



# Entering a New Real Estate Cycle

June 2025



**CLEARANCE CAPITAL**  
Real estate alternatives

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 22, including 15 investment professionals

# Why European REITs?



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



**Predictable long-term cash income streams**

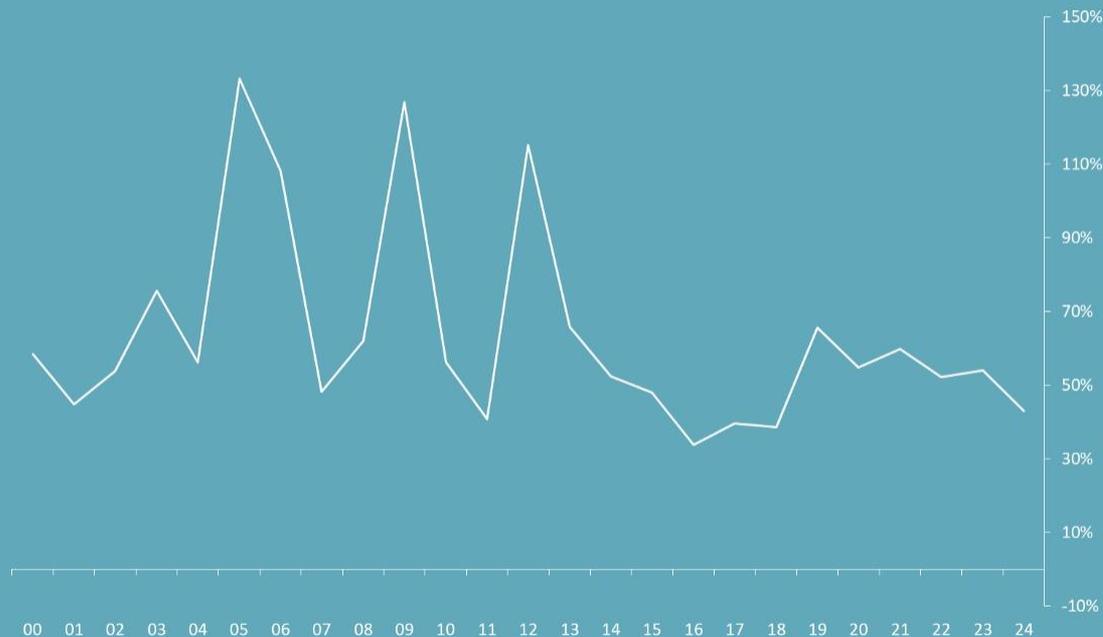


**Highest quality assets in Western Europe**

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

# High return dispersion creates alpha opportunity

Annual EPRA return dispersion \*



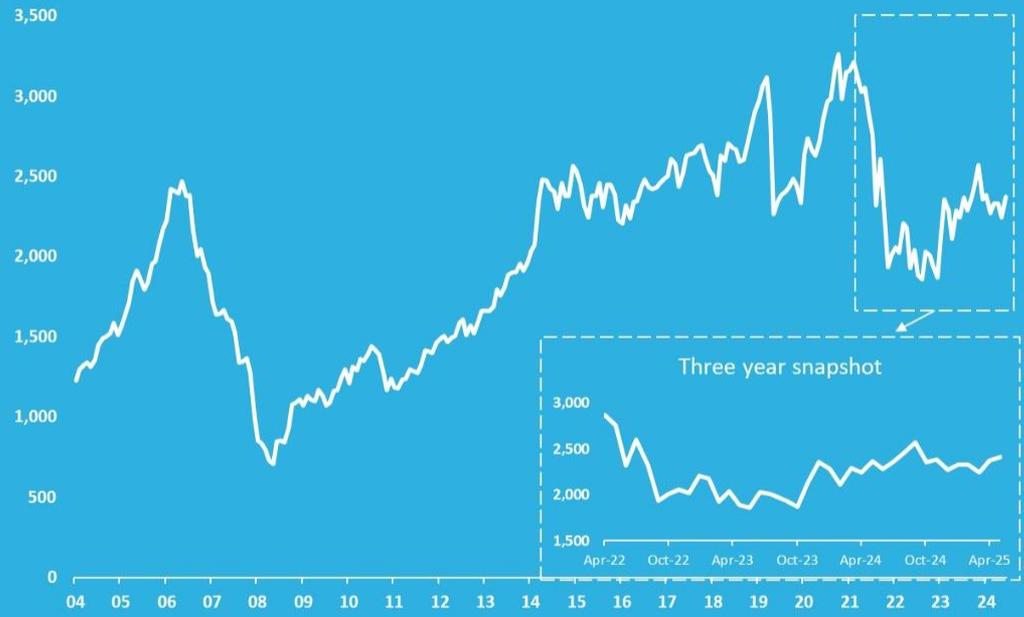
\* Average annual share price performance of the top quartile of EPRA less the average share price performance of the bottom quartile. EPRA is the FTSE EPRA NAREIT Developed Europe Total Return Index (107 constituents)

## 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

**Early stages of a cyclical recovery, following a 45% rates-driven drawdown as cost of capital spiked**

Commercial property values across Europe start to recover

Political and economic uncertainty remains high



**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 cost of capital driven correction**

Real estate capital values have  
fallen materially as cap rates  
expand

Driven by the cost of capital

**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 have moved 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 uncertainty, many REITs trade below 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 7 times, from 4.0% to 2.25%**

Markets currently price in a further 2.3 cuts in 2025



**The BOE has cut their base rate 4 times, from 5.25% to 4.25%**

Markets currently price in a further 1.6 cuts in 2025

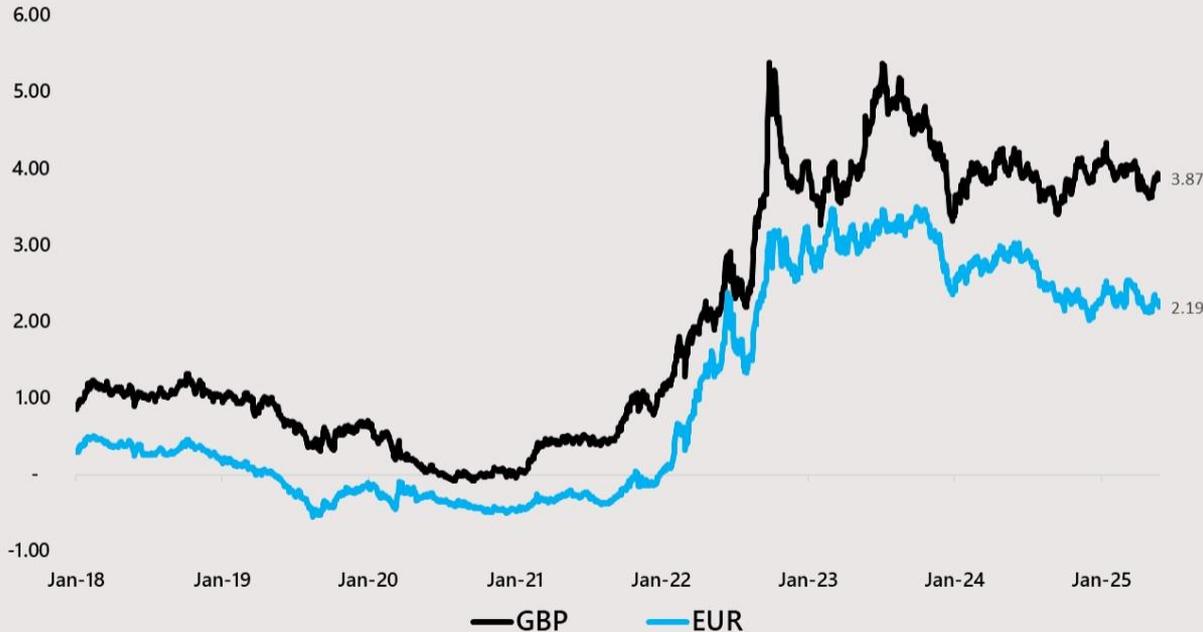


**The Fed has cut the Fed Funds rate three times from 5.5% to 4.5%**

Markets currently price in a further 1.9 cuts in 2025

# European rates outlook

## 5 Year swap rates remain elevated despite lower base rates

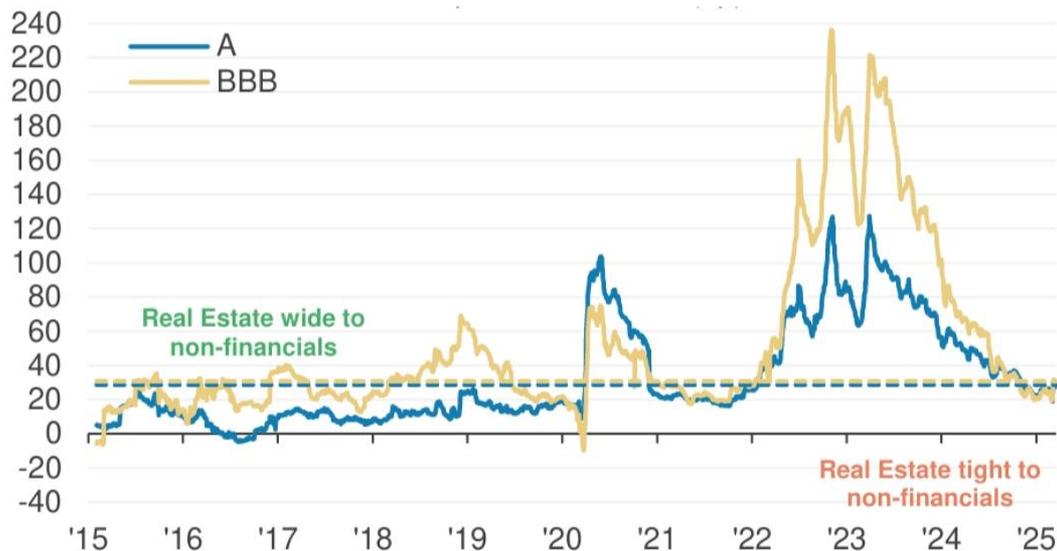


- While overnight rates have been cut across the developed world, longer duration bond yields and swap rates remain elevated
- Protectionist policies from the new US administration will likely be inflationary
- Relaxation of the German debt brake will see a material increase in borrowing to fund defence and infrastructure

Source: Bloomberg

# 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 and 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

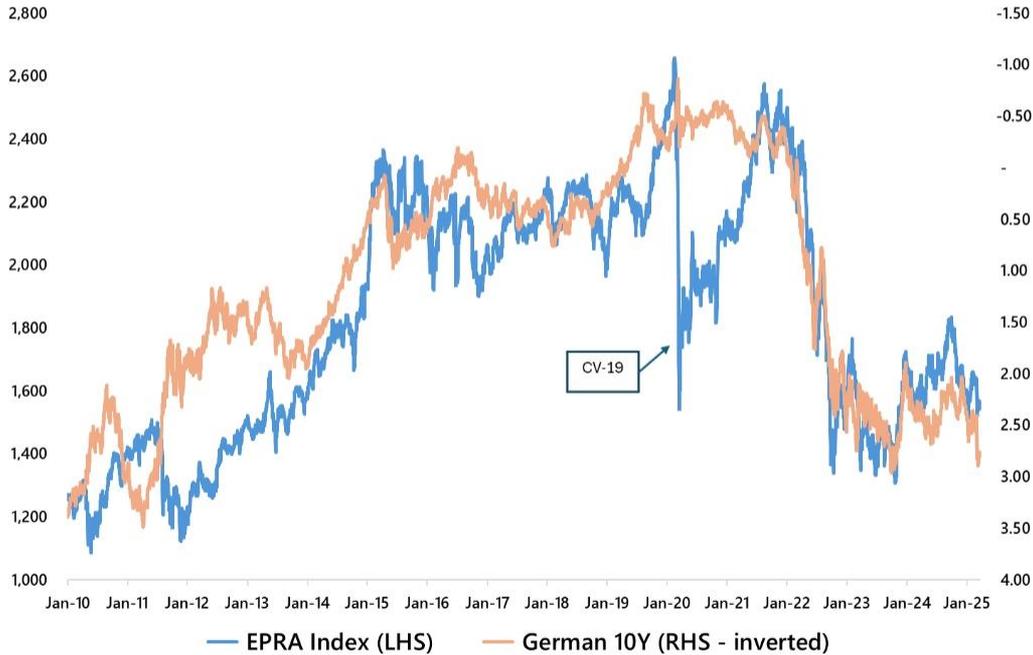


Source: Bloomberg

- After peaking at 5.7%, the yield to maturity on the REIT bond index is back to 3.3%
- Average European REIT in-place cost of debt is 2.7% with average unexpired debt term of 5.1 years
- As property yields again exceed the cost of debt, external growth opportunities reopen

# Bond proxy

## EPRA price performance vs bond yields

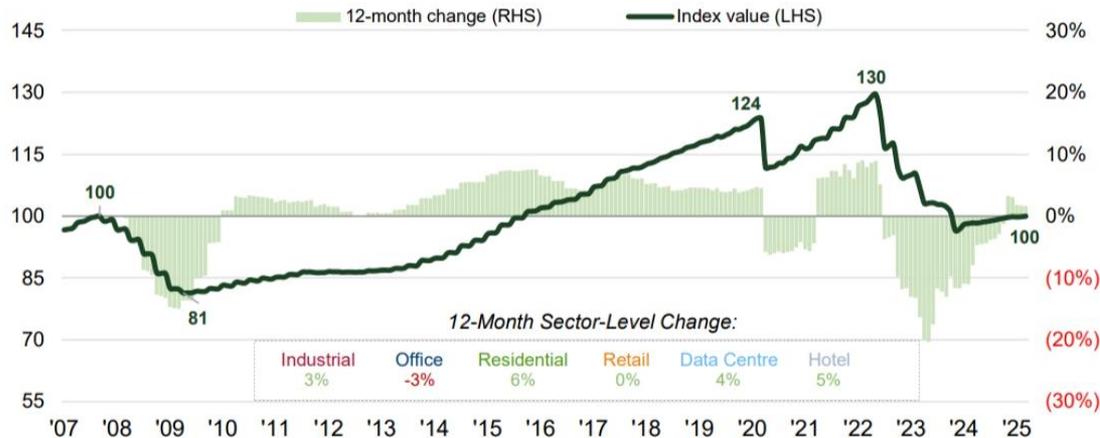


Source: Bloomberg

- 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



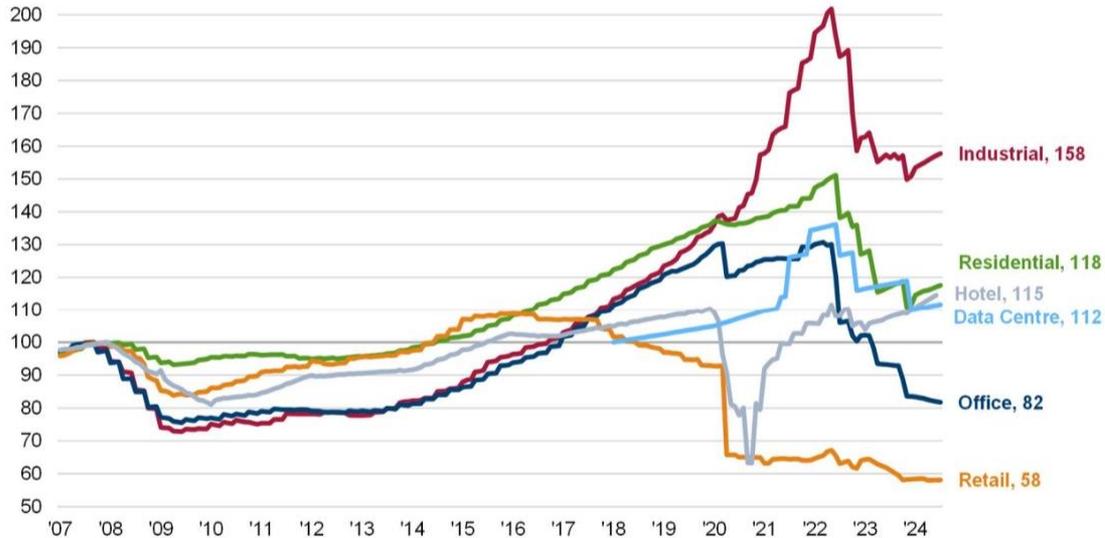
Source: Green Street Advisors

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



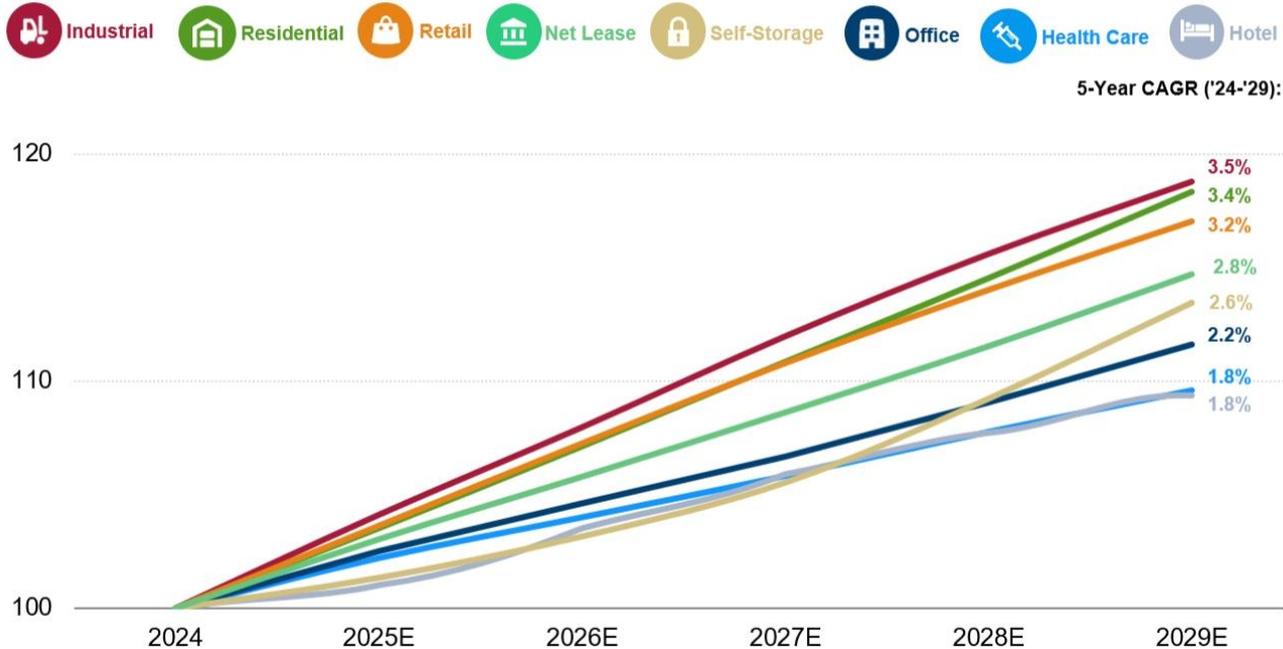
Source: Green Street Advisors

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
- **Non-prime offices** most challenged

# Rental growth outlook

## Green Street 5-year organic net rental income outlook

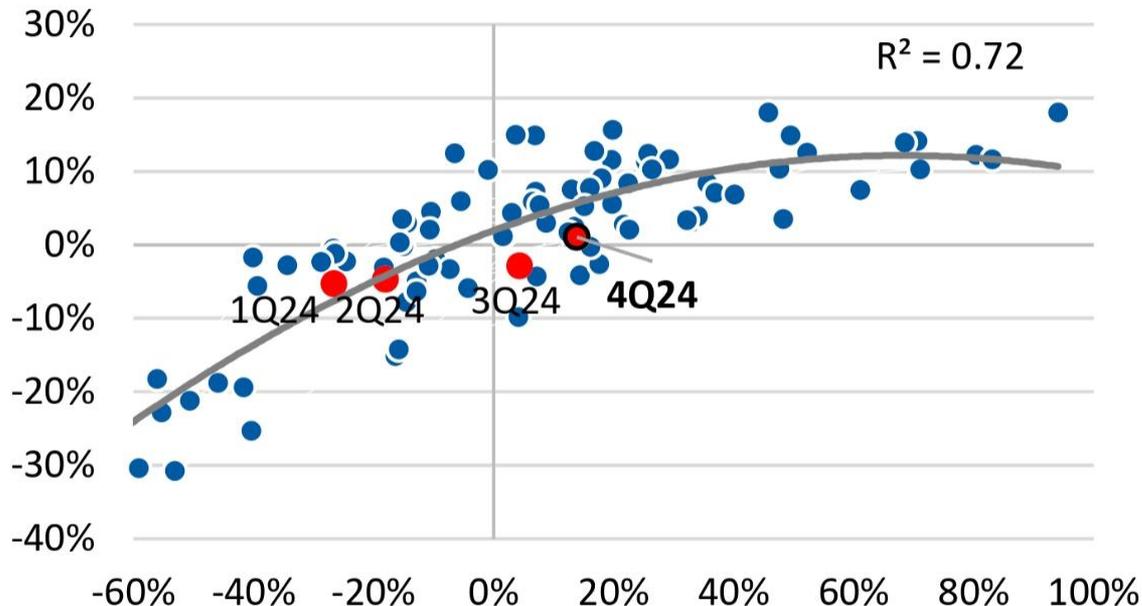


Source: Green Street Advisors

- 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



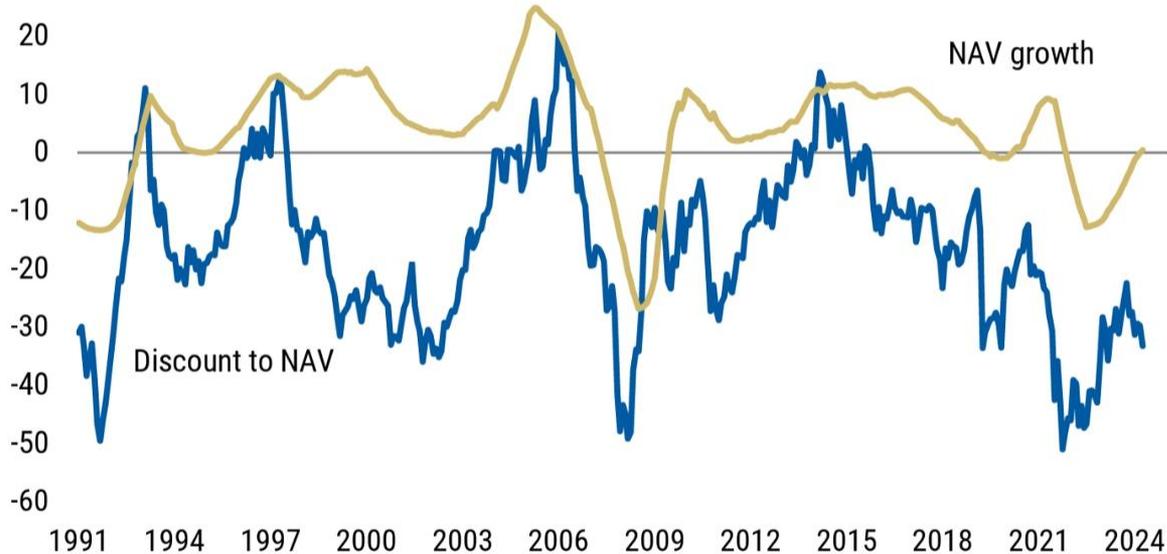
Source: Green Street Advisors

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

# 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**

- ① Large discounts price in falling values
- ① 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



**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 150bp outward shift in cap rates in Europe and 180bp in the UK, all else equal.

Source: Morgan Stanley

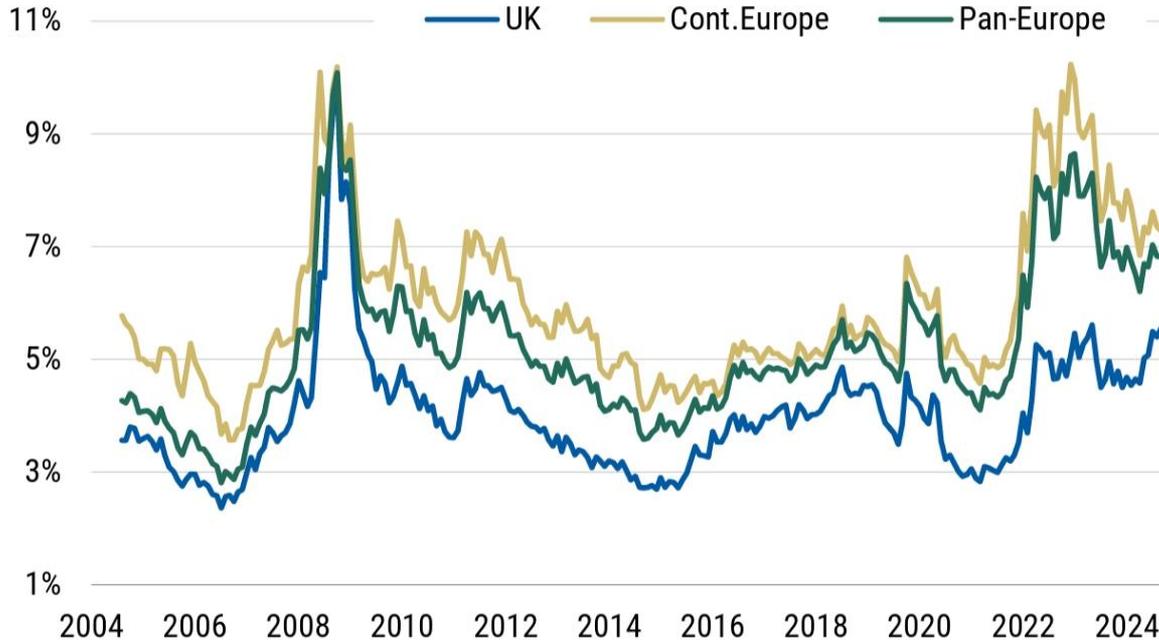
# Sophisticated buyers are targeting the discounts prevalent in the listed market

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 / PHP	Assura	1,950
Mar-25	Blackstone	Warehouse REIT	550
Apr-25	LondonMetric	Urban Logistics	770
May-25	Aedifica	Cofinimmo	3,100

**Private equity buyers, US REITs and other sophisticated investors 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

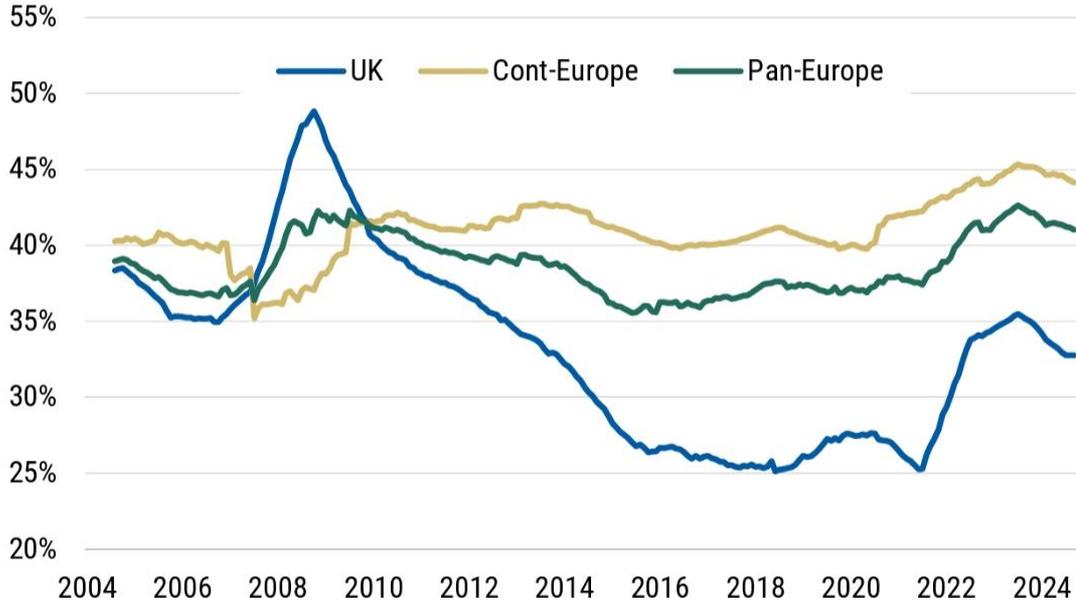
But earnings also benefit from inflation-linked leases and/or rental growth

Weighted average EPRA interest cost has risen from 1.9% in 2021 to 2.7% 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**

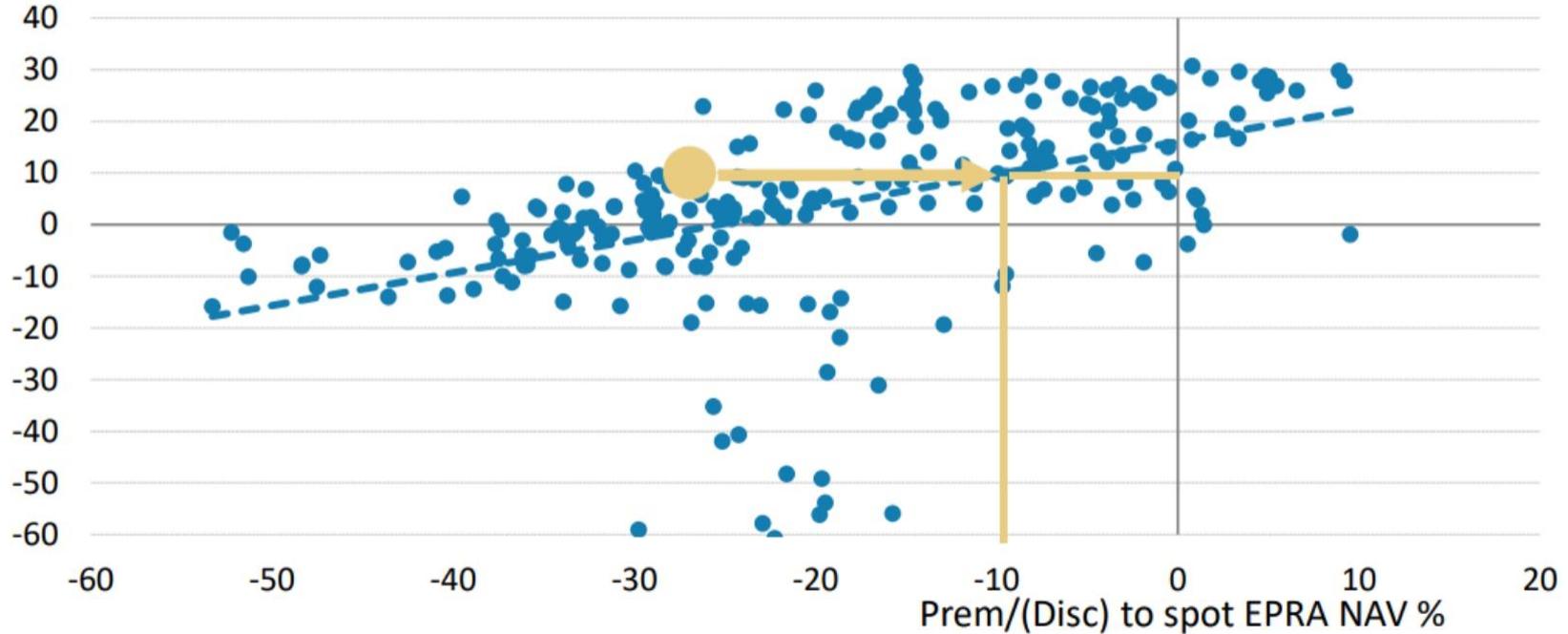
# Current sub-sector pricing



# NAV discounts vs expected total return

**LAND.L total return (NAV growth+divi return,%) +12m**

*monthly readings, large bubble = current*



Source: Morgan Stanley

# 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

## 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

## 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)

## 4 | Catalysts not obvious but we're paid to wait

c. 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 22, including 15 investment professionals  
managing AUM of \$800m

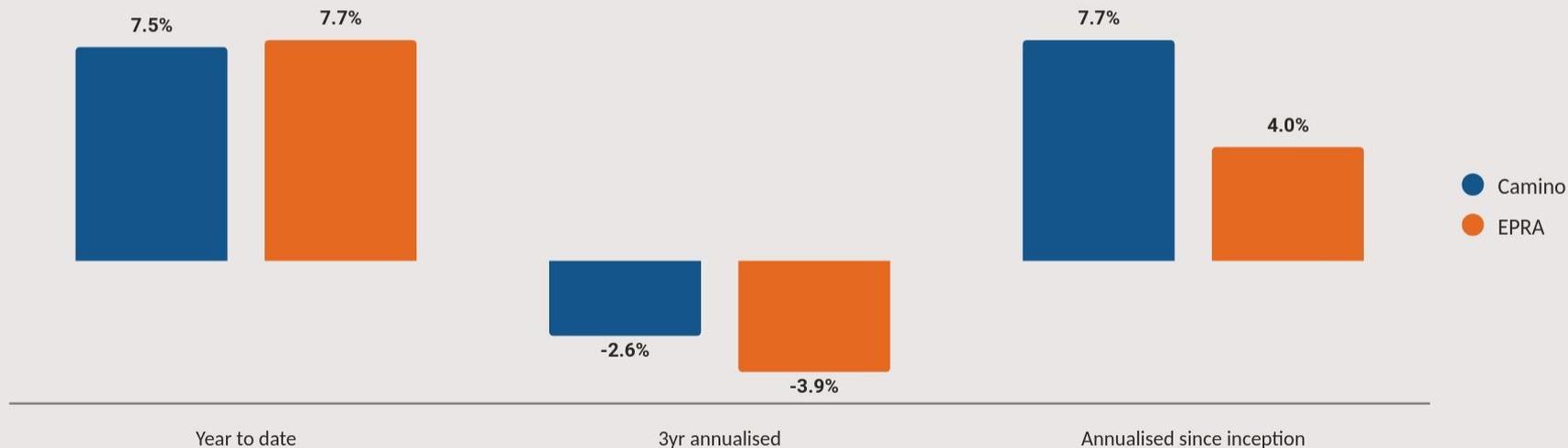
## Multiple currency options

Available in EUR, GBP and USD  
Exposure not hedged back to subscription currency

# Strong long-term track record

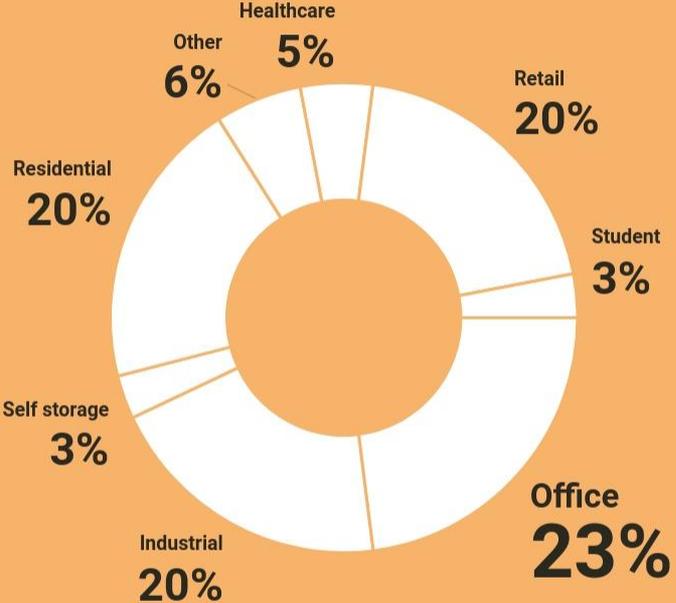
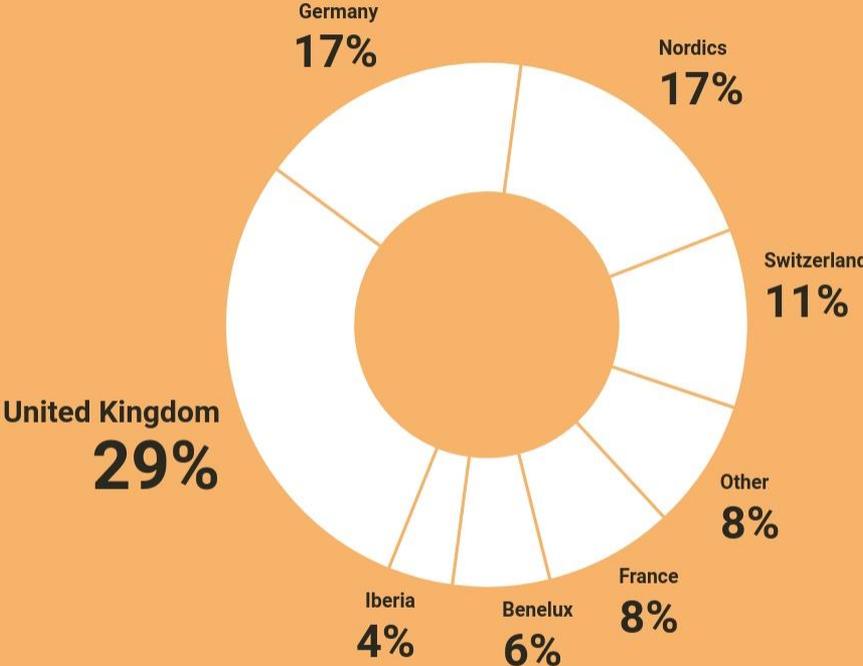
Recent returns impacted by market drawdown

**+151% cumulative net return since inception in 2013 vs. +63% for EPRA on a net total return basis**



Source: Fund records. Returns updated to 28 May 2025

# Portfolio construction



**45 Holdings** ○ **Top ten holdings 49%** ○ **Average holding 2.2%**

# Top ten holdings

4.4%  
dividend  
yield

6.7% cash  
earnings  
yield

40% loan-  
to-value

5.2yr debt  
maturity.  
2.5% cost

21%  
discount to  
NAV

VONOVIA



LEG

EUROCOMMERCIAL



UNIBAIL-RODAMCO-WESTFIELD



p | S | p  
Swiss Property



SEGRO

TAG  
Immobilien AG

# Summary

**1** With a stable economy and low inflation, cost of capital is receding, but we live tweet by tweet

**2** Commercial property values mostly bottomed out in 2H 2024

**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

The fund is distributed by Global  
Capital Solutions.

Please contact Lindi Van den Berg

[lindi@globalcap.co.za](mailto:lindi@globalcap.co.za)

083 344 9050

[www.clearancecaminofund.com](http://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

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Regulated by the Financial Conduct Authority

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