WMG Real Estate

Objective:

WMG, acting as principal together with its investors, invests into London Real Estate, for capital appreciation as well as yield return. We aim to return more than 15% IRR on each project.

We have experience across most real estate asset classes, but our current strategy is focused on Greater London residential development and commercial office asset management projects.

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Future Proofing Investments

Dear Investor,

Leaving behind a black swan year, we would like to take this opportunity to wish you, your family and businesses a healthy new year. 2021 started with several challenges ahead, therefore we believe it is a good time to stop and think what we can do better and different.

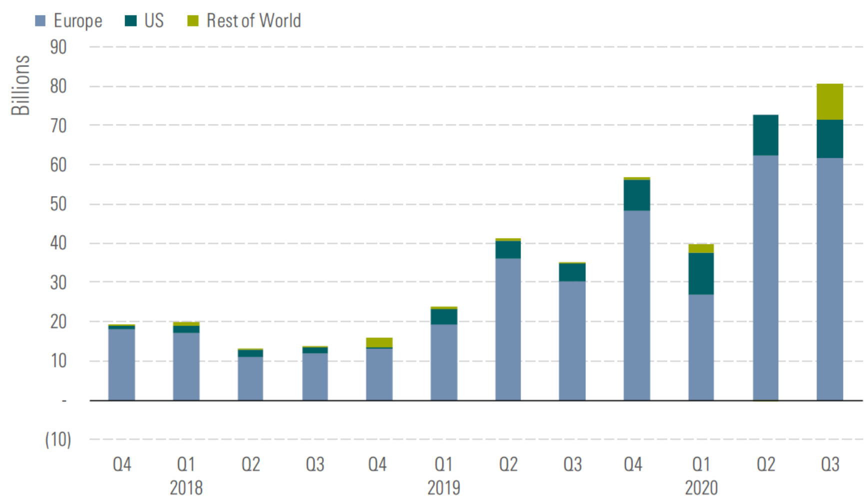
With the Coronavirus pandemic spread across the globe, magnifying environmental and social issues, there are several uncertainties around when and if we are going to get back to our normal routines. Although the vaccine is now becoming available, the changes as to how we live, work and travel is here to stay in the long-term. All industries are required to assess their businesses and adapt to this new world. The adaptation will undoubtedly involve ESG integration.

ESG stands for Environmental, Social and Governance - a set of standards used to measure the sustainability and social impact of an investment or a business. ESG integration involves the systematic and explicit inclusion of environmental, social and governance factors into financial analysis. ESG factors cover a wide spectrum of issues that traditionally are not part of financial analysis yet have financial relevance.

ESG in real-estate involves the physical assets not only meeting a list of green criteria, but also having a meaningful impact on society, on the health and well-being of their occupiers and creating urban neighbourhoods that will remain relevant in the long term. As the concepts of resilience and adaptability has become key with this pandemic, ESG criteria are best suited to effectively assess an organization’s long-term sustainability and capacity for growth.

According to Morgan Stanley Institute for Sustainable Investing, sustainable funds outperformed traditional peers and reduced investment risk during this pandemic, weathering the market shock better. In return, Morningstar data recorded global inflows into sustainable funds as USD 80.5 billion in the third quarter of 2020; up 14%, increasing assets under management to a new record of $1,258 billion, which is dominated by Europe.

Quarterly Global Sustainable Fund Flows (USD Billion)



Source: Morningstar Direct. Morningstar Research. Data as of September 2020

Sources: PwC, ULI, PERE, Deloitte, LSE, BlackRock, KPMG, Deloitte, UN, PERE, FT, Morgan Stanley, Morningstar, UK GBC

What are the key drivers?

There is a broader awareness of environmental issues and social change among investors, occupiers, employees and consumers. This is especially noticeable in the younger generation of investors, who are asking how their money is being invested, whom they invest with or buy from - looking at the environmental and social ranking of their portfolios, as well as financial rankings. Equally, employees and consumers have an increasing social awareness as to whom they are associated with.

In addition to the surge of interest and pressures from investors and society, regulatory changes are an important catalyst. The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint based on 17 Sustainable Development Goals (SDGs), which are an urgent call for action for all countries both developed and developing. Following the UN initiative, Paris Agreement is the first-ever universal, legally binding global climate change agreement, adopted at the Paris climate conference (COP21) in December 2015.

The 2008 UK Climate Change Act, which sets out emission reduction targets that the UK must comply with legally, represents the first global legally binding climate change mitigation target set by a country. In 2019, the UK became the first major economy to commit to a 'net zero' target by 2050 and will be hosting the 26th UN Climate Change Conference of the Parties (COP26) in Glasgow in November 2021, which will bring all related parties together in order to accelerate action towards the goals of the Paris Agreement and the UN Framework Convention on Climate Change.

EU Regulatory Framework is also expanding, including disclosure, taxonomy and benchmark regulations. Reporting of non-financial data is now a legal requirement for large companies by EU law. EU Sustainable Finance Action Plan (SFAP) - introducing measures to clarify institutional investors and asset managers' duties on ESG integration, transparency and reporting requirements.

Is it all about doing the "right thing"?

Not anymore. There is a clear shift from 'nice to have' towards a risk led business as ESG factors have financial relevance and provide risk-adjusted returns. Therefore, ESG criteria can be seen to be moving into the mainstream and becoming a part of fiduciary duty for institutional investors as it involves future proofing the value of the assets. There is growing evidence showcasing the link between ESG and financial performance and a strong business case for incorporating ESG criteria into real estate investment and management decisions as a part of risk, return, and diversification considerations.

A considerable amount of research conducted on the performance of ESG funds revealed that there is no financial trade-off in the returns compared to traditional investments. On the contrary, data from Morningstar, sampling 745 Europe-based sustainable funds showed their long-term performance outperformed non-ESG counterparts over 1-10-year periods with higher survivorship rates.

Real-estate related evidence also demonstrates the potential for an overall improved valuation for green-certified buildings compared to non-certified ones through enhanced net operating income (higher rents and occupancy) and lower operational costs. Properties that lack sustainability features will be less liquid with a lower sales price ("brown discount") as they will be less attractive for investors/tenants going forward. In addition to the financial factors, the real estate sector is exposed to the physical impacts of climate change. Extreme weather events can lead to higher insurance premiums, higher capital expenditure and operational risks therefore ESG compliant assets are more resilient to downturns.

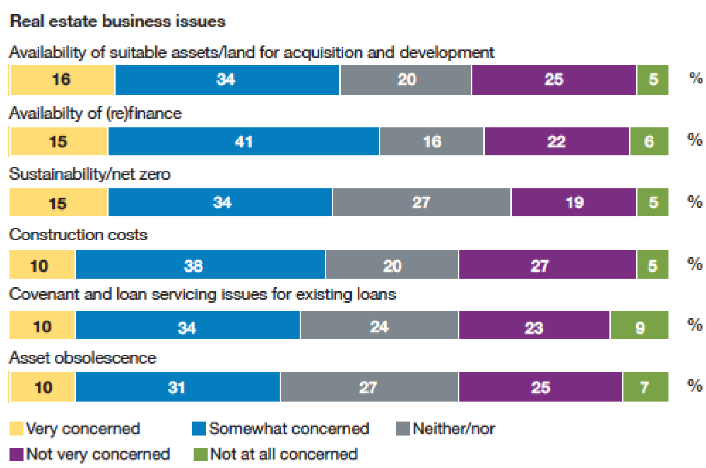
Regulatory conditions are becoming more stringent with the adoption of the Paris Agreement and pursuing greenhouse gas reduction strategies, specifically targeting the building and construction sector. In the long-term, it is evident that institutional and large-scale capital will be available to ESG compliant businesses only. A significant number of pension and insurance funds have already started to award new business exclusively to asset managers with ESG capabilities. Similarly, a growing number of banks and financial institutions are providing lower costs and easier access to ESG linked businesses.

What is the Role of the Real Estate Market?

The real estate industry is a major contributor to the climate crisis. Buildings account for approximately one-third of global greenhouse gas emissions and consume 40% of global energy. According to UK Green Building Council the built environment contributes around 40% of the UK's total carbon footprint. Although newly constructed buildings are more energy efficient, 80% of the stock that will exist by 2050 have already been built, therefore the main focus is decarbonising the existing stock.

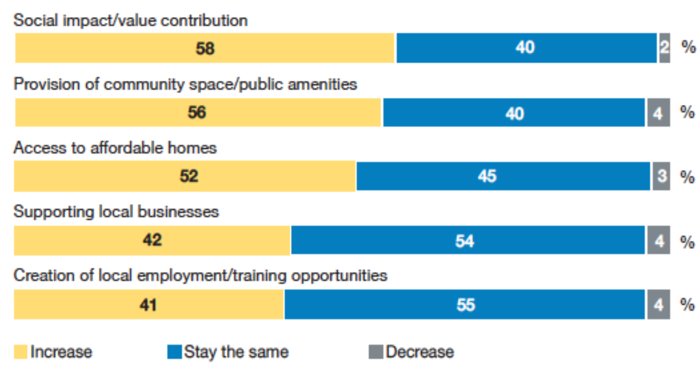
This year's PwC-ULI report on Emerging Trends in Real Estate Europe highlighted environmental priorities as a top trend and concern among industry leaders; almost eight out of 10 survey respondents identified energy efficiency, carbon emissions, and climate adaption as high priorities within their portfolios in 2021. Although the focus has mainly been on the environmental issues, "S" is on the rise as investors are looking beyond environmental concerns for value. The report that was presented with a heading of "An Uncertain Impact" highlighted the social challenges ahead including rising unemployment and growing inequalities.

Issues impacting business in 2021



Source: PwC-ULI Emerging Trends Europe survey 2021

Importance of social aspects of ESG in portfolio, 2021



Source: PwC-ULI Emerging Trends Europe survey 2021

Real-estate is now beyond bricks & mortar and plays a vital role in terms of recovering from health, social and economic damages, which the pandemic has caused as the sector has the responsibility and ability to deliver sustainable places improving health conditions and wellbeing of the users while investing in the social infrastructure. We need to create future-proof cities resilient to climate change and other risks. This will be a growing trend going forward which will differentiate and more importantly help businesses survive in the long-term. Several companies are internalising ESG targets throughout real estate investment, asset management, risk management and talent management processes as there is a growing demand from major real estate players including investors as well as tenants for sustainable properties, which prove to be more resilient to downturns. ESG integration provides risk mitigation, better and easier access to finance with lower costs, tenants with higher and long-term demand and attracts new capital/investment.

WMG RECENTLY COMPLETED THE ACQUISITION OF A NEW RESIDENTIAL LED MIXED-USE DEVELOPMENT

We have exchanged contracts and completed the acquisition of Gladstone Parade residential led mixed-use project in November together with an overseas investor. The site is freehold. Unique Property Group (UPG) is appointed to provide development management services. Planning is in place with all pre-commencement conditions satisfied. We expect the construction to start in January 2021 with a forecast build period of 19 months including 1 month of mobilisation.

The scheme comprises of a 6-storey residential led mixed-use building consisting of 38 private residential units and 16 affordable rent & shared ownership residential units with 4 commercial units on the ground floor.

The project is located in north-west London (NW2) in Gladstone Parade, Cricklewood; within the Brent Cross Regeneration Area with a façade on Edgware Road. The area is home to one of the largest regeneration projects in the UK, "The Brent Cross Regeneration Project", which is bordered by Brent Cross to the north, West Hampstead to the east, Kilburn to the south and Willesden to the west and is located approximately 5.5 miles to the north west of central London.

The Property has excellent access to public transport through many bus stops close by (1-minute walk) with access to trains (Jubilee and Bakerloo lines) within a in 15-minute walk. Accessibility will be further improved with the new Brent Cross Thameslink railway station under construction (2022) across from the site, which will transport travellers into central London in just 12 minutes.

Sustainability

We are targeting outstanding sustainability credentials for this residential led mixed-use building evaluated against the Greater London Authority hierarchy: Be Lean; Be Clean; and Be Green. The entirety of the domestic residential element has been designed as a single Passivhaus building. In order to achieve the Passivhaus standard the fabric needs to be constructed to a high standard beyond the current building regulations. This standard coupled with onsite use of renewable energy sources has enabled a c. 60% reduction in CO_2 emissions relative to standard building regulations therefore producing a low carbon building that has additional utility cost saving benefits for residents.

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