For Investment Professionals only

M&G INSTITUTIONAL

M&G INVESTMENTS

January 2020

A guide to long lease real estate

Long-dated secure income for institutional investors

Welcome

Assets that produce predictable income are becoming ever more valuable for many long-term institutional investors in a world of low interest rates and volatile markets.

In particular, demand is growing among pension schemes for secure, long-dated cashflows that can help hedge long-term liabilities and so enable them to meet their commitments to pensioners.

Investments that can offer a profile of returns to meet these needs are scarce and often expensive. Long lease real estate, where a real estate freehold is sold by its owner-occupier and leased back on a long-dated lease that can run for decades, can offer an attractive solution.

Sale and leaseback transactions have a long history but have come into focus in the past two decades as a source of attractive, inflation-linked returns well suited to institutional investors such as life insurers and pension schemes.

While sale and leasebacks are probably the most familiar type of long lease real estate asset, a number of variations on this model also exist.

Income strips and ground rents similarly combine real estate ownership with long-dated leases to provide the buyer of a freehold with long-dated, secure and inflation-protected income. However, there are important differences between the three asset types and each can support different investment objectives.

In this guide, we explore the features and characteristics of each of these types of long lease real estate, compare their outcomes for an institutional investor and look at the trends shaping the development of these assets.

The value of investments will fluctuate, which will cause prices to fall as well as rise and you may not get back the original amount you invested.

Introduction

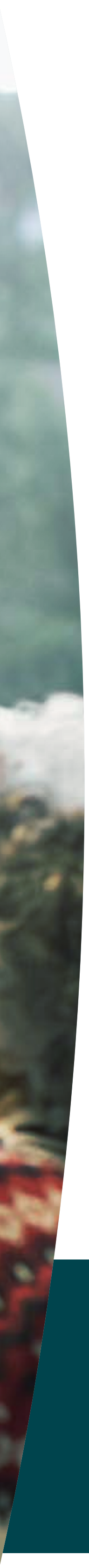
In February 2018, M&G purchased a newly developed care home in Visby, Sweden, let to the local municipality. Rather than obtaining a bank loan or other debt financing, the municipality had assessed that a sale and leaseback arrangement of the property with M&G was a preferable and sustainable way to develop its senior living requirements.

The municipality signed a 25-year lease, with annual rent reviews linked to CPI. The lease's credit profile was strong, given the Swedish state's obligation to honour the lease should the municipality default. Furthermore, the asset's fundamental value was supported by local land supply constraints and its potential for alternative use at lease expiry.

Based on M&G's base case forecast, the return premium available would significantly exceed the yield available on a similar length Swedish government bond.

Investments structured this way provide pension schemes, insurance companies and other institutions with high levels of reliable, contracted income that typically rises with inflation, a valuable characteristic at times when the returns from traditional investments are low or declining. As these assets are secured against real estate, they can also provide potential for capital growth.

These investments can take several forms: sale and leasebacks, income strips or ground leases (also called ground rents); we consider all of them to be in a universe called long lease real estate assets.



A long history

These types of transactions date back to the 1920s and 1930s, when a number of UK retailers began to sell and lease back their stores on long leases to raise capital from their real estate holdings. The long lease model rapidly reached the US, where, in 1936, the supermarket chain Safeway Stores started to do the same.

It has continued to grow since, thanks to its popularity with real estate owner-occupiers and investors alike. In the late 1980s and early 1990s, UK high street chains such as Boots, the healthcare retailer, made widespread use of long lease transactions to unlock value from large portfolios of their premises. The model has since been adopted by government departments, banks and others.

Institutional investors, including managers of insurance portfolios, have been prominent investors in long lease real estate since the late 1990s. Their need was for income to pay policyholders, sourced from a more diverse range of assets than equities, credit, gilts or traditional real estate. Such investments had to offer sufficient yield, low volatility and high security of cashflow, and be linked to inflation to keep in line with increasing policyholder payments.

> “For investors such as pension funds that require secure cashflows that rise with inflation, long lease real estate assets can be valuable”

A range of outcomes

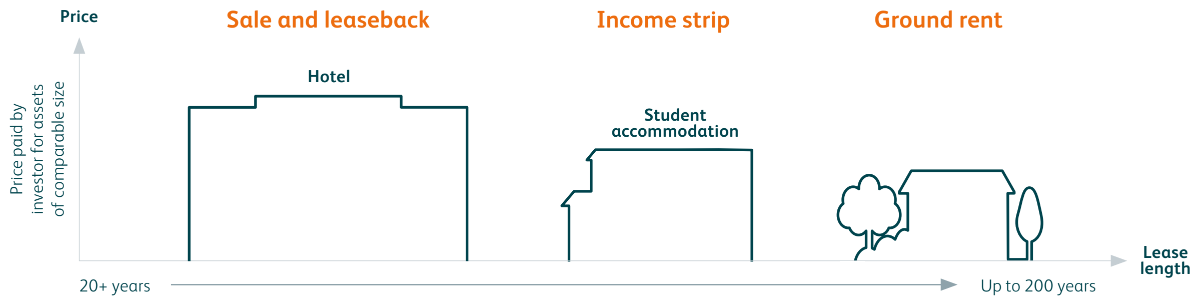
Asset managers realised such investments could be structured to combine features of fixed income and real estate – to deliver secure income over the long term, similar to fixed or inflation-linked bonds, secured on real estate assets. These investments can be structured to offer different characteristics:

Sale and leaseback, where an owner-occupier sells a freehold to an investor and signs a long lease (often 20 years plus) with the same investor. Rent payments rise each year, typically in line with inflation, offering the investor a secure income stream and potential growth in the asset's value over time, in exchange for an upfront capital lump sum.

Income strips, where the owner-occupier also sells the asset but retains the right to repurchase it from the investor at the end of the (typically more than 30-year) lease for a nominal sum (for example, €1). The investor gains a secure, index-linked income stream, with no exposure to real estate at lease expiry.

Ground rents, where a property owner sells the freehold land to an investor, who grants a tenant an ultra-long lease – often in excess of 100 years – subject to very affordable rental payments that grow in line with inflation.

Types of long lease real estate investment



Source: M&G, illustrative.

[1] $389 billion refers to outstanding labelled green bond volume. Climate Bonds Initiative: "Bonds and climate change. The state of the market 2018", as of September 2018

[2] For comparison purposes, figure is as of September 2018

Relative value

For investors such as pension funds that require secure cashflows that rise with inflation, long lease real estate assets in their varied forms can be immensely valuable. Their appeal is based not only on the longevity of the investments but also the potential returns they can offer relative to those offered by other investments traditionally employed for growth, inflation linkage and/or cashflow hedging.

Over time, long lease real estate assets can offer a significant return premium over corporate bonds of an equivalent credit rating as well as over index-linked gilts. This premium is derived from the illiquidity of the investments, their comparative complexity and the fact that specialist skills and relationships are required to access and originate them – investors face high barriers to entry.

In comparison to traditional real estate investment, which typically features shorter leases without contracted rent increases, returns on long lease real estate are less volatile. This means they can be considered a relatively defensive investment that is less sensitive to the property market cycle.

Real estate owner-occupiers, too, have been increasing adopters of long lease transactions as a form of financing. The long lease model offers a corporate or public sector entity with a large property portfolio a means to unlock capital while continuing to occupy their premises for the long term. It enables the tenant to put the capital released to more productive use, while providing long-term security of tenure and predictable rent increases. Today, any real estate-intensive organisation, from retailers and industrial firms to hotels and universities, can release value from their real estate with or without retaining ownership at lease expiry.

Negotiating the terms

The increasing maturity of the long lease real estate market has created opportunities for some asset managers with specialist resources to source and structure their own investments rather than participate in vendor-led, pre-structured deals. Shaping a transaction in this way can enable a manager to negotiate advantageous terms for its investors.

At the origination of an investment opportunity, the investor and tenant have the ability to adjust a range of terms, including lease length, initial rent level, frequency of rent reviews and choice of inflation measure, in order to ensure the deal is both financially sustainable for the tenant and mitigates risk appropriately for the investor.

The terms negotiated between the parties are reflected in the asset's price – for example, rent reviews can add more value if annual rather than three-yearly.

Other features, such as inflation collars, can provide protective benefits. The collar ensures that rent uplifts do not exceed a maximum (protecting the tenant) or fall below a minimum (protecting the investor). For example, a collar of 0% to 5% ensures rent reviews are always upwards, to a limit of 5%.

Often in Europe, leases are signed on a 'triple-net' basis, which makes the tenant responsible for all maintenance and insurance costs throughout the lease.

Few managers are able to take a proactive origination approach to long lease real estate since it requires intensive resources in credit analysis, real estate and transaction structuring, but it can open up a wide range of deals and attractive value opportunities.

Sale and leasebacks

Probably the best-known form of long lease real estate transaction, sale and leasebacks are an established feature of corporate life, as owner-occupiers have taken advantage of rising real estate prices to release capital. Sales and leasebacks have been prominent in markets such as the UK for decades, and they are becoming increasingly common across Continental Europe.

An investor buys a real estate freehold interest from a vendor for a capital sum and, at the same time, signs a long-dated lease with the vendor (who becomes the tenant) for its occupancy. The lease contract specifies regular, usually annual, rent uplifts either in line with an inflation measure such as RPI or CPI or a fixed percentage that over the long term offers a proxy for inflation.

Sale and leasebacks typically involve shorter leases than other types of long lease real estate assets, at around 20 years plus, with usually higher rent payments than a comparable ground rent. The rent payments provide long-dated income with contractual uplifts often linked to inflation. This is the fixed income-like element of the asset: scheduled, predictable cashflows similar to a bond or loan, while inflation linkage creates parallels with index-linked bonds. The present value of these expected cashflows make up the majority of the value of each asset – typically at least 75%.

Why long leases? Benefits to investors and owner-occupiers alike

Investors
Secure, long-dated income: rent payments backed by security of real estate ownership
Regular income: a stream of quarterly cashflows
Inflation linkage: contracted rent uplifts create growth in the income stream (which flows through to capital value growth in a flat yield environment)
Property market exposure: owning the underlying real estate offers potential for long-term capital appreciation
Lower cyclicality: long leases largely insulate against real estate cycles and letting risks
Less day-to-day management required: triple net leases avoid costs of real estate management

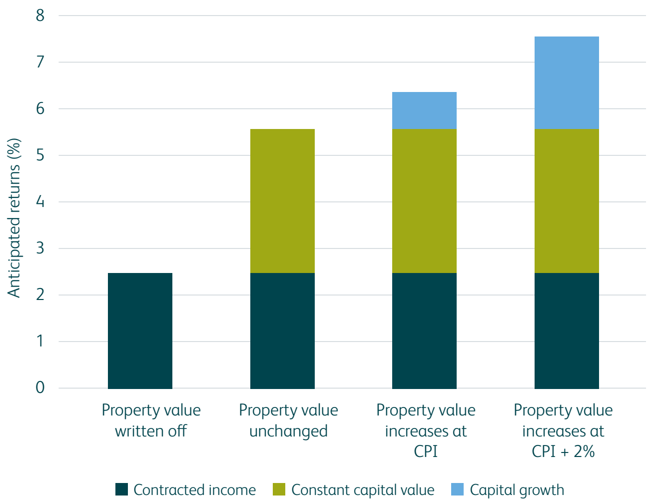
Real estate owners
Realise the value of their real estate portfolio: assets are not always fully valued by a business
Optimise the cost of capital: expensive debt financing is replaced with a capital windfall
Mitigate refinancing risk: the long lease puts a long-term financial structure in place
Rental security: the lease also locks in rents at sustainable and predictable levels over the long term

The physical real estate asset itself accounts for the remainder of the value and means the investor receives a total return that is a combination of the lease income and potential capital growth from the value of the real estate asset.

The chart below illustrates the effect of different assumptions about real estate values on the forecast returns of our European long lease real estate strategy.

As the chart shows, returns are a combination of projected income from the lease payments – the blue bar – and property values, the orange and green bars. The second scenario ("Property value unchanged") assumes the property value at lease end is the same as its current valuation, so there is no capital growth over the long term (this is the equivalent of receiving par at maturity for a bond). If real estate values move broadly in line with inflation or at an above-inflation rate, the forecast return increases further, as reflected in the third and fourth scenarios. This means that analysis of both the quality of income stream and the quality of the property is vital.

Comparison of anticipated returns to lease expiry*



Source: M&G, June 2019. CPI assumption = 1.75%. *Forecasts are not a reliable indicator of future performance. Ground rents have been capped at 75 years.

Long lease real estate and credit risk

In our view, it is essential to assess the credit risk associated with a tenant as a vital component of each transaction. At the heart of this is an understanding of the tenant's ability to pay an income stream over the lease term.

As the present value of cashflow represents the majority of the value of long lease assets, we investigate a tenant's credit profile to assess their creditworthiness as rigorously as we would in any other private long-term loan we provide. A tenant with a strong credit profile, similar to an investment grade bond issuer, decreases the risk of default over the life of the lease.

The security of real estate ownership

In addition, owning real estate exposes the long lease real estate investor to potential rises (and falls) in property values over the long term.

The asset's value also becomes vital in a negative situation such as a tenant defaulting on lease payments. To mitigate risk in a worst-case scenario in which the asset is left empty, an investor needs to be comfortable with its vacant possession value: its inherent value without a tenant and lease. This will depend on its quality and location, which will affect the ease and expense of re-letting the asset to an alternative tenant.

For example, prime real estate located in a sought-after area can be worth more when empty, either because it can be re-let at higher rates or because the site can be put to an alternative use such as residential. Long lease real estate assets with high vacant possession values can therefore offset weakness in a tenant's credit quality. On the other hand, where the real estate asset is of lower quality or has limited alternative use, the credit quality of the tenant becomes more important.

Upfront capital, lower costs: property vendors benefit too

For an owner-occupier, a sale and leaseback turns real estate from a sunk cost into an asset that can be monetised, with the capital raised turned to a more productive use, while retaining the ability to occupy the premises for the long term, secured by the lease contract.

A sale and leaseback can lower a tenant's cost of occupancy by setting the initial rent level carefully to reflect the financial position and profitability of their organisation. Affordability of rent over the long term is a primary consideration and leases can be lengthened or shortened with rent set at an appropriate level on day one to provide the required security.

Sonae portfolio: sale and leaseback of Sonae supermarkets

M&G has acquired a portfolio of twelve supermarkets across Portugal from Sonae MC, the market leading food retailer in Portugal.

As part of the sale and leaseback transaction, Sonae signed 20 year leases that will rise annually in line with inflation (CPI). Given the triple net nature of the leases, Sonae is responsible for the ongoing management of the properties, including all outgoings, maintenance and repairs. Investors therefore benefit from long-dated, inflation-linked cashflows with a yield pick-up over conventional bonds, secured by a portfolio of quality assets.

A stable trading history of the supermarkets over the past few years helps support an internal investment grade credit rating for both the tenant and guarantor. Furthermore, food retail is a defensive sector and M&G's property research team has a positive sector outlook with Portuguese retail warehouses forecast to outperform on a long-term basis.

In addition, investors are exposed to long-term capital growth potential given the dominant locations of the stores, which also benefit from strong local catchments. This transaction illustrates how long lease real estate investment can meet the investment needs of institutional investors such as pension schemes.

"Cashflow represents the majority of the value of long lease assets, so we assess a tenant's creditworthiness rigorously"

Income strips

Not all real estate owner-occupiers are in a position to sell their real estate assets to release capital. Organisations such as universities or local municipalities, which are committed to a location and specific real estate assets – for example student accommodation or civic buildings – often require certainty around the ownership of their properties

In these situations a long lease investment can be structured as an income strip. As its name suggests, these transactions 'strip' or separate the stream of cashflows generated by the lease from the underlying real estate, so that the income stream represents 100% of the value of the investment.

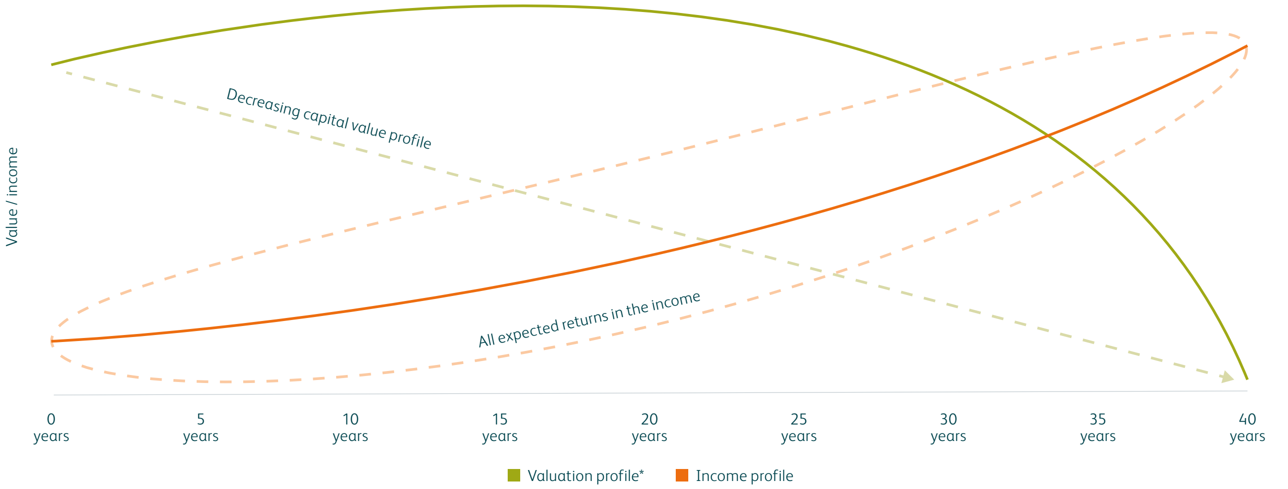
In contrast to a sale and leaseback where ownership is permanently transferred to the investor, with an income strip the tenant retains the option to buy back the real estate asset at lease end for a nominal sum, for example €1 in Europe. The investor owns the freehold throughout the lease term, but as long as the tenant does not default on any rent payment, at the end of the lease the asset can revert to its former owner.

Income strips therefore offer an occupier the benefit of raising funds against their real estate holdings, while retaining ownership of the freehold when the lease ends, so long as all lease payments are fulfilled.

From an institutional investor's perspective, an income strip brings benefits because it isolates the fixed income-style cashflows to produce predictable, inflation-protected income. This gives income strips the profile of an amortising bond or repayment mortgage in which the asset value declines over time to zero at the end of the contract. This element of removing the uncertain real estate value at lease end makes it a lot easier for actuaries to model them as part of a liability hedging profile for a pension scheme.

Since the investor does not acquire permanent rights to the real estate, the capital sum paid to the tenant is typically smaller than in a comparable sale and leaseback. The lease length in an income strip is also typically longer, usually more than 30 years (versus 20 years or more in a sale and leaseback).

Income strip characteristics: long lease real estate with no residual value downside



Source: M&G, illustrative. *When valued on a constant IRR basis.

The investor is still exposed to fluctuations in the valuation of the real estate over the life of the lease because it is typically 'marked to market' by being independently valued each month or quarter. However, this exposure diminishes as the asset's outstanding value declines to zero as the lease end approaches.

An advantage of the income strip structure is that over the life of the lease, as the tenant in effect repays more and more of their obligations, they become more and more incentivised to continue to meet remaining rent payments to ensure they retain the buy-back option.

The remaining payments also become a reducing obligation for the tenant as the end of the lease approaches, because the opportunity cost of defaulting is much higher, making it increasingly likely they will complete all scheduled payments. As a result, the investor benefits from improving security and declining default risk as the lease term advances.

Income strip unlocks capital to build new student accommodation at Bangor University

In 2015, Bangor University in Wales completed the development of a new, 602-bed student residence incorporating a café bar, shop, laundrette and sports and fitness facilities, financed with forward funding from M&G.

We acquired a long leasehold interest in the site from the university in July 2014. Upon practical completion of the development, an income strip structure was put in place whereby the university holds a nominal sum (£1) buyback option at lease end. The 40-year lease was signed on a triple net basis directly with Bangor University and includes annual rental uplifts linked to UK RPI with a floor at 0% and cap on increases at 5%.

Ground rents

Ground rents are the longest-dated form of sale and leaseback arrangement, with lease terms that typically range from 99 to up to 999 years in length, and much lower rent payments than other types of long lease transaction.

Historically, ground rents were associated with residential real estate and allowed large landowners to release their real estate for development while retaining ultimate ownership.

Property development companies would acquire ultra-long leaseholds on land from the freeholders for very low annual rents. They would build houses or flats on the land and then sell on the leasehold interests to the tenants. Though the freeholders typically earned only 'peppercorn' rents during the life of the lease, their heirs would eventually be rewarded with the full ownership of the developed land at no initial capital cost. Ground rent schemes were consequently a major driver of British urban development in the 19th century.

Today, ground rents can be a compelling proposition for institutional investors. In addition to providing attractive cashflows that rise in line with inflation, they incorporate very low default risk because the lease payments represent such a small outgoing for the tenant.

Commercial ground rents

Ground rents on commercial real estate are usually individually negotiated transactions, tailored on bespoke terms by the tenant and investor. Rent is very sustainable: a corporate tenant in a typical ground rent deal usually pays 10% to 20% of operating earnings in rent, against around 50% to 70% in typical 25-year sale and leaseback arrangements.

Like a sale and leaseback, an investor in commercial ground rents owns the freehold outright. However, the very long investment horizons of ground rents means the lease payments form the majority of these assets, while the very low rent level gives the investor a great deal of certainty over the cashflow for the long term.

Since ground rents are valued based on the discounted value of their expected future cashflows, this means in practice the residual value of the real estate makes up a much smaller component of the value of these assets. They are valued almost entirely on the basis of their expected cashflows.

The combination of low rent levied on tenants and very long lease terms means that the price an investor pays for commercial ground rent assets is generally low relative to the resale price of the unoccupied real estate. For instance, an investment manager may negotiate a ground rent agreement at a price equivalent to 50% of the vacant possession value of the real estate. This provides the investor with asset cover as well as a highly affordable rent stream (rent cover).

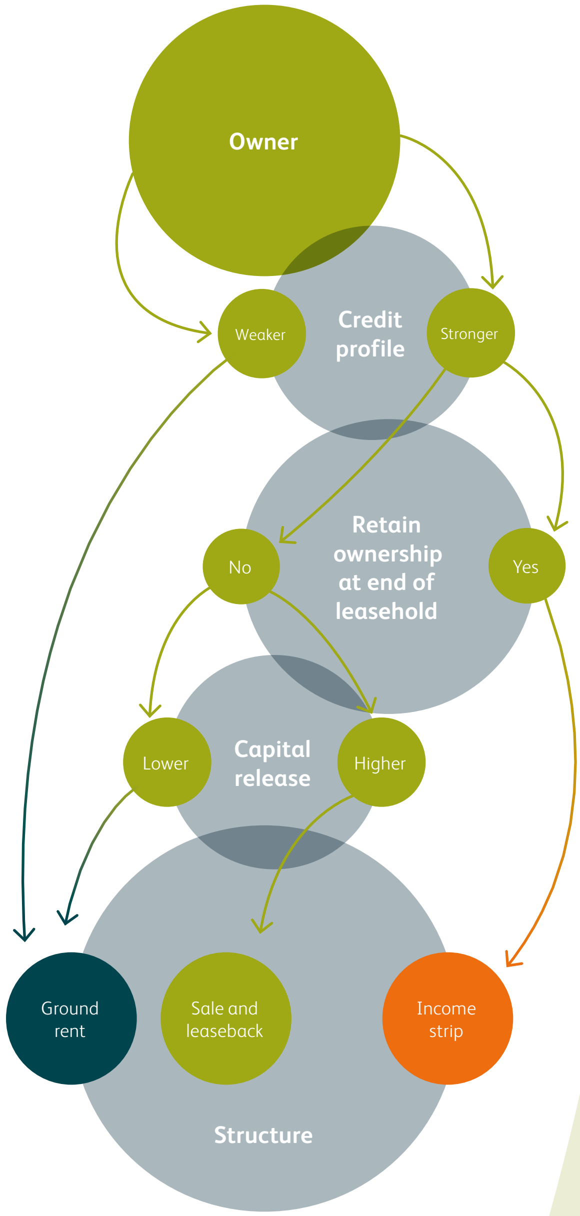
Tenants can also prefer the long, low lease commitments of ground rents to other types of long lease transaction. The very affordable rent payments makes ground rents an attractive funding option for tenants with weaker credit profiles, while enabling them to continue to occupy the premises for the very long term.

The security associated with these sorts of investments means that institutional investors are increasingly interested in commercial ground rents, but the supply of assets can be small so strong networks of relationships are essential to source such assets. For experienced investment managers like M&G, the answer has been to actively seek out opportunities to work with tenants to structure and create ground rent investments on an individual basis.

The journey from owner-occupier to tenant

How can an owner-occupier and investor decide upon the shape and size a sale and leaseback should take? The arrangement will depend on a number of factors, ranging from the owner's credit profile, to whether they wish to retain ownership at the end of the lease period and how much capital they might wish to release.

The journey from owner-occupier to tenant



Ground rents providing reliable income from a German hotel

In December 2016, M&G acquired the 100-year-plus ground rent of a hotel in Munich, Germany, operated by one of the leading hotel brands in Europe. Rents are contractually linked to CPI and set at a very low level in order to remain affordable over the long term. For example, the rental payments are over five times covered by the income generated by the hotel. The hotel had been recently refurbished and has demonstrated consistent profitability over many years.

Expected returns from the investment are forecast to be over 300 bps above the 30-year German bund.

> "Very affordable rent payments can make ground rents an attractive funding option for tenants with weaker credit profiles"

How institutional investors can use long lease real estate

Long lease real estate assets can be extremely useful for long-term investors such as pension schemes, insurance companies and endowments, thanks to several attractive features.

Income is one: given pension funds' growing need for cashflow, the predictability of the contracted, largely inflation-linked income stream generated by long lease real estate is an attractive outcome. The steady flows of rising cashflow generated by these assets provide a valuable income stream to pay pensions into the future; it also lessens the need for immediate liquidity in the assets. Further, it can be attractive to endowments and life insurers with a need for assets and cashflows that grow in line with inflation.

Another is diversification. These assets have different risk and return drivers from equities and bonds so can act as diversifiers in institutional portfolios. Investors who have traditionally relied on assets such as corporate and index-linked bonds for long-dated, contractual cashflow with an element of growth can use long lease assets as either a complement or a substitute to these.

Long lease real estate also offers a lower risk, lower volatility alternative to traditional real estate investment, often without sacrificing the long-term capital upside potential from owning real estate. The annual, inflation-linked rental uplifts remove the uncertainty of the typical, periodic open-market reviews in traditional real estate, which expose investors to unpredictable fluctuations in rent levels. The long lease terms provide a continuity of tenancy that lowers the investor's exposure to the property cycle and costs associated with managing and re-letting the real estate. As they are defensive assets relative to traditional real estate they can also act as a compliment to an existing real estate portfolio.

Our view is that these assets can be seen as hybrids of real estate and fixed income. This can mean they do not fit neatly into typical asset class 'buckets', since for example they offer both growth and liability hedging qualities: the real estate market exposure can offer capital growth over the long term, while the predictable, contractual cashflows have hedging characteristics.

The importance of mitigating risk

Long lease real estate investment offers investors a yield premium over inflation in return for accepting a number of investment risks: the credit risk of tenants, risks associated with holding real estate and the illiquidity of these assets. We have a number of tools to mitigate these risks.

Perhaps the most important is rigorous credit analysis, to assess the tenant's ability to pay rent far into the future and to identify any risk factors in its operating business or capital structure that might lead them to default on their contractual lease obligations.

Since the income from rent payments represents the majority of the value of any given asset, in our view credit research is essential to the investment process. Our sector specialists can evaluate private entities and even unusual business models and so open up opportunities to transact with tenants that many other asset managers cannot.

Our expertise at structuring long lease assets also comes into play, as our specialists can work with a tenant to adjust the terms of a lease agreement so as to reduce risk. For example, we can set rent at a low multiple of the earnings a tenant generates from the real estate, and extend the lease length to create a ground rent rather than a sale and leaseback, to accommodate tenants with weaker credit profiles or lower cashflow generation.

We also ensure that we fully understand the fundamentals of the underlying real estate, using the experience of our real estate team. We assess the quality of each real estate asset carefully to analyse its potential residual value at the end of the decades-long lease, as well as the prospects for resale or alternative use if a tenant should default on its lease obligations.

For instance, a tenant with a weaker credit profile may own real estate in a prime location for which an alternative occupant would be found quickly and on the same or better rental terms. Alternatively, a strong investment grade tenant may occupy an asset that would be more difficult to turn to another use, so its high credit quality offsets the real estate's lower vacant possession value.

If an asset is essential to a tenant's business, such as a hotel, supermarket or hospital, these key operating assets tend to be a priority for the tenant to retain. Since non-payment of rent could mean being unable to use the premises in which they generate their income, the tenant is highly incentivised to pay rent. In effect, the lease becomes senior to other obligations such as unsecured bonds, providing the investor with extra reassurance.

All these methods improve the level of security that the investment will perform as expected for the investor over the long term. They also enable us to value each asset accurately.

The different types of long lease real estate assets require expertise, depth and breadth of resource and analysis to source and structure, but they offer institutional investors valuable outcomes – not least their capacity to produce regular, high quality cashflows, as well as the inherent inflation linkage of the leases. These assets can suit a wide range of investment objectives, whether income, growth, a diversifier for equity exposure or an alternative source of hedging, for investors with a long-term focus.

Create value through origination

Often the most effective way to access greatest value in long lease real estate is to source investments directly with a vendor and structure them to both parties' specific requirements rather than selecting from only those deals that come to market.

Originating assets directly this way requires experience in credit research, real estate and deal structuring, as well as a network of relationships through which to find new investment opportunities – and a lot of hard work!

An asset manager must possess resources and expertise across all areas to transact this way, but we believe the effort and complexity is paid for by higher returns, greater flexibility for both the tenant and investor and a more targeted approach to risk mitigation. It's an approach we have used successfully for more than a decade.

Methods of delivering security of income streams

Quality of tenant

- Investment grade credit rating
- Credit hurdles on assignment

Quality of assets

- Location
- Assets critical to business operations
- High alternative use value/tenant demand

Structure

- Rent cover/ground rent
- Vacant possession value
- Seniority
- Undertakings

Source: M&G, illustrative.

Glossary of terms

Asset cover: a measure of how far a tenant's assets cover its debt obligations.

Credit analysis: the process of assessing the opportunity and risk associated with the counterparty in a contractual agreement, such as the tenant of a real estate asset.

Freehold: legal ownership of land and any attached buildings, even when the right to occupy the land has been sold to a leaseholder.

Ground rent/ground lease: a very long-term leasehold, typically a century or longer, usually with relatively modest rental payments.

Income strip: long-term lease arrangements where the tenant has an option to buy back the real estate at the end of a lease for a nominal payment. Often used for development financing.

Inflation collar: a contracted limit to the inflation-adjustment of any regular rent review to a pre-defined range. This can mitigate the possibility of rental cuts in the case of outright deflation, while also placing a cap on increases in periods of high inflation.

Inflation-linkage: rent payments that rise in line with inflation following regular reviews, typically country specific CPI.

Leasehold: the right to occupy land or buildings for a fixed term in exchange for regular rent payments.

Lease expiry: the point at which a leasehold ends.

Rent cover/rent gearing: a measure of a corporate tenant's ability to pay rental obligations, defined as a proportion of the tenant's operating earnings before interest, tax, depreciation and amortisation (EBITDA).

Residual value: the market value of a real estate asset at lease expiry.

RPI/CPI: official measures of inflation, which track the change in the price of a representative basket of goods and services.

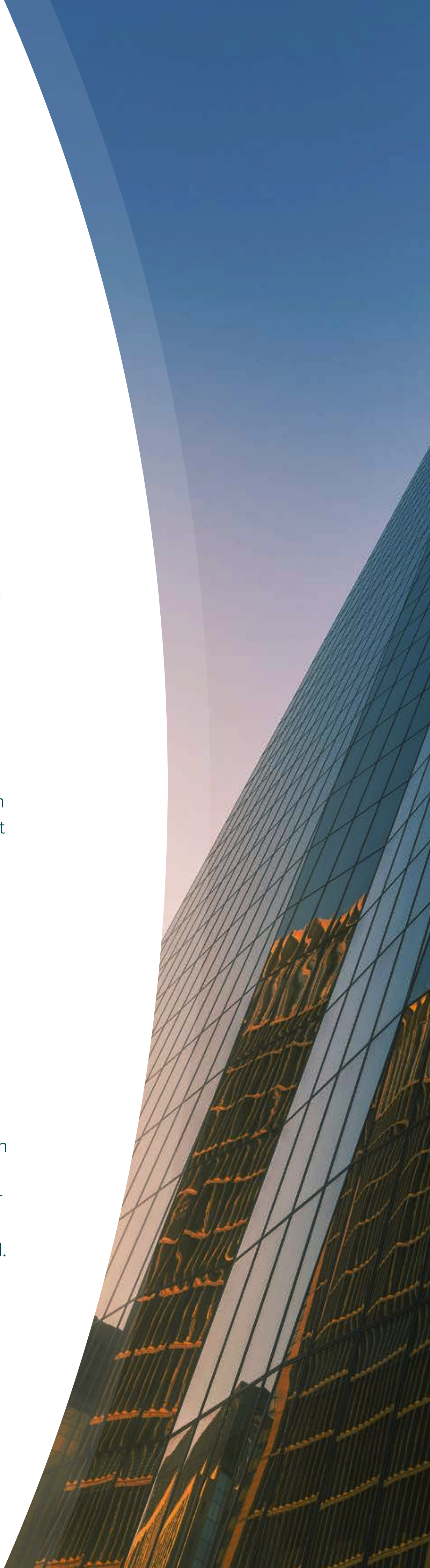
Sale and leaseback: an arrangement under which the vendor of a property enters into a contract to lease it from the new owner, thus releasing capital through the sale while maintaining tenancy.

Tenant: the occupant and lessee of a property.

Triple net: a contractual obligation whereby the tenant of a real estate asset takes responsibility for insuring and maintaining it. This minimises the costs to the landlord.

Vacant possession value: the value of a property not subject to leasehold or rental agreements.

Vendor: the seller of a property.



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