Listed European real estate

Market overview

March 2025

Established in 2008

Listed real estate sector Specialist

A sector with high return dispersion

Sector Specialist

We cover only listed real estate

Our objective is to cover only one large sector better than anyone else in order to generate value for our investors

Multiple strategies

One underlying investment universe, multiple strategies

Including our two long/short funds targeting both the real estate equity and debt markets

$800m total AUM

Proven investment process

Proprietary investment and valuation process

Developed over many years, focused on total return relative to cost of capital

Highly experienced specialist team

Spanning equity and credit markets

Team of 21, including 14 investment professionals

Why European REITs?

Long-term returns generated from recurring free cash flows and capital value appreciation

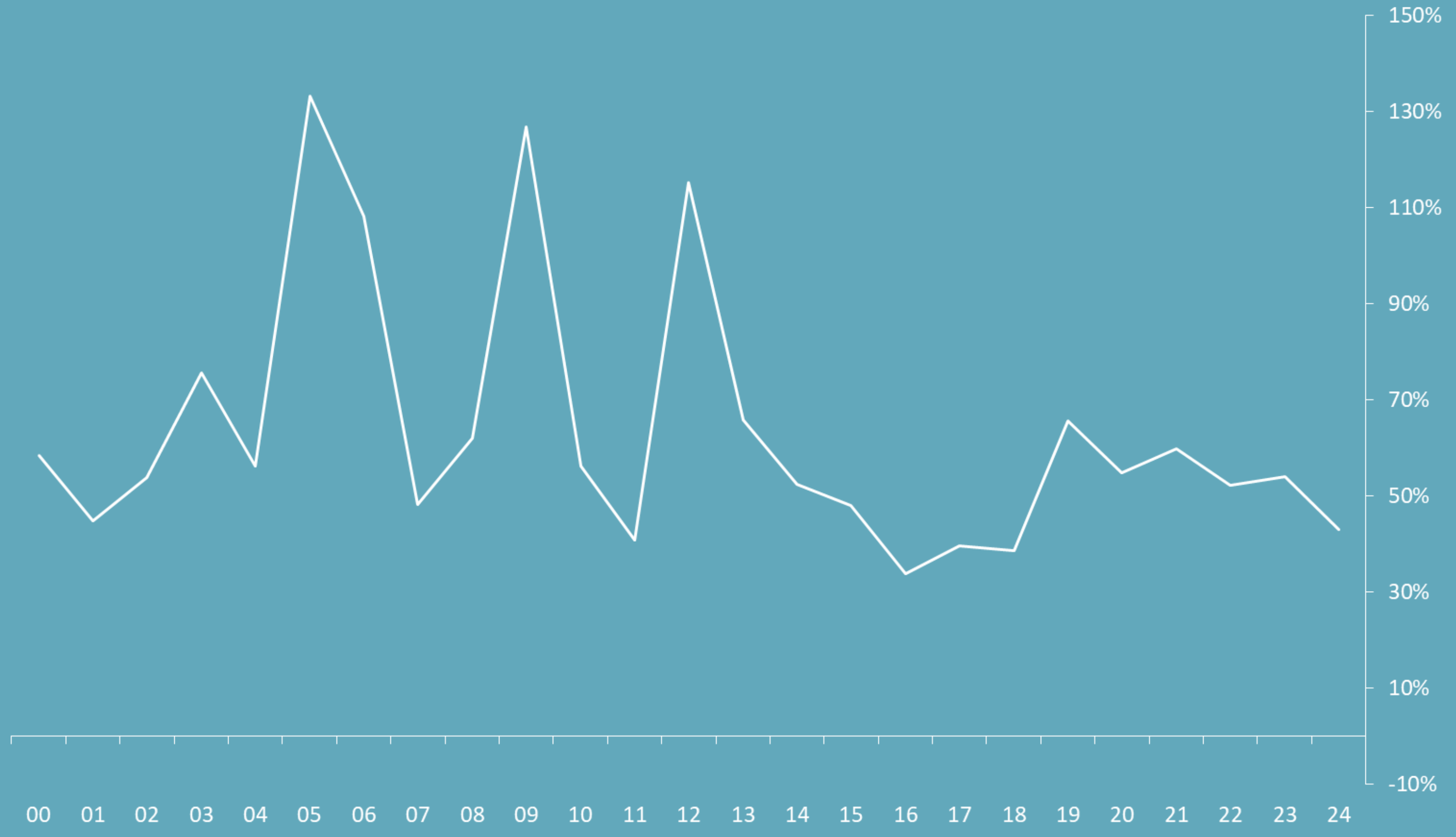
Predictable long-term cash income streams

Highest quality assets in Western Europe

Low beta sector with high forecastability of cash flows underpinned by tangible valuation benchmarks

High return dispersion creates alpha opportunity

Annual EPRA return dispersion *



* Average annual share price performance of the top quartile of EPRA less the average share price performance of the bottom quartile. EPRA is the FTSE EPRA NAREIT Developed Europe Total Return Index (107 constituents)

Dispersion drivers

1 | **Leverage**

2 | **Asset quality**

3 | **Growth**

4 | **Country & regional factors**

5 | **Asset class**

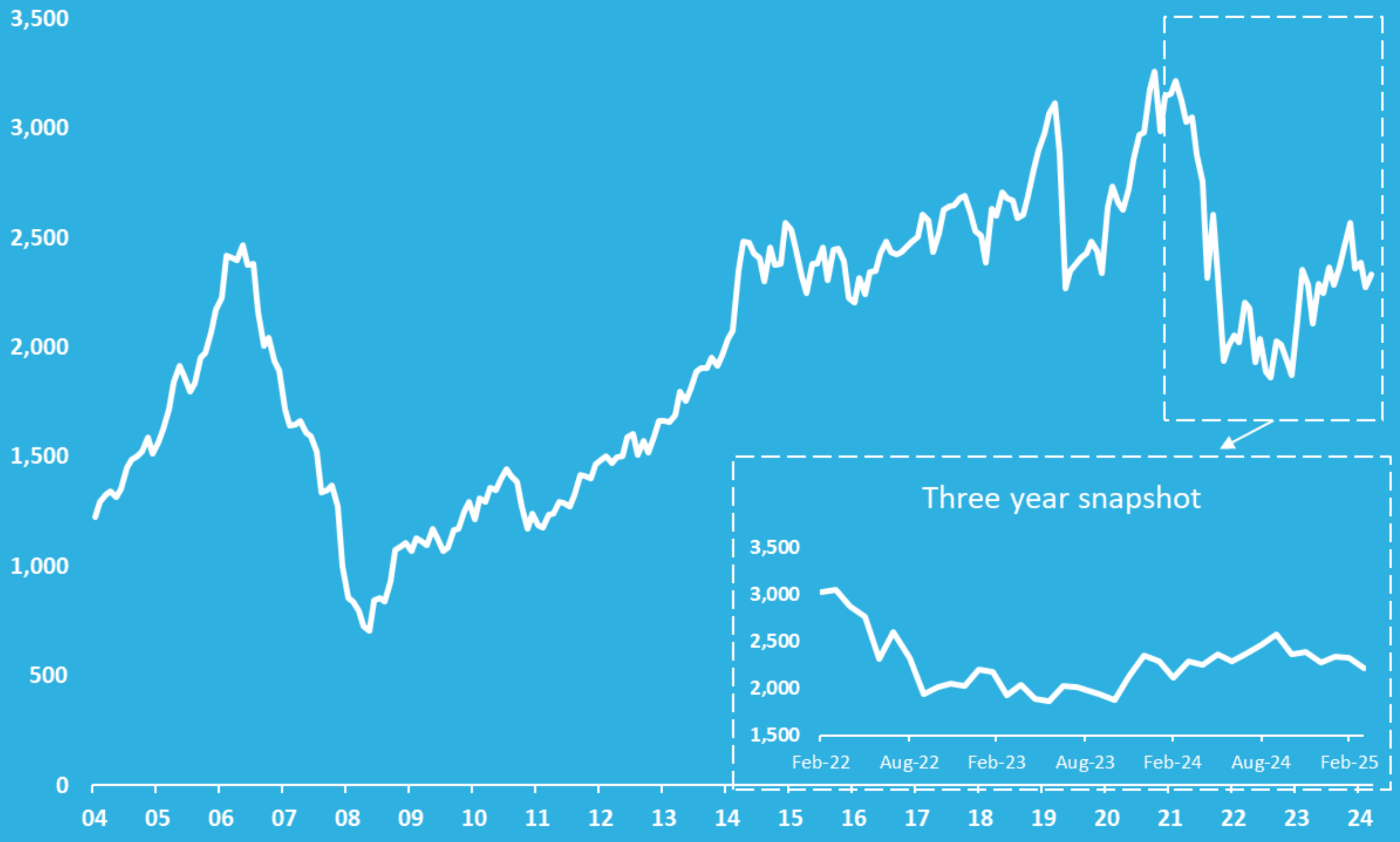
6 | **Liquidity**

7 | **Structural shifts incl. e-commerce, work from home**

8 | **Environmental factors**

What happened?

EPRA: The European REIT Index



FTSE EPRA NAREIT Developed Europe Net Total Return Index

Source: Bloomberg

Note: While we refer to listed real estate companies in this document as "REITs", many of them are not Real Estate Investment Trusts

Initial recovery from 45% rates-driven drawdown stalls amid renewed uncertainty over interest rate outlook

The index also suffered 4 of the ten worst monthly drawdowns on record in 2022/2023, as property valuations adjusted to higher interest rates

Capital value = Income / capitalisation rate

Not an income problem

Most leases are indexed to inflation

Robust occupier markets, no over-supply. A deep recession is a risk

Rather, a valuation problem

Real estate capital values are falling

Driven by the cost of capital

Cap rates moving higher

The incremental buyer needs a higher income yield to cover their cost of capital

What is the opportunity?

Deep correction to real estate capital values

Capitalisation rates move from cyclical lows to historic high levels (as implied by the REIT equity market)

Discounts to trough net asset values

Driven by valuation risk and balance sheet uncertainty, many REITs trade below expected trough net asset values

Economic outlook flat, but hardly a disaster

European defence and infrastructure spending and resolution of the Ukraine war potential catalysts for an economic recovery

Deep value entry point

Discounts to trough NAV will become premiums as valuations stabilise into a recovery cycle and balance sheets are repaired

It all seems to be about rates

The ECB has now cut their deposit facility rate 6 times, from 4.0% to 2.5%

Markets currently price in a further 2.0 cuts in 2025

The BOE has cut their base rate 3 times, from 5.25% to 4.5%

Markets currently price in a further 1.7 cuts in 2025

The Fed has cut the Fed Funds rate three times from 5.5% to 4.5%

Markets currently price in a further 2.4 cuts in 2025

The outlook has become more guarded

"Rate setters need to be careful in adjusting policy amid a volatile global backdrop and a very gradual cooling in price pressures"

Andrew Bailey

"Risks to growth are tilted to the downside, but the geopolitical tensions created two-sided inflation risks"

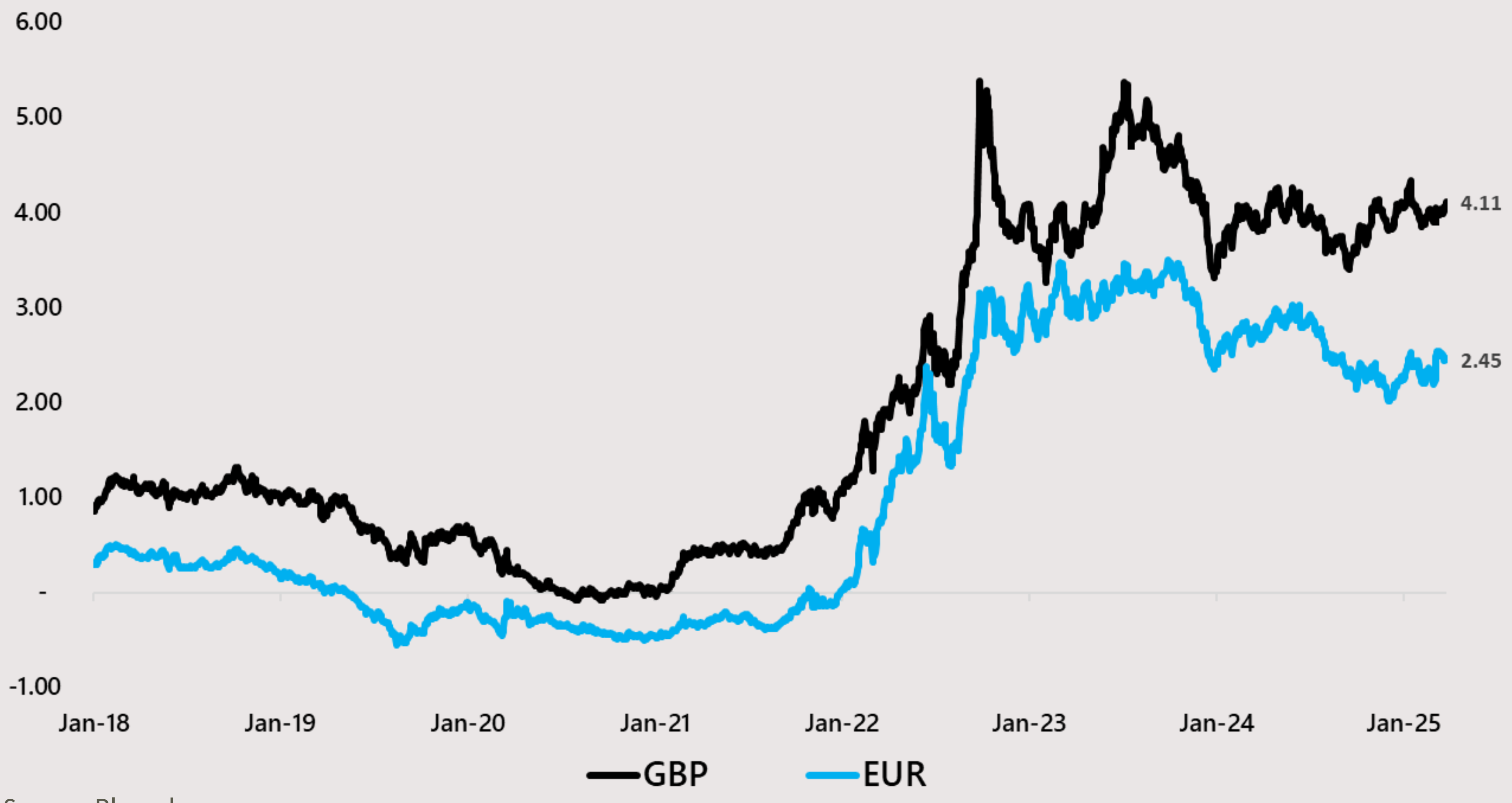
Christine Lagarde

"We do not need to be in a hurry to adjust our policy stance, and we are well positioned to wait for greater clarity"

Jay Powell

European rates outlook

5 Year swap rates remain elevated despite lower base rates

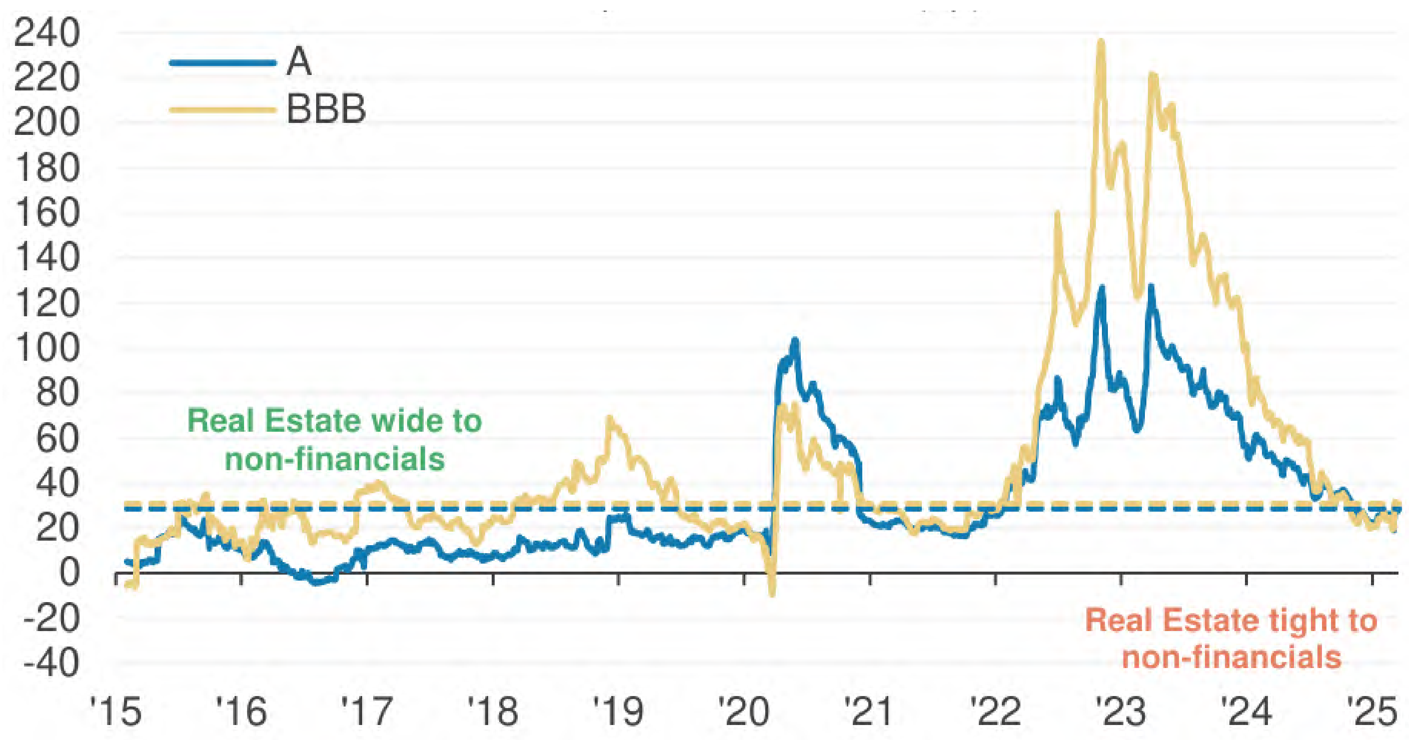


Source: Bloomberg

- **While overnight rates have been cut across the developed world, longer duration bond yields and swap rates have headed higher**
- **Protectionist policies from the new US administration will likely be inflationary**
- **Relaxation of the German debt brake will see a material increase in borrowing to fund defence and infrastructure**
- **The UK October budget fuelled expectations of higher government borrowing**

But credit markets are robust

Euro Real Estate bond spread vs. Non-financial (bp)



Source: Bloomberg

- **REITs are capital-intensive and sensitive to the availability <u>and</u> cost of credit**
- **Credit markets are fully functioning and open to high quality issuers, with credit spreads back to levels seen in 2021**
- **Material stress in credit markets (like the spread widening in 2022/2023) would be a major negative for REITs**

Cost of debt normalising

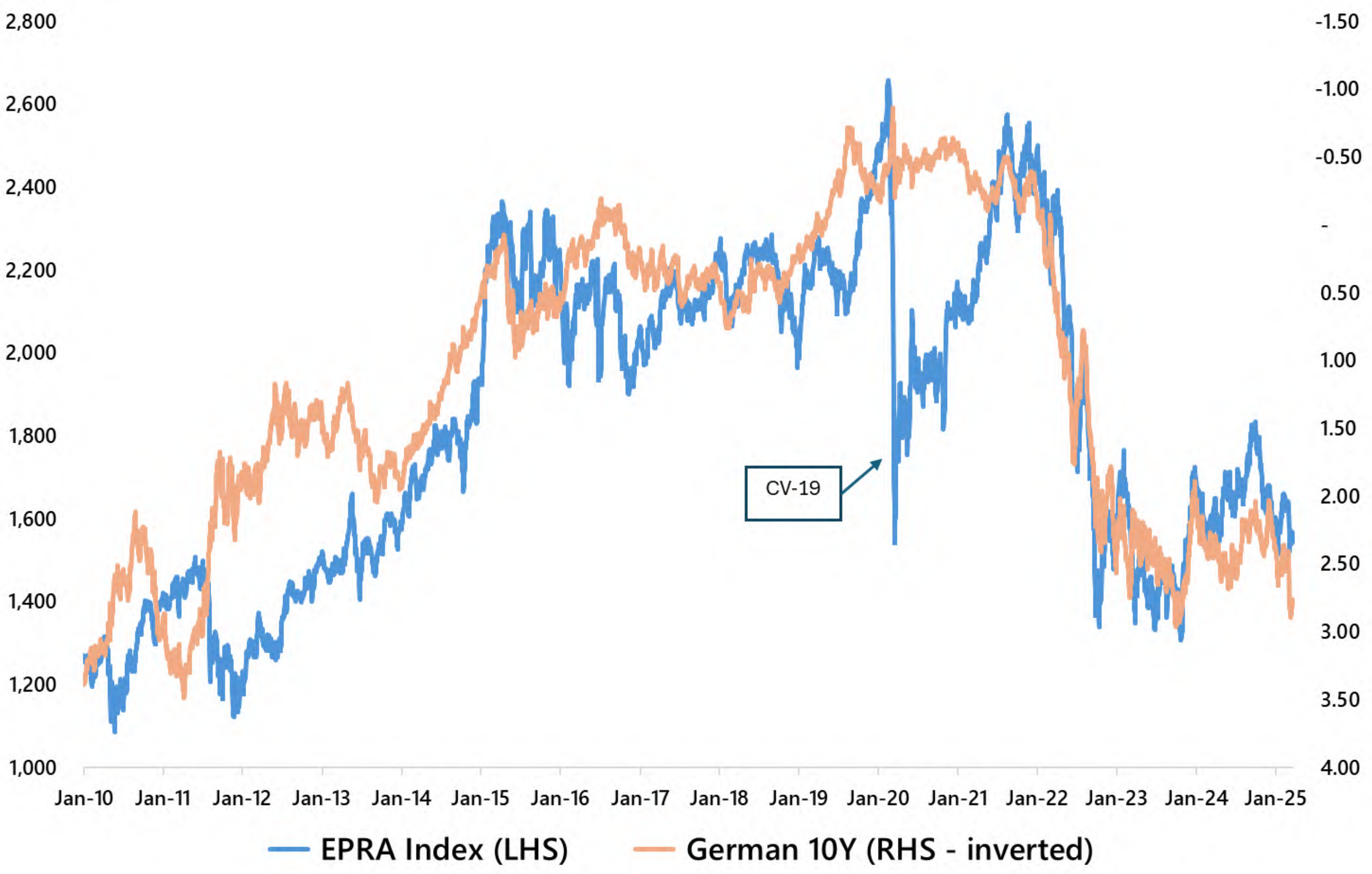
Yield to maturity of the European real estate corporate bond index

Source: Bloomberg

- **After peaking at 5.7%, the yield to maturity on the REIT bond index is back to 3.5%**
- **Average European REIT in-place cost of debt is 2.4% with average unexpired debt term of 5.2 years**
- **While real estate values take time to correct, the REIT market dynamically assumes cyclical low values**
- **As property yields again exceed the cost of debt, external growth opportunities reopen**

Bond proxy

EPRA price performance vs bond yields

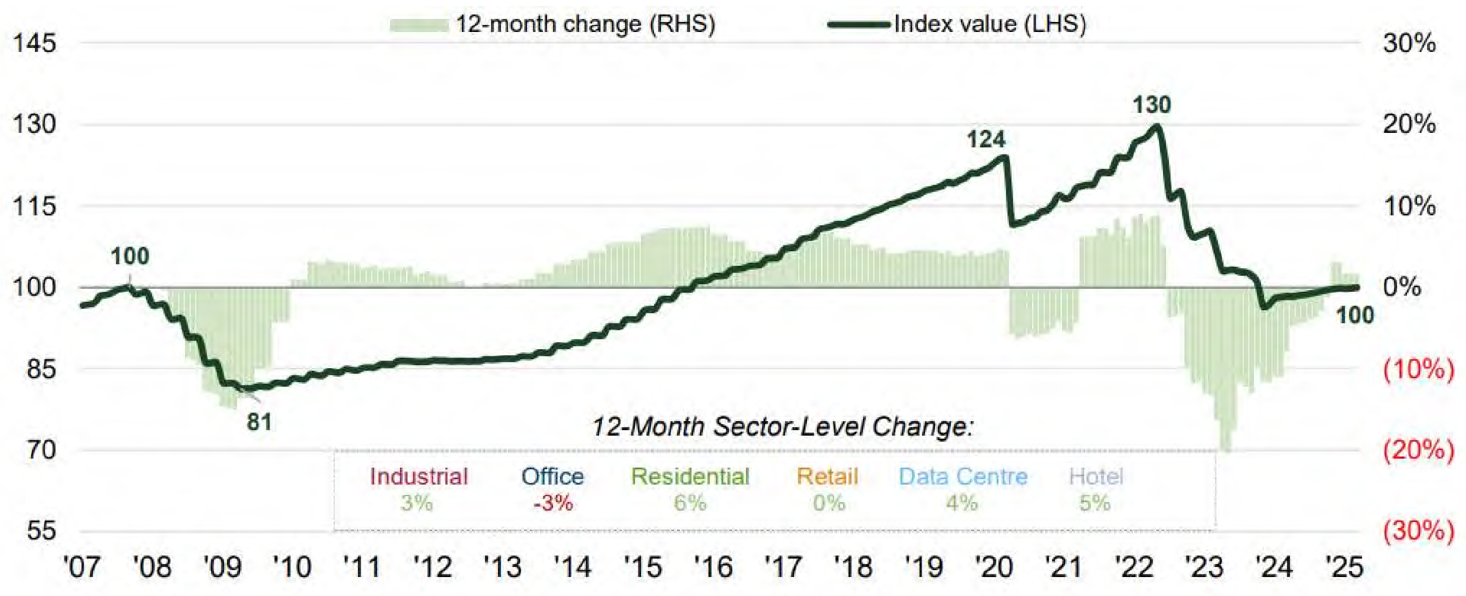


Source: Bloomberg

- **Since the first rate hikes in 2022, REITs have been highly correlated to bond yields**
- **The sector is treated as a bond proxy by generalist equity and macro funds**
- **Global REIT fund flows are also driven by rates sentiment**

By how much have capital values already fallen?

Green Street Commercial Property Price index



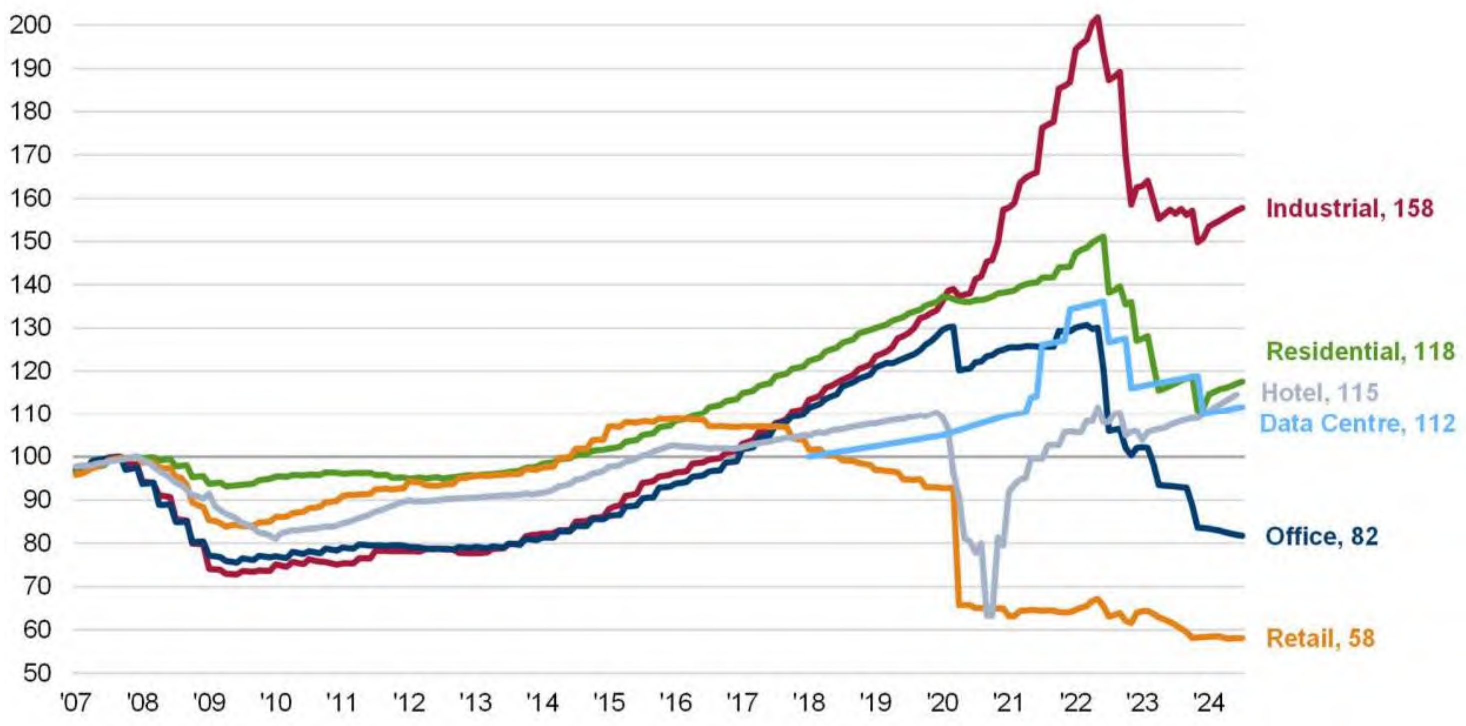
Source: Green Street Advisors

The Green Street Commercial Property Price Index is a time series of unleveraged Pan-European commercial property values at which transactions are currently being negotiated and contracted. B/B+ Quality

- **Frozen market for three years with wide bid:offer spreads**
- **Opportunistic buyers back in the market, institutional not**
- **Occupier fundamentals remain strong**
- **Spot values have fallen by 25% since June 2022, compared to a 19% decline during the GFC**
- **Other than non-prime offices, values bottomed in early 2024, but recovery is slow**

By how much have capital values already fallen?

Green Street Commercial Property Price index



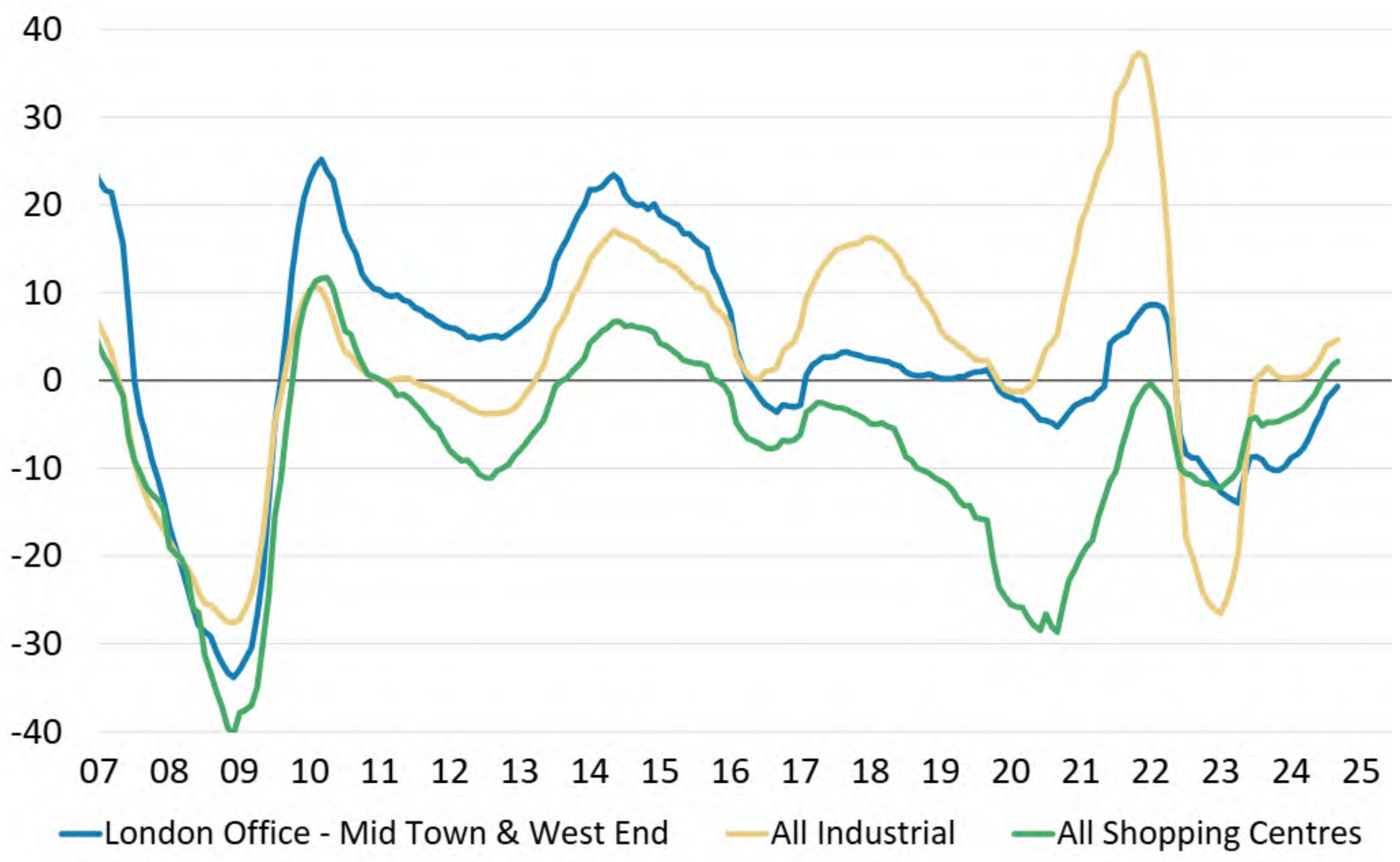
Source: Green Street Advisors

The Green Street Commercial Property Price Index is a time series of unleveraged Pan-European commercial property values at which transactions are currently being negotiated and contracted.

- **Industrial/logistics underperformed from the lowest starting cap rates, but with the best fundamental outlook will recover quickest**
- **Multi-family residential market highly sensitive to interest rates**
- **Retail, on the highest starting cap rates, performed best as values already re-set post CV-19**
- **Offices most challenged**

By how much have capital values already fallen?

UK IPD index year-on-year capital value growth

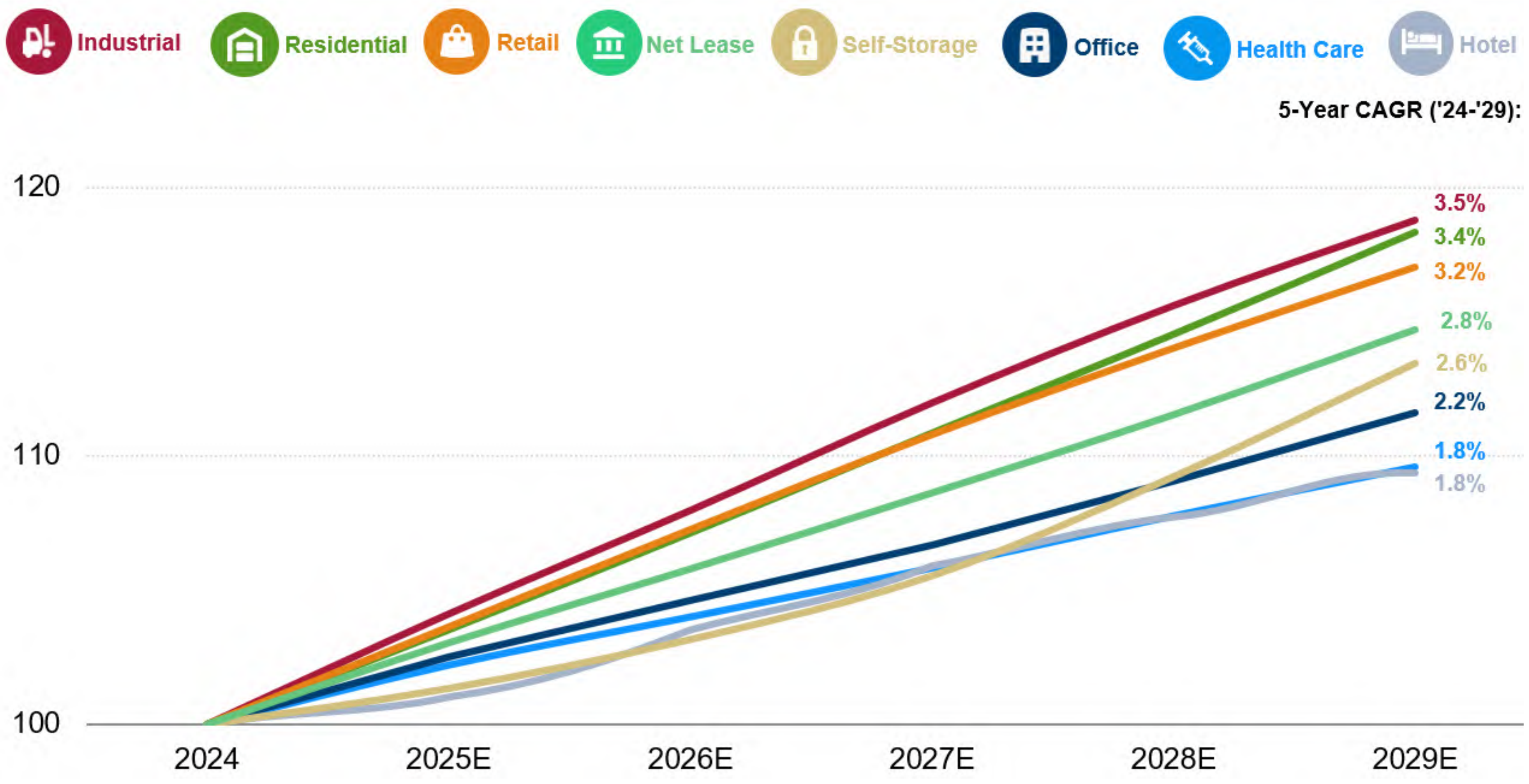


Source: MSCI

- **Industrial/logistics underperformed from the lowest starting cap rates, but with the best fundamental outlook will recover quickest**
- **Multi-family residential market highly sensitive to interest rates**
- **Retail, on the highest starting cap rates, performed best as values already re-set post CV-19**
- **Offices most challenged**

Rental growth outlook

Green Street 5-year organic net rental income outlook

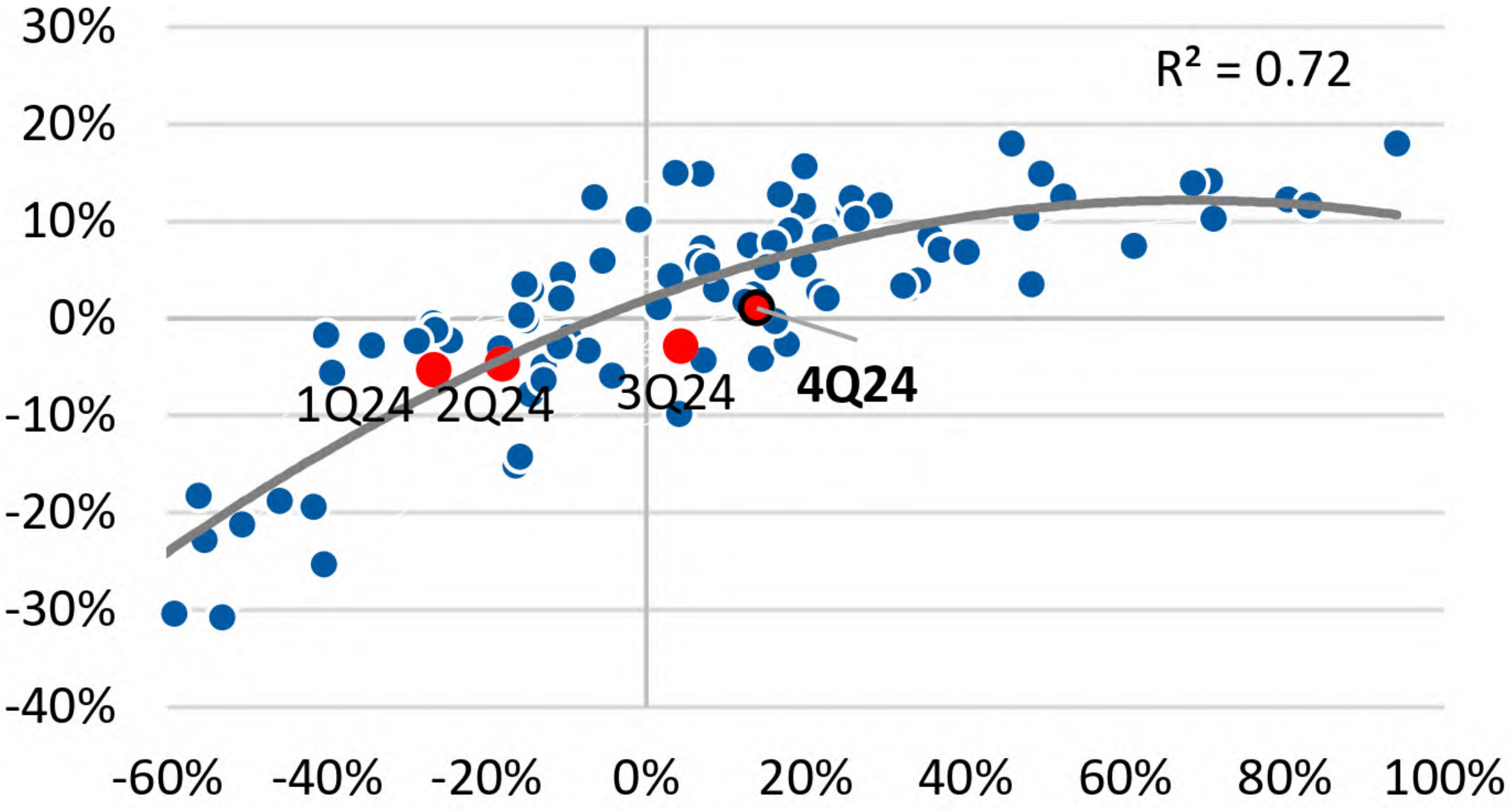


Source: Green Street Advisors

- Despite sluggish economic growth across Europe, net rental income growth remains robust
- 5-year CAGR market NRI growth expected to range between 1.8% and 3.5%
- Most REITs benefit from leases indexed to inflation, boosting NRI in the near term

Volumes and pricing correlate strongly

UK capital value growth vs. volume growth

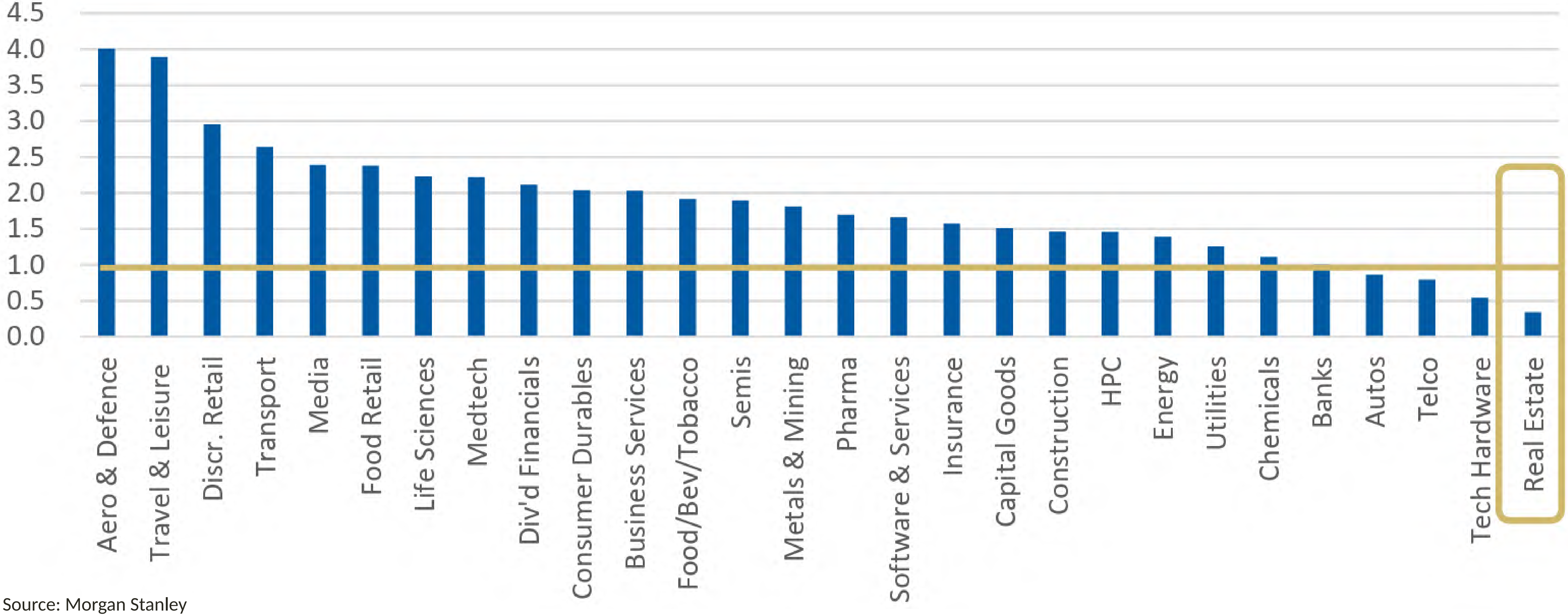


Source: Green Street Advisors

UK Commercial property capital value growth (LHS) vs UK commercial property volume growth over last 12 months (RHS)

- **Commercial property values are highly correlated with market activity**
- **Volumes have stabilised and started to grow in 4Q 2024**

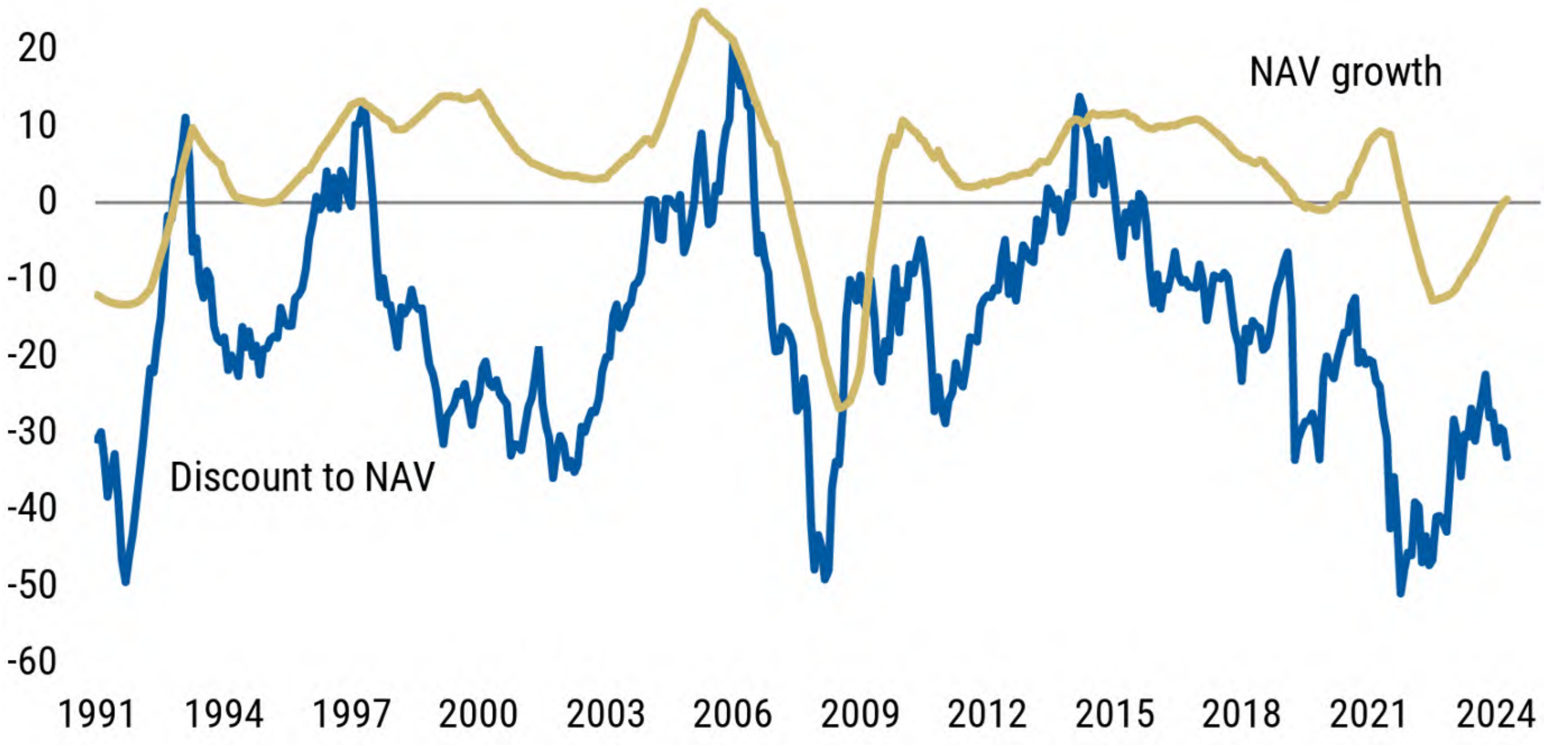
Real estate is the most under-owned sector by global long-only funds



Source: Morgan Stanley

What is the market implying?

Near-record discounts to net asset value anticipate steep declines in property values



Source: Morgan Stanley

Net asset discounts reflect market expectations that total returns (income plus capital return) will be below the cost of capital

- **Large discounts price in falling values**
- **When values stabilise and potentially rise, discounts close and can become premiums**

What is the market implying?

Equity market implies up to 200bp yield expansion

Source: Morgan Stanley

While it takes time for property values to adjust, the REIT market dynamically re-prices the underlying real estate every day:

Current implied pricing suggests a 180bp outward shift in cap rates in Europe and 210bp in the UK, all else equal.

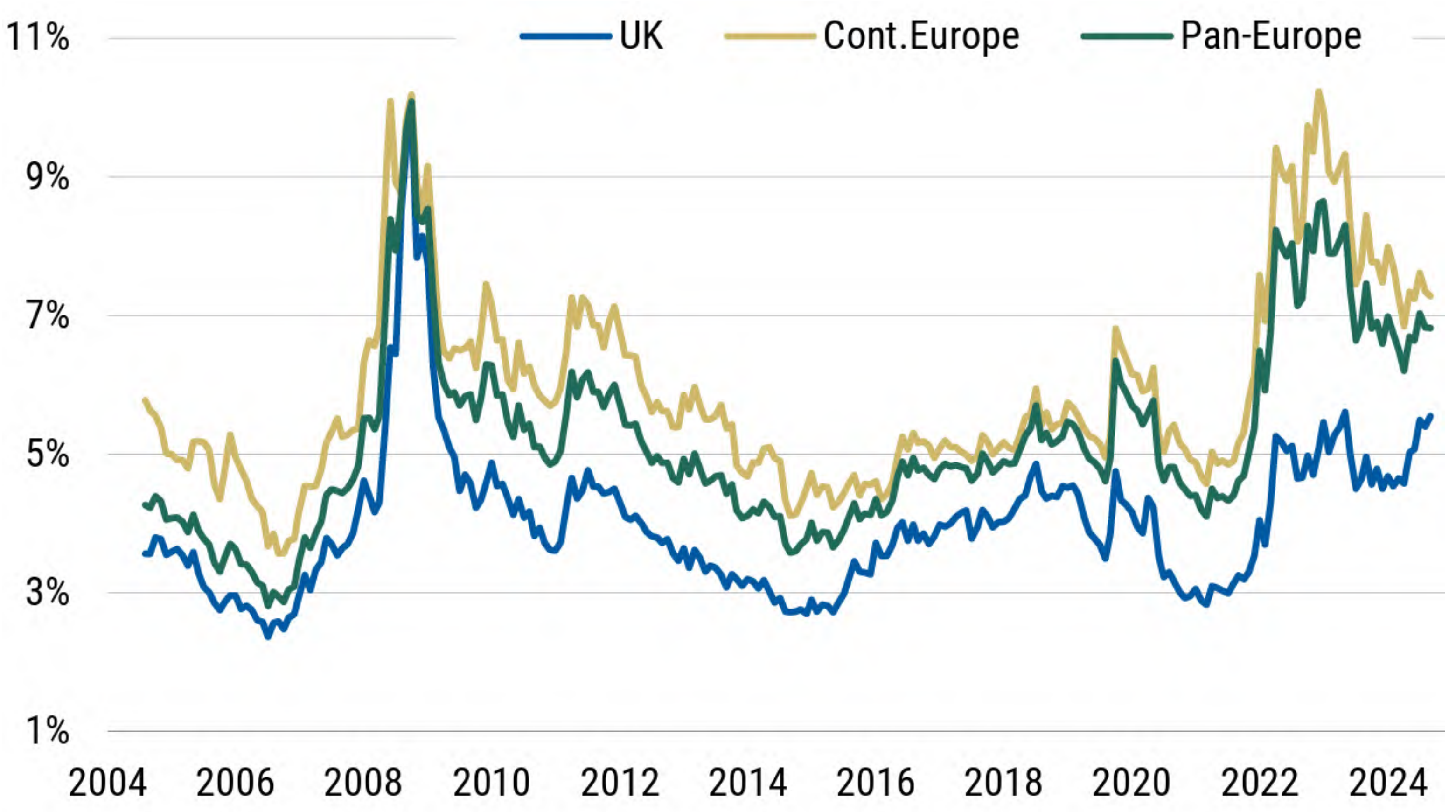
Sophisticated buyers are targeting the discounts prevalent in the listed market

Date	Acquiror	Target	Value (€ mln)
Feb-24	TriTax Big Box	UKCPT	1,150
Apr-24	Shurgard	Lok'nStore	470
May-24	New River	Capital & Regional	190
Jul-24	Hines	Lar Espana	700
Sep-24	Starwood	BCPT	870
Oct-24	Brookfield	Tritax Eurobox	700
Mar-25	CareTrust REIT	Care REIT	550
Mar-25	KKR	Assura	1,950
Mar-25	Blackstone	Warehouse REIT	550

- **Private equity buyers and US REITs are targeting the listed REIT market, where high quality real estate can be acquired at steep discounts**

What is the market implying?

Trailing earnings yield



Source: Morgan Stanley

Earnings will be impacted by rising rates

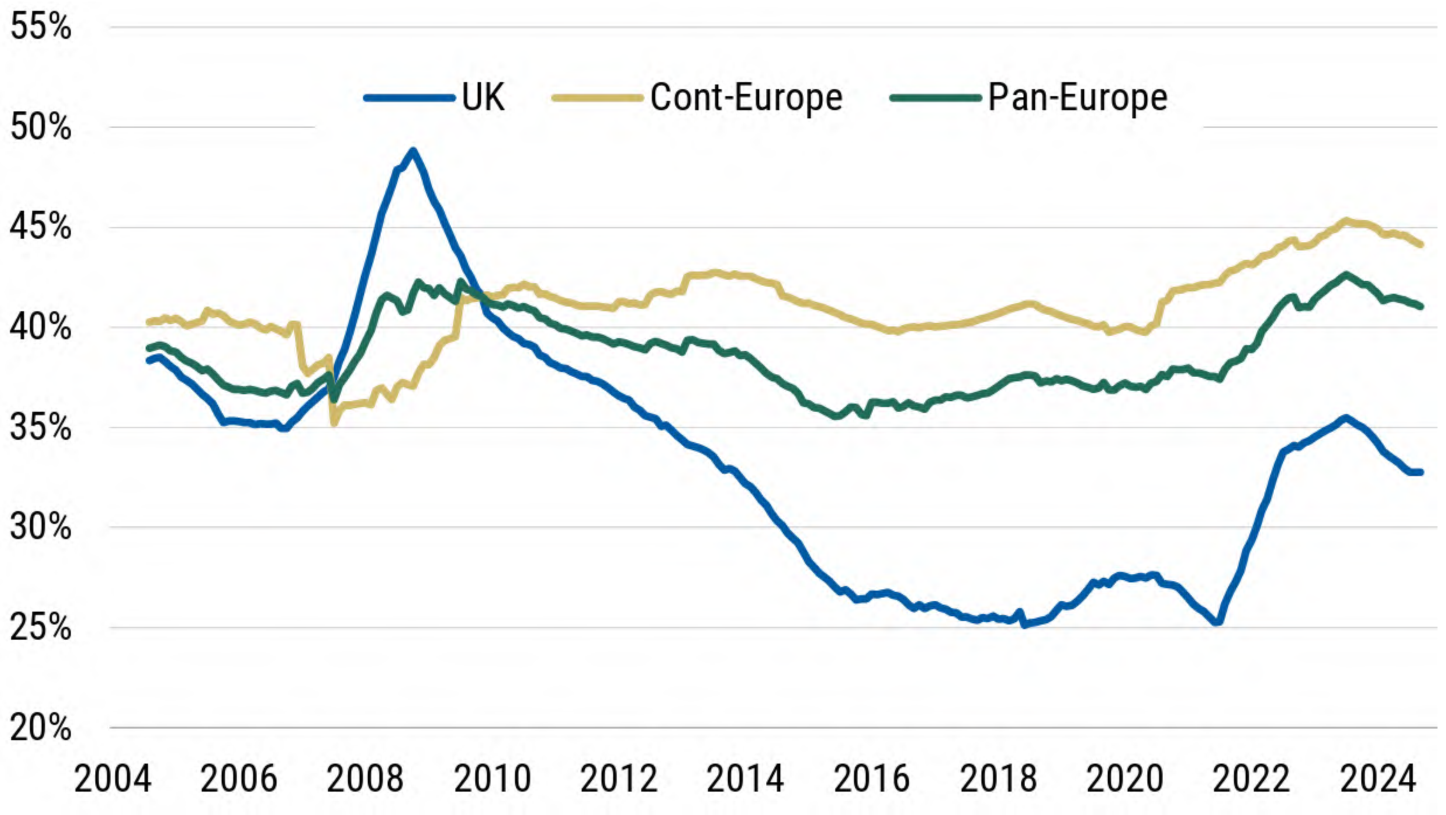
But earnings also benefit from inflation-linked leases and/or rental growth

Weighted average EPRA interest cost has risen from 1.9% in 2021 to 2.4% today

Despite the initial share price recovery, earnings yields are still elevated in a historic context

Reduced focus on leverage

Net debt to gross assets (LTV proxy)



Source: Morgan Stanley

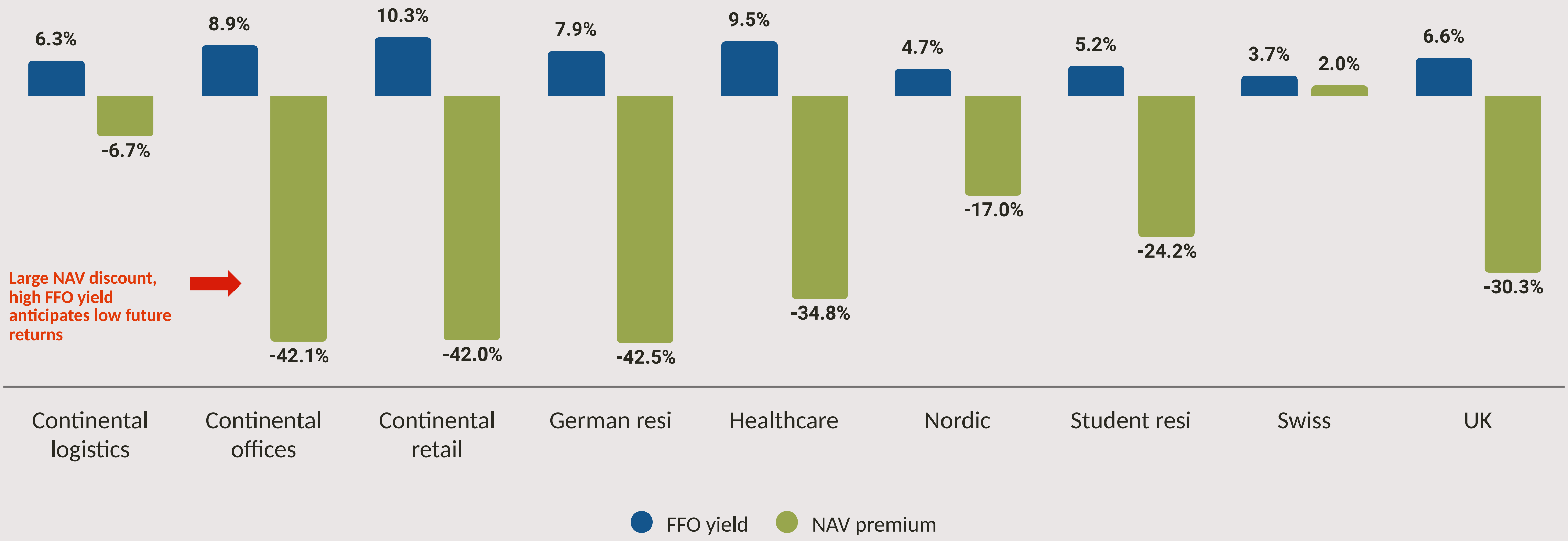
Income yield may be an illusion where leverage is too high and equity recapitalisation is likely.

Dividend cuts normally come first.

Most REITs will act to protect their credit ratings.

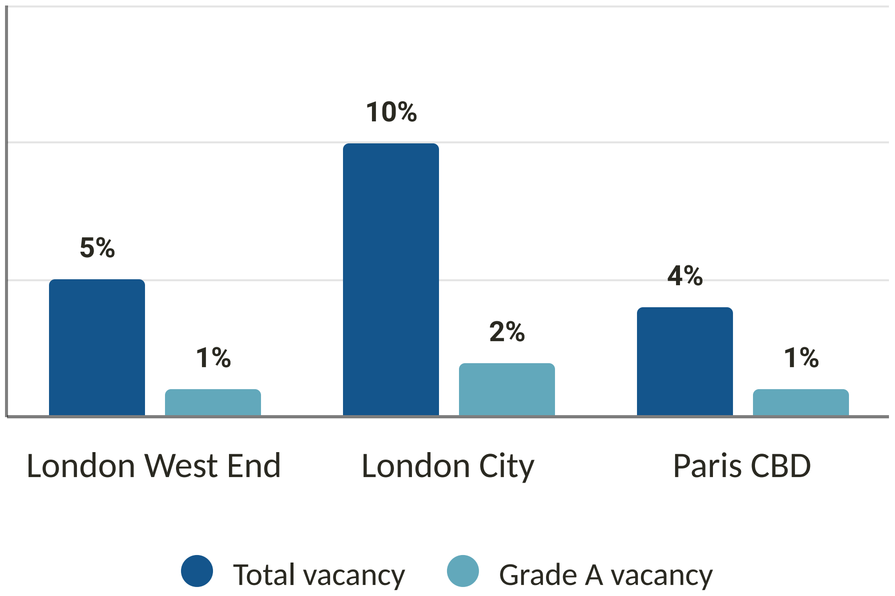
Now that values have bottomed, leverage is less of a concern

Current sub-sector pricing



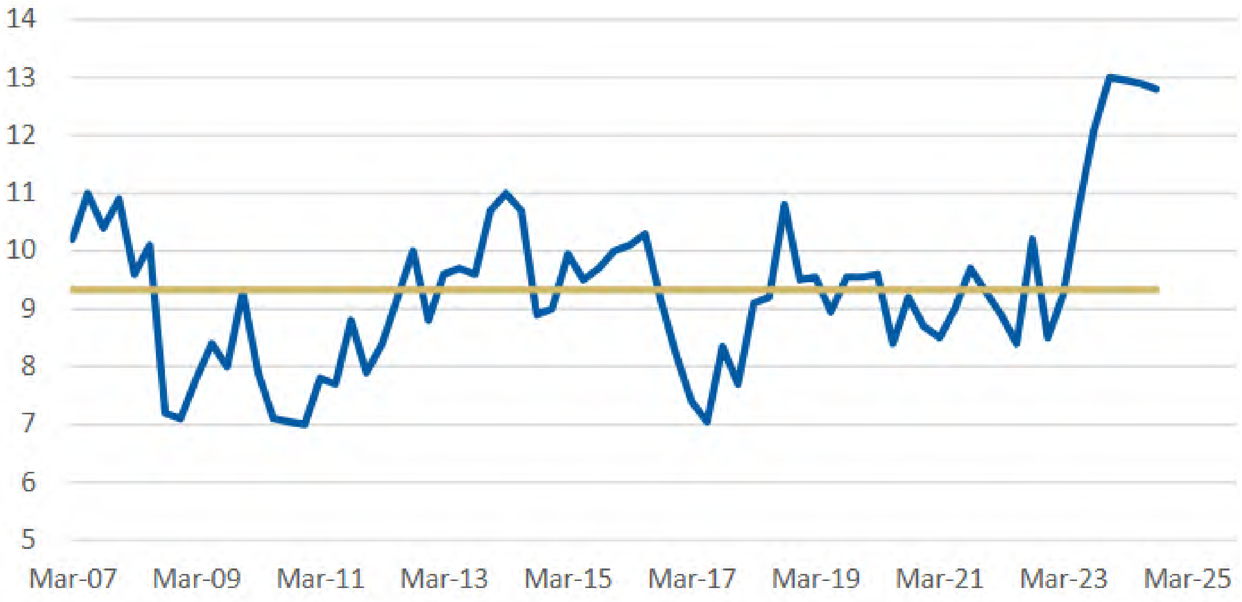
Prime offices: Overly bearish?

Office vacancy rates



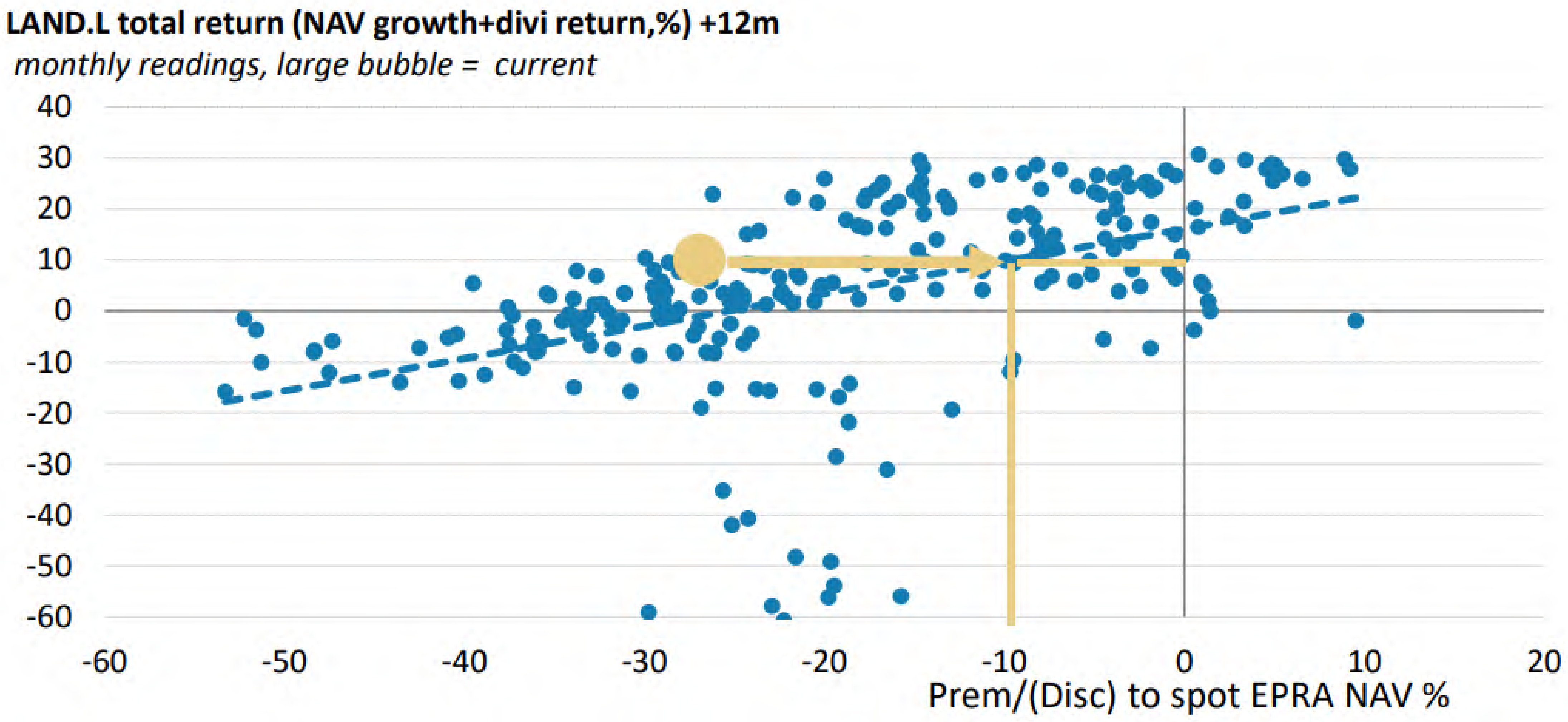
Source: Derwent London / Colonial

London office active requirements (mln sq ft)



Source: Cushman & Wakefield

NAV discounts vs expected total return



Source: Morgan Stanley

Key issues for 2025

- **Price discovery in the direct markets**

  With the exception of non-prime offices, real estate capital values bottomed in H1. Meaningful capital on the sideline. Higher bond yields becoming a near-term headwind

- **External growth opportunities return**

  Capital markets re-open to the sector as property yields again exceed cost of debt

- **Balance sheet repair**

  Many REITs hold too much leverage against portfolios that are potentially still overvalued

- **Will occupier market resilience hold against a weaker macro backdrop**

  At a time when structural headwinds remain (WFH, energy performance regulations) and macro economic uncertainties are elevated. **Stagflation is a major risk**

A new cycle

1 Equity market starts pricing in a recovery

Rates become a tailwind rather than headwind

Concern shifts to income fragility into a weaker economic backdrop

M&A activity in the listed market as cost of capital reduces

2 Direct market stabilises

Market finds a clearing level and transactional activity increases

Opportunistic capital normally comes in first (hundreds of billions of firepower in the hands of private equity)

3 High total return potential from the listed market

As capital values stabilise, NAV discounts narrow, adding capital value returns to high starting income yields

With declining cost of capital, external growth opportunities can again be pursued

4 Catalysts not obvious but we're paid to wait

>7% free cash flow returns on c. 30% NAV discounts

Optionality in M&A opportunities

The sector screens as very cheap compared to large other parts of the market which do not

Clearance Camino Fund

Liquid, diversified portfolio of best opportunities in the European listed real estate market

Liquid

Weekly subscription and redemption

Subscribe and redeem at NAV, no fees or penalties

Available on most platforms

Diversified

Maximum position limit of 10%

Typically 40-50 holdings

Diversified across geography and sub-sector

Experienced, specialist team

European listed real estate specialist, London based

Team of 21, including 14 investment professionals managing AUM of $800m

Multiple currency options

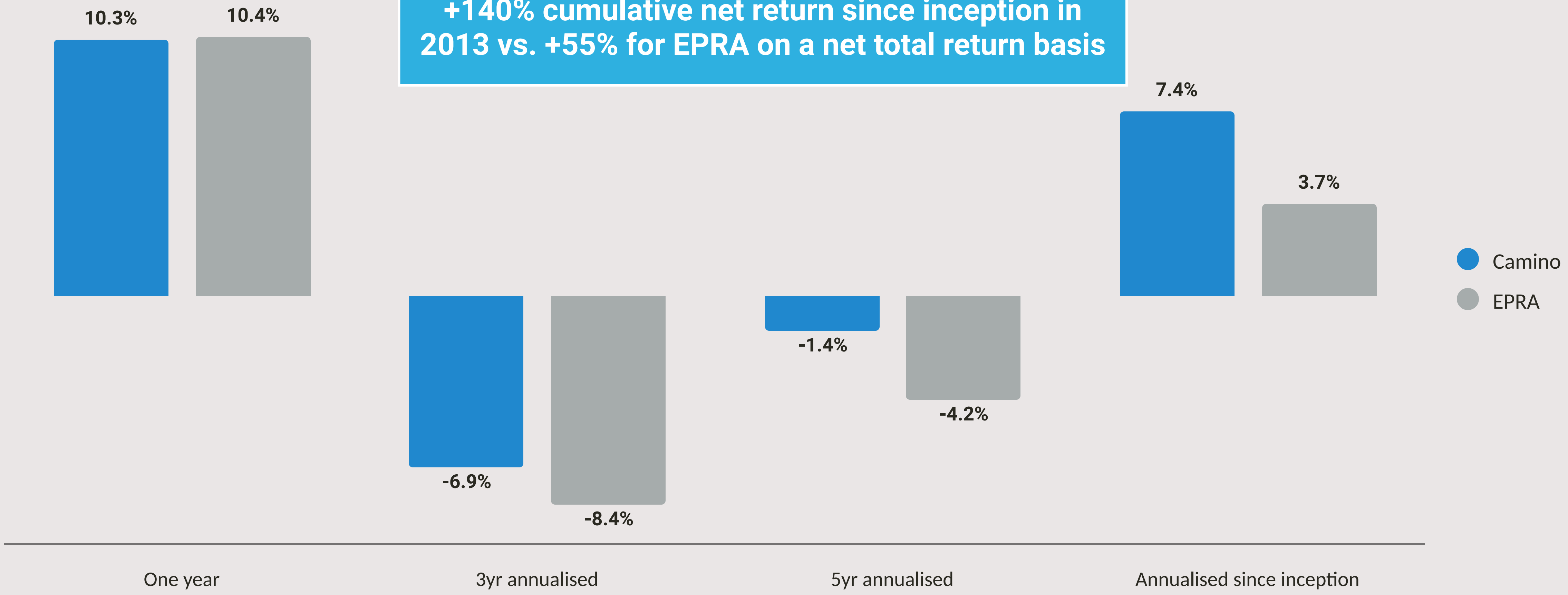
Available in EUR, GBP and USD

Exposure not hedged back to subscription currency

Strong long-term track record

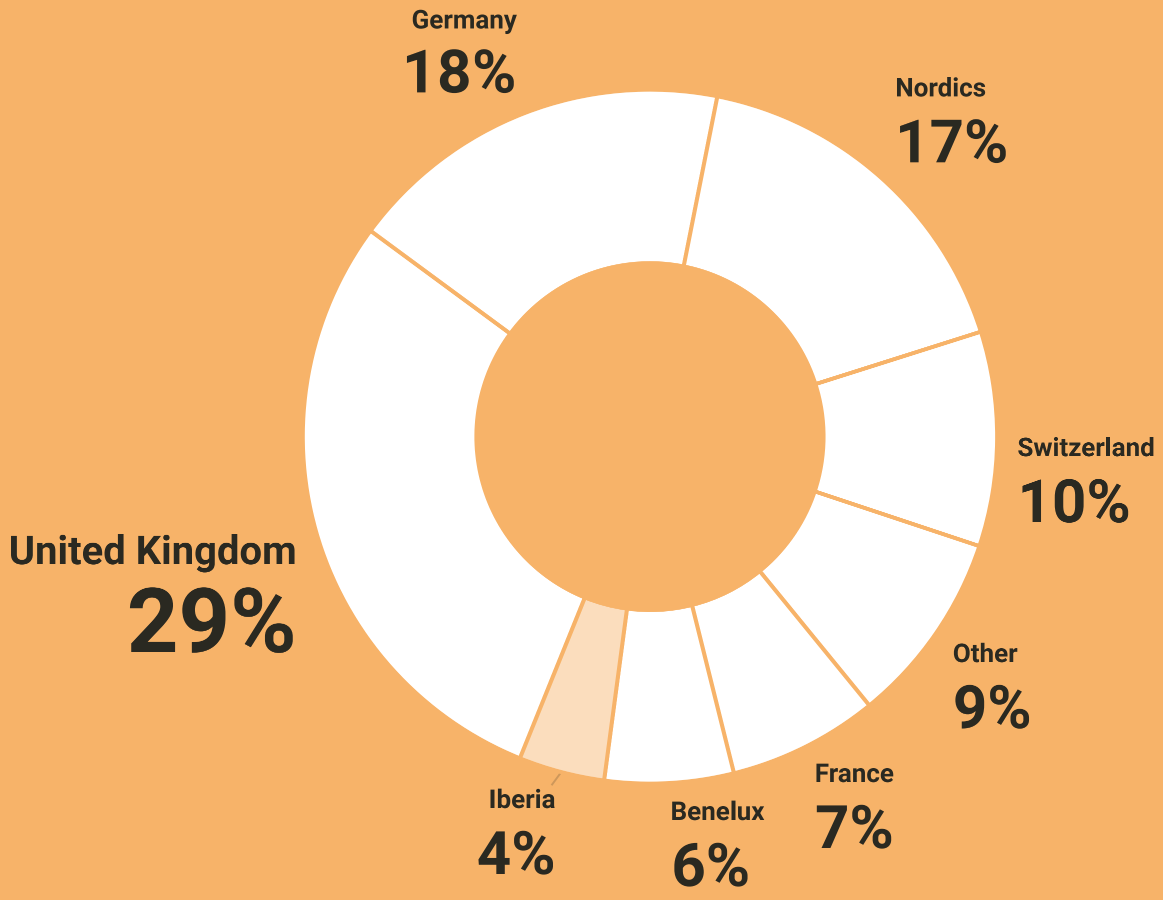
Recent returns impacted by market drawdown

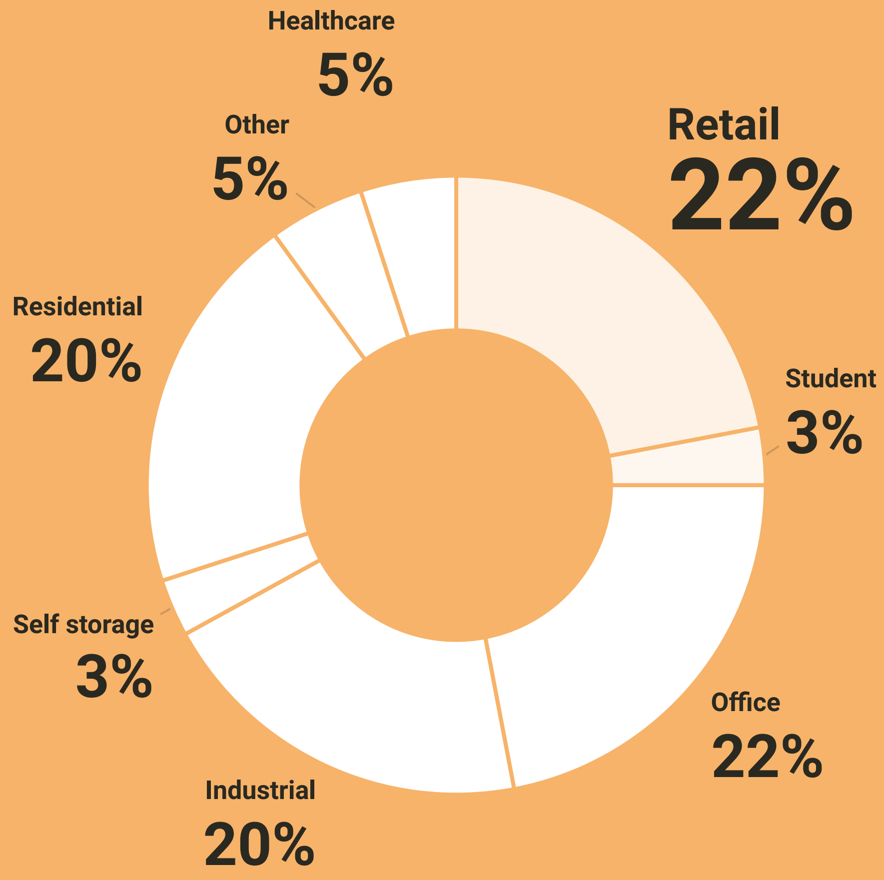
+140% cumulative net return since inception in 2013 vs. +55% for EPRA on a net total return basis



Source: Fund records. Returns updated to 28 Feb 2025

Portfolio construction





47 Holdings ○ Top ten holdings 51% ○ Average holding 2.1%

Top ten holdings

4.1% dividend yield

7.7% cash earnings yield

37% loan-to-value

5.2yr debt maturity. 2.5% cost

29% discount to NAV

Summary

1 Bond yield spike potentially delays cyclical recovery still in its early days. Stagflation a real risk

2 Commercial property values mostly bottomed out in the first half, double dip in values is a fear

3 REITs again able to acquire real estate in an accretive manner as cap rates > financing cost

4 Sophisticated buyers target discounts in the listed market

5 Rising property values and rents will be a catalyst for discounts to narrow

Fund Terms

- **Listing**
  International Stock Exchange
- **Share Classes**
  EUR, GBP and USD
- **Minimum investment**
  Platform minimums apply
- **Administrator**
  Northern Trust
- **Auditor**
  KPMG
- **Custodian**
  Northern Trust
- **Subscription and redemption**
  Weekly
- **Dividends**
  None
- **Annual Management Fee**
  1% (0.7% for qualifying investors)
- **Incentive Fee**
  15% of performance over benchmark, subject to positive performance
- **Benchmark**
  FTSE EPRA NAREIT Developed Europe Net Total Return

GLOBAL CAPITAL
SOLUTIONS

The fund is distributed by Global Capital Solutions.

Please contact Lindi Van den Berg

lindi@globalcap.co.za

083 344 9050

www.clearancecaminofund.com

Available on the following platforms:

- Allan Gray Offshore
- Capital International Group
- Cidel
- Credo
- DMA
- Glacier International
- Investec Securities
- Julius Baer
- Lombard Odier / Stonehage
- Nedbank Private Wealth (asset swap)
- Momentum Wealth International
- Momentum Wealth (asset swap)
- Old Mutual International
- Ramsey Crookall

Meet us at Meet the Managers 2025

https://www.meetthemanagers.co.za/

Clearance Capital Limited

3 Copthall Avenue, London, EC2R 7BH
www.realestatealternatives.com
+44 203 0027 685
Regulated by the Financial Conduct Authority

Disclaimer

This document has been approved by Clearance Capital Limited (“Clearance Capital”) of 3 Copthall Avenue, London EC2R 7BH for the purposes of the Financial Services and Markets Act 2000 (“FSMA”). Clearance Capital is authorised and regulated by the Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London This document relates to the Clearance Camino Fund (the “Fund”), which is a Guernsey limited company. The Fund will not be authorised or otherwise approved by the Financial Conduct Authority. No offering of interests in the Fund is made or implied as a result of the circulation hereof. The preliminary terms discussed herein are subject to revision and will be subject to the definitive provisions provided for in the Listing Document and other operating documents (the “Operating Documents”) of the Fund. An offering of interests in the Fund will only be made pursuant to the Listing Document and a Subscription Agreement for the Fund, and the discussion contained herein is qualified in its entirety by reference to the detailed information, including the substantial risks associated with an investment in the Fund, which will appear in the Listing Document, the Operating Documents and the Subscription Agreement. Any decision to invest in the Fund must be based solely on the information set forth in the Listing Document, Operating Documents and the Subscription Agreement, which should be read carefully by potential subscribers and their advisers. This document is confidential and intended solely for the person to whom it is delivered. No part of this document may be reproduced in any form or by any means or re-distributed without the prior written consent of Clearance Capital. This document should not be construed as an offer to sell any investment or service. Furthermore, this document does not constitute the solicitation of an offer to purchase or subscribe for any investment or service in any jurisdiction where, or from any person in respect of whom, such a solicitation of an offer is unlawful. This document does not constitute investment advice or a personal recommendation. Reliance on this document for the purpose of engaging in any investment activity may expose you to the risk of losing the value of your investment. Any person who is in doubt about the investment to which this communication relates should consult an authorised person specialising in advising on investments of the kind to which this communication relates. The information in this document has been prepared in good faith, however, no representation or warranty, expressed or implied, is or will be made and no responsibility or liability is or will be accepted by Clearance Capital or its officers, employees or agents in relation to the accuracy, completeness or fitness for any purpose of this document. The information stated, opinions expressed and estimates given are subject to change without prior notice. The financial illustrations and illustrative investor returns contained in this document do not constitute forecasts and should not be construed as such. This document is a “non-retail communication” within the meaning of the FCA’s Rules and is directed only at persons satisfying the FCA’s client categorisation criteria for an eligible counterparty or a professional client. This document is not intended for and should not be relied upon by a retail client. Collective investment schemes are generally medium- to long-term investments. Past performance is not necessarily a guide to future performance, and that the value of investments / units / unit trusts may go down as well as up. A schedule of fees and charges and maximum commissions is available from the Manager on request. Collective investments are traded at ruling prices and can engage in borrowing and scrip lending. The Manager does not provide any guarantee either with respect to the capital or the return of a portfolio. Performance is based on NAV to NAV calculations with income reinvestments done on the ex-dividend date. Performance is calculated for the portfolio and the individual investor performance may differ as a result. Sanlam Collective Investments (RF) (Pty) Ltd acts as the local representative office for the Fund.