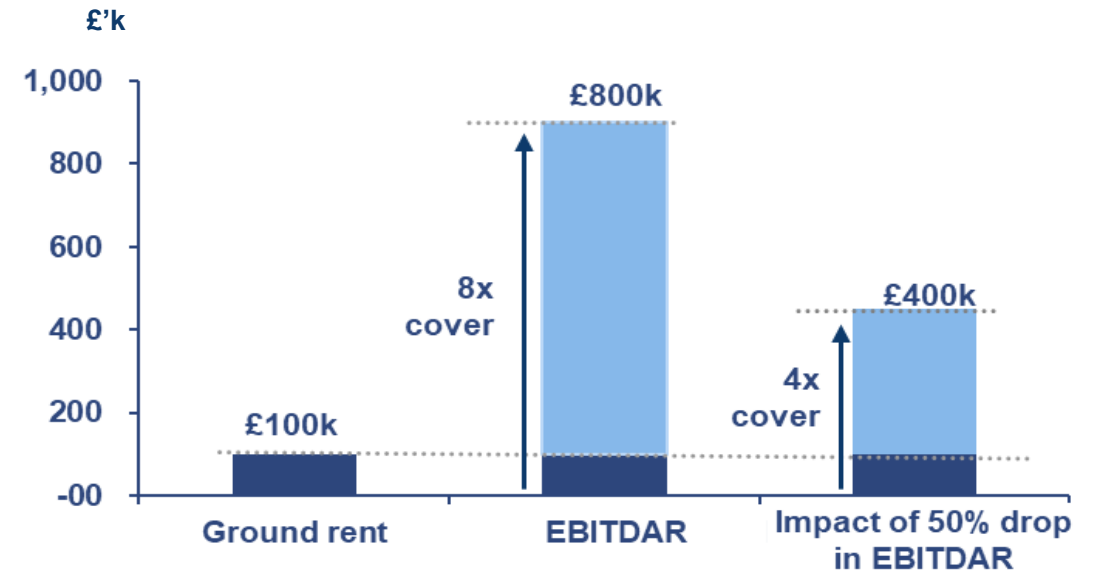
**CGR have similar features to Bonds**



Ground rent value vs. Asset value



Rental income vs. Tenants' earnings



Security is achieved through being super senior in the capital structure. The credit quality of assets is equivalent to investment grade (Aa3 to Baa3)

Flexible approach that invests across a wide range of sectors allows targeting investments with the most attractive risk-adjusted return

SECTORS

Core real estate



Social



Alternatives



SUB-SECTORS

- Office / Serviced Offices
- Industrial / distribution
- Business parks
- Supermarkets
- Specialist Retail

- Care homes
- Specialist care
- Education
- Medical facilities
- Children Day nurseries

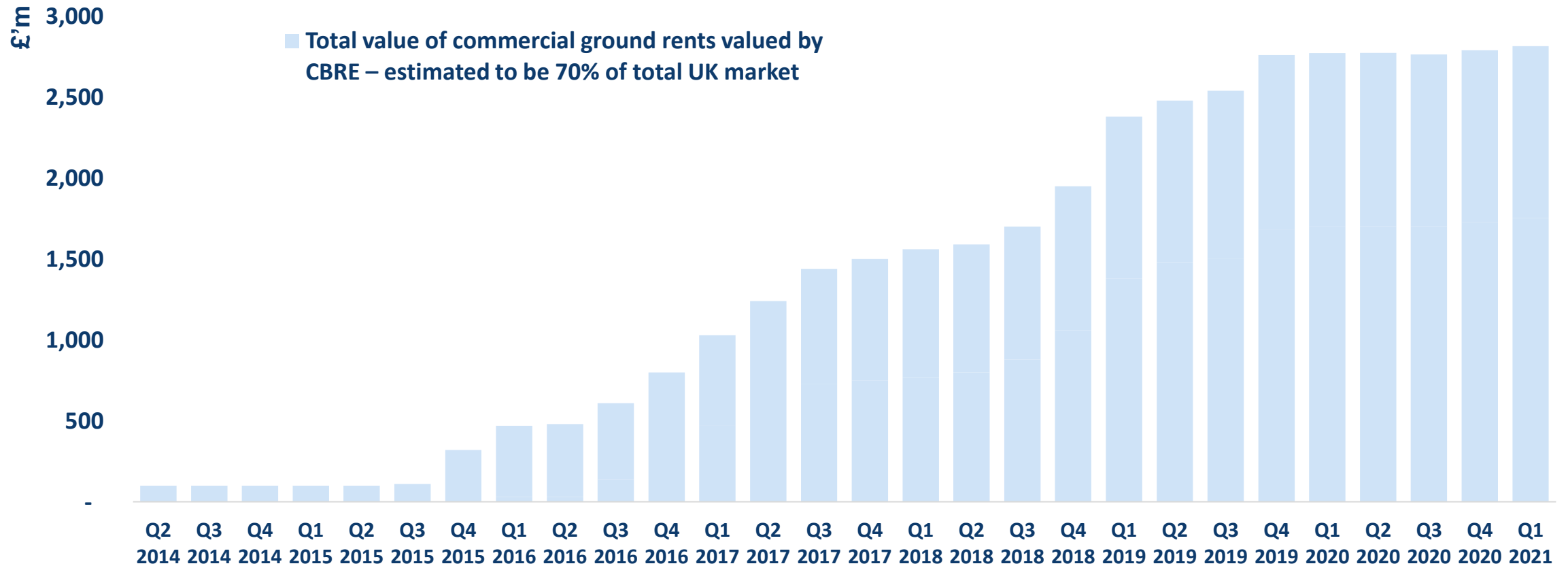
- Hotels
- Data centres
- Student
- PRS
- Automotive
- Leisure/pubs

# Fully contractual inflation-linked long-term income



Source: Alpha Real Capital, for illustration purpose only

# UK ground rent market growth



**We estimate Alpha Real Capital is c.40% of the c.£4bn UK market\***

\*Based on the CBRE valuations that are estimated to represent approximately 70% of the market  
Source: CBRE, Alpha Real Capital, Q1 2021



### Acquisition of the freehold interest in 21 Elysium Healthcare properties throughout the UK and a 125 year lease back to Elysium

<b>Size</b>	£139.6m
<b>Inflation linkage</b>	100% Annual RPI (0, 5)
<b>Price to value</b>	37%
<b>Income collateralisation</b>	8.2x
<b>Transaction rating</b>	A-
<b>ESG benefits</b>	Tangible & quantifiable
<b>Expected return p.a.</b>	Gilts +450bps (excess return of Gilts +120bps accounting for quantifiable risks)



## Risk

## Mitigants

### **Illiquidity**

i.e. not being able to liquidate the asset for a reasonable price when required

- **Fund structure (open ended, fund liquidity)**
- **Underlying asset structure**

### **Income and asset risk**

i.e. risk that rents don't get paid

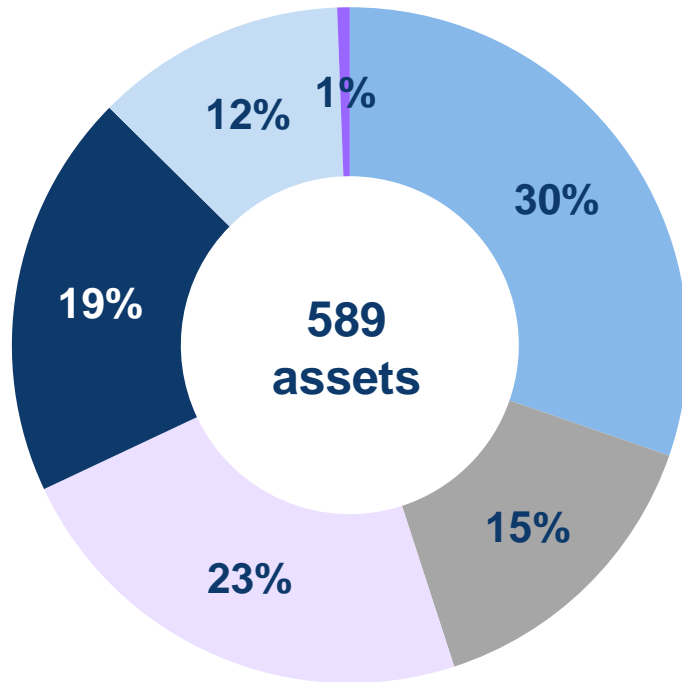
- **Diversify portfolio by sector and region**
- **Conservatively size positions**
- **Select assets and structure terms appropriately**

### **ESG**

i.e. risk that assets are not future-proof to ESG requirements

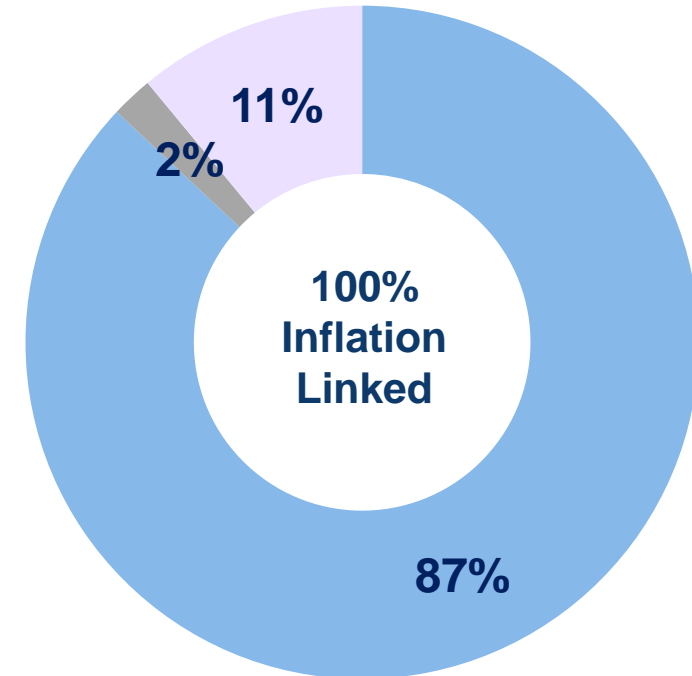
- **Embed ESG in investment process**
- **Include assets with strong social profile**

### Diversification

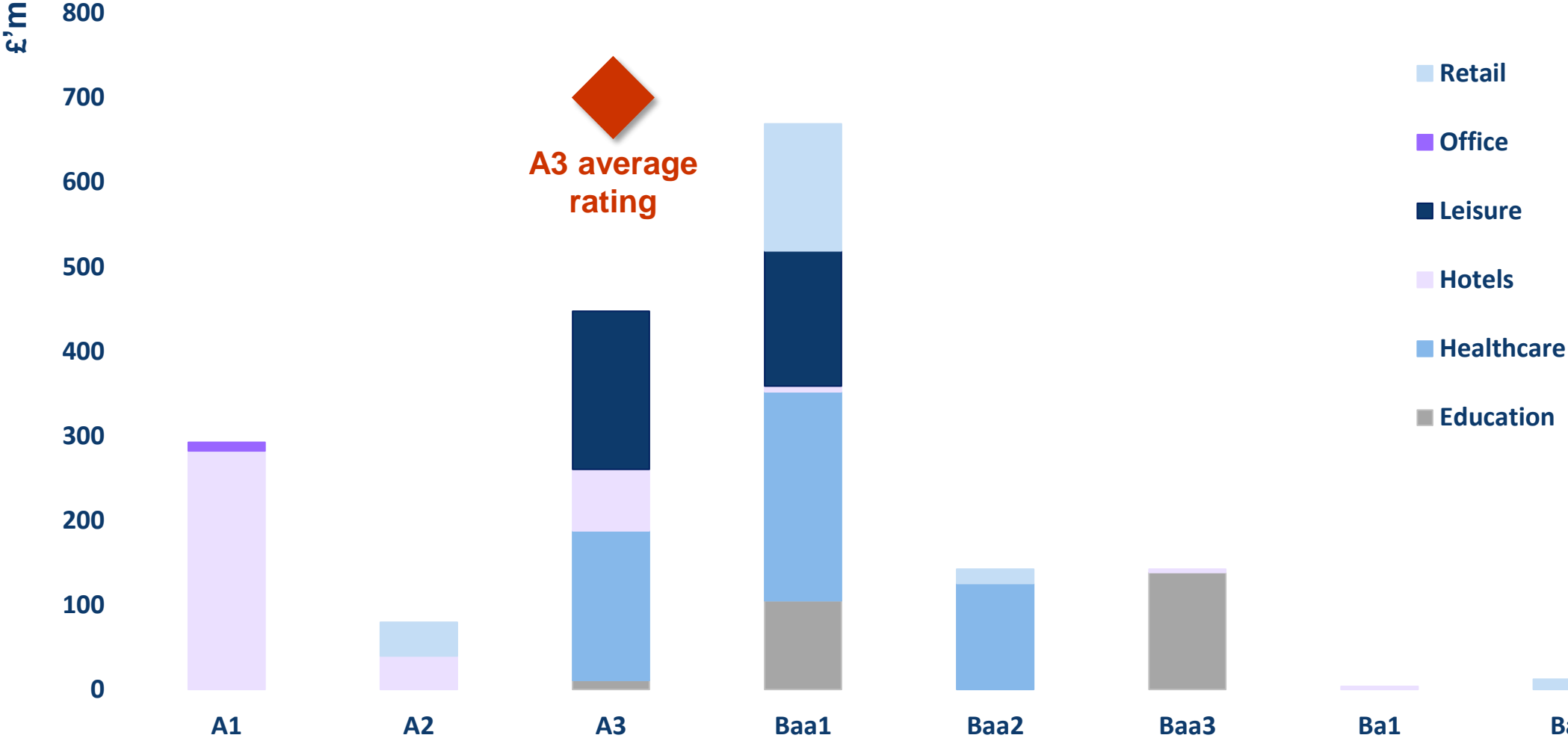


- Healthcare
- Education
- Hotel
- Leisure
- Retail
- Office

### Inflation protection



- 1 year RPI (0,5)
- 5 year RPI (0,5)
- 5 year RPI (1,5)



Source: Alpha Real Capital, Figures as at 30 September 2021, Index-Linked Income Fund (ILIF).



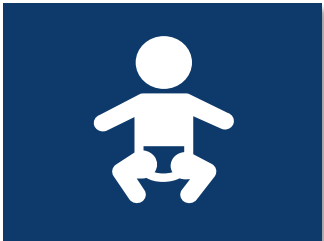
**> 45% of the Fund (by value) and 85% (by number of properties) are represented by buildings delivering care or education**



**> 8,200 beds for the elderly or people with learning disabilities / specialist care needs**



**> 2,300 pupils across the school investments**



**> 11,500 nursery places for babies and toddlers**

**Financial drivers lead to...**

**...increased opportunity**

**Reduced liquidity**

**Wider opportunity set**

**Increased financing costs**

**Heightened M&A activity**

**Banks looking to de-lever**

**Improved terms**

**As we begin to emerge from COVID-19, we expect a significant increase in commercial ground rent deals coming to the market**



**Resilience:** Robust portfolios performed strongly throughout 2020



**Cashflow profile:** Investment Grade quality, 30+ year duration inflation-linked cashflows



**Yield:** 4% to 5% p.a. over comparable index-linked gilts



**ESG:** Could provide strong benefits depending on design

**Commercial Ground Rents provide certainty of cashflows in an uncertain world**



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