I feel like I have been predicting the outcome of Brexit for a very long time and I suspect for those who read my missives their emotions are exactly the same! But sadly, it would be irresponsible to write any form of commentary and not refer to it. Real estate performance is a reflection of economic performance and as Brexit is affecting our economy (and hence investor and occupier confidence) it really does matter. Hard exit, soft exit, no exit, second referendum, general election, change in Prime Minister, a socialist government and, no doubt, additional permutations prior to the final outcome. Lest we forget, danger lies in Brexit mania as well as in Brexit itself, as it has been such a dominant theme in 2018 that it has substantially drowned out most other UK news – information flow that matters and reflects changing fiscal and monetary policy alongside the inevitable maturing of the economic and real estate cycle. So what are we to expect in the near term? Caution on the monetary side because of the economic cycle alongside the ongoing search for Government funds on the fiscal side (beware the low hanging fruit that HMRC determines real estate to be). Most forecasters and commentators are unsurprisingly confused and reticent to commit to where the UK economic drivers will land over the next 24 months because of the Brexit process and then Brexit itself, especially as we would currently appear to be heading towards an extension of time (re Article 50) to enable agreement on the Withdrawal Terms (i.e. the Irish Backstop). There also appears to be a clear majority in Parliament against a no deal/hard Brexit and in favour of a deal that retains close ties with Europe/soft Brexit. As such, although I don’t foresee any near-term economic or real estate crisis I also think the chances of a near-term boom are remote – in fact if Brexit settles positively I would be cautious of the classic ‘dead cat bounce’ and would probably sell into the strength rather than seeing it as a buying opportunity.

Interestingly, despite Brexit risk, the real estate investor and occupier disruption to date has not been as bad as some expected, indeed real estate investment volumes have surpassed expectations and tenant demand has been surprisingly strong across most sectors, except retail. Overseas investors remain comfortable with the legal system, the talent pool, the language, the time zone, the financial system, etc. and the cheaper currency has particularly attracted Asian investors to continue to invest, especially in City of London offices. However, as I say above, we still have concerns about the longevity of the cycle and the risks of rising interest rates, quantitative tightening, global trade tensions, Eurozone issues...and more! I am also concerned that the reported performance statistics are dominated by the large investment and occupational transactions and are not reflecting the underlying trends. This is the reason our investment strategy is focused on demographically and systemically undersupplied ‘alternative’ areas of the real estate market rather than the more cyclically sensitive ‘traditional’ sectors. Moorfield retains its interest in the traditional sectors but we will need a pricing correction and genuine prospects of income growth, in the specific situation, to tempt us back any time soon.

We have recently raised our fourth value-add fund, MREFIV, and so have over £500m ready to invest if the right opportunities arise, and in addition, we have access to further funds through co-investment and JV capital if needed. We remain focussed on similar investment themes to those that we successfully pursued in MREFIII: (i) BTR/Multifamily, (ii) Student Accommodation, (iii) Logistics, (iv) Mixed Use schemes and (v) Infrastructure-led real estate - and we are increasingly looking for value from special situations as a result of stress and volatility. MREFIV has so far committed c.£50m of equity to four investments.

MAREF (our Senior Living focused fund which owns Audley, the UKs leading retirement village developer and operator) continues to grow, with plans to increase the size of the platform to over 2,000 units in the coming years, creating more inspiring places for older people to live and offering a solution to the increasing challenges of an ageing population. The demographic opportunity remains compelling and Moorfield are proud to have been pioneers of investing in this sector in the UK.

MREFIII is performing extremely well, having invested in the most rewarding themes and having repositioned assets to create long term and defensive inflation-linked cash flows that remain in such high demand. We have sold c.£450m of the MREFIII investments over the last 18 months, generating returns of a c.30% geared IRR and a c.2x equity multiple. We also pride ourselves on our cultural value set and, as such, we continue to focus on our CSR efforts, with our latest CSR report demonstrating our commitment to transparent corporate responsibility (available on www.moorfield.com). As we enter 2019 we would thank our investors for their ongoing support.

Best Wishes

Marc Gilbard, CEO
MREFIV Update

MREFIV continues to be invested slowly and with caution against the current Brexit backdrop, a mature economic setting, the risks of rising rates / quantitative tightening, and elevated real estate valuations across the board.

Moorfield remains focussed on similar investment themes that were successfully pursued for MREF III namely; BTR, Student Accommodation, Logistics, Mixed Use schemes and Infrastructure-led real estate; as well as looking for value from special situations as a result of stress and volatility. MREFIV has so far committed c.£50m of equity to four investments.

BTR:
• Duet, Manchester – Duet, is Moorfields’ fourth BTR scheme, set in a prominent waterfront location, adjacent to Media City in Salford Quays and close to Manchester city centre. Duet is due to complete in Q3 2019 and the forward funded development of 270 units is fully designed and incorporates extensive resident amenities.

Student Accommodation:
• The Toybox, Birmingham – MREFIV is forward funding a 290 unit student accommodation scheme in a prime location in central Birmingham which is due to open in Q4 2019.

Industrial/Logistics:
• Geberit, Alsager – MREFIV acquired a modern distribution warehouse, fully let to Geberit, a global market leader in the field of sanitary technology and bathroom ceramics. The unit is strategically located close to junction 16 of the M6 motorway, one of the UK’s main arterial transport links. The limited supply of logistic units in the area, strong demand and the reversionary nature of the investment give confidence in the prospects for the investment and conversion to residential use provides longer term alternative use potential.

Infrastructure-led:
• Zeta, Newcastle - a 128,500 sqft modern office on Cobalt Business Park which is set to benefit from nearby infrastructure investment. The investment was acquired at a deep discount to replacement cost and comparable transactions. Following a re-branding and repositioning the asset has been received positively in the market place with a number of new occupational dialogues underway.
MREF III News

MREF III has had a successful year of disposals as Moorfield has taken advantage of the continued strong investor demand for defensive long term income. £450m has been sold over the last 18 months, generating returns of a c.30% geared IRR and a c.2x equity multiple. Each of the investment themes has produced above target returns and 72% of the equity raised in the fund has now been returned to investors.

Moorfield’s approach has been to employ modest leverage of c.40% LTV across the fund so delivering above target risk adjusted returns.*

Disposals

BTR:

• The Keel, Liverpool - The Keel in Liverpool was one of the first purpose designed rental schemes delivered in the UK in this generation. Moorfield converted a redundant office into 240 apartments, complete with an on-site gym, 24 hour concierge facilities and car parking spaces and set a new benchmark for professional renting in the UK regions. Designing, delivering, operating and ultimately disposing of The Keel has given keen valuable experience as Moorfield continues to invest in the BTR sector.

Student Accommodation:

• The Tramshed, Preston - Following completion in October 2017, full occupancy was achieved in the first year and following an unsolicited offer the scheme was sold in Q3 2018. Moorfield has now realised two student accommodation investments from MREF III, having also sold Century Sq. in Sheffield in Q3 2017, both exceeding MREF III return targets.

Industrial/Logistics:

• Moorfield Logistics Partnership (MLP) - MREF III acquired five distribution warehouses as part of its logistics investment theme, with the intention to build a portfolio of small to mid-sized logistics units in key last mile locations. Following a number of lease re-gears, four of the warehouses were sold in 2018, comfortably exceeding MREF III’s return objectives.

* All figures are based on Management calculations and are not audited or final.
**Mixed-Use:**

- **Quartermile, Edinburgh** – the Quartermile investment comprised various components, including the delivery and sale of c.400 residential units, the sale of the old infirmary building to the University of Edinburgh, the delivery and pre letting of 200,000 sqft of offices (through a de-risked forward funding agreement with M&G), the securing of a revised planning consent to create additional residential units and leisure space as well as the improvement and sale of a Residence Inn extended stay hotel and a basement car park. The investment delivered exceptional returns, outperforming the original business plan.

- **Holiday Inn, Derby Riverlights** – the Holiday Inn hotel was carved out of the Riverlights mixed-use leisure scheme and sold.

- **Runnymede Credit** - the land loan, which was provided as part of a funding solution to deliver the residential element of a mixed-use development was repaid. Moorfield is also delivering an Audley retirement village, Coopers Hill, as part of the project and a 500 bed student accommodation scheme, Hox Park, which opened in Q3 2018.

**Regional Offices:**

- **Atlantic Quay, Glasgow** - Three office buildings, AQ1/AQ2/AQ3 were acquired with a backdrop of low levels of supply, following a lack of development during and after the financial crisis, and growing demand. Following refurbishments, the majority of AQ1 was let to the Government Department of Work and Pensions on a long term institutional lease and AQ3 was fully let to the Scottish Courts on a 25 year lease. Both assets have been sold, delivering record yields in the city and again delivering above target returns. The lease to the tenant in AQ2, Lloyds Bank, was subsequently regeared and this asset is on target to be sold in Q1 2019.

**Crossrail Offices:**

- **Aurora, Ealing** – Crossrail (the new trainline now called the Elizabeth line) is expected to dramatically change the accessibility of certain locations in London and has been driving substantial rental growth. Moorfield made investments in Ealing and Hayes to take advantage of this trend. Following a full Grade A refurbishment, Aurora secured record rents for Ealing and the asset was subsequently sold to Aviva in Q3 2018. The Shipping Building, Hayes was sold in December 2017.
MREFIII Asset Management

BTR:
• The Forge, Newcastle – The Forge is Moorfield’s second BTR scheme and it opened its doors to its first customers in November 2018. The first phase and communal facilities are currently open and existing stock (111 units) is currently 50% occupied. The remaining two phases are due to complete in February and May 2019 respectively.
• The Trilogy, Manchester – The Trilogy will be Moorfield’s third BTR scheme and it is due to complete in March 2019. Marketing is underway and the first lettings have been secured.

Student Accommodation:
• Hox Park, Runnymede - a 499 bed student accommodation scheme in Egham (serving Royal Holloway University of London), which opened in September 2018 and is over 98% occupied. The interior designed and tech enabled scheme has set a new standard for UK Purpose Built Student Accommodation.

Industrial/Logistics:
• Aberdeen Energy & Innovation Park - in testing trading conditions as a result of the volatile oil price these business parks have held up well with seven new occupiers joining the parks recently, alongside a number of existing tenants signing up to longer commitments, including a 125 year ground lease to Ineos (the UK’s largest petrochemical company). Moorfield’s close working relationship with Invest Aberdeen, Scottish Enterprise and Aberdeen City Council continue to deliver good results.
• MLP, Huddersfield – this is the last remaining logistics unit where the tenant agreed a lease extension to 25 years with fixed uplifts, delivering a high quality defensive income stream to MREFIII and the next owner.

Mixed-Use:
• Riverlights, Derby – a mixed use scheme that has been successfully repositioned since acquisition through replacing the hotel operators and letting the vacant retail and leisure space. The scheme now benefits from a weighted average lease length of 15 years with strong covenants, delivering a secure cash flow which will be highly desirable when the asset is brought to the market.
Moorfield Audley Real Estate Fund (MAREF)

• During 2018 Audley Group continued to grow its portfolio and now has 18 villages in the platform.

• Six villages (over 800 units) have now been completely sold. These six villages are fully operational, managed by Audley and enhancing the lives of retirees with the provision of amenities and facilities that you would normally expect from a five star country club, as well as care services when required to bring peace of mind and healthy living to Audley’s customers.

• In 2018 there were over 150 exchanges of newly developed homes, despite the uncertainty brought about by Brexit and a slowing housing market.

• Audley maintained its strong track record of obtaining planning consents that support the local community with three new planning consents achieved (including for the first Mayfield Village, which is the new mid-market brand, created to make retirement villages more affordable and which will commence development in 2019).

• Four new sites began development in 2018 (including the first Audley in London), and three further sites have been secured subject to planning. The pipeline for future opportunities is healthy and the business is continuing to work with land owners of all types (from long term investors, to landowners and housebuilders) to unlock value in sites.

• Audley was again voted Retirement Village operator of the year.

• The demographic opportunity remains compelling and Moorfield are proud to have been pioneers of investing in the sector in the UK.

• Moorfield and Audley’s current plans are to continue to grow the platform to over 2,000 units in coming years, creating more inspiring places for older people to live and offering a solution to the increasing challenges of an ageing population.