NEDGROUP INVESTMENTS

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Nedgroup Investments Global Property Fund

Quarter Four, 2024

Marketing Communication

Nedgroup Investments Global Property Fund

Commentary produced in conjunction with sub-investment manager, Resolution Capital

Past performance is not indicative of future performance and does not predict future returns.

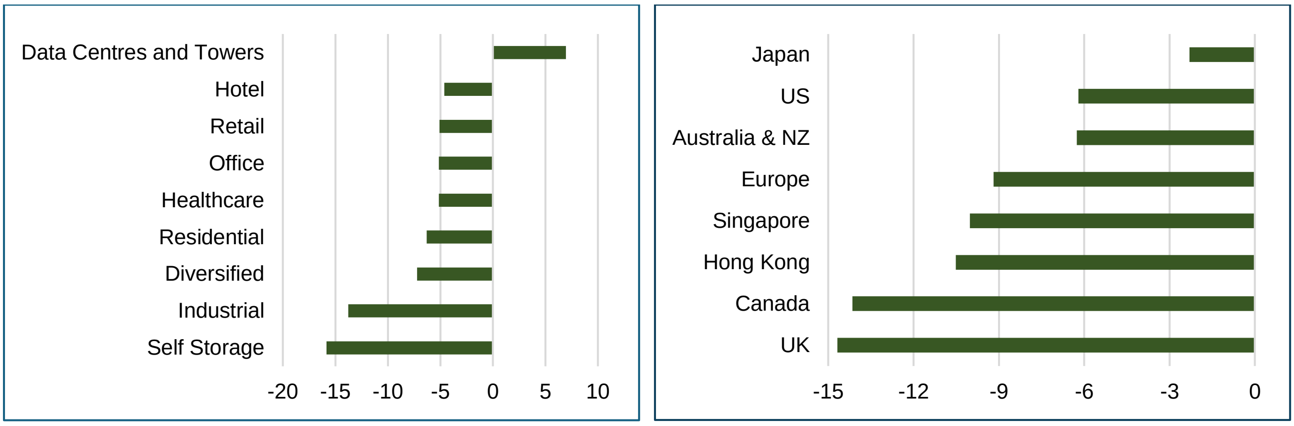
Indicator	*3 months*	*1 year*	*3 years p.a.*	*5 years p.a.*	*7 years p.a.*	Since Inception# p.a.
Portfolio*	*-9.37*	*1.92*	*-6.71*	*-0.44*	*1.57*	2.24
Performance indicator+	*-9.69*	*0.93*	*-6.05*	*-1.00*	*1.29*	1.44
Difference	*0.32*	*0.98*	*-0.67*	*0.55*	*0.28*	0.81

* Net USD return for the Nedgroup Investments Global Property Fund, A class. Source: Morningstar
# 14 July 2016
+ FTSE EPRA/NAREIT Developed Index (in USD Net Ret)

Summary points

- The quarter was marked by U.S. exceptionalism, with the USD and equity market strength carrying over to U.S. REITs despite negative total returns.
- All regions delivered negative total returns across the index, with Japan faring best due to stable, negative real interest rates.
- The UK REIT market struggled with almost -15% returns, impacted by higher real interest rates and fiscal policies of the new UK Labour government.
- Data Centres was the only sector with positive total returns, driven by strong occupier demand from AI growth and supply constraints.
- Self-storage landlords faced disappointing results due to subdued occupier demand, with significant reversals from the previous quarter's returns.
- Industrial property fundamentals are softening as e-commerce related leasing from the pandemic unwinds, leading to increased vacancies and declining market rents.
- Healthcare sector experienced strengthening seniors housing leasing conditions, with Welltower and Ventas raising earnings outlooks due to stronger fundamentals, having a large positive impact on relative returns.
- Office sector showed signs of improvement with rising tenant demand in key markets and increasing rents for modern buildings with sustainability credentials.
- Retail REITs outperformed due to strong consumer spending, low unemployment, and real wage growth, with pedestrian foot traffic and retail spending returning to pre-pandemic levels.

Sector and Regional returns 4Q24



Source: FTSE EPRA NAREIT Developed Index, Factset

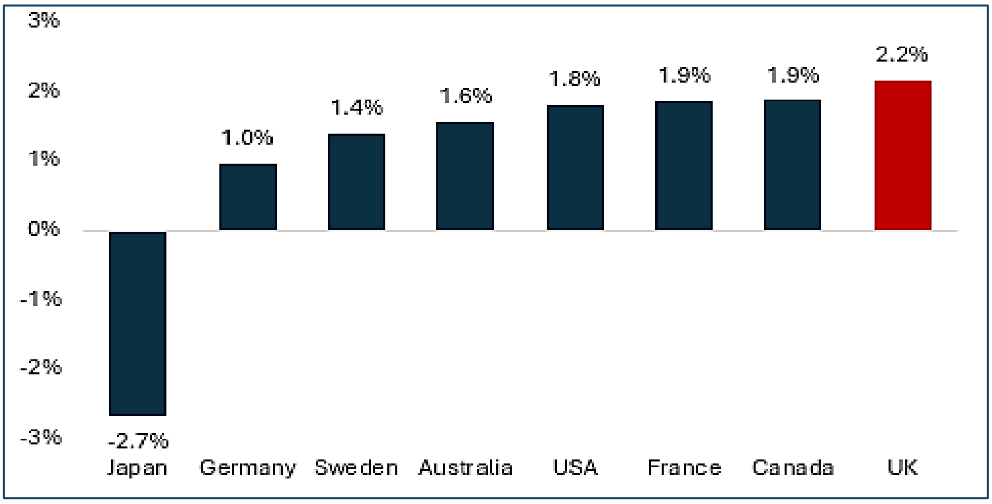
Market and Portfolio Commentary

Before turning to a discussion of specific stocks and sectors, we note that the December quarter has been characterized by U.S. exceptionalism. This was marked by the strength of the U.S. Dollar and the broader U.S. equities market. To some degree this carried over to U.S. REITs. Whilst the region generated a negative total return, it outperformed the global listed real estate benchmark. U.S. market returns were buoyed by strong domestic economic growth, two further Fed interest rate cuts, as well as a clear result from the presidential election. The impending return of Donald Trump to the White House brought with it optimism for a more business accommodative federal government that could encourage investment through a more favourable tax and regulatory-light framework.

That said, specific to REITs, all regions delivered negative total returns across the index as 10-year bond yields rose across most markets and investors fretted over less-than-ideal geopolitical developments in other markets, on top of U.S. Fed comments pointing to a more cautious outlook for further interest rate reductions. Japan fared best thanks to relatively stable, and negative, real interest rate dynamics.

The UK's return of almost -15% was particularly gruelling. The market struggled under the weight of higher real interest rates, now the highest of the major economies (see chart below), which was in some part attributable to concerns surrounding the fiscal policies of the new UK Labour government. Measures included in its first budget negatively impacted a broad cross-section of constituents including higher health insurance taxes for employers, more onerous taxes on non-domiciled workers, reduced utility subsidies for the elderly, higher capitals gains taxes and expanded inheritance taxes.

Real Policy Interest Rates – December Quarter



Source: Bloomberg, January 2025

Mindful of a potential lag from these dynamics, to date at least, underlying UK real estate operating dynamics remain broadly constructive. Leasing volumes are healthy, occupancy for good quality property is above historic averages, and development activity appears constrained.

The outlook for dominant UK retail centres looks positive after several years of tumult where rents and values have been dramatically re-based. Lease terms are now more landlord favourable, affording owners the flexibility to move underperforming tenants previously automatically protected by renewal rights, and also the potential to participate in the trading upside of retailers via turnover rents where previous leases were typically fixed for 5 year periods. Consistent with management's strategy of increasing exposure to leading UK malls, during the quarter, LandSec (LAND) acquired a 92% stake in the Liverpool ONE shopping centre for £480m payable in two tranches over two years and at a yield above 7%, a price which is estimated to be half its original development cost of 15 years ago. Trading at more than a 30% discount to net assets, we see attractive value at current share price levels, with an implied portfolio yield of over 8% and with steady earnings growth visible based on solid office fundamentals and improving retail. Whilst a diversified portfolio, management has delineated a more disciplined investment strategy in attractive sectors which provides us with some hope that future capital allocation will yield better returns than the checkered history of UK diversified REITs.

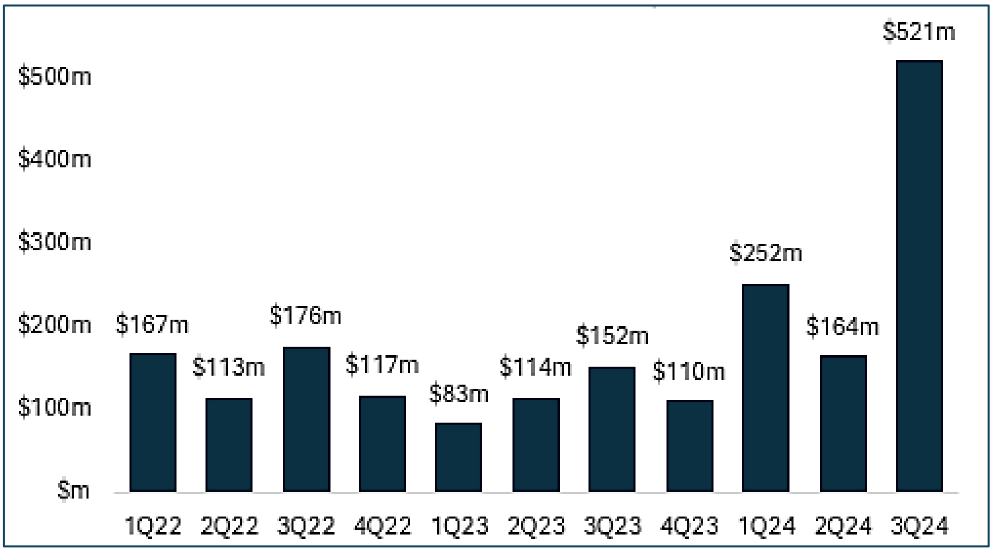
Sector Commentary

Data Centres Surge

Data Centres was the only sector to produce positive total returns for the period. The sector benefited from extremely strong occupier demand boosted by Artificial Intelligence (AI) growth, coupled with supply constraints largely influenced by the extended timing and limited availability of power.

Digital Realty's (DLR) results were a standout and featured a record-shattering quarter of US$521m of bookings, more than doubling the previous record quarter of US$252m, as seen in the chart below. In fact, DLR's leasing in the past quarter even surpassed the US$460m achieved in all of 2023. Management attributed 50% of the activity to AI-related uses. As a result of DLR's torrid pace of leasing, its backlog has grown to a record level of US$859m, equal to about 20% of in-place annualised rent.

Digital Realty Quarterly Bookings ($ millions annualised GAAP rent)



Source: Digital Realty company filings, October 2024

Building on mounting data centre interest in the Asia Pacific region on the heels of Blackstone's US$15 billion acquisition of Airtrunk in September, in Australia, Digico Infrastructure REIT (DGT) raised A$2.7 billion of equity in December in what was the largest IPO in the country since 2018. With a gross value of A$4.2 billion, the portfolio comprises 12 assets split roughly equally between Australia and the U.S., and there is also the potential for significant growth in capacity through development over time. The public vehicle, however, is externally managed by an entity with limited experience in data centres and egregious fees. It was launched with an uncovered forecast dividend and a capital structure that appears inadequate to fund its future commitments. In the rushed euphoria for data centres, the IPO was able to raise equity at a very strong price, despite its material structural flaws. The vehicle has traded down more than 10% since listing.

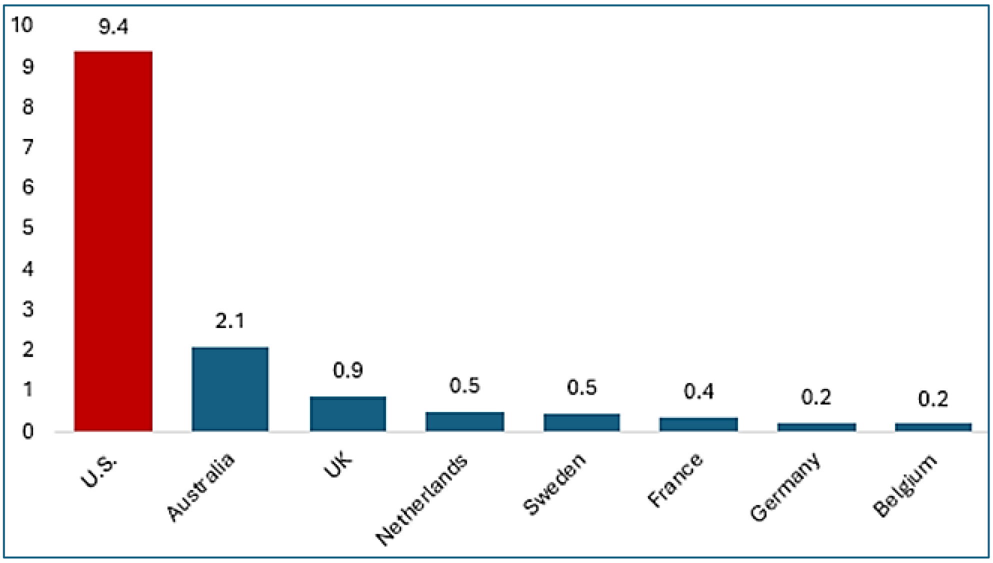
Another corporate transaction in Asia Pacific was noteworthy for its possible data centre angle. A Starwood Capital-led consortium finally formalised its takeover offer for ESR Group (1821-HK), an owner, developer and asset manager of logistics and data centre properties. The offer price of HK$13/share equates to 4.6% of AUM. We also note that ESR's data centre interests could be an important angle to this transaction because it has identified more than 2GW of power in its Asia Pacific portfolio with 375MW currently under construction. Starwood Capital already has a large data centre business, and ESR's assets would help fill out its AsiaPac positioning.

Self-Storage – Self-Loathing

The December quarter was disappointing for self-storage landlords globally as subdued occupier demand resulted in challenging operating results across most markets. Consequently, many self-storage REITs experienced a significant reversal from the sector's 20% returns in the prior quarter.

The UK's macroeconomic backdrop appears to have curbed demand, particularly among business customers. In UK self-storage REIT Big Yellow's (BYG) November results, the company delivered 3% same property revenue growth, which represented an unexpected slowdown from above 5% in the prior year, due to unforeseen occupancy and rent pressures. Management unfortunately also kicked an own goal earlier in the year when it called for an upward inflection in demand that didn't materialise. High operating expenses further compounded the company's travails, although we believe operating expense growth will moderate considerably next year as high rates (property taxes) and utilities growth should be in the rearview mirror even though labour costs (staff costs up 7%) remain a continuing worry. Our preference for UK/EU self-storage exposure is unchanged, as highlighted by the lower storage supply per capita in the chart below. We continue to view the region as structurally attractive relative to the U.S. market despite recent challenges.

Self-Storage Supply (Sq. Ft. per capita)



Source: Safestore and the Self-Storage Association, June 2024

Across the Atlantic, U.S. self-storage REITs also performed poorly as interest rate expectations transitioned to higher-for-longer, squashing hopes for a rebound in housing activity and a consequent recovery in storage demand. Currently, there is limited visibility toward a recovery to long term demand trend growth levels. Recent earnings results featured negative same-store NOI growth (-2.2% on average) that showed sequential deterioration as rent growth and occupancy both fell 50-60 bps on a year-on-year basis. Market rents have not demonstrated any meaningful improvement, despite easier compensations, and elevated mortgage rates are unsupportive of an improved peak leasing season in 2025.

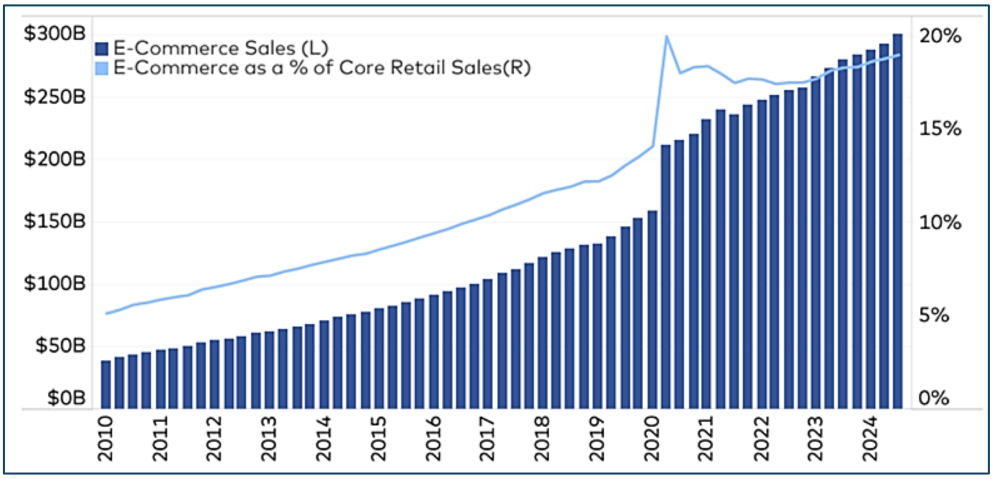
Industrial – the post COVID hangover

Industrial property today could be compared to a balloon that is leaking air. On the surface, embedded rent growth looks strong with 20-30% rent reversions and 6% vacancies, and accordingly, earnings growth for U.S. industrial REITs is projected to average 7-8% over the next two years.

However, industrial fundamentals are softening as some of the frenetic e-commerce related leasing that occurred during the pandemic unwinds naturally as 4-5 year leases end over the next few years into an environment of excess supply. Whilst the national vacancy rate of circa 6% is not alarming, it has increased from less than 3% in 2022. In other words, industrial absorption was pulled forward during the pandemic years and now the market is digesting excess capacity. Indeed, key markets such as Greater Los Angeles, which has experienced relatively modest supply, are now experiencing rising vacancies and declining market rents.

The chart below illustrates the spike in ecommerce related sales during the pandemic, a major factor driving industrial leasing – and construction starts - in the pandemic period.

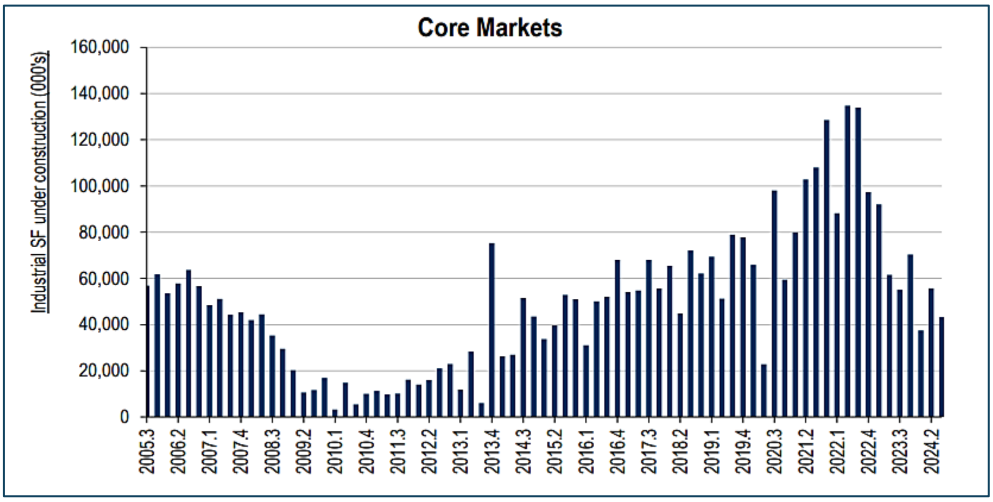
U.S. e-commerce sales growth moderating post COVID surge



Source: CommercialEdge Industrial Report, December 2024

Looking ahead, competitive supply remains a challenge as current projects under construction will be delivered through 2025 and into 2026. Starts have slowed considerably from the frenzied peaks of 2021-22 as seen in the following chart, and this portends fewer supply headwinds for rents, eventually. In fact, because the growth in replacement costs has outstripped that of rents, we do not see a strong economic case supporting more development. Prologis (PLD) noted that market rents would need to rise 15% to make development attractive, which is even after strong industrial market rent growth in the past few years. Unless economic rents improve, not many developments will proceed, and certainly very few speculative ones.

U.S. Industrial construction starts



Source: Evercore ISI US Industrial market supply and demand, October 2024

China Investment Corporation (CIC) sold part of its long-held equity stake in Goodman Group (GMG) in the quarter, selling 2.6% of the company's shares and pushing CIC from ~7.5% to below the 5% disclosure threshold. Having invested in GMG soon after the global financial crisis, CIC will certainly book a nice profit in a company that has returned from the brink and flourished as it morphed into a funds manager/developer, now with a data centre angle to boot.

In another deal involving GMG, early in 2025, Norges acquired a 45% stake in a portfolio of U.S. industrial assets managed by the group for US$1.5 billion and a value of US$230 per sq. ft. The vendor was Canadian pension fund CPPIB. This transaction highlights two long-term real estate investors taking opposing views on the outlook for the industrial sector, noting that the vendor had recently been a party in the acquisition of Asia-Pacific data centre developer Airtrunk together with Blackstone.

Additionally, GMG wholly acquired some of the development and value-add assets from the Goodman North American Partnership (GNAP) which adds to its future development sites, likely data centres.

Residential – moderation

Sun Communities (SUI) delivered poor third quarter results, missing earnings expectations and cutting its 2024 FFO guidance by 5%. A guidance cut of this magnitude late in the year raises concerns about the company's internal controls and the management credibility of an already beleaguered leadership team that has overseen ill-conceived expansions into Australia and the UK, capital mismanagement and corporate governance shortcomings. A large portion of the earnings miss was due to elevated expense growth, which could only partially be explained by weather events in Florida. U.S. home sales and transient RV revenue growth also disappointed, somewhat offsetting robust top line growth in the company's core manufactured housing and annual RV segments.

The company also announced important governance changes, including a board refresh, which we view as long-term positive if executed well. The Board is undertaking a search to replace long-time CEO, Gary Shiffman, who apparently though will remain chairman of the board. Former COO, John McLaren, returned to the company as its President, providing a much needed steady hand of experience at the helm. Also, three long standing directors announced their intentions to retire from the board in 2025/26 and searches for new directors are underway. Replacing these directors, who averaged 25 years tenure, with new trustees should lead to a clean look at the company's strategy and stewardship.

Occupancy and rents remain at high levels for U.S. coastal oriented portfolios. Essex Property Trust (ESS) is solely on the West Coast and should benefit from firming leasing trends in the Pacific Northwest as Amazon and other large employers require staff to be in the office 5 days per week. Equity Residential (EQR) remains predominately West and East Coast positioned, although we watch with some trepidation as it broadens its ambitions to the Sunbelt and Mountain states. We toured assets in its Denver portfolio in the quarter, concluding that strong job growth was required to mitigate the robust supply growth in that market.

In the UK, student housing owner Unite Group (UTG) underperformed in the quarter which, together with overall market weakness, we partly attribute to the potential of a private domestic rival going public in early 2025. Changes to university tuition rates and foreign student visas also cloud the outlook for the sector, although UTG's exposure to higher tier universities is expected to provide some insulation.

In Europe, German residential property companies were negatively impacted by concerns relating to further tightening of rent regulations and the possible exodus of some of the estimated 800,000 Syrian refugees following the toppling of the Assad regime.

Pleasingly, TAG Immobilien (TEG) reinstated its dividend in the quarter after having stabilised its balance sheet. The company will now target a dividend pay-out ratio of 40% of FFO, which is lower than the previous 75% policy. The company has attractive investment opportunities, primarily in Poland, where it is in the midst of a 3-4 year development program that will increase TAG's country exposure from 3,100 units to approximately 10,000 units, at which point, Poland should account for roughly 1/3 of total EBITDA.

Healthcare – baby boomers boom

Welltower (WELL), the largest owner of private pay seniors housing in the U.S., which also has assets in Canada and the UK, continues to experience strengthening seniors housing leasing conditions as occupancy climbs from pandemic lows, and rents increase above the rate of inflation. In the recent quarter, WELL increased its EPS growth guidance by 3% on the back of stronger same-store Net Operating Income (NOI) growth (now expected to be 23% in 2024) in seniors housing operating properties (SHOP). Looking ahead, we expect SHOP growth to remain elevated for the next few years as rising construction costs and limited development finance have curbed new supply.

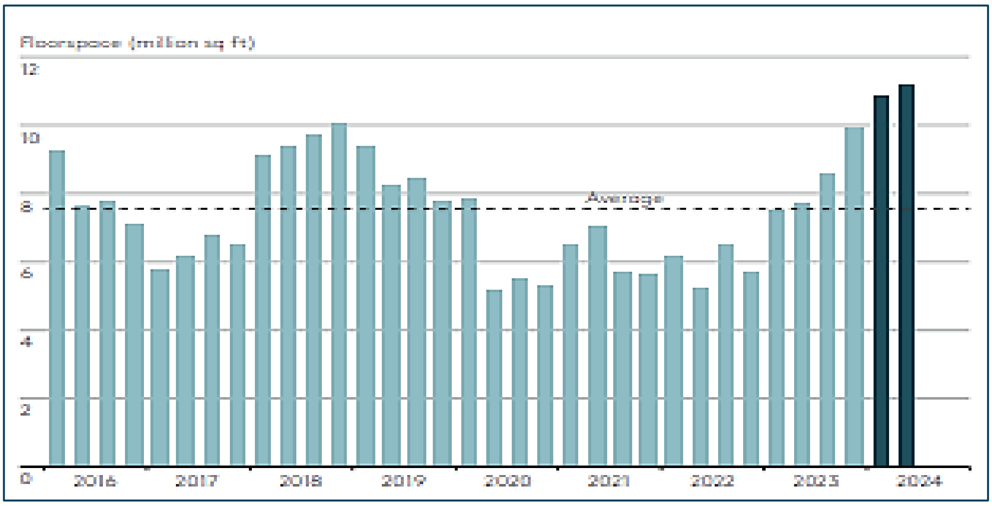
Ventas (VTR), the second largest owner of private pay seniors housing in the U.S., also raised its earnings outlook due to stronger seniors housing fundamentals. During the quarter, Ventas favourably renegotiated its lease with Brookdale, the operator of a 120 property portfolio in which Brookdale will extend its triple net lease of 65 assets for 10 years at a 38% increase in rents, and where 45 properties will be converted to an operating lease with five replacement operators that Ventas has already identified. The Brookdale lease resolution removes a worry for the company a year before the existing lease expires at the end of 2025.

Elsewhere in the healthcare sector, Life Science real estate, which bridges the office and healthcare sectors, experienced improved leasing in the recent quarter. Healthpeak Properties (DOC), which controls a US$26 billion portfolio split 45% lab space, 50% medical offices and 5% seniors housing experienced solid lab space activity in the recent quarter with 755,000 sq. ft. of leasing at 10% higher cash rent spreads. The company's strong market position in the life science focused South San Francisco submarket enables it to accommodate smaller tenants as they grow. Alexandria (ARE) also experienced improving leasing activity, however, the company's large, unfunded development pipeline and its need to sell assets continues to overwhelm the stock.

Office – Green Building Shoots

Office showed signs of improving life in the quarter as demand appears to have passed the trough point and vacancy fell in some key markets.

Rising tenant demand in Central London



Source: Derwent London, 1H 2404

Large tenants have begun to move forward with leasing decisions in certain markets again as demand improves, as illustrated in the chart above for Central London. As we have previously highlighted, demand is increasingly focused on modern buildings with leading sustainability credentials in prime locations. As a consequence, rents for this office building cohort appear to be trending higher.

In April, British Land (BLND) pre-let 250,000 sq. ft. at its Broadgate campus to U.S. hedge fund Citadel at £100 psf. Since then, the expected rent for additional leasing has risen to £110-115 psf, the result of tighter market conditions and higher replacement costs which are driving up required economic rents. Soon after year end, Derwent London (DLN) reported that it has fully pre-let its 25 Baker Street 204,000 sq ft office space to 5 tenants at an average of £104 psf, setting a new benchmark for rents in the area.

In the U.S., Bloomberg executed a significant early renewal and expansion in New York at SL Green's (SLG) 919 Third Avenue where it leased 925,000 sq. ft., a 23% increase in space, for an 11-year extension consummated 4.5 years before the current lease expiry. This decision came on the heels of Bloomberg exercising a lease extension nearby at its 731 Lexington Avenue global headquarters during the previous quarter.

Amazon's return to office policy, in which all staff will be required to be in the office 5 days/week in 2025, is resulting in the company leasing additional space. In New York, Amazon leased 300,000 sq. ft. in the Penn Plaza district that was formerly occupied by WeWork, and there is another 350,000 sq. ft. rumoured lease nearby as well. Recent press reports note that Amazon may actually not have enough office space in several markets to accommodate 5 days/week staffing, and this would lead to a delay in the mandated return while additional office premises are secured. We do not think that Amazon is a unique case and believe many large companies may be underestimating the space requirements for more intensive return to the office policies. Unlike the pre-Covid environment where the focus was on greater employee space density, leasing broker reports suggest that tenant focus is shifting to ensuring there are ample spaces for collective use in meeting and amenity areas.

After years of legal firms shrinking their office footprints, it is heartening to hear of a major law firm committing to significant space across two markets. Ropes & Gray renewed for 413,000 sq. ft. in BXP's Prudential Center in Boston for a 15-year term. The major law firm also signed a 20-year lease for 535,000 sq. ft. on Sixth Avenue in New York, which constituted an expansion of over 100,000 sq. ft. more than it currently occupies nearby.

Signs of investment capital returning to NY office are also beginning to appear. SL Green sold an 11% stake in the One Vanderbilt building to Japanese investor Mori Building Co at a US$4.7 billion implied valuation. This equates to a 4.3% cap rate and US$2,800 psf, well ahead of the US$2,000 psf development cost. SLG also announced a US$400m equity raise (7% share count expansion) in order to fund additional investment opportunities in the improving New York office market. Subsequently, the company acquired 500 Park Avenue for US$130 million or US$620 per sq. ft., a price well below replacement cost.

Non-gateway markets are seeing strengthening conditions as well. Cousins Properties (CUZ) owns a US$9 billion portfolio in the U.S. Sunbelt. CUZ possesses a strong footprint in the growth markets of Atlanta, Austin, Charlotte, Phoenix and Dallas, among others, benefitting from demographic shifts and migration trends driven by lower living and business costs. The company sports low leverage at about 5x Net Debt/EBITDA, which provides good capital structure flexibility. During the quarter, Cousins issued equity twice, raising US$472 million to match fund two acquisitions that bolstered its positioning in Charlotte and Austin.

In Hong Kong, the office market is beset with new supply and leasing conditions are expected to remain soft for some time. Whereas in Tokyo, vacancies are low and rents are gradually rising.

Despite the challenges in the Hong Kong office market, Hong Kong Land (HKL) performed strongly after the company announced its new strategy to exit the residential for-sale business across Asia, invest in upgrading its core properties in Hong Kong's Central district, form a third-party capital program in order to crystalise value, expand its investment activity across select major Asian markets and buy-back shares. The initial messaging was well received by the market, particularly the plan to double earnings and dividends per share over the next decade, as well as corporate governance changes. The recent appointment of Michael Smith as CEO of HKL is the first time we can recollect that an outsider has been brought in to run a major family-controlled Hong Kong/Singapore property company. The plan is ambitious, but certainly, the improvement in corporate governance is a change worth monitoring closely.

Turning to capital markets, investment activity for office buildings is broadening as assets find a clearing level. In a transaction that provides a strong pricing signal for Singapore office values, HSBC acquired 21 Collyer Quay from CapitaLand Integrated REIT (CICT) for S$688 million reflecting a 3.5% yield, suggesting minimal devaluation in office prices in the city-state over the past several years. Meanwhile in Sydney, Mirvac (MGR) and its joint venture partner Morgan Stanley sold 10-20 Bond Street (home to Resolution Capital's Sydney office) to Canadian investment house BGO for A$580 million at a 6.3% yield, which is around 17% below its 2022 peak valuation. In Paris, Norges acquired an 80% stake in URW's Trinity Tower located in La Défense for €350 million at a low-6% cap rate and in-line with the total estimated development cost for the building completed in 2020.

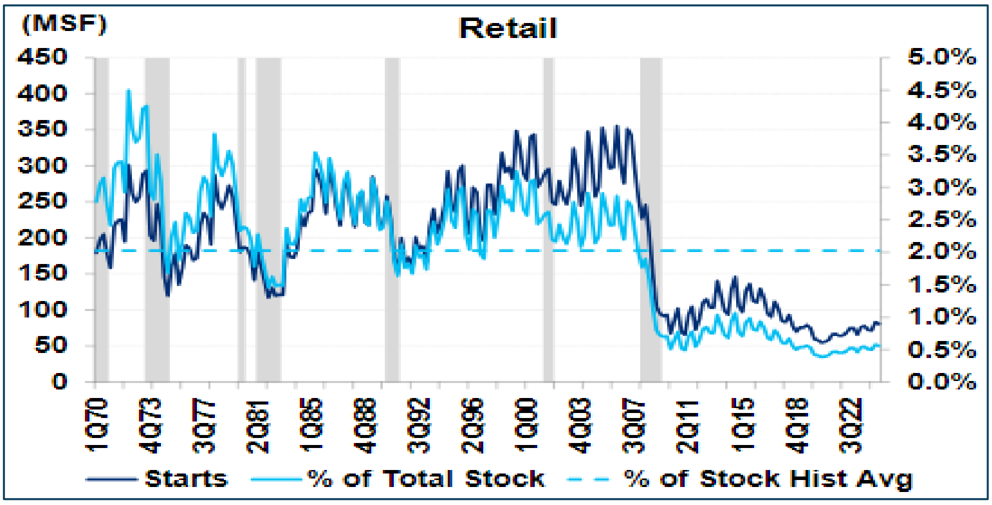
Retail – back in black

Retail REITs outperformed over the quarter on the back of mounting evidence of the underlying health of bricks and mortar shopping centres. The U.S. consumer continues to exhibit signs of strength, supported by low unemployment and real wage growth. At the same time, we observe that discretionary spending trends highlight a notable divergence between lower and higher-income consumers, with the strain on the lower-income cohort noted in recent updates by several mass-market and discount retailers.

Pedestrian foot traffic and retail spending in bricks and mortar shopping centres have returned to or exceed pre-pandemic levels in most major markets.

Tenant leasing interest remains robust, and leased-occupancy levels among U.S. retail REITs are touching all-time highs. As 2024 transpired, leasing conditions had become sufficiently tight that there were even reports of retailers failing to achieve their store fleet expansion plans due to a lack of available options. Of course, this scarcity is also the benefit of a decade long, generational low in new retail development.

U.S. retail construction – no supply is good supply



Source: Citigroup Global Research, November 2024

Admittedly after several years of excessive development, the GFC and rising on-line retail spending led to the spigot being turned off. Today, there are simply very few new retail centres under construction in the U.S. and broadly in most major economies. With fewer competitive options available, not only are rents increasing, but landlords are also able to reduce the amount of concessionary capital they must invest. They are also able to wrest back more control over their properties through the elimination of tenant friendly lease clauses, such as control over the parking lots. Net-net, the outlook for U.S. retail landlords continues to strengthen, and this is resulting in better earnings growth expected in 2025.

Following extensive market rumours earlier in the year, in November, Blackstone announced the all cash acquisition of listed U.S. REIT Retail Opportunities Investments Co. (ROIC), which owns a portfolio of 92 grocery-anchored shopping centres totalling 10.5 million sq. ft. on the U.S. West Coast. The US$4 billion transaction price represented an approximate 6% implied cap rate. We view the ROIC transaction as providing further valuation support for the Portfolio’s overweight position in U.S. shopping centres.

We believe that the operational outlook for Simon Property Group (SPG), the largest owner of regional malls and outlet centers in the world is on sound footing today. Occupancy is 96%, sales are growing and rent growth is expected to be nearly 5%. The company possesses a strong and flexible balance sheet with low leverage and well-priced access to capital markets. SPG’s financial position is further supported by a conservative dividend payout policy (~70% of AFFO), which enables the REIT to self-fund >US$1B of expenditure per annum.

In France, Klepierre (LI) declined 2.0% in local currency terms, based more on interest rate concerns than anything fundamental with the company. Unibail-Rodamco-Westfield (URW) declined 3.8% in the quarter as problems with its Hamburg development saga remained unresolved. Having already been postponed past the holiday season, the centre’s opening is at risk of being delayed further past the first quarter. We believe that problems with the project will eventually be addressed, but the timing and additional cost remains unclear at this point. In December, URW also issued 3.3 million shares as consideration for its acquisition of an additional 39% stake in URW Germany, a JV with CPPIB that owned 5 shopping centres managed by URW in Germany. The pricing reflected an attractive implied property yield of around 14% on the assets acquired due to certain agreements within the JV structure.

Conclusion and Outlook

As measured by stock prices, mounting optimism for the REIT sector's prospects midway through 2024 was brought back to earth in the final months of the year for several reasons, mostly relating to issues not of the sector's own doing, the increase in bond yields perhaps chief among them. We also recognise investor interest is being drawn to other sectors, whether to high-flying technology stocks or various private credit investments. The proliferation of private credit as an asset class is emblematic of the broader pressures REITs face in competing for investor focus. We remain cautious of the rapid proliferation of real estate private credit strategies. Some of which provide minimal transparency into the nature of their underlying investments and the mechanics of management through various phases of the credit life and death cycle.

Entering 2025, whilst these external factors may continue to hold sway and the Trump Presidency promises to add extra spice, the underlying fundamentals for REITs are positive.

From a real estate perspective, we see evidence of stabilising property values and strengthening operating conditions across the majority of commercial real estate in developed markets. Vacancy rates are below historical averages, and new supply pressures are moderate. Specific regions experiencing elevated construction volumes, focused primarily on warehouses and apartments, now see new starts rapidly contracting. Furthermore, landlords are benefitting from the significant increases in replacement costs over the past 5 years, thereby underpinning values of existing buildings and reducing the competitiveness of potential new buildings. As a consequence of these dynamics, in recent times we have seen more evidence of the downside risks of development and downward pressure on raw land values.

This is a situation likely to see little relief in light of tight construction labour availability, broad competition for resources associated with "reshoring", the energy transition and growth of AI, as well as rebuilding efforts associated with man-made and natural disasters. Hence, subject to tenant demand, this environment bodes well for improved landlord rental pricing power in the years ahead.

We are further encouraged by the relative financial strength of REITs, their access to a broad range of capital sources, limited development exposure, as well as superior operating platforms. We believe this is not reflected in their share prices which in some cases imply the underlying property portfolios are worth less than replacement costs and more typically below underlying appraisal values of their real estate.

We have weighted the Portfolio toward real estate enjoying visible, steadily improving earnings growth and facing the best return prospects, underpinned by low supply and superior tenant demand driven by demographics (ageing population fueled healthcare facilities), technology (data centres driven by the digital economy), and underappreciated locations (in-fill retail centres where alternate uses such as last-mile logistics and/or residential provide optionality).

Supported by capital strength and undemanding valuations, we believe the Portfolio is well positioned to deliver competitive risk-adjusted returns.

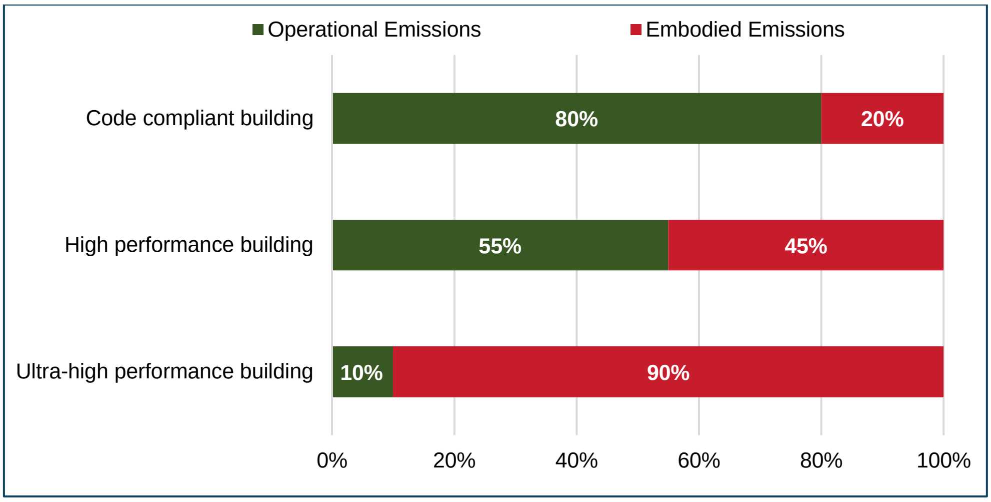
ESG Matters

New building regulations in London focus on embodied carbon

Governments in the UK and EU, both at country and city levels, have long been leaders in setting ambitious planning regulations that require new building works to be increasingly energy efficient in operation. In the last few years, at the local council/borough and city levels, there has been an increasing focus on reducing the embodied carbon in new buildings.

Embodied carbon refers to the amount of carbon that is emitted during the construction of a property. This includes the manufacture of construction materials such as cement, steel and glazing, as well as their transport to a construction site. The combination of embodied carbon and operational emissions make up the total lifecycle emissions of a building. As buildings become more operationally efficient, including from the transition to more renewables within the grid, buildings have a greater proportion of lifecycle emissions attributable to the embodied carbon from their construction, as can be seen from the chart below.

Approximate breakdown of operational and embodied carbon emissions (Australian commercial buildings)



Source: "Embodied Carbon and Embodied Energy in Australia's Buildings", Green Building Council of Australia, July 2021

It stands to reason, therefore, that an increasing number of city and local council level governments around the world are taking a more wholistic approach to lifecycle carbon emissions by imposing more stringent regulations in relation to embodied carbon. The London Borough of Westminster is one such example, proposing to include a "retrofit first" approach to new construction, requiring developers to show that demolition and construction satisfies one of three conditions, before a building can be demolished:

1. The lifetime carbon emissions of the new building are less than or equal to a retrofitted alternative;
2. The proposed design has requirements that cannot be achieved through a retrofitted design;
3. The existing building is not suited to retrofitting.

Embodied carbon targets for new construction have focused predominantly on requiring lifecycle carbon assessments rather than setting an embodied carbon emissions cap or reduction target. Examples of other cities and countries with requirements for reducing or capping embodied carbon are summarised in the table below.

Embodied carbon reduction approaches by governments

Jurisdiction	Embodied Carbon Requirement
London	The London Plan mandates life cycle carbon assessments for major developments, including embodied carbon considerations
Toronto	Set embodied carbon caps on new city-owned buildings through updates to the Toronto Green Standard V4
Amsterdam	The Amsterdam Circular Strategy 2020-2025 requires whole life carbon assessments to track, measure, and register operational and embodied carbon
Copenhagen	Actively promotes low-carbon construction materials and methods to meet national embodied carbon targets
France	Embodied carbon caps for different building typologies, with a goal to reduce embodied carbon footprints by 52% by 2031 compared to 2022 levels
Netherlands	New residential and office buildings over 100 sqm must submit embodied carbon reporting for building permits
Denmark	Requires whole-life carbon assessments for new buildings and limit emissions on average to 7.1kgCO_2/m²/year from July 2025

Source: Various government websites, accessed December 2024

Companies that stand out in their approach to addressing the embodied carbon portion of their Scope 3 emissions are Derwent London (DLN), a UK based office REIT, and Mirvac Group (MGR), an Australian based diversified REIT. Derwent London aims for net zero emissions across all carbon scopes by 2040. The company uses life cycle assessments to measure building emissions, helping design teams choose better materials. They focus on reusing existing structures and push contractors to use low-carbon materials. Mirvac Group targets net carbon positivity by 2030. They aim to reduce the carbon impact of concrete and steel in construction through low-carbon options and prefabricated components, while also retaining or reusing existing elements. Mirvac actively engages with design and construction teams to lower project carbon footprints.

As an example of how Mirvac is achieving these reductions, at its 55 Pitt St, Sydney office development, Mirvac has a target of reducing embodied carbon by 40% compared to a conventional building. To achieve this reduction, Mirvac is using concrete with 30% to 40% lower carbon content and reinforcing steel with 40% lower carbon content than traditional alternatives. Mirvac is also targeting 25% recycled content in other major materials such as carpet and ceiling tiles, and plasterboard.

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