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# Semi-annual report 2019

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# 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 assets under management. The fund offers institutional investors an opportunity to invest in the residential and in the retail sector 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 new-build 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.
- 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 2019

The positive trends in the Dutch economy continued in the first half of 2019 and stands out positively among its EU peers. Many economic factors are in favor of investing in low risk real estate: growth in GDP of 2.0% compared to Q2 2018, inflation of 2.7% (due to an increase of VAT and energy costs), rise of consumer spending of 2.0%. Especially the decrease of the interest rate to below zero (10 years government bonds June 2019: -0.09%) is a main driver for the attractiveness of investing in real estate funds.

Our residential fund benefits most from these economic factors, in combination with the shortage of supply in the Randstad and adjacent regions. On the other hand, the construction costs still rise due to the limited capacity of personnel and price increases of raw material. However, we are still able to add attractive projects to the pipeline within our financial targets. The residential sector gets more attention from foreign investors.

The strategic choice to focus on the convenience segment of the retail sector, continues to prove to be a right approach. Altera has become less vulnerable for bankruptcies of retail chains in the fashion segment, which also took place in the first half of 2019.

The shareholders of our industrial fund decided in April 2019 to sell the portfolio. We expect to execute this sale later this year. Meanwhile, this fund operates successfully with an average occupancy rate of 98%.

*All figures shown in this report are unaudited.*

Altera will adopt per 30 September 2019 the INREV net asset value as the trading NAV. As a result, Altera's fulfilment of the INREV guidelines improves further.

We had our first appearance on the Provada real estate fair in Amsterdam from 4 to 6 June. Many presentations were given with external parties in the field of real estate transactions, sustainability and research.

# 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 fueled 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. The proposed changes by the state and municipalities for the mid-price segment will not improve this shortage.

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 4.4% to 4.2%). 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 2019 – as in the preceding four years – is expected to come out well above 10% again.

The growth of the Altera residential fund has continued. The portfolio in operation has increased to more than €1.3 billion and with the secured pipeline of 1,206 homes the volume will grow to €1.7 billion. In the first half of 2019 126 homes were completed. A total of 126 apartments were added to the secured pipeline: 77 in Kop van Laak in the Hague and 49 in Nesselande in Rotterdam. Negotiations on various new projects will be completed, increasing the portfolio (including the pipeline) towards €2.0 billion.

New entries by shareholders in the residential sector in the first half of the year amounted to €42.3 million.

## Portfolio characteristics

	Mid-2019	Year-end 2018	Mid-2018
Operational portfolio	€ 1,340 mln	€ 1,242 mln	€ 1,132 mln
Secured pipeline (excluding revaluation)	€ 373 mln	€ 358 mln	€ 300 mln
Theoretical annual rent	€ 56.3 mln	€ 54.4 mln	€ 51.5 mln
Gross initial yield	4.2%	4.4%	4.5%
Vacant value ratio	92%	92%	91%
Average monthly rent	€ 969	€ 962	€ 938
Number of properties	105	103	101
Number of lettable units	4,695	4,577	4,440
Occupancy rate at end of period	99%	99%	99%

	1st half 2019	2018	1st half 2018
<b>Returns</b>			
Income return	1.5%	3.3%	1.5%
Capital growth	5.3%	11.9%	5.8%
Total property return	6.9%	15.6%	7.4%
Fund return	6.6%	15.1%	7.3%
Dividend return	1.4%	2.7%	1.4%
<b>Results (€ x 1,000)</b>			
Direct investment income	19,663	37,503	16,587
Indirect investment income	76,736	146,132	70,102
Total investment income	96,399	183,635	86,689
<b>Other information</b>			
Average occupancy rate	99%	99%	99%
Net/gross rental income	80%	79%	74%
INREV TER (in bps)	19.6	35.5	17.8
Total investment income per share (€ x 1)	0.113	0.229	0.110
Net asset value per share, period end (€ x 1)	1.810	1.722	1.625

## Portfolio developments

- The operational portfolio grew by 7.9% in the first half 2019 to €1.34 billion and from 4,577 homes to 4,695 (+2.6%)
- The secured pipeline comprises 1,206 homes at 12 locations totaling €373.1 million
- Three complexes were added in this period to the secured pipeline in The Hague, Rotterdam and Brielle consisting of 198 apartments
- With the inclusion of the secured pipeline, the portfolio volume is €1.75 million (+7.2%)
- Two new complexes consisting of 126 apartments were completed in the first half of 2019 in Amsterdam and Zeist
- New entries in the first half of the year amounted to €42.3 million and redemptions of €20.3 million

## Results

- Fund return of 6.6% in the first half of the year, partly due to capital growth of 5.3%
- Average occupancy rate remained on high level of 99%
- Rent increase as at 1 July amounted to 2.6% with 2018 inflation of 1.6%
- Forecast fund return of 12% for full-year 2019, based on 9% capital growth

# Retail

The retail sector is benefiting from a pick-up in purchasing power which results in higher spending in consumer goods. Employment and income growth will also be a positive factor in the period ahead. Consumer spending in food rose 3.7% in the first half of 2019 compared to the first half of 2018. In non-food, the rise was 2.5%. Because of the impact of the VAT change, the volume effect was opposite: food rose with 0.4%, non-food with 4.0%.

Leases worth annual rent of €1.7 million were signed in the first half of 2019, including €0.5 million for previously vacant properties.

In the first half of the year two convenience centres in De Meern (Mereveldplein) and Leusden (Zuidhoek) and a stand-alone supermarket in Zeist were acquired with a total investment volume of €28.7 million and an annual rent of €1.7 million.

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

New entries from foreign investors in the first half of 2019 amounted to €110.0 million and a volume of €100.0 million has been redeemed, resulting in a net inflow of €10 million.



## Portfolio characteristics

	Mid-2019	Year-end 2018	Mid-2018
Operational portfolio	€ 651 mln	€ 631 mln	€ 756 mln
Theoretical annual rent	€ 47.0 mln	€ 45.7 mln	€ 56.3 mln
Gross initial yield	7.2%	7.2%	7.5%
Number of properties	48	46	49
Number of leases	581	567	630
Rent passing versus rental value	+1%	+1%	+2%
Weighted average lease term	4.2 years	4.0 years	4.3 years
Average rent per m <sup>2</sup>	€ 197	€ 199	€ 188
Occupancy rate at end of period	93%	93%	93%

	1st half 2019	2018	1st half 2018
<b>Returns</b>			
Income return	2.8%	6.0%	3.0%
Capital growth	-1.3%	0.7%	0.3%
Total property return	1.6%	6.7%	3.4%
Fund return	1.3%	6.4%	3.3%
Dividend return	2.7%	5.9%	2.9%
<b>Results (€ x 1,000)</b>			
Direct investment income	16,767	39,500	21,015
Indirect investment income	-8,356	4,927	2,651
Total investment income	8,411	44,427	23,666
<b>Other information</b>			
Average occupancy rate	93%	93%	94%
Net/gross rental income	83%	85%	85%
INREV TER (in bps)	19.3	35.6	17.8
Total investment income per share (€ x 1)	0.014	0.067	0.035
Net asset value per share, period end (€ x 1)	1.053	1.068	1.067

## Portfolio developments

- Two convenience centres were added to the operational portfolio in April 2019: Mereveldplein in Utrecht De Meern and Zuidhoek in Leusden. The rental income amounts to €1.3 million for these investments of in total €21.7 million
- A stand-alone new-build supermarket in Zeist was added for €6.0 million in January 2019
- New investments in the second half of 2019 are planned and in combination with divestments, the convenience segment will increase well above 60%
- New entries in the first half of the year amounted to €100.5 million and redemptions of €90.5 million

## Results

- Fund return of 1.3% in the first half of the year, partly due to a downgrade of 1.3%, especially in the comparison segment which suffered from bankruptcies of some retail chains
- Average occupancy rate remained on 93%
- Forecast fund return of 5% for full-year 2019, based on an expected yield compression in the convenience segment

# Sustainability & ESG



Altera achieved the number one position in the annual Global Real Estate Sustainability Benchmark (GRESB) for our residential and retail funds in the category non-listed real estate funds in the Netherlands. Our industrial fund achieved a number three position in this category. This places Altera's funds in the top of the Dutch participants in GRESB. All three funds are licensed Green Star within the benchmark.

Altera funds also achieved an excellent score on Western Europe scale. The residential fund achieved a first place (third place worldwide) followed by a third and fifth place for respectively its industrial and retail funds.

All of Altera's funds realized a significant higher score over 2018 compared to the results in the previous year. Our residential fund increased by 14 points, our retail fund by 12 points and our industrial fund by 13 points. Please find the GRESB scores of our residential and retail fund in the visuals below.



Altera also participates in the UN Principles for Responsible Investment survey. The results of this survey were very positive with a highest rank A+ in the module Strategy and Governance and an A score on Direct Property.

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