AlterA

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Semi-annual report **2018**

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Contents

Institutional investment in Dutch property

Altera Vastgoed is a Dutch, unlisted property fund for institutional investors that operates under an AIFM licence. It has €2.2 billion of invested assets. The fund offers institutional investors an opportunity to invest in various property sectors in the Netherlands in a professional and flexible manner, with low management fees and a low (core) risk profile. No leverage is used and no project development risks are incurred in the portfolio.

Altera stands out due to a focus on strategy and its transparent implementation.

- The residential fund is focused on the Randstad region. Many newbuild homes in the mid-segment deregulated sector are being added to the portfolio.
- The retail fund focuses on convenience stores, where various consumer target groups do their daily and weekly shopping.
- The industrial fund concentrates on the G5 metropolitan regions and the industrial fund in the immediate urban periphery as well as multi-tenant buildings within cities.
- Sustainability is central across all sectors. The value of sustainability is clearly demonstrated, not only through benchmarks (GRESB) and certification, but also in terms of lower energy costs and the futureproofing of property.
- Altera stands for clarity, efficiency and professionalism.

Results for the first half of 2018

A glance at Statistics Netherlands' 'Business Cycle Tracer' clearly shows that the positive trends in the Dutch economy continued in the first half of 2018. In this regard the Netherlands stands out positively among its EU peers.

Both producer and consumer confidence are positive, and the same is true of other factors such as GDP, exports, investments, government debt and the low number of bankruptcies.

Employment is rising, helping to drive a further decline in unemployment. At the same time, pressure on the labour market is increasing; it is becoming harder to fill vacancies and that may put a brake on the economy.

Interest rates showed some movement in the first half of 2018, but are now holding steady at a low level. The volume of available capital remains high.

All property sectors are benefiting from these developments; this is most evident in residential investments, but retail and industrial are also generating attractive returns.

Residential

In the residential sector, the shortage in the major cities and conurbations increased further, partly as a result of migration to the cities and growth in the number of households, particularly single-person households (young and old). For four years in succession, this has fuelled steep price rises in both the owner-occupied and rental markets.

The supply of homes in the market declined further during the past period. The addition of new stock through construction or transformation is insufficient to keep up with demand. This will also help sustain the rise in sale prices for the time being. The rise in rents has outstripped inflation for many years, but has not kept pace with sale prices.

Acquiring new buildings has become more expensive and the average initial yield on the Altera portfolio declined further in the first half of the year (from 4.8% to 4.5%). Interest among tenants is very strong, with all properties being fully let on completion. The portfolio is operating successfully with an occupancy rate of 99%.

Having regard to the first-half results, the fund return for full-year 2018 – as in the preceding three years – is expected to come out well above 10% again.

The growth of the Altera residential fund has continued. The operational portfolio has increased to more than €1.1 billion and with the secured pipeline of 1,045 homes the volume has grown to €1.4 billion. In the first half of 2018 275 homes were completed. A total of 238 apartments were added to the secured pipeline: 124 on Burgemeester Rijnderslaan in Amstelveen (the KPMG building) and 114 in the Hogekwartier in Amersfoort. Negotiations on various new projects will be completed in the second half of 2018, increasing the portfolio to around €1.8 billion.

New entries by shareholders in the residential sector in the first half of the year amounted to €69.2 million.

Portfolio characteristics

	Mid-2018	Year-end 2017	Mid-2017
Operational portfolio	€ 1,132 mln	€ 1,008 mln	€ 939 mln
Secured pipeline	€ 300 mln	€ 275 mln	€ 172 mln
Theoretical annual rent	€ 51.5 mln	€ 48.7 mln	€ 47.6 mln
Gross initial yield	4.5%	4.8%	5.1%
Vacant value ratio	91%	91%	89%
Average monthly rent	€ 938	€ 940	€ 919
Number of complexes	101	96	96
Number of lettable units	4,440	4,183	4,155
Occupancy rate at period end	99%	98%	98%

	1st half 2018	2017	1st half 2017
Returns			
Income return	1.5%	3.6%	1.8%
Capital growth	5.8%	13.5%	6.2%
Total portfolio return	7.4%	17.6%	8.1%
Fund return	7.3%	16.9%	7.7%
Results (€ x 1,000)			
Direct investment income	16,587	31,953	15,940
Indirect investment income	70,102	130,381	57,970
Total investment income	86,689	162,334	73,910
Other information			
Average occupancy rate	99%	98%	98%
Net/gross rental income	74%	78%	80%
Management costs as % of assets under management	0.18%	0.38%	0.19%
Total investment income per share (€ x 1)	0.110	0.225	0.104
Net asset value per share, period end (€ x 1)	1.625	1.536	1.437

Portfolio developments

- The operational portfolio grew by 12.3% in the first half of 2018 to €1.13 billion and from 4,183 homes to 4,440 (+6.1%)
- The secured pipeline comprises 1,045 apartments at 10 locations totalling €299.7 million
- With the inclusion of the secured pipeline (1,045 homes), the portfolio volume is €1.43 billion (+11.6%) and comfortably exceeds the threshold of 5,000 homes
- Six new complexes were completed in the first half of the year in Gouda, Hilversum, Hoofddorp, Ridderkerk, Utrecht and Waalwijk: 211 apartments and 65 single-family homes
- New entries in the first half of the year amounted to €69.2 million

Results

- Fund return of 7.3% in the first half of the year, partly due to capital growth of 5.8%
- Further increase in average occupancy rate to 99%
- Rent increase as at 1 July amounted to 2.2% with 2017 inflation of 1.4%
- Forecast fund return of 12% for full-year 2018, based on 9% upgrade

Retail

The retail sector is benefiting from high consumer confidence and a pick-up in purchasing power. Employment and income growth will also be a positive factor in the period ahead. Revenues of food & convenience stores rose by 3.5% in the first half of 2018 compared to the first half of 2017. In the case of non-food, the rise was 2.2%.

Leases worth annual rent of €3.8 million were signed in the first half of 2018, including €1.6 million for previously vacant properties. A number of disposals are expected to be completed in the third quarter of 2018, improving the intended focus on convenience stores from 47% to 56% of the portfolio.

An annualized return of 7% can be expected, with 6% income return and slightly positive capital growth.

New entries in the first half of 2018 amounted to €13.0 million.

Portfolio characteristics

	Mid-2018	Year-end 2017	Mid-2017
Operational portfolio	€756 mln	€750 mln	€728 mln
Theoretical annual rent	€56.3 mln	€56.4 mln	€56.2 mln
Gross initial yield	7.5%	7.5%	7.7%
Number of complexes	49	50	49
Number of leases	630	611	588
Contract rent versus rent revision value	+2%	+3%	+5%
Average remaining term	4.3 years	4.4 years	4.4 years
Average rent per m²	€188	€189	€189
Occupancy rate at period end	93%	93%	93%

	1st half 2018	2017	1st half 2017
Returns			
Income return	3.0%	6.2%	3.0%
Capital growth	0.3%	0.4%	-0.2%
Total portfolio return	3.4%	6.6%	2.8%
Fund return	3.3%	6.3%	2.7%
Results (€ x 1,000)			
Direct investment income	21,015	41,559	20,872
Indirect investment income	2,651	2,451	-1,916
Total investment income	23,666	44,010	18,956
Other information			
Average occupancy rate	94%	93%	93%
Net/gross rental income	85%	85%	85%
Management costs as % of assets under management	0.18%	0.37%	0.18%
Total investment income per share (€ x 1)	0.035	0.064	0.028
Net asset value per share, period end (€ x 1)	1.067	1.063	1.057

Portfolio developments

- Leases were signed with annual rent of €3.8 million in the first half of the year, including €1.6 million for previously vacant properties
- In the third quarter it is planned to complete two disposals, increasing the focus on convenience stores from 47% to 56%
- Entry by one shareholder for €13.0 million with shares being repurchased for the same amount

Results

- Fund return of 3.3% in the first half of the year with capital growth of 0.3%
- Average occupancy rate of 94%
- Forecast fund return of 7% for full-year 2018, based on 1% upgrade

Industrial

A number of new leases were signed in the industrial sector, including in a logistics complex in Venray that was let more than five years ago and in a multi-tenant complex in Best.

A fund return of 9% or possibly higher can be achieved in full-year 2018.

Portfolio characteristics

	Mid-2018	Year-end 2017	Mid-2017
Operational portfolio	€142 mln	€137 mln	€133 mln
Theoretical annual rent	€12.6 mln	€12.5 mln	€12.5 mln
Gross initial yield	8.8%	9.1%	9.4%
Number of complexes	11	11	11
Number of leases	55	47	41
Contract rent versus rent revision value	+8%	+6%	+6%
Average remaining term	2.9 years	3.0 years	3.3 years
Average rent per m² of industrial space	€53 per m2	€52	€52
Average rent per m² of office space	€97 per m2	€96	€95
Occupancy rate at period end	96%	92%	89%

	1st half 2018	2017	1st half 2017
Returns			
Income return	2.9%	6.4%	3.2%
Capital growth	3.7%	3.3%	0.2%
Total portfolio return	6.6%	9.9%	3.4%
Fund return	6.1%	9.0%	3.0%
Results (€ x 1,000)			
Direct investment income	3,731	7,677	3,889
Indirect investment income	4,981	4,522	266
Total investment income	8,712	12,199	4,155
Other information			
Average occupancy rate	90%	88%	87%
Net/gross rental income	73%	78%	79%
Management costs as % of assets under management	0.18%	0.37%	0.19%
Total investment income per share (€ x 1)	0.053	0.073	0.026
Net asset value per share, period end (€ x 1)	0.915	0.886	0.859

Portfolio developments

- Leases signed with annual rent of €1.1 million, including €0.8 million for the logistics complex in Venray with a term of over five years

Results

- Fund return of 6.1% in the first half of the year with capital growth of 3.7%
- Average capacity utilization of 90%, with an increase to 96% in mid-2018 due to lettings. This level can be maintained in the second half of 2018
- Forecast fund return of 9% for full-year 2018, based on 4% upgrade

Other information

Annualized management costs amount to 36 basis points of assets under management.

Anticipating the possible abolition of the regime of fiscal investment institutions, we are making preparations for an adjustment to the formal structure.

At the General Meeting of Shareholders on 18 April 2018 Mr H.A.T. (Heino) Vink was appointed to the Supervisory

Board in replacement of Mr H.C.A. de Vos tot Nederveen Cappel.

Sustainability & ESG

The government put forward plans and measures with regard to sustainability in the first half of 2018. Most noteworthy was the decision that all newbuild homes must be 'gasless' from 1 July 2018. Altera had already anticipated this in the previous year by deciding that all new housing acquisitions would be built as 'gasless' homes from 2018. The resulting efficiency benefits accrue as far as possible to both the investor and the tenant.

Altera's strategy for sustainability & ESG is focused on socially responsible investment and generating impact for both the investor and the tenant. For that reason, due account is taken of the United Nations Sustainable Development Goals (UN SDG) that are relevant to real estate. In the case of newbuild homes, they are incorporated in the Schedule of Requirements.

With regard to technical sustainability, this mainly involves reducing energy and emissions. Demonstrable energy and emissions savings are achieved by cutting energy consumption, using more green energy and generating energy (including by means of solar panels).

We expect to be able to complete the acquisition of a number of model projects this year, including 'Zero on the Meter' homes. Reductions in energy and emissions are also being pursued in the retail and industrial segments.

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