



# Schroder Global Cities

[www.schrodersglobalcities.com](http://www.schrodersglobalcities.com)

July 2023

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Marketing material for  
professional clients only.

Hugo Machin

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Co-Head of Global Listed Real  
Assets

Tom Walker

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Co-Head of Global Listed Real  
Assets

# Schroder Global Cities

## Summary

### Fund Managers:

Tom Walker & Hugo Machin

### Strategy inception:

1 October 2014



Square Mile  
Responsible A Rating



Febelfin  
Towards Sustainability



European SRI  
Transparency Code

### Investment objective

The fund aims to provide capital and income growth by investing in equity and equity related securities of real estate companies that own assets in the most sustainable and superior global cities. The manager believes social and financial returns are not mutually exclusive, economic returns are only possible when all stakeholders are catered to.

### Benchmark

The Fund's performance should be assessed against its target benchmark, being to exceed the UK Consumer Price Index plus 3% per annum, and compared against the FTSE EPRA NAREIT Developed (Gross Total Return) index and the Investment Association Property Investment Sector average return.

### Investment guidelines

Number of stocks	typically 45-70
Stock limits	maximum individual stock position limited to +8% There is no minimum holding size limit
Regional limits	+/- 15% FTSE EPRA NAREIT Developed Index regional exposure
Sector limits	maximum of 20% in non-REIT hotel operators
Emerging markets limits	maximum of 15%
Cash limits	maximum of 10% can be held in cash balances, deposits and money market instruments



### Sustainable focus – SFDR Article 9



Real Assets have a large impact on the environment and create over 40% of the world's CO2 emissions.

**UN Sustainable Development Goal 11 – Sustainable Cities and Communities** dominates the investment philosophy of this fund. By the end of the century as much as 90% of the global population could be living in urban areas – in order to meet targets set by the Paris Agreement **cities will be a crucial tool in order to achieve climate targets.**



A **thematic global strategy with ESG at its core**, run by the Global Cities team who sit within the Schroder Global and International Equity Team. The team are supported by **dedicated specialised resources**



Global Cities utilises a unique, data-led investment process to ensure only the most sustainable companies with assets in the most sustainable locations are included in the portfolio



**Proprietary universe** of companies defined by a series of exclusions based on ESG credentials



Fund managers both have **over 20 years experience in the real asset industry**. The efficacy of the process is **proven in performance numbers since the strategy's inception**



A high conviction portfolio of **c.60 stocks**

Source: Schroders, March 2023. The European SRI Transparency logo signifies that the Schroders commits to provide accurate, adequate and timely information to enable stakeholders, in particular consumers, to understand the Sustainable Responsible Investment (SRI) policies and practices relating to Schroder ISF Global Cities. Detailed information about the European SRI Transparency Code can be found on [www.eurosif.org](http://www.eurosif.org), and information of the SRI policies and practices of the fund can be found on our website. The Transparency Code are managed by Eurosif, an independent organisation. The European SRI Transparency Logo reflects the fund manager's commitment as detailed above and should not be taken as an endorsement of any particular company, organisation or individual. Febelfin (Fédération belge du secteur financier) as at March 2023 (updated annually).

# Global Cities Sustainability Report

## SFDR Article 9

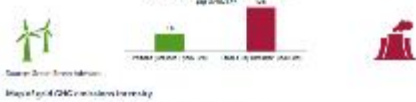


Schrodgers  
Sustainability Report  
Covering 2022

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### The energy grid and real estate

The efficiency of the energy grid is a critical factor for building emissions. It is not just about the efficiency of the buildings. A more efficient grid means less energy is lost during transmission, which in turn means less energy is needed to power the buildings. This is particularly important in the context of the EU's Green Deal and the Paris Agreement. The energy grid is a complex system that involves a range of stakeholders, including governments, utilities, and building owners. It is a key area for engagement and action.



# Highlights

- Engagements with holdings
- Portfolio SDG alignment
- Pathway to Net Zero
- Sub sector emission profile

Source Schrodgers 2023, the fund has environmental and/or social characteristics within the meaning of Article 9 of Regulation (EU) 2019/2088 on Sustainability-related Disclosures in the Financial Services Sector (the "SFDR"). For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

# Q1 Engagements

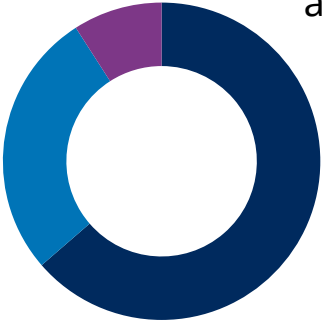
**Alexandria Engagement**  
Renewable power/  
decarbonisation/  
Sustainability oversight

**Hang Lung Properties**  
Transparency, risk, and reporting

**AvalonBay Communities**  
Nature-related risk and  
management

**Keppel DC REIT**  
Climate alignment

**Digital Realty Trust Inc**  
Cyber Security and Climate  
alignment



**Equinix Inc.**  
Renewable Power and  
Decarbonisation

**Ingenia Communities Group**  
Climate alignment

**Invitation Homes Inc** ESG  
Corporate culture and  
oversight of human capital

■ Americas ■ Europe  
■ Asia ■ Oceania

**Welltower**  
Climate risk and oversight

**Prologis Inc**  
Investment in the  
workforce

# Q1 2023

Source: Schroders. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.



## Investment Philosophy

# Sustainable Cities

## Portfolio SDG Alignment

### Primary SDG Alignment



100% portfolio alignment

### Secondary SDG Alignment



### Tertiary SDG Alignment



Source: UN, September 2021.

# Sustainable Cities

## Cities are a vital tool to help achieve climate goals



### Urbanisation

By the end of the century **as much as 90%** of the global population could be living in urban areas – in order to meet targets set by the Paris Agreement, engagement from cities is crucial due to their large populations

- The more the population of a city grows, the more efficient it becomes - theory of **urban metabolism**
- Cities will be at the forefront of sustainability improvements

### Cities have a lower carbon footprint

A large proportion of people who live in cities reside in apartments which are more energy-efficient than houses

- Energy costs for high density housing is **about 30% lower** than a house

Recent data overwhelmingly shows that city-dwellers have a much smaller carbon footprint than people living in rural and suburban areas

People living in cities are less likely to own a car and more likely to travel to work on public transport or by bike

Big cities have extensive networks of public transport, including buses, trains, trams, riverboats and cycle hire schemes

As more people use these services, governments spend more money on upgrading and extending them, which in turn leads to greater use, thereby cutting emissions further

Source: Schroders, June 2020. The views shared are those of Schroders and are subject to change.



## Data driven investment process





**Phase I:**  
**Data creates a sustainable  
investment universe**

A weak score can lead to exclusion  
from the Global Cities portfolio

# Investment process

## Phase I: Asset database



Source: Schrodgers. Link to Asset database video: <https://schrodgers.wistia.com/medias/2zx910fax3>.

# Sustainable Cities

## Phase I: Creation of Long Term Index



**i. Environmental**  
score

**8.3bn**  
data points



**ii. Transport**  
score

**1.4bn**  
data points



**iii. Innovation**  
score

**18,378**  
data points



**iv. Economic**  
score

**49,500**  
data points

**Total # of data points in the Global Cities Asset Database: 327,000**

Source: Schroders, January 2022.

# Investment process

## Data creates the Long Term Index



Source: Schroders, March 2023. For illustrative purposes only and should not be viewed as a recommendation to buy or sell. Logos are the property of their respective entities.

# Global Cities

## Long Term Index outperforms



Past performance is no guarantee of future results. The value of an investment may go down as well as up and is not guaranteed.

Source: EIKON, October 2022. For illustrative purposes only, \*Performance is based on back test of an equally weighted Global Cities portfolio of the latest 244 stocks Long Term Index vs FTSE EPRA NAREIT Developed index



## i. Environmental Impact score

### Physical risk

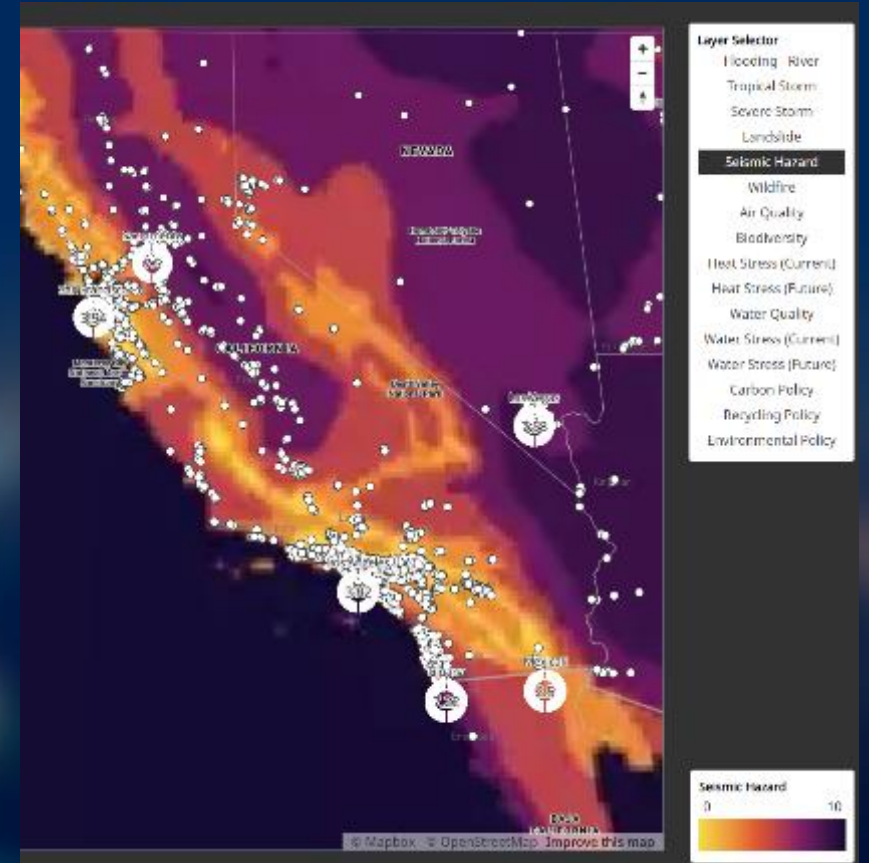
1. Flood River
2. Seismic Hazard
3. Landslide
4. Tropical Storm
5. Wildfire
6. Severe Storm

### Wellbeing risk

10. Heat Stress (current)
11. Heat Stress (future)
12. Water Stress (current)
13. Water Stress (future)
14. Water Quality
15. Air Quality

### Policy risk

7. Carbon Policy
8. Recycling
9. Environmental Policy

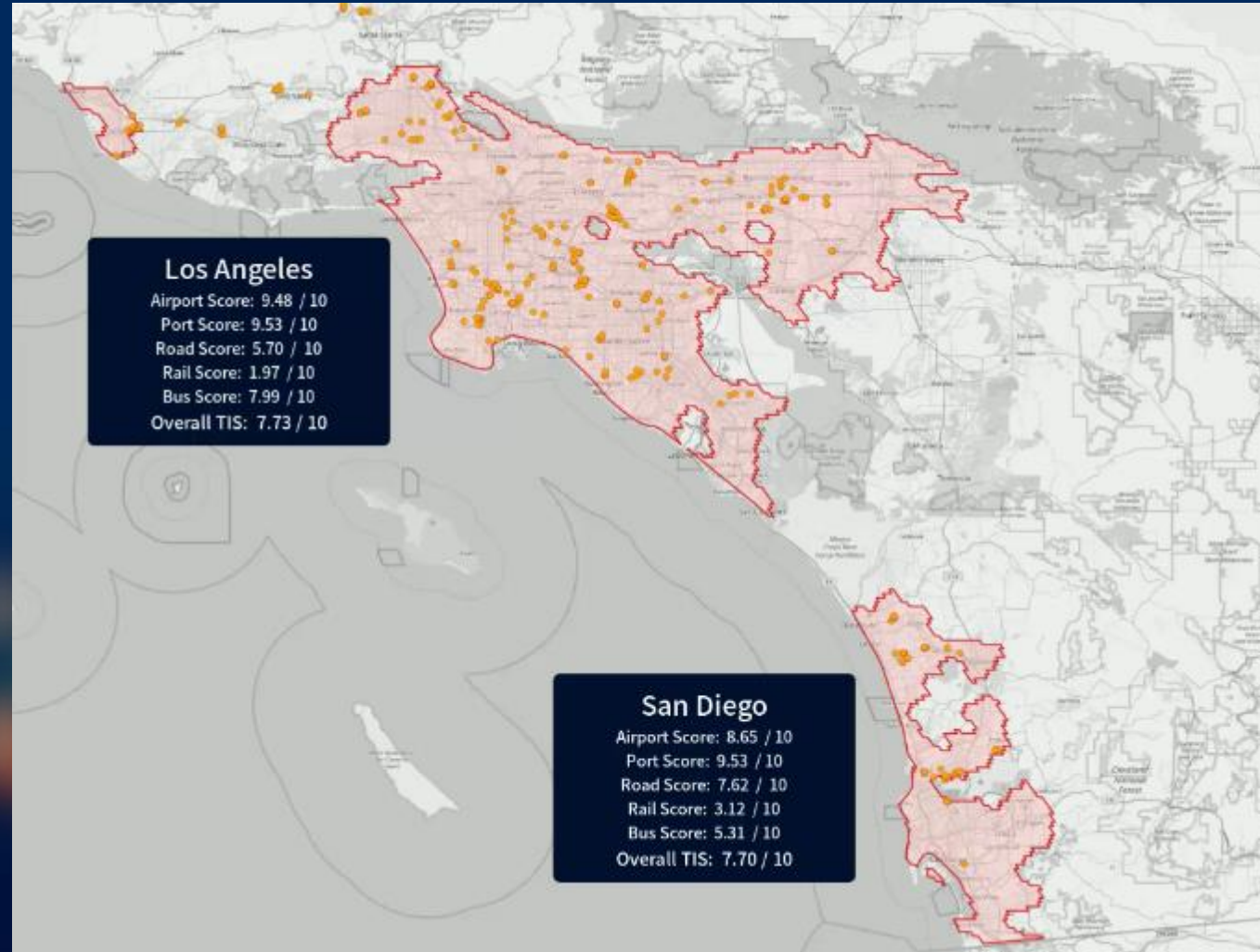


Source: Schrodgers, 2021. Link to EIS video: <https://schrodgers.wistia.com/medias/lwy7nqa8ki>.



## ii. Transport Impact score

Rexford  
Industrial Realty  
– overall score



Source: Schroders, 2021. Link to TIS video: <https://schroders.wistia.com/medias/ung347dvoe>. Shown for illustrative purposes and should not be viewed as an investment recommendation.

# Sustainable Cities

## Research proves transport connectivity is key to social mobility



Study proved that a strong transport network is crucial to facilitate social mobility and to sustain economic success



Secures connectivity: people to job and products to markets



Underpins supply chains and logistics



Supports domestic and international trade

**Need for improvement:** the typical job is accessible to only 30% of the population by transit in 90 minutes or less



Commuting time = strongest determining factor in avoiding poverty



75% jobs in 100 largest metropolitan areas are within access by transit service

### The Future Is PUBLIC TRANSPORT

C40 study ("The future of public transport") shows that investing in public transport and the workers who have kept our cities running throughout the COVID-19 pandemic will have far-reaching impacts for our communities, including:



**4.6 MILLION** new jobs by 2030 across 100 cities



Cutting emissions from urban transport by **more than half by 2030**



Reducing air pollution from transport **by as much as 45%** in some cities



Protecting workers in lower-income and service sector jobs who rely on public transport for their livelihoods



Connecting city residents to work, education, leisure and each other

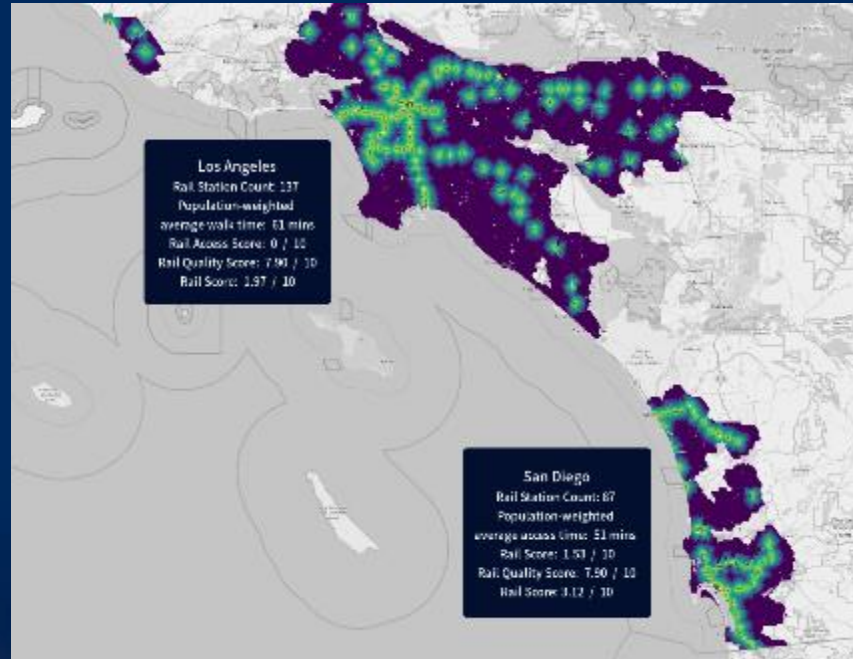




## ii. Transport Impact score

Los Angeles – 61  
minute average  
walk time

Manhattan –  
4.76 minute  
average walk  
time

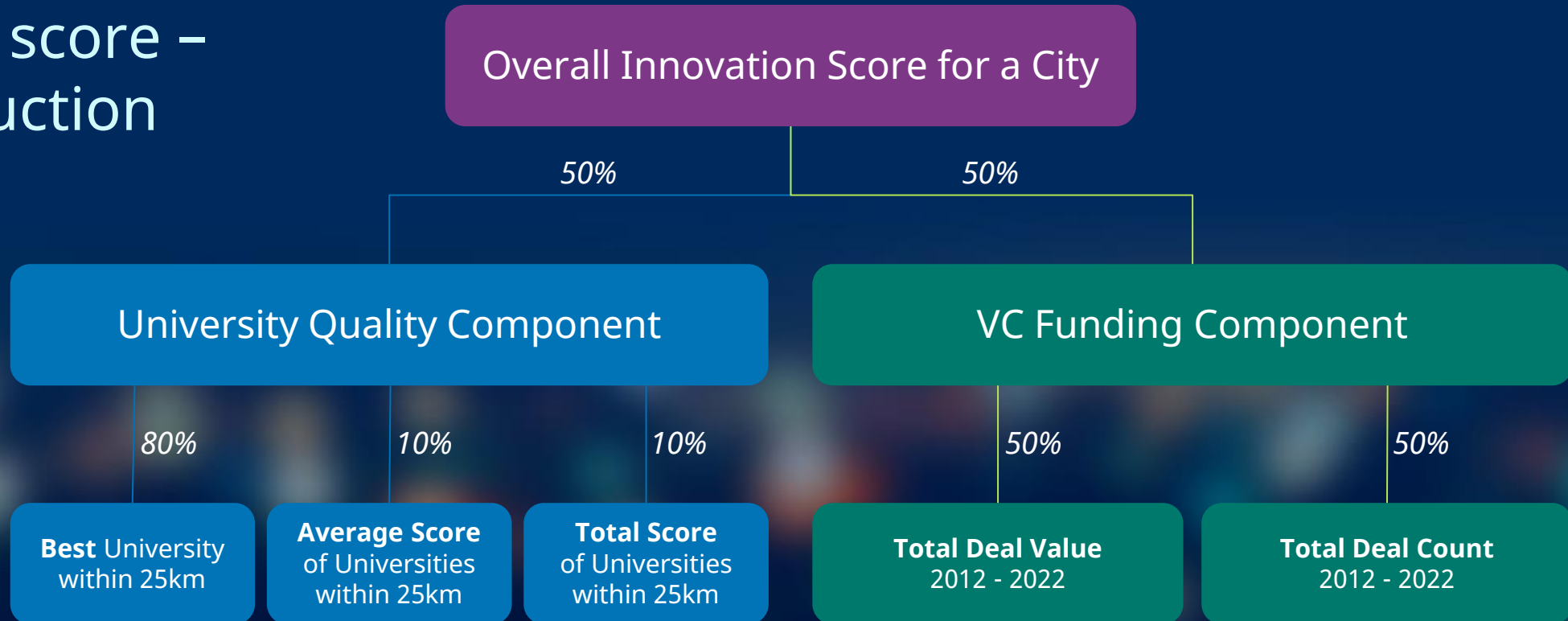


Source: Schroders, 2021. Shown for illustrative purposes and should not be viewed as an investment recommendation.



### iii. Innovation

## Impact score – Construction



Source: Schroders. Shown for illustrative purposes and should not be viewed as an investment recommendation.



### iii. Innovation

## University Quality Component

Highest quality university in the city

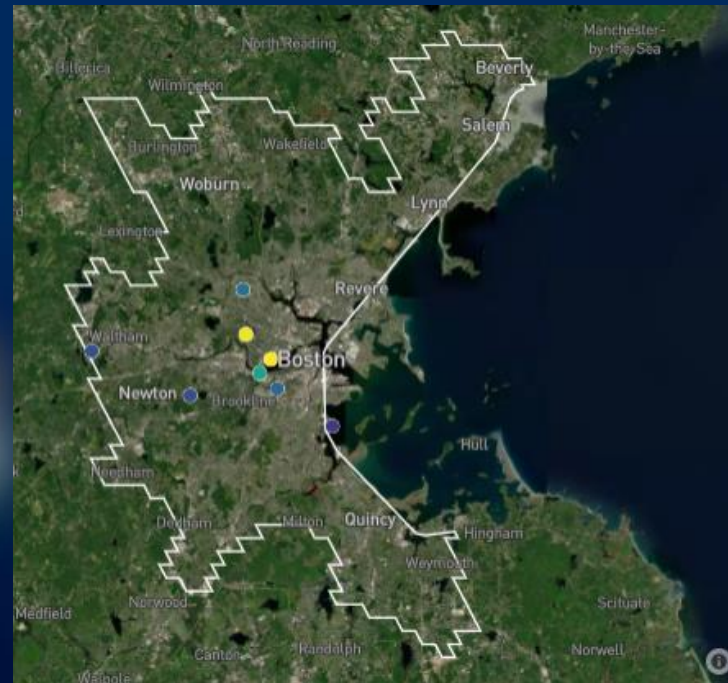
Weighted average score of all universities in the city

**Institution**

**QS Rank**

Massachusetts Institute of Technology (MIT)

1



**Institution**

**QS Rank**

Massachusetts Institute of Technology (MIT)

1

Harvard

5

Boston University

112

Tufts University

275

Northeastern University

342

Brandeis University

455

Boston College

494

University of Massachusetts Boston

651 - 700

Source: QS World University Rankings, 2018. Link to EcIS & IIS video: <https://schroders.wistia.com/medias/nxpd8qqz62>. Shown for illustrative purposes and should not be viewed as an investment recommendation.



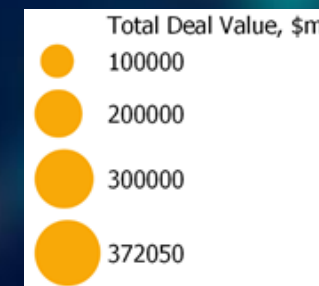
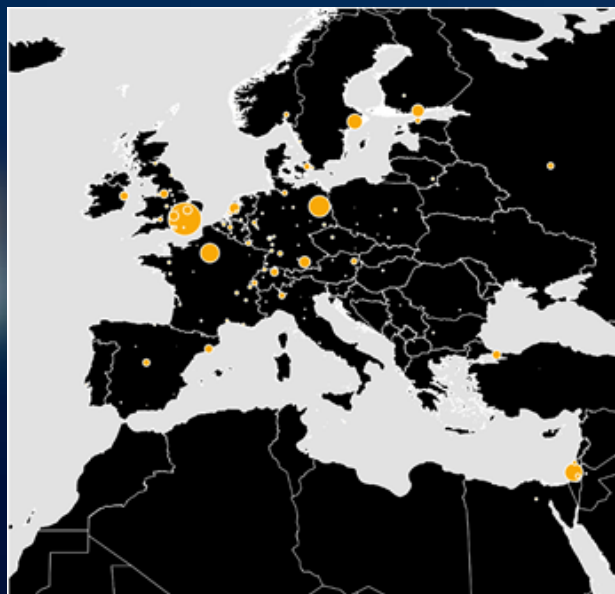
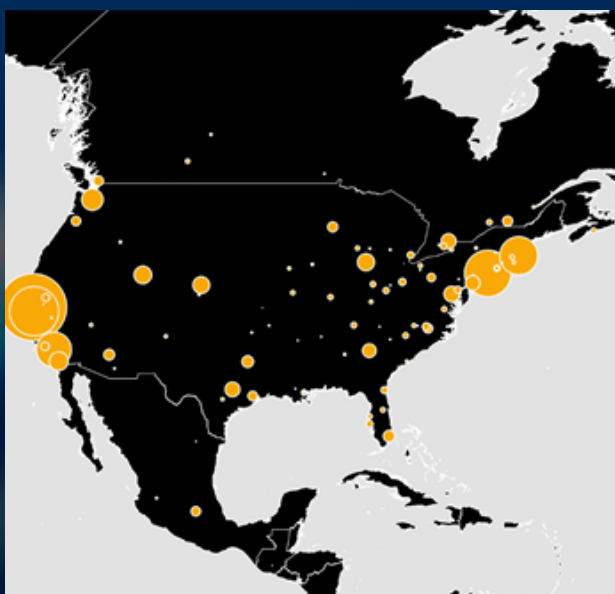
### iii. Innovation

## VC Funding Component

## Top 10 VC Deals by Size, Boston Area, 2012 – 2022

Deal Date	Portfolio Company	Primary Industry	Stage	Deal Size (USDm)
07/06/2021	Iora Health	Healthcare	Add-on	2,100
19/11/2021	Commonwealth Fusion Systems	Power & Utilities	Series B	1,800
05/08/2021	EQRx	Biotechnology	Merger	1,200
17/09/2021	Devoted Health	Insurance	Series D	1,150
11/05/2021	Ginkgo BioWorks	Biotechnology	Merger	775
26/05/2021	Whele	Marketing/Advertising	Series A	775
15/03/2021	ElevateBio	Biotechnology	Series C	525
25/08/2020	Sendwave	Financial Services	Add-on	500
02/11/2020	EQRx	Biotechnology	Series B	500
01/02/2018	Moderna	Biotechnology	Series G	500

## Venture Capital Deal Value (USDm) by Global City: 2012 - 2022



Source: Preqin, 2022. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.



## iv. Economic Impact score

### Ranked on 4 factors

Factor	Score
GDP	8.1
Retail Sales	8.4
Population 15 years+	7.4
Median Disposable Income	7.6

Source: Schroders 2021. Link to EcIS & IIS video: <https://schroders.wistia.com/medias/nxpd8qqz62>.



## Phase II: Global Cities ESG Analysis

A weak score can lead to exclusion  
from the Global Cities portfolio

# Sustainable Cities

## Phase II: ESG risk scores drives allocation

Investable range is reduced by quantum of risk associated with ESG score

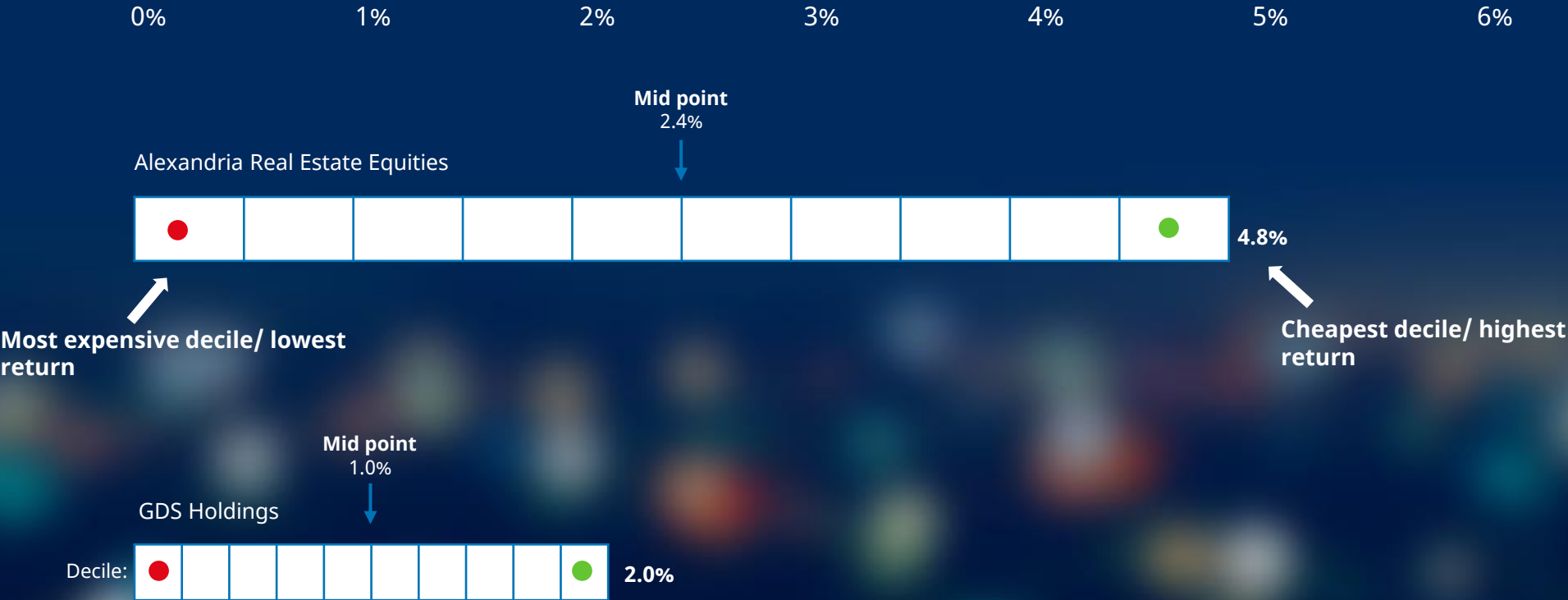


Source: Schroders, June 2022. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

# Sustainable Cities

## Phase II: ESG risk scores drives allocation

Valuation combines with ESG to determine quantum of capital allocated

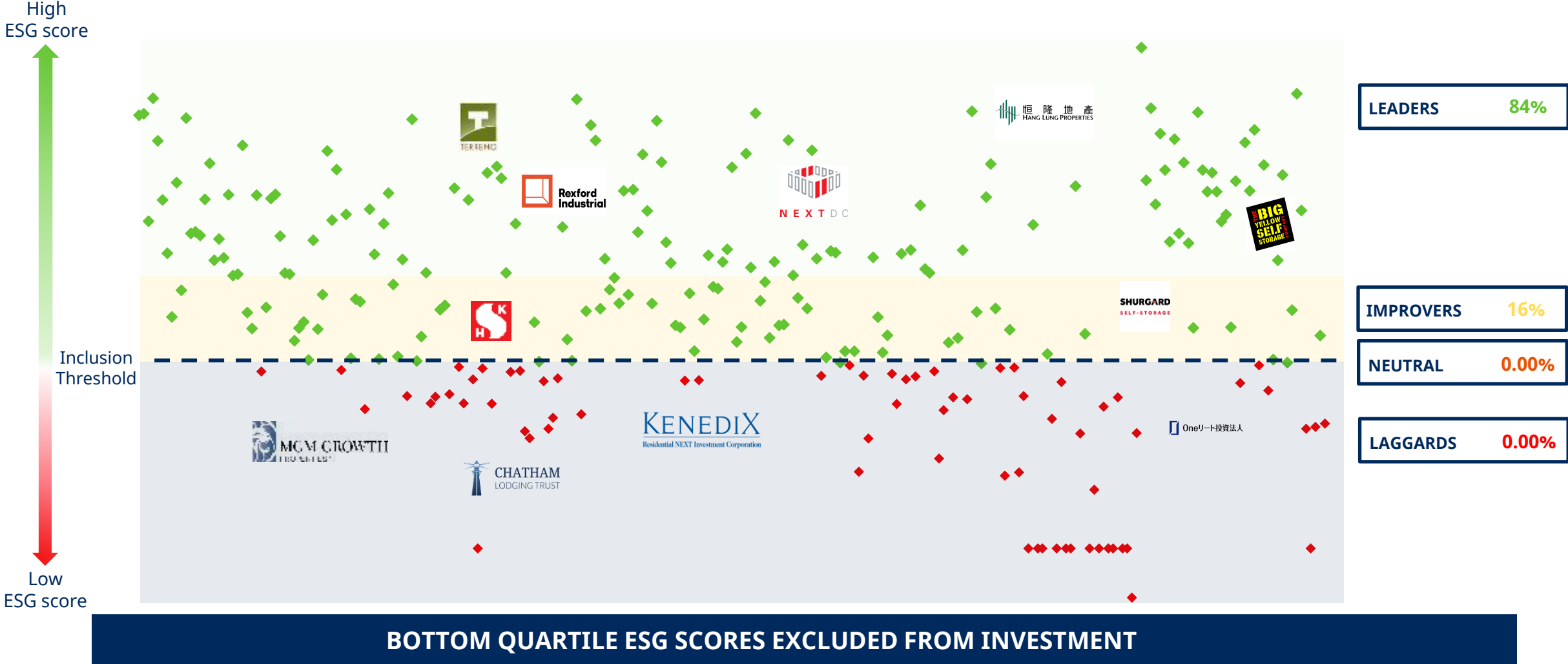


Source: Schroders, June 2022. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.



# Investment process

## ESG analysis determines portfolio inclusion



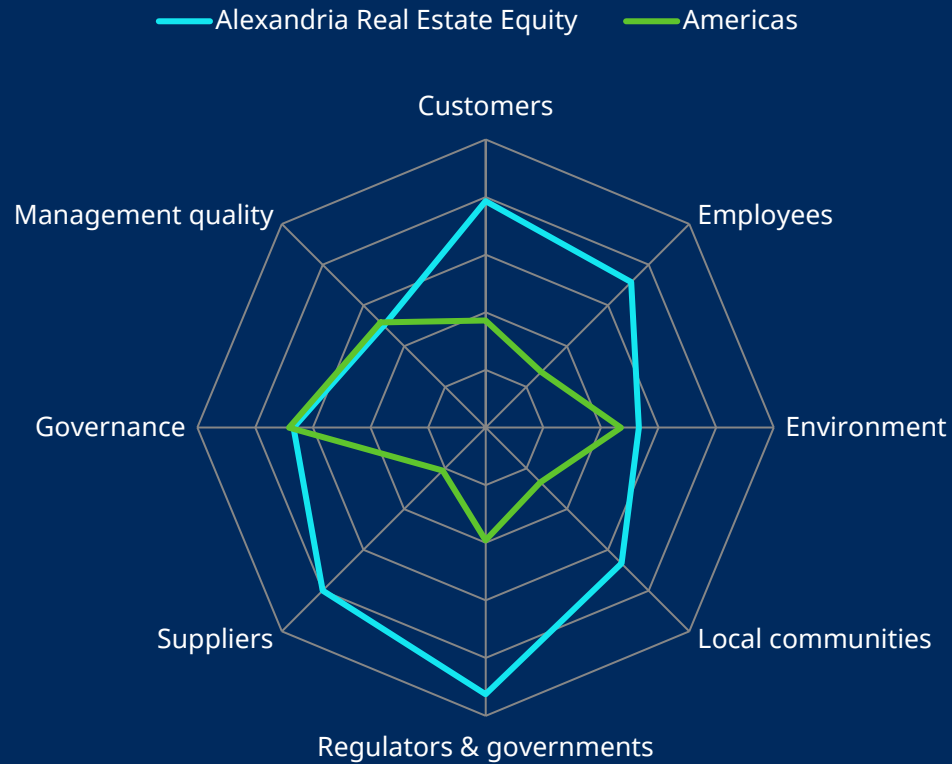
Source: Schroders, January 2023. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

# Alexandria REIT

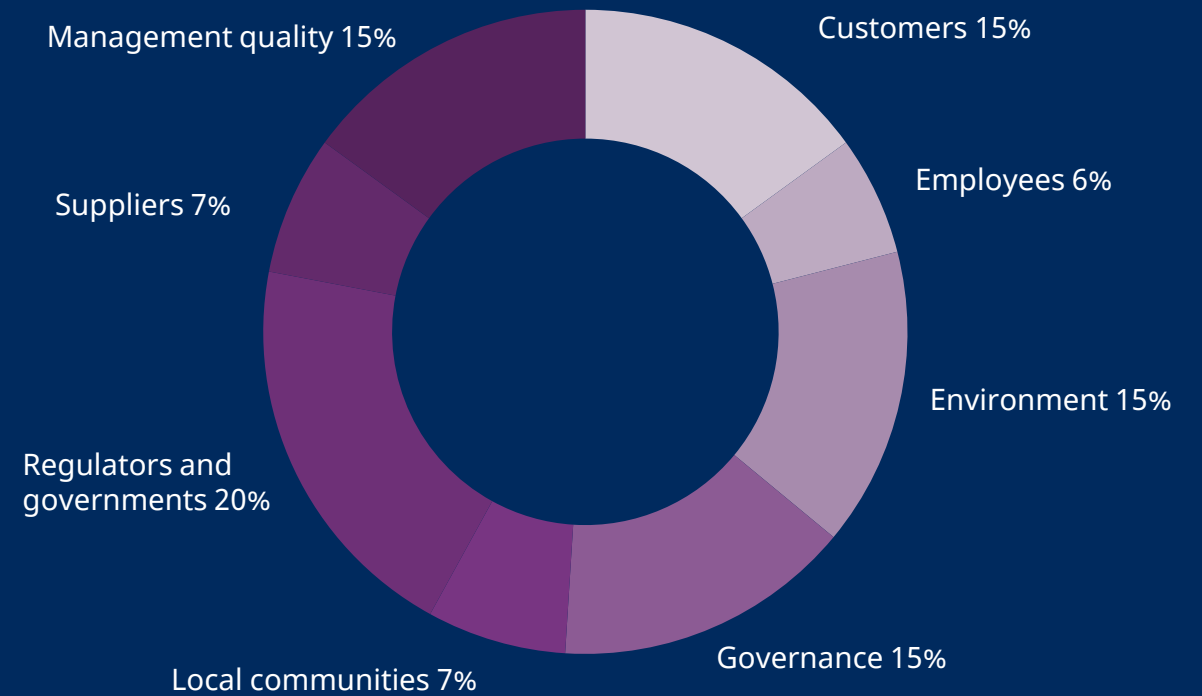
## Generating a risk score

ESG Score: 7.0

### Alexandria Real Estate Equity vs. peers



### Stakeholder weights



Source: Schroders, 2021. Numbers and percentages represent scores and weights applied to each score. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

# Sustainable Cities

## GRESB analysis: Alexandria Real Estate Equities

Footprint 2021 (absolute)

Like-for-like change and impact

 GHG Emissions

241,349  
tonnes  
CO<sub>2</sub>

**-12,116 tCO<sub>2</sub>**  
Equivalent to 2,524 passenger cars

 Energy consumption

1,123,562  
MWh

**-49,147 MWh**  
Equivalent to 4,042 homes

 Water Use

1,882,217  
m<sup>3</sup>

**-114,089 m<sup>3</sup>**  
Equivalent to 46 Olympic swimming pools

 Waste Management

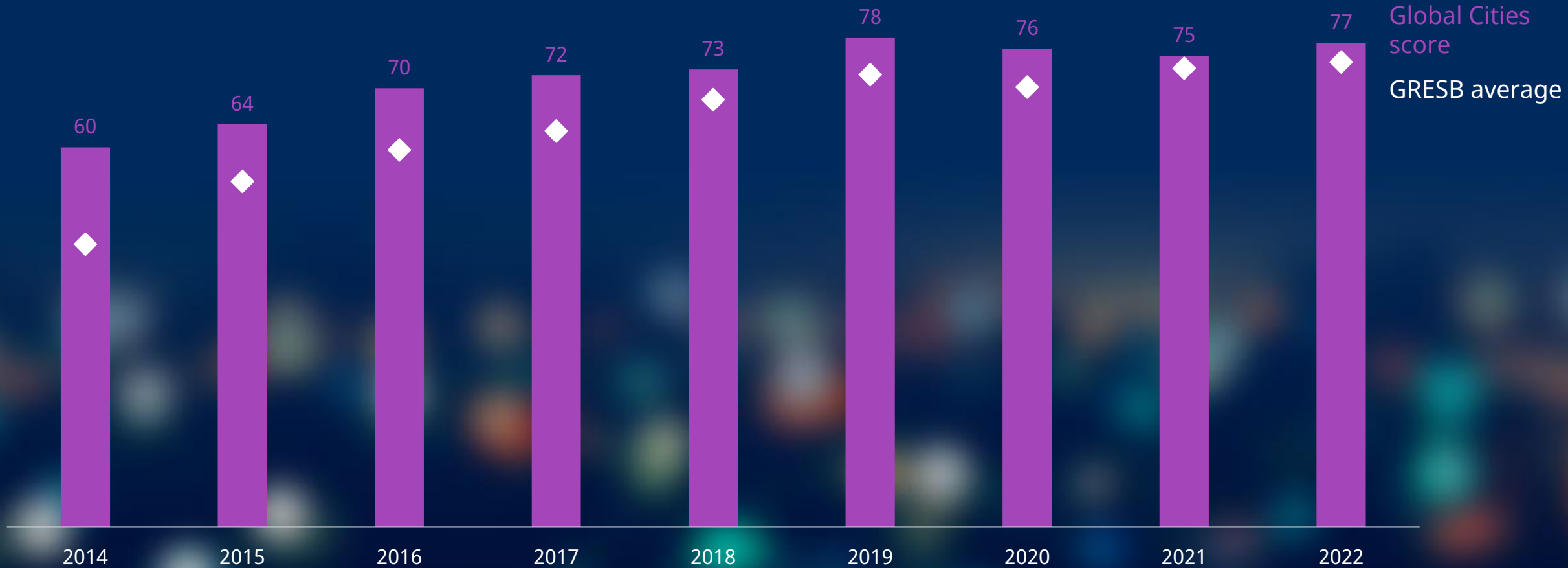
13,534  
tonnes

**4,686 tonnes diverted**  
Equivalent to 669 truck loads

Source: GRESB, 2021. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

# Sustainable Cities

## GRESB data highlights consistent improvement in sustainability metrics



Source: GRESB, 2022. Referenced portfolio is Schroder ISF Global Cities Real Estate. The Global Cities' aggregated GRESB score is calculated by multiplying each companies GRESB score by the respective company's portfolio weights within the fund. The portfolio weights are rebalanced to 100% by excluding cash and all companies who do not report to GRESB. Each holding's contribution is then summed to arrive at the portfolio's aggregated GRESB score for the period. The portfolio weights are dynamic, therefore this activity is carried out at the end of each quarter within the year and an average of each quarters aggregated GRESB score is used for the annual Global Cities GRESB figure.



## 2022 Review

Lost in 2022's macro driven market

Environmental

Social

Governance

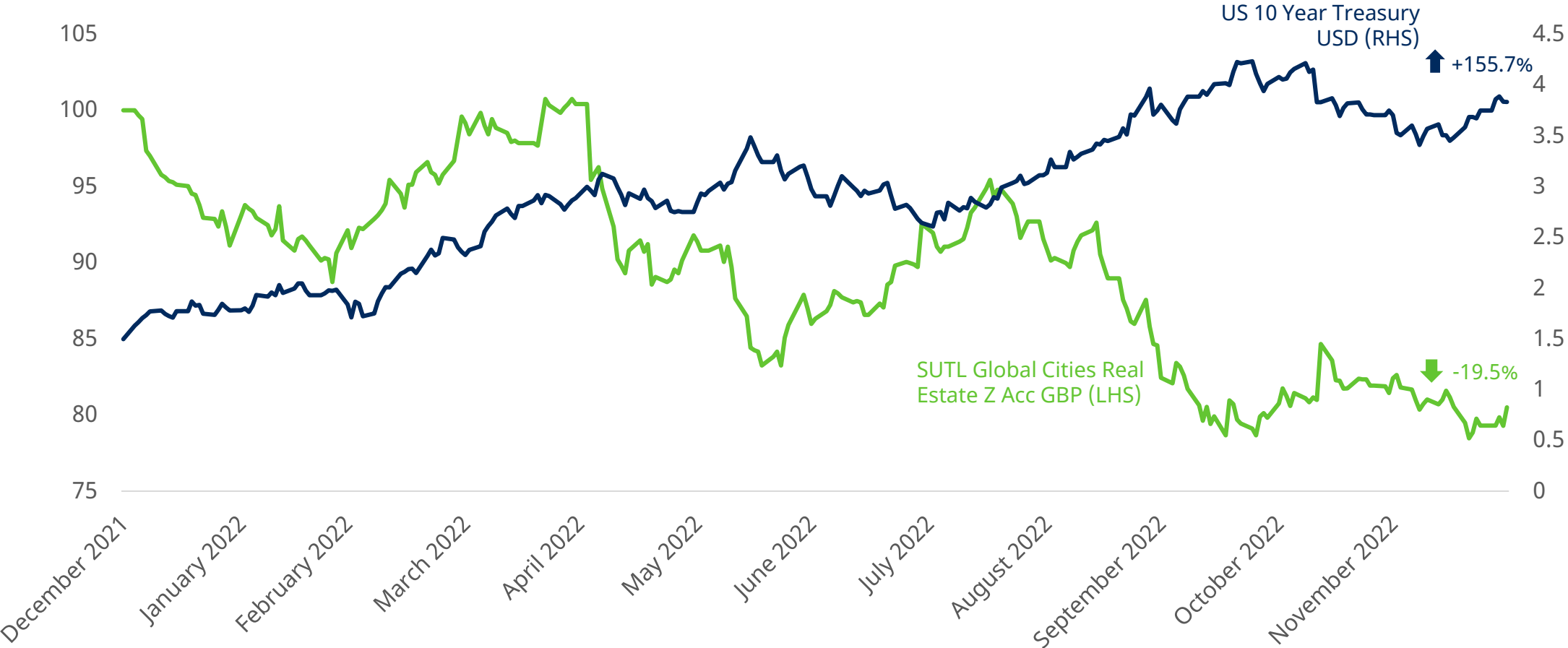
# The Fed hiked...



Source: NY Times.

# Global Cities

## US 10 Year Treasury vs Global Cities



Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

Source: EIKON, January 2023.





**29<sup>th</sup> November 2022**

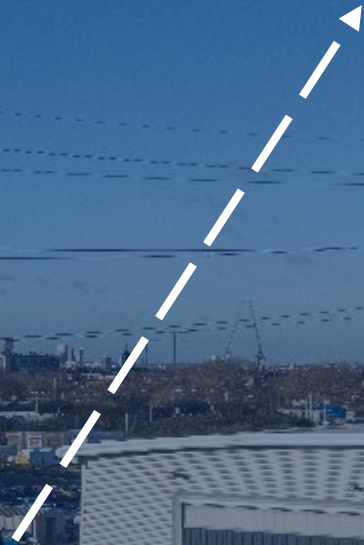
- £350m @5.125% for 19 years
- 19 year GILT 3.375% = 175bps spread
- Increases cost of debt from 2.1% to 2.2%
- Increases debt maturity from 8.2 years to 9.1 years
- 86% debt fixed

**Segro  
average  
cost of debt  
today**

**2.1%**

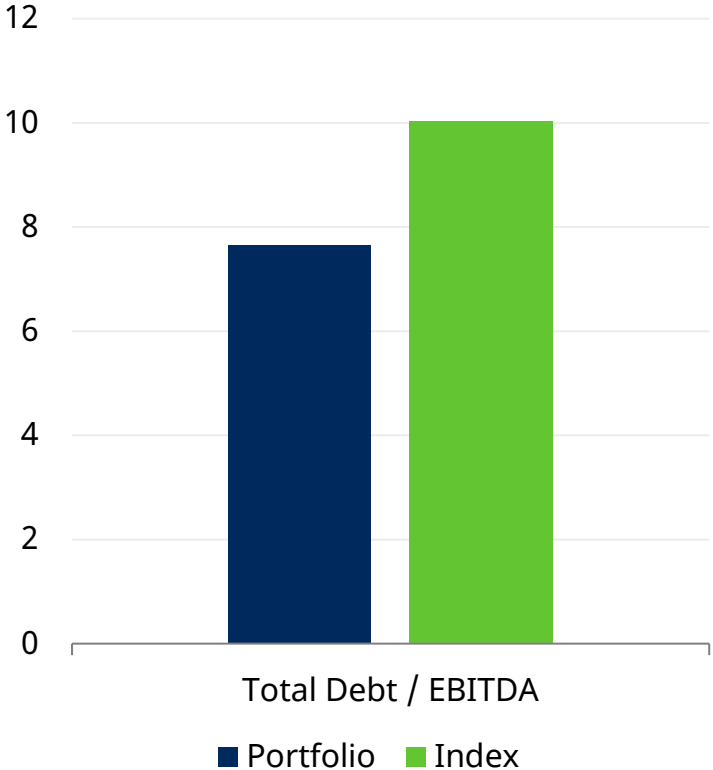
**5.1%**

**November  
2022  
19 year cost**

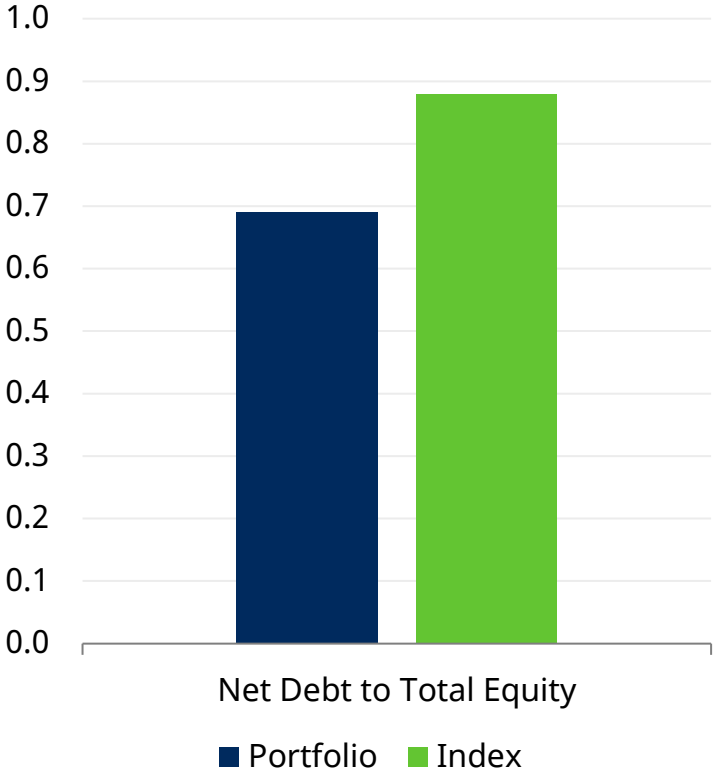


# Portfolio balance sheets

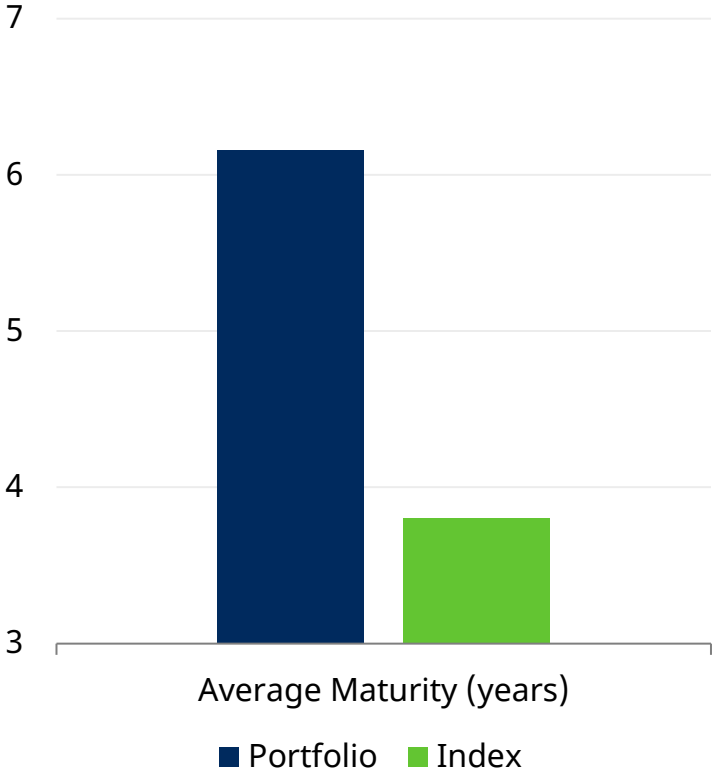
### Total Debt/EBITDA



### Net Debt to Total Equity



### Average Maturity (years)



Source: Schroders March 2023

# 2022 performance review – Sector performance



Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

# Global Cities

## Performance

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

### Periods to 30 June 2023 (% Net returns in GBP)

	YTD	2022	2021	2020	2019	Current Manager*	Current Manager Annualised*
Schroder Global Cities Real Estate Z Acc	-3.1	-19.5	+26.7	-4.2	+26.1	+68.8	+6.2
UK Consumer Price Index plus 3% (lagged)	+3.5 <sup>+</sup>	+9.2	+8.3	+3.3	+4.5	+67.9 <sup>+</sup>	+6.2 <sup>+</sup>
FTSE EPRA NAREIT Developed (Net TR) Index	-4.8	-15.7	+27.3	-11.9	+17.2	+55.9	+5.3

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Schroder Global Cities Real Estate Z Acc	-0.3	+19.4	+5.1	+19.9	+4.1	-3.4	+26.1	-4.2	+26.7	-19.5
UK Consumer Price Index plus 3% (lagged)	+5.1	+4.0	+3.1	+4.2	+6.2	+5.4	+4.5	+3.3	+8.3	+9.2
FTSE EPRA NAREIT Developed (Net TR) Index	+1.7	+22.2	+5.0	+24.1	+0.8	+0.2	+17.2	-11.9	+27.3	-15.7

Source: Schroders, Z Acc shares, GBP, NAV to NAV (bid to bid), adjusted for dividends. Net of fees. The fund and benchmark have different pricing points (intra-day versus closing price respectively) so there may be a performance timing effect at month-end. In times of high market volatility, this timing effect may be larger than usual during specific periods and may have either a positive or negative impact on the NAV. However, these effects are expected to even out over time.

\*Current Manager takeover date 30 Sep 2014.

<sup>+</sup>CPI numbers as at 31 May 2023

# Global Cities

## Risk considerations

**Performance risk:** Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro economic environment, investment objectives may become more difficult to achieve.

**IBOR:** The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the fund.

**Real Estate and Property Risk:** Real estate investments are subject to a variety of risk conditions such as economic conditions, changes in laws (e.g. environmental and zoning) and other influences on the market.

**Liquidity risk:** In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares.

**Derivatives risk:** Derivatives may be used to manage the portfolio efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund.

**Counterparty risk:** The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole.

**Currency risk:** The fund may lose value as a result of movements in foreign exchange rates.

**Operational risk:** Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.

**Higher volatility risk:** The price of this fund may be volatile as it may take higher risks in search of higher rewards.

**Market risk:** The value of investments can go up and down and an investor may not get back the amount initially invested.



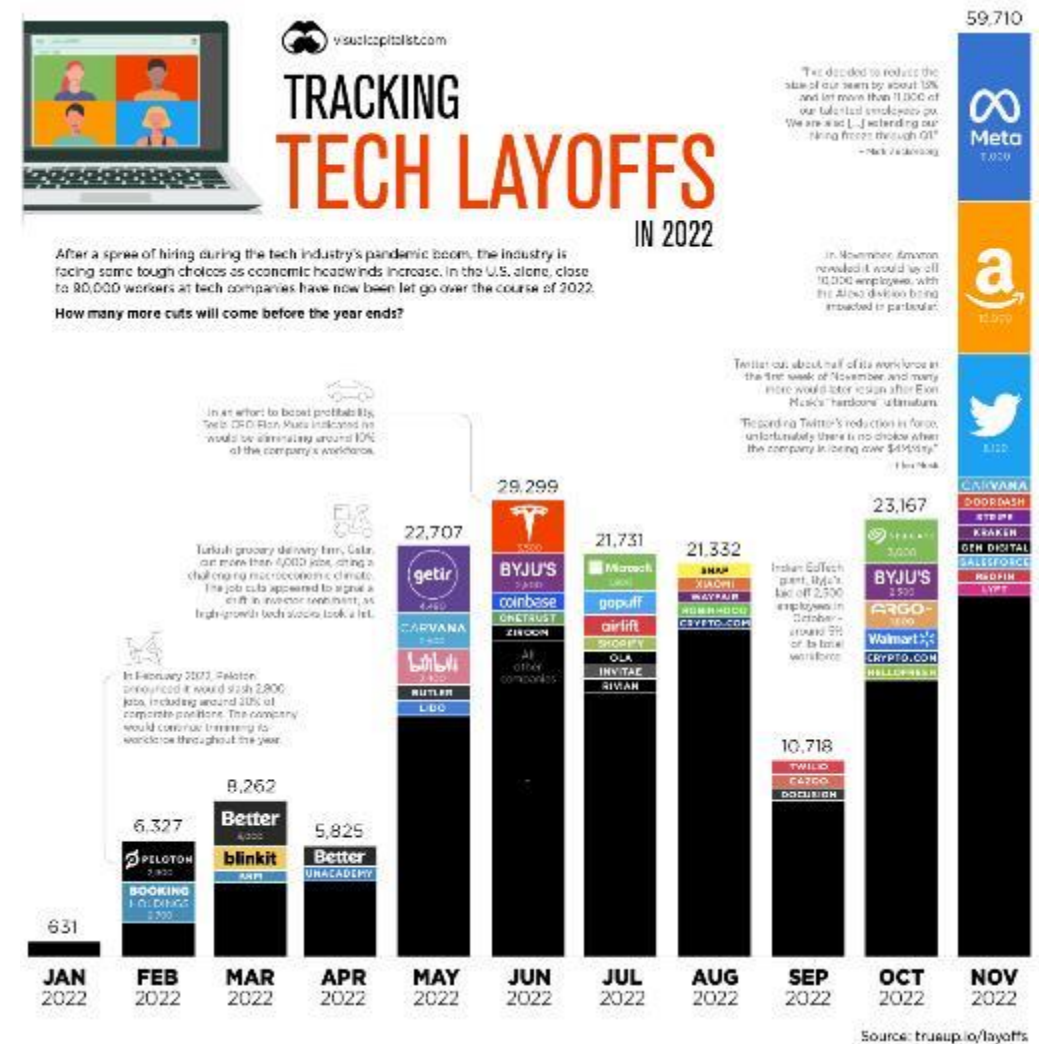
## Outlook

# Are we facing a Patagonia recession?

Tech bros in the information centre



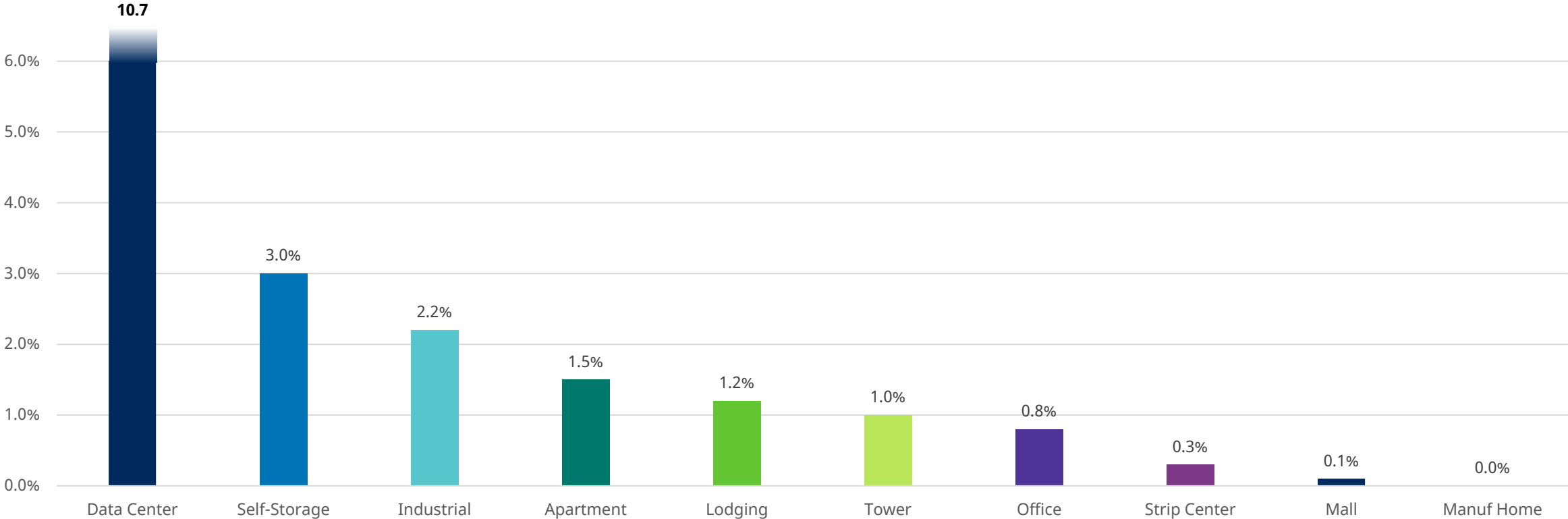
Source: Visual Capitalist, 2022.



# Supply Growth

## Fundamentals: Supply Growth

### Annual Completions as % of Existing Stock 2023-2027



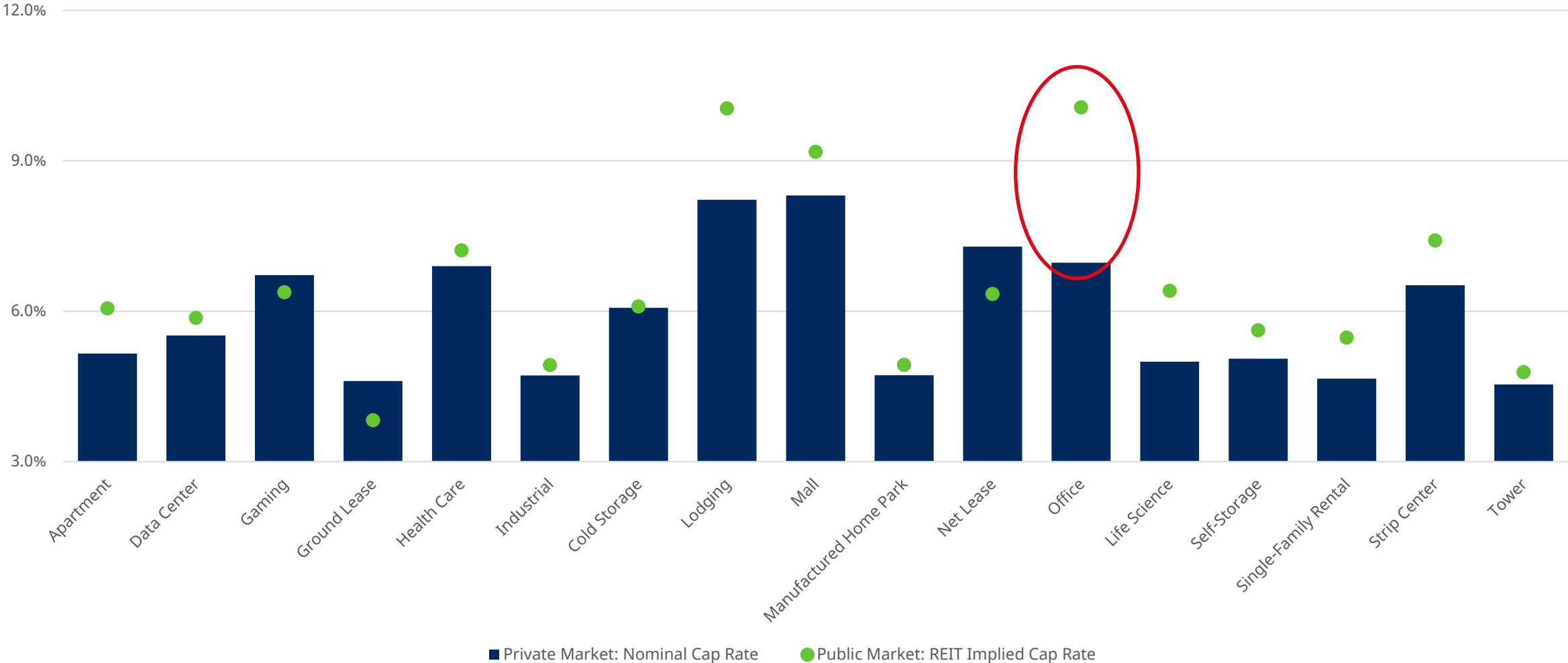
**Not alarming. Less than half the pace of the prior three years**

Source: Green Street 2023, For illustrative purposes only and should not be viewed as a recommendation to buy or sell.



# Public markets appear close to peak pessimism

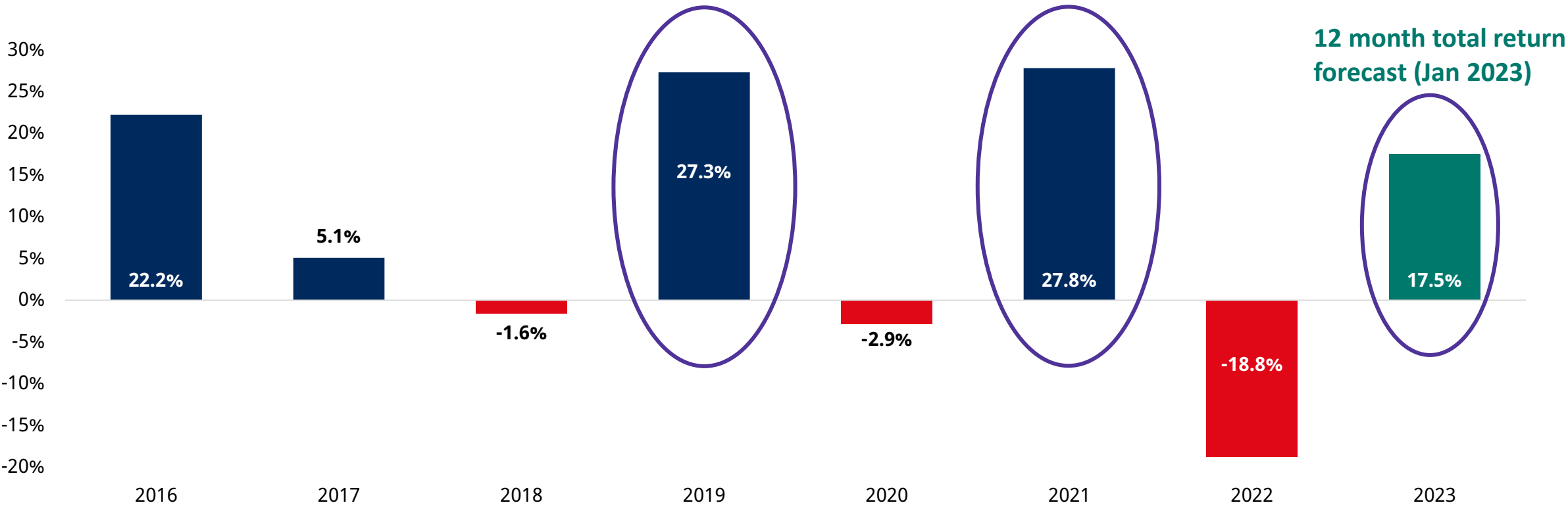
## US Public versus Private Cap rates



Source: Green Street, May 2023, For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

# Negative years tend to be followed by strong positive years

## Past 7 years of annual Global Cities performances



Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

Source: Schroders, January 2023. Data shown is gross of fees, Please note that this data is based on the Schroder Global Cities Real Estate fund, it is unaudited and provided for information purposes only. The forecasts included should not be relied upon, are not guaranteed and are provided only as at the date of issue. Our forecasts are based on our own assumptions which may change. We accept no responsibility for any errors of fact or opinion and assume no obligation to provide you with any changes to our assumptions or forecasts. Forecasts and assumptions may be affected by external economic or other factors.



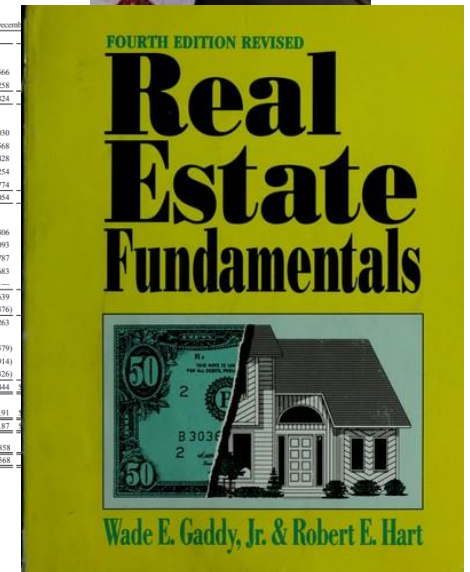
## Positioning

# Macro vs micro



PUBLIC STORAGE  
CONSOLIDATED STATEMENTS OF INCOME  
(Amounts in thousands, except per share amounts)

	For the Years Ended December	
	2022	2021
<b>Revenues:</b>		
Self-storage facilities	\$ 3,946,028	\$ 3,203,566
Ancillary operations	236,135	212,258
	<u>4,182,163</u>	<u>3,415,824</u>
<b>Expenses:</b>		
Self-storage cost of operations	902,309	852,030
Ancillary cost of operations	72,698	68,568
Depreciation and amortization	888,146	713,428
General and administrative	114,742	101,254
Interest expense	136,319	90,774
	<u>2,192,114</u>	<u>1,826,054</u>
<b>Other increases (decreases) to net income:</b>		
Interest and other income	40,567	12,306
Equity in earnings of unconsolidated real estate entities	106,961	232,493
Foreign currency exchange gain (loss)	98,314	111,787
Gain on sale of real estate	1,303	13,683
Gain on sale of equity investment in PS Business Parks, Inc.	2,128,860	—
Net income	4,366,274	1,959,639
Allocation to noncontrolling interests	(17,127)	(6,376)
Net income allocable to Public Storage shareholders	4,349,147	1,953,263
Allocation of net income to:		
Preferred shareholders	(194,390)	(186,579)
Preferred shareholders - redemptions (Note 9)	—	(28,914)
Restricted share units	(12,469)	(5,226)
Net income allocable to common shareholders	<u>\$ 4,142,288</u>	<u>\$ 1,732,444</u>
Net income per common share:		
Basic	\$ 23.64	\$ 9.91
Diluted	\$ 23.56	\$ 9.87
Basic weighted average common shares outstanding	175,257	174,858
Diluted weighted average common shares outstanding	176,200	175,568



# Global Cities Real Estate

## Subsector exposure

**Life sciences**



**Self-storage**



**Apartments**



**Healthcare**



**Data centres**



**Manufactured homes**








**Industrials**



Source: Schroders, December 2022. Sectors mentioned are for illustrative purposes only.

# Global Cities

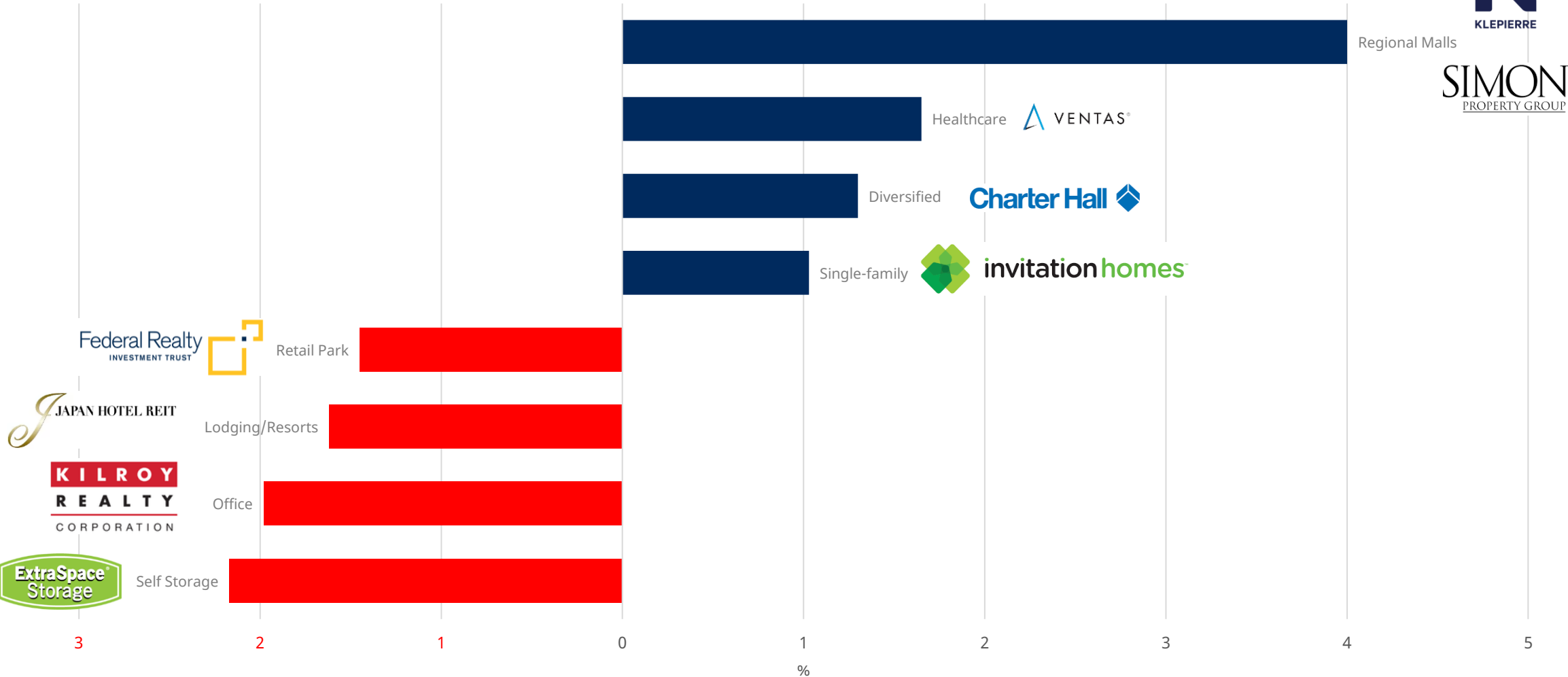
## Top 5 active positions

	Occupancy	AFFO Growth yoy	Net debt/ EBITDA	
 <b>Rexford Industrial</b>	97.8%	+19.5%	3.6x	Fundamentals holding firm, despite weakening economy, largely due to ultra low vacancy and decline in near term supply
 <b>UDR</b>	96.8%	+15.9%	5.6x	Strong outlook for Southern California, NE markets along with Florida and the SunBelt, weaker for tech centric markets like Seattle and SF.
 <b>Public Storage</b>	94.5%	+23.1%	1.9x	Confident outlook based on operating platform which gives the industry's highest operating margins
 <b>TERRENO</b>	98.4%	+17.0%	4.4x	Fundamentals holding firm, despite weakening economy, largely due to ultra low vacancy and decline in near term supply
 <b>invitationhomes</b>	97.3%	+9.2%	5.6x	New position, advantageous value proposition to rent a single-family home relative to home purchase, no debt maturities over the next two years.

Source: Green Street, Schroders & Company announcements from 4Q22 earnings. June 2023.

# Q4 and Q1 Portfolio Changes

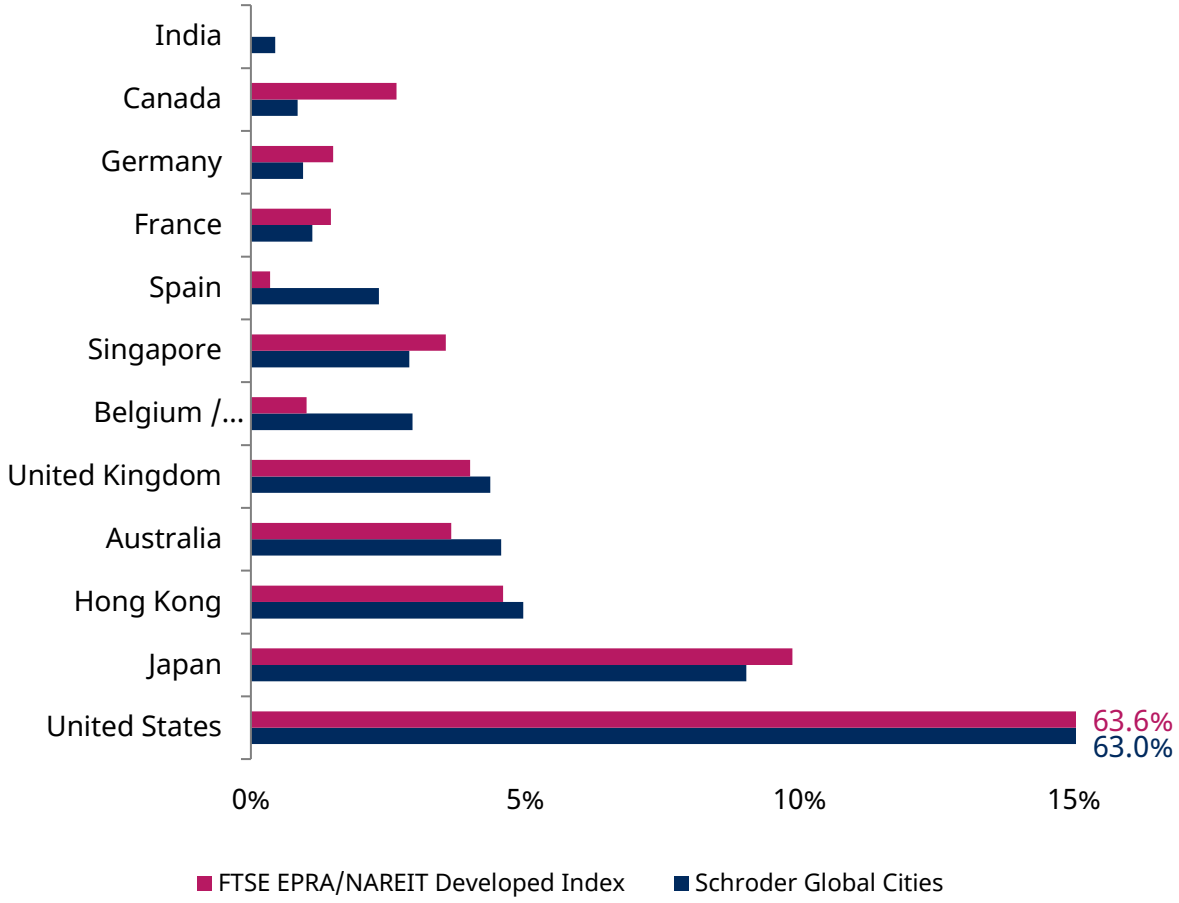
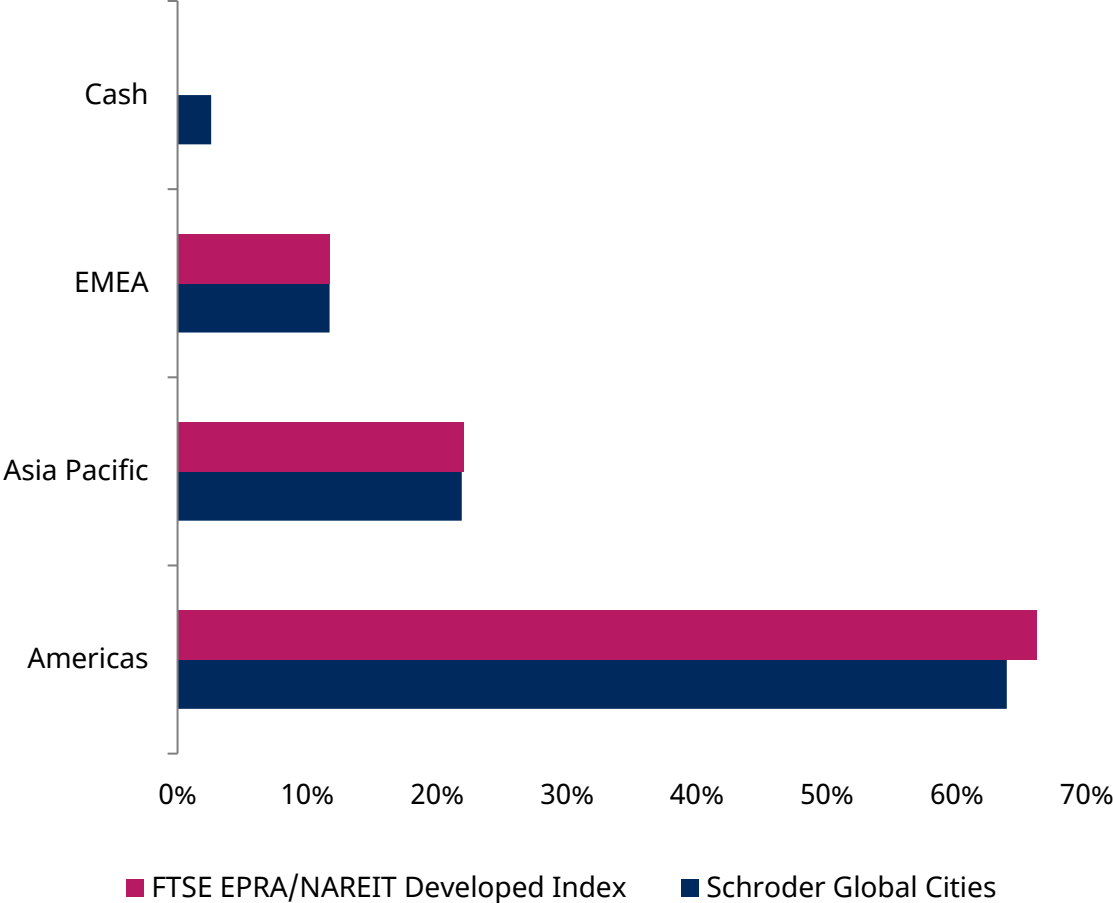
Taking advantage of changing market dynamics



Source: Schroders, April 2023. For illustrative purposes only and should not be viewed as a recommendation to buy or sell. Logos are the property of their respective entities.

# Schroder Global Cities positioning

## Country and regional exposure

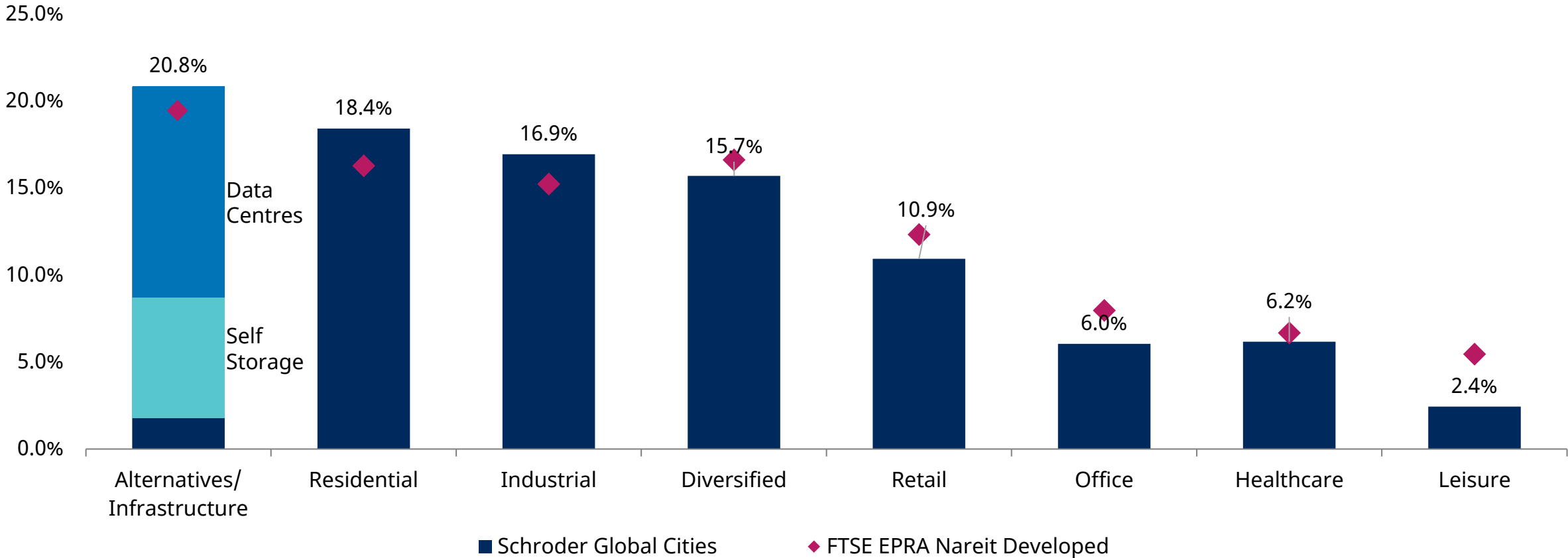


Source: Schroders June 2023. Data subject to rounding. This does not represent any recommendation to invest in the above-mentioned regions.



# Schroder Global Cities positioning

## Subsector exposure



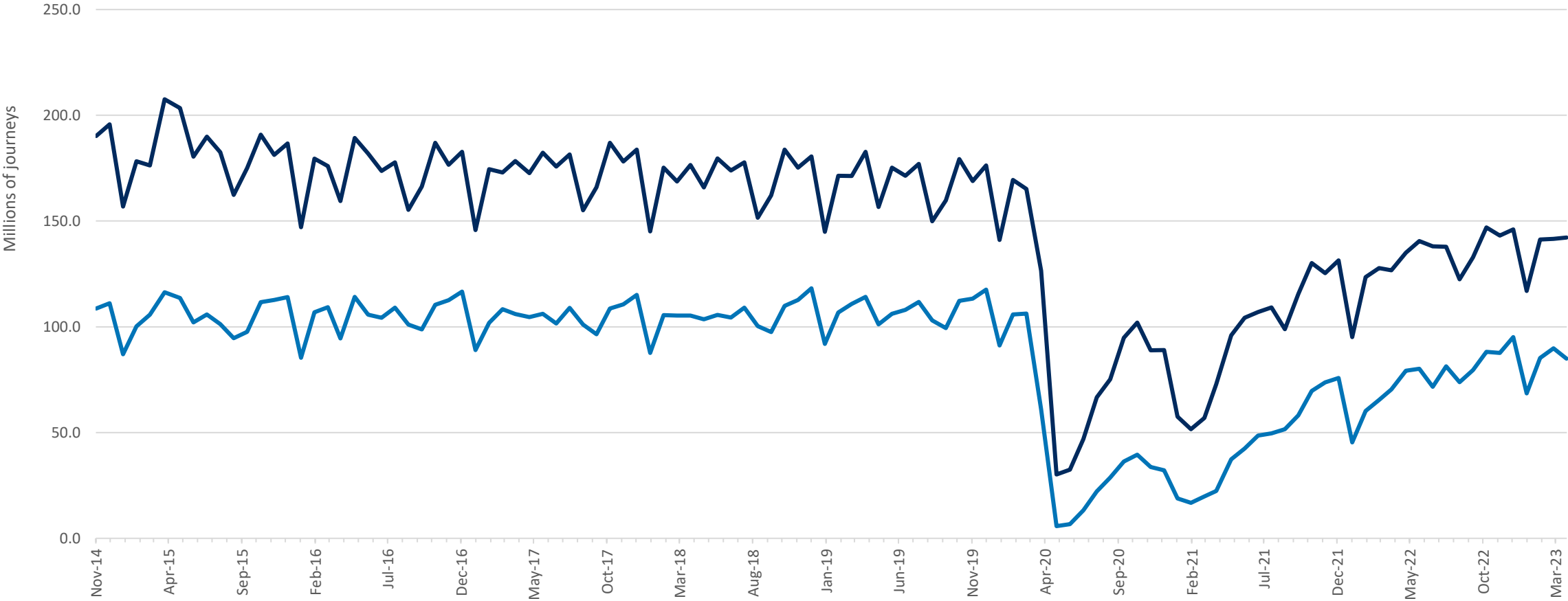
Source: Schroders, June 2023. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.



## Data projects

# TFL Journeys are ~10% Down on Pre-Pandemic Levels

London public transport shows every sign of recovering to pre-pandemic levels



Source: Transport for London, April 2023. For illustrative purposes only.

# A wet start to 2023

## When Will the Rain End in California? Soon, but Not Soon Enough

After a brief respite, rain is expected to return on Saturday and linger into early next week. Drier conditions could arrive after that.

## Several California counties ordered to evacuate as deadly storm weathers on

Communities including in celebrity enclave of Montecito, Santa Barbara and Santa Cruz told to evacuate as more rain is expected

## California is deluged by record rain with more storms coming

By Kate Fishman

## 'A very significant emergency': California's deadly, record-setting storms are about to get an encore

## California towns evacuated as monster storm expected to bring foot of rain

Forecasters say rain could fall up to an inch per hour.

CLIMATE

## Here's where California reservoir levels stand after the rains this week

# NOAA

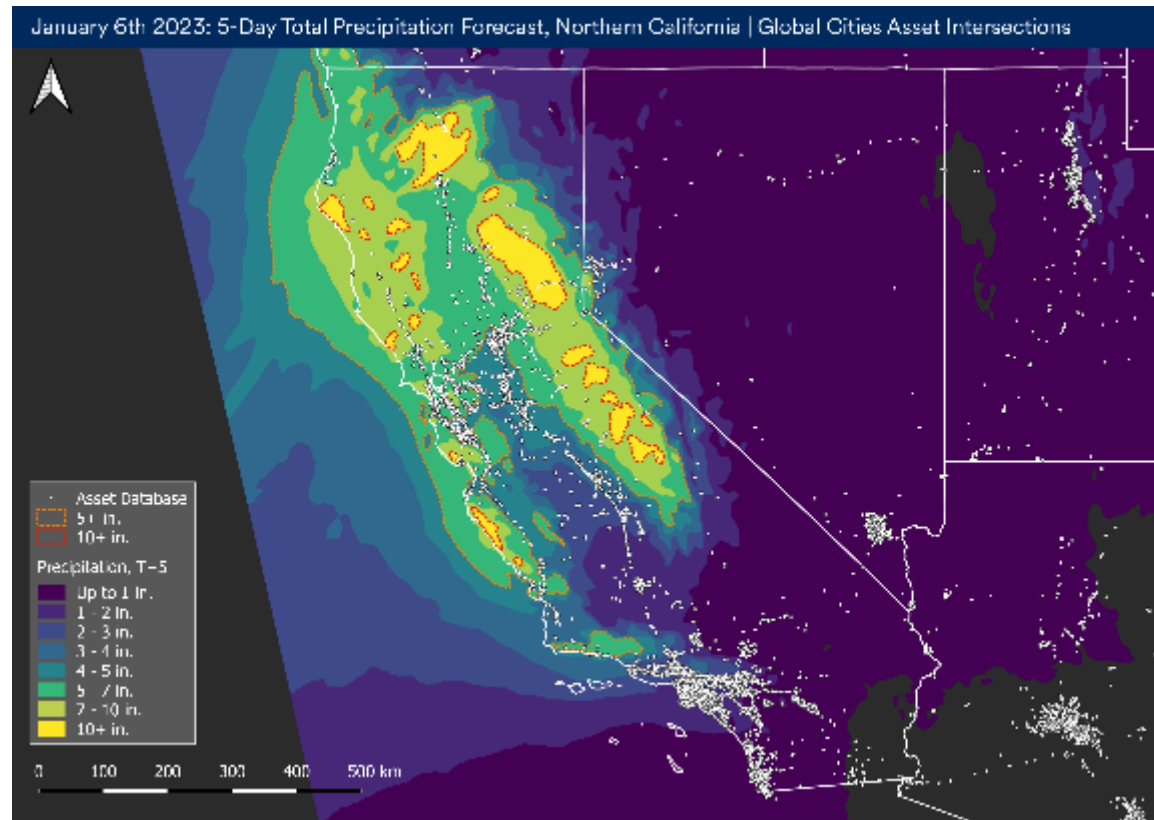
Data you have never heard of



Source: National Oceanic and Atmospheric Administration, 2022

# Northern California Rainfall Event

## Data analysis to identify most vulnerable assets



- Our on-tap asset database allows us to rapidly produce situation analyses when the need arises
- NOAA published an exceptional heavy rain forecast for the Northern California area on January 5<sup>th</sup> / 6<sup>th</sup> 2023
  - Heaviest rainfall (10+ in.) was expected to the North East of San Francisco, with relatively limited asset intersection
  - However, there was considerable overlap with downtown SF in the 5 - 10in rainfall category, with risk of floods
- We identified **4,000+ assets** that would be subject to 5+ inches of rain, and **20** that would be subject to 10+ inches, using light geospatial analysis in-house

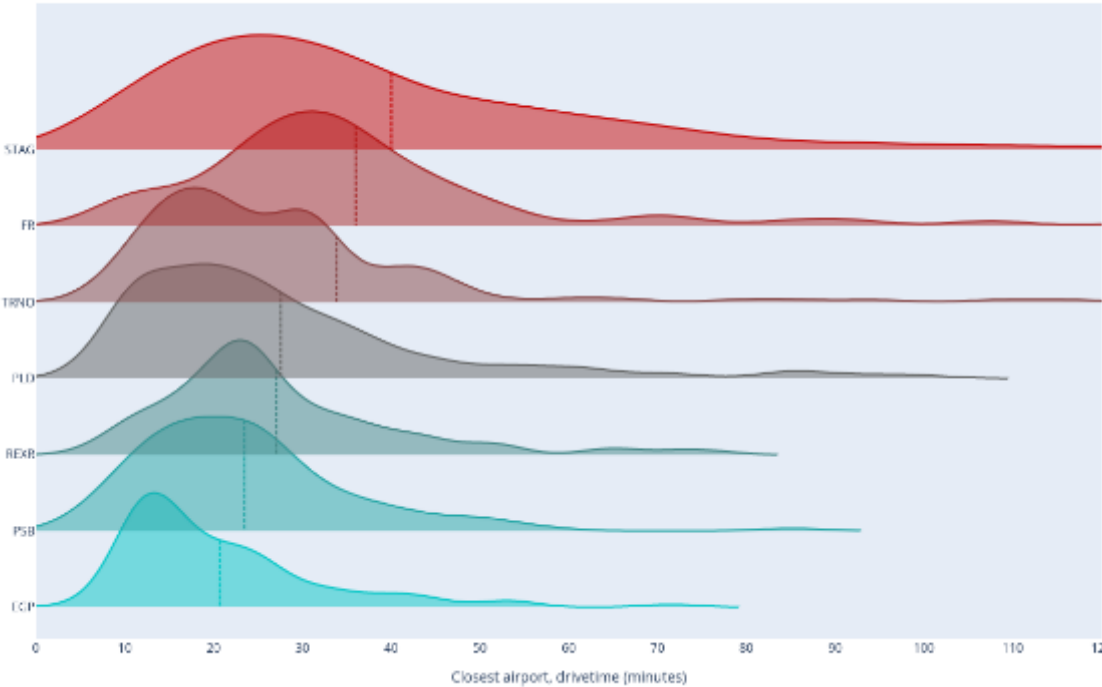
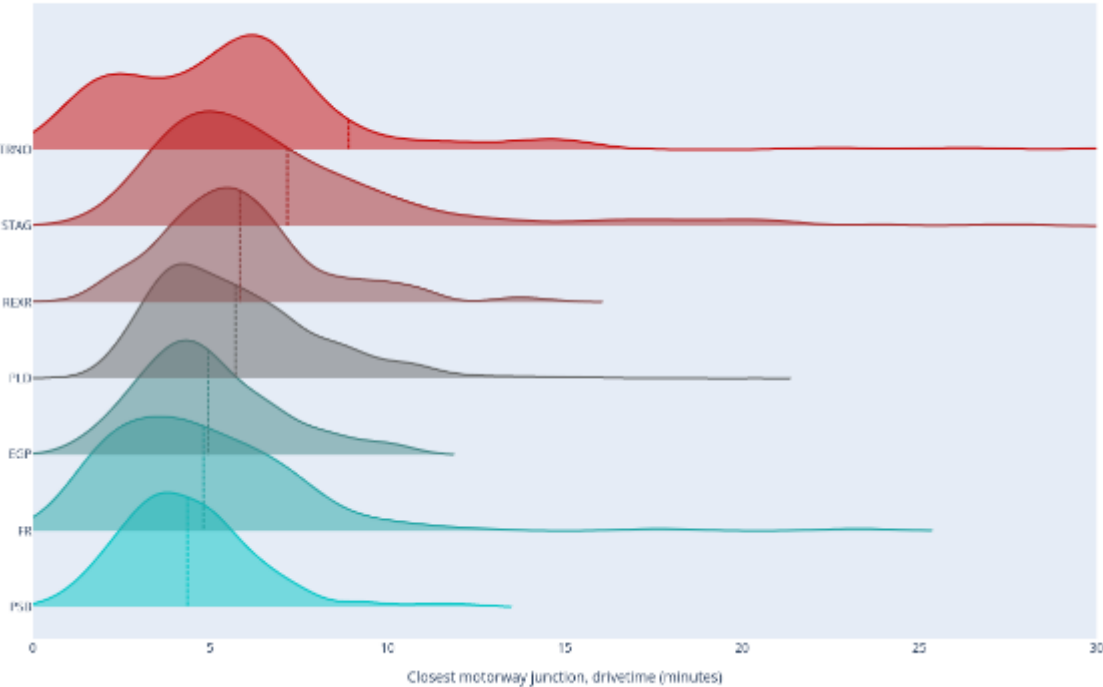
Source: Schroders, 2022. For illustrative purposes only.

# US Logistics Players: Driveability

Proximity of US logistics to motorways and airports

Drivetime to Closest Motorway Junction

Drivetime to Closest Major Airport

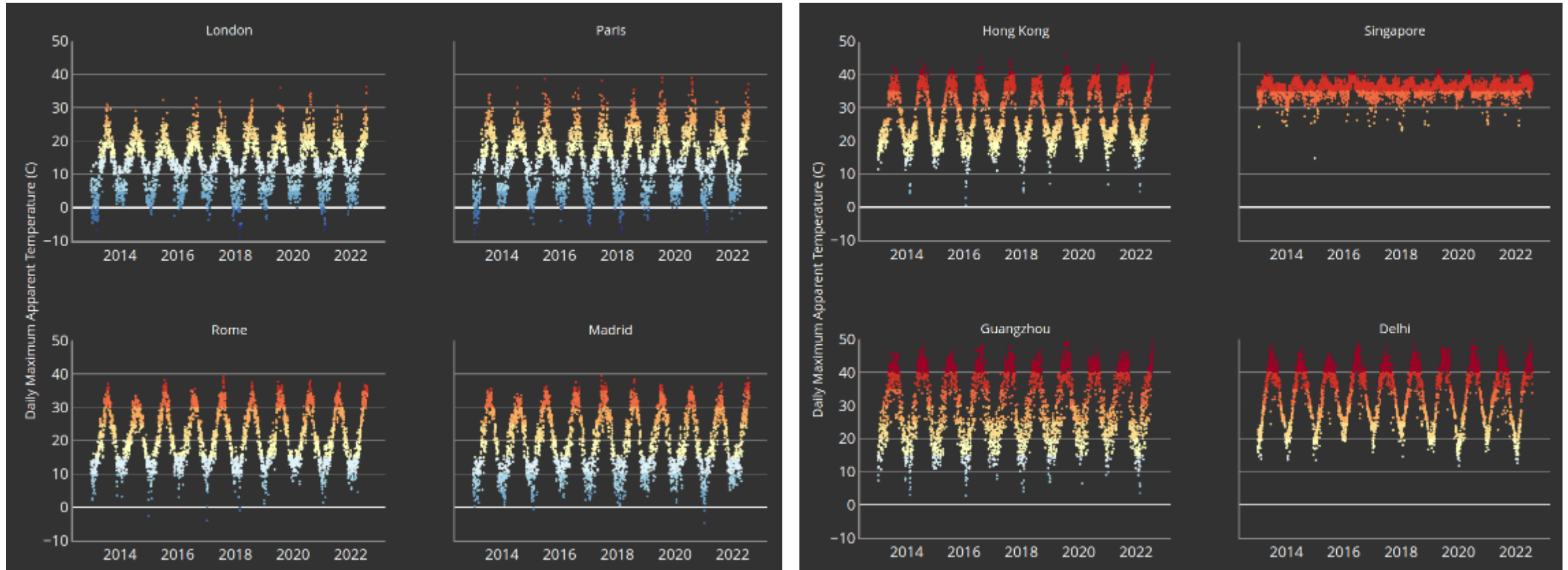


Source: Schroders, 2022. For illustrative purposes only.

# 2022's European Heatwave

Which cities are impacted most by extreme heat

## Daily Maximum Apparent Surface Temperature

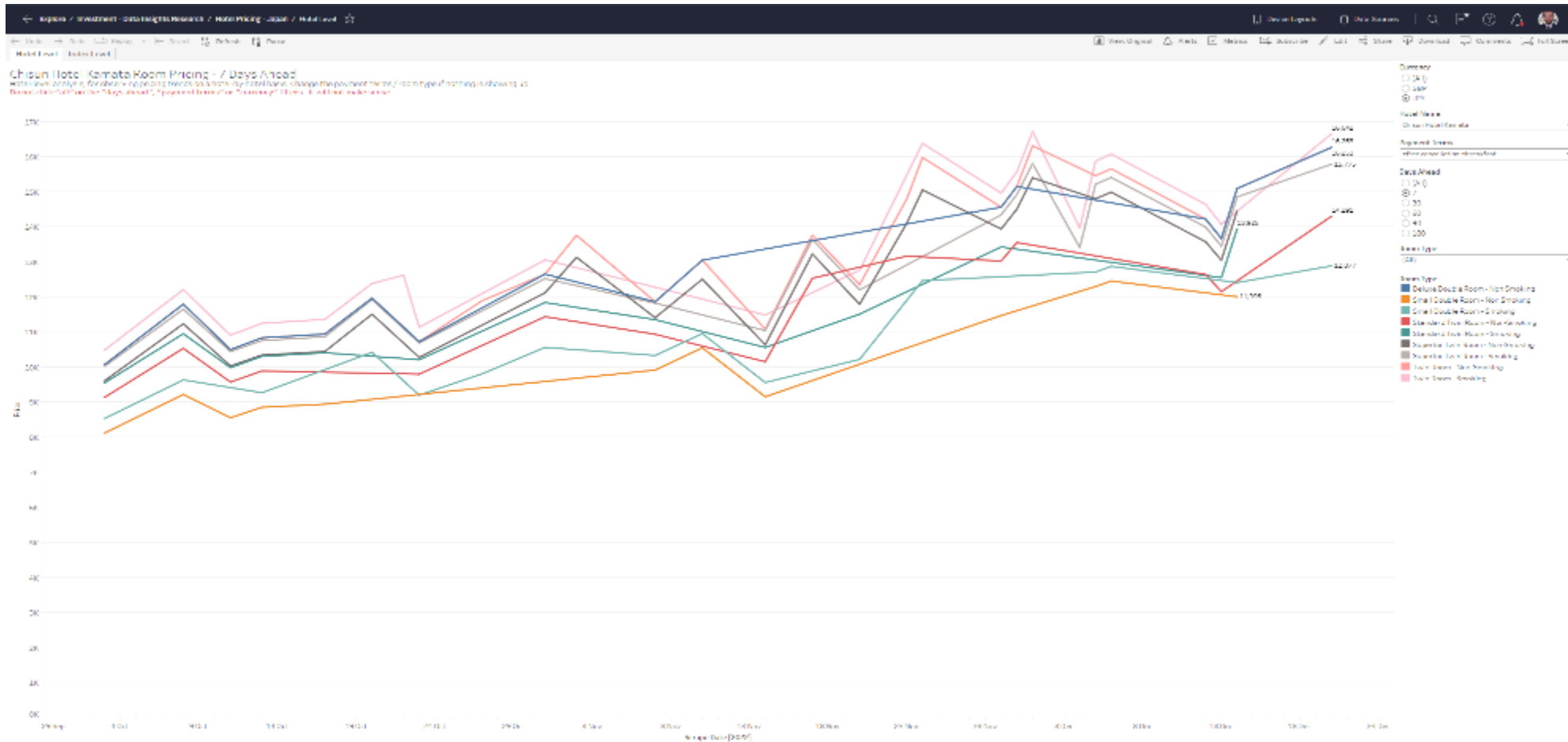


Source: Schrodgers, 2022. For illustrative purposes only.



# Japanese reopening

## Data scraped from Booking.com



Source: Booking.com, 2022. For illustrative purposes only.

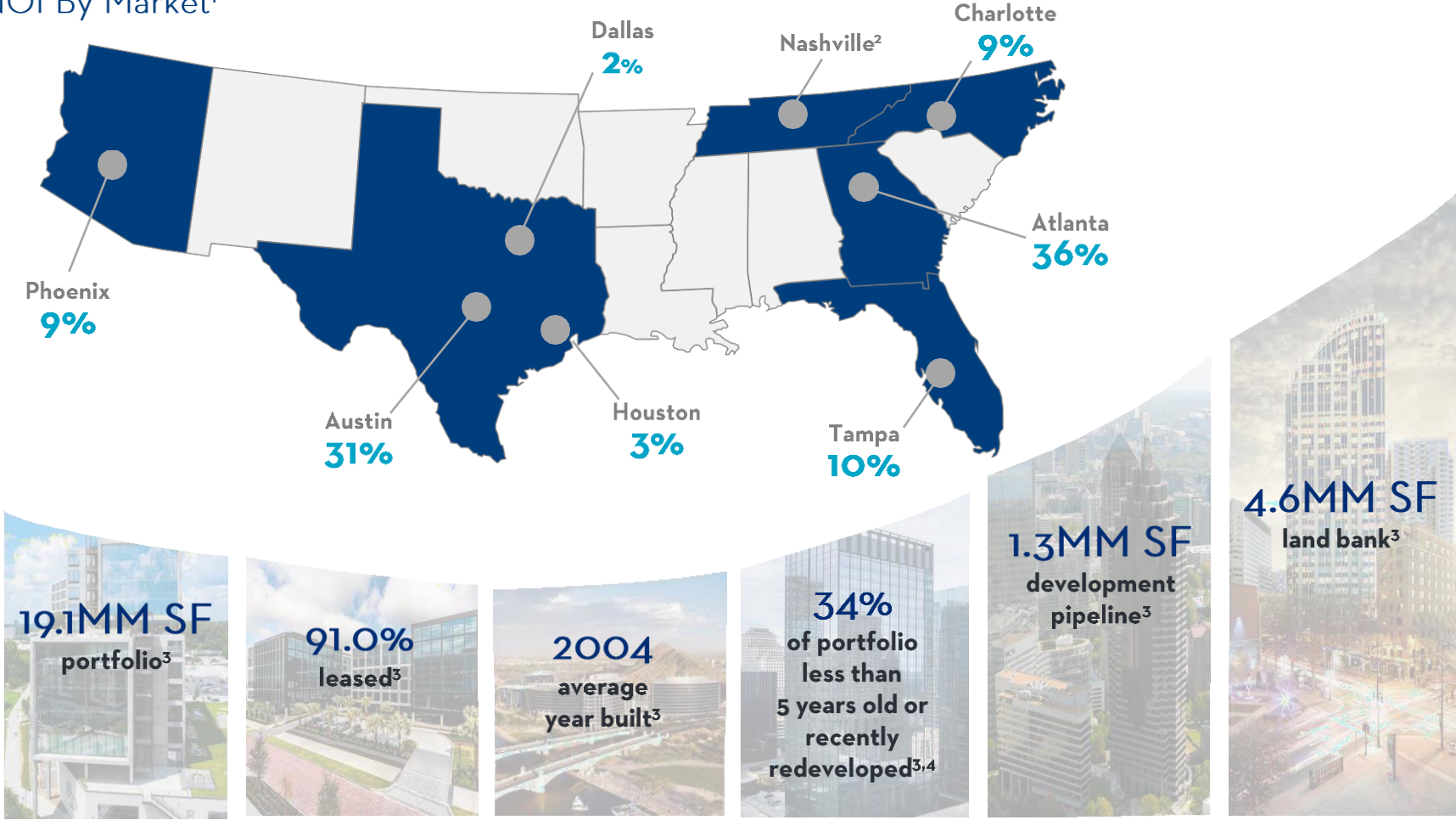


## Appendix

# Cousins - At a glance

## The Preeminent Sun Belt Office REIT

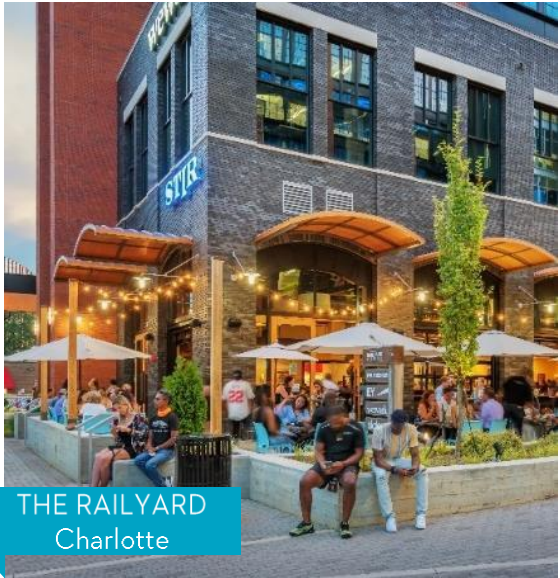
NOI By Market<sup>1</sup>



Source: Cousins 2023, for illustrative purposes only and should not be viewed as a recommendation to buy or sell.

# Cousins - Premier sun belt portfolio

Amenity-rich trophy assets in leading sun belt markets



Source: Cousins 2023, for illustrative purposes only and should not be viewed as a recommendation to buy or sell.

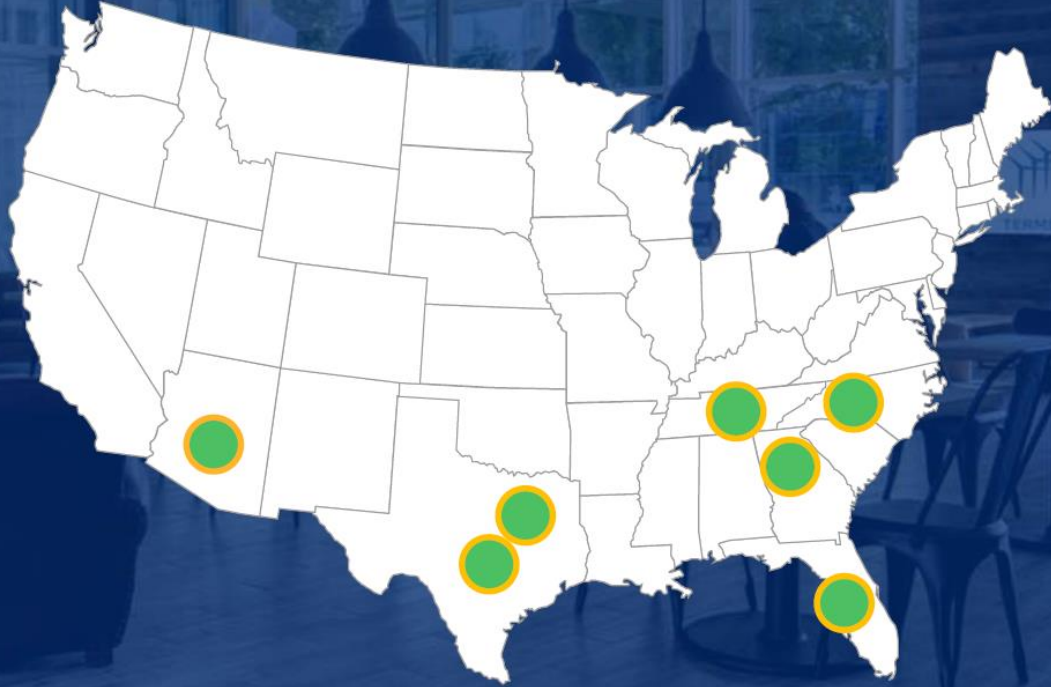
# Cousins - Benefiting from powerful office trends

Sun belt migration is leading to outsized population and job growth

## SUN BELT MIGRATION

Zillow's  
Hottest Markets  
2022<sup>1</sup>

1. Tampa, FL
2. Jacksonville, FL
3. Raleigh, NC
4. San Antonio, TX
5. Charlotte, NC
6. Nashville, TN
7. Atlanta, GA
8. Phoenix, AZ
9. Orlando, FL
10. Austin, TX



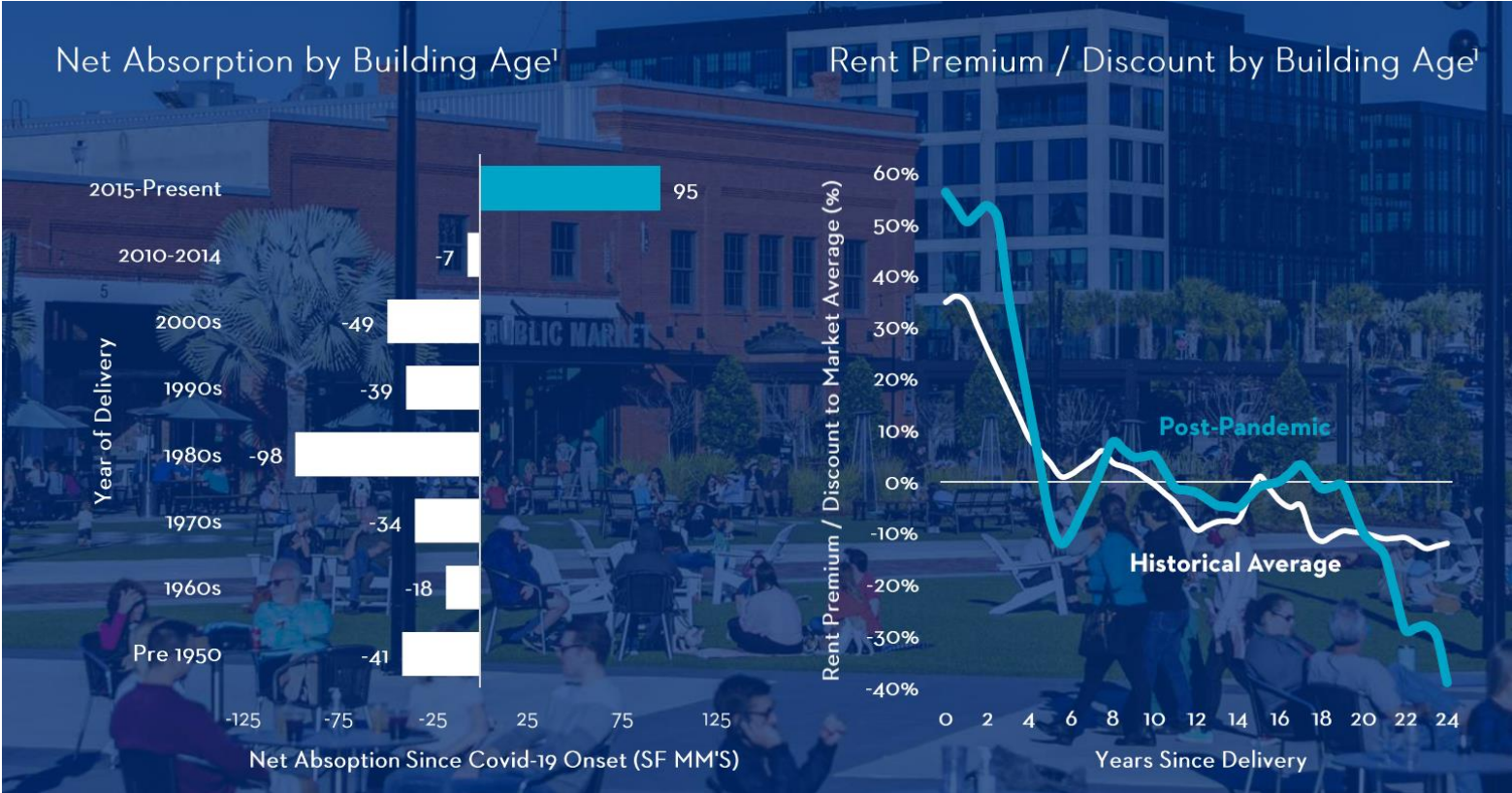
Projected  
Population Growth  
2023-2027<sup>2</sup>

1. Austin, TX
2. Orlando, FL
3. Phoenix, AZ
4. San Antonio, TX
5. Raleigh, NC
6. Nashville, TN
7. Houston, TX
8. Dallas, TX
9. Charlotte, NC
10. Atlanta, GA

 ULI 2023 Top 10 Real Estate Market<sup>2</sup>

Source: Cousins 2023, for illustrative purposes only and should not be viewed as a recommendation to buy or sell.

# Cousins - Benefiting from powerful office trends



## Flight to Quality

Flight to Quality is driving demand for newer, highly-amenitised assets

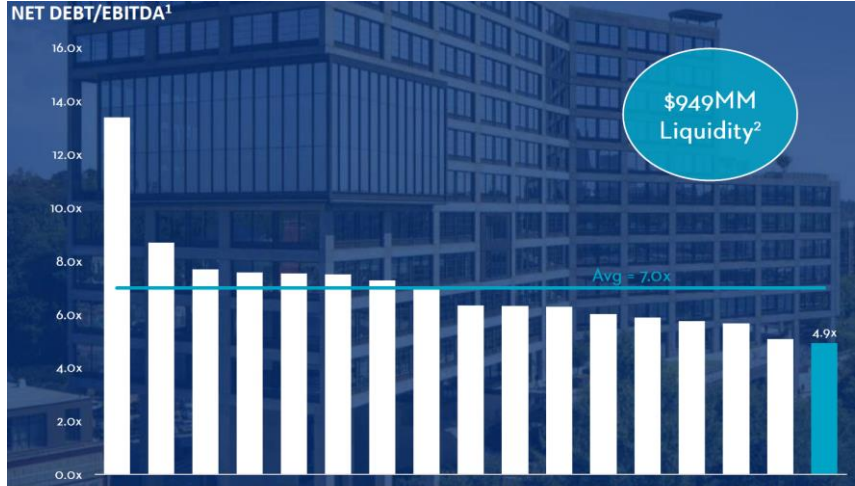
Source: Cousins 2023, for illustrative purposes only and should not be viewed as a recommendation to buy or sell.

# Cousins - Not all office REITs are created equal

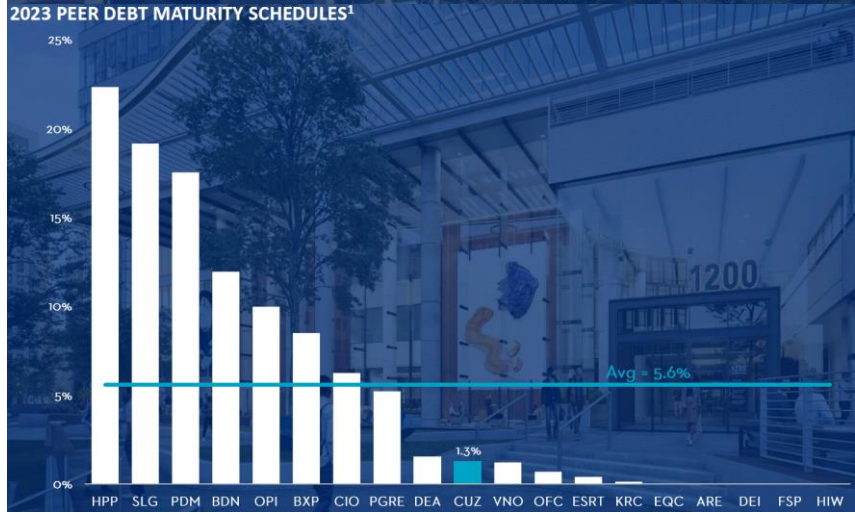
Perfectly positioned to benefit from a higher interest rate environment

Low tenant turnover

High pricing power



Low leverage and high liquidity



Low maturity of debt in 2023

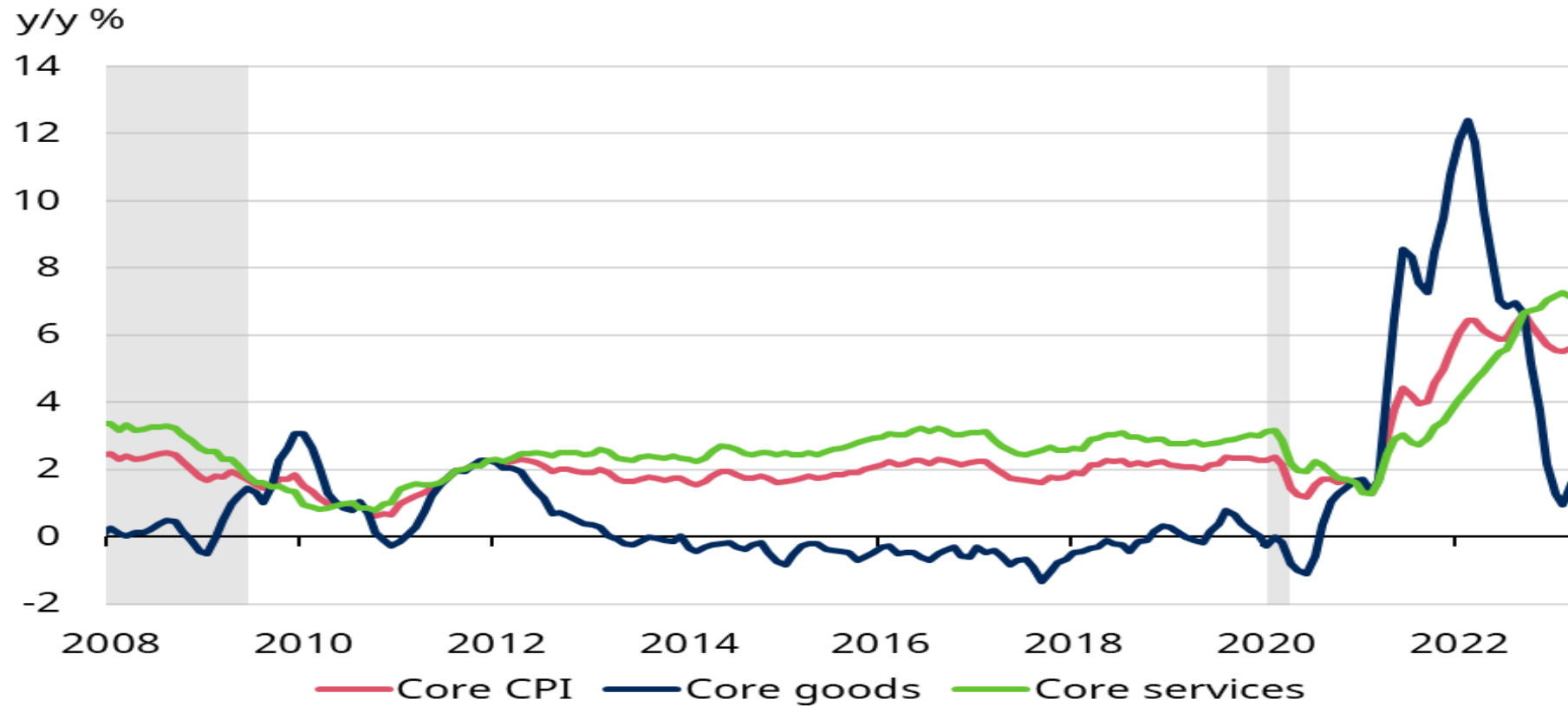
Why buy the average when you can buy the best?

Source: Cousins 2023, for illustrative purposes only and should not be viewed as a recommendation to buy or sell.

# Are we there yet?

Inflation and interest rates appear to have stabilised

Core goods have eased, core services may have peaked



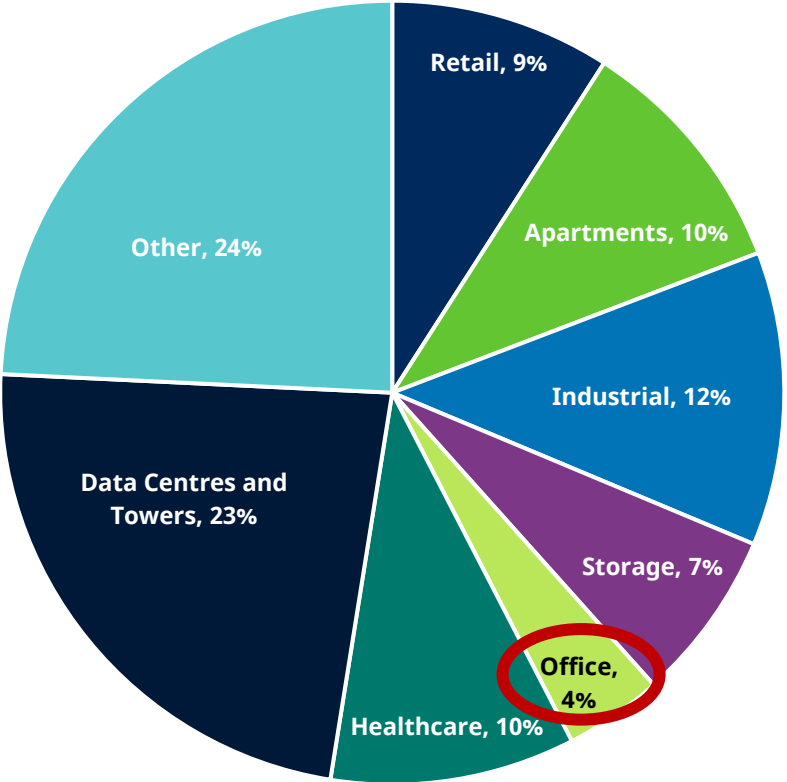
Source: Refinitiv, Schroders Economics Group. 11 May 2023.



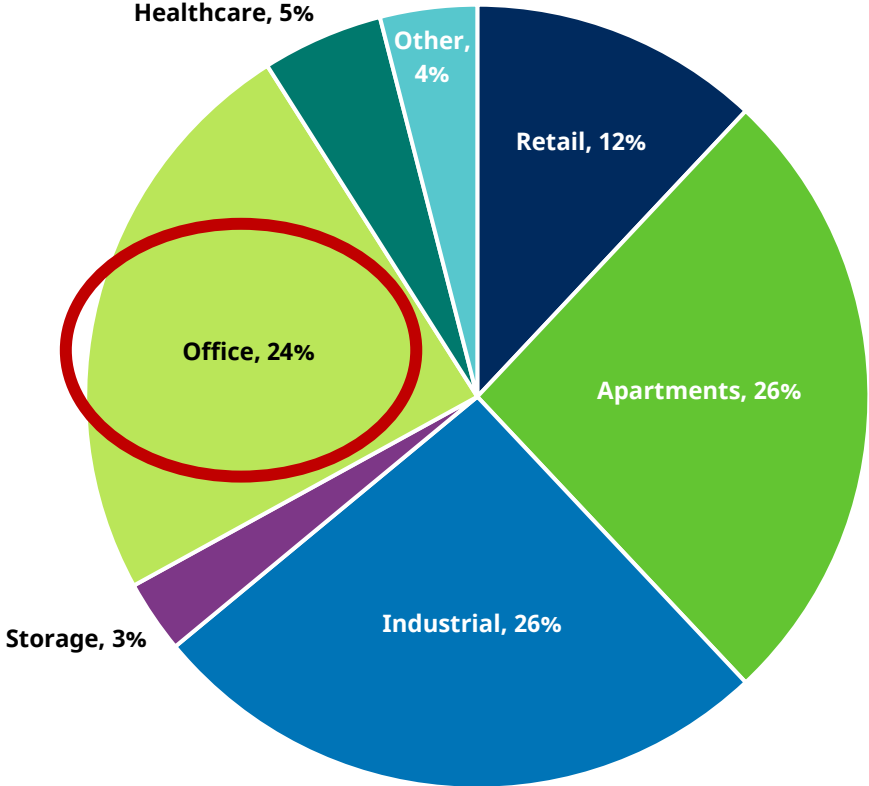
# The storm is in the Private Real Estate Sector

Listed versus Private Real Estate sector exposure – U.S.

US Listed Real Estate Sectors



US Private Real Estate Sectors

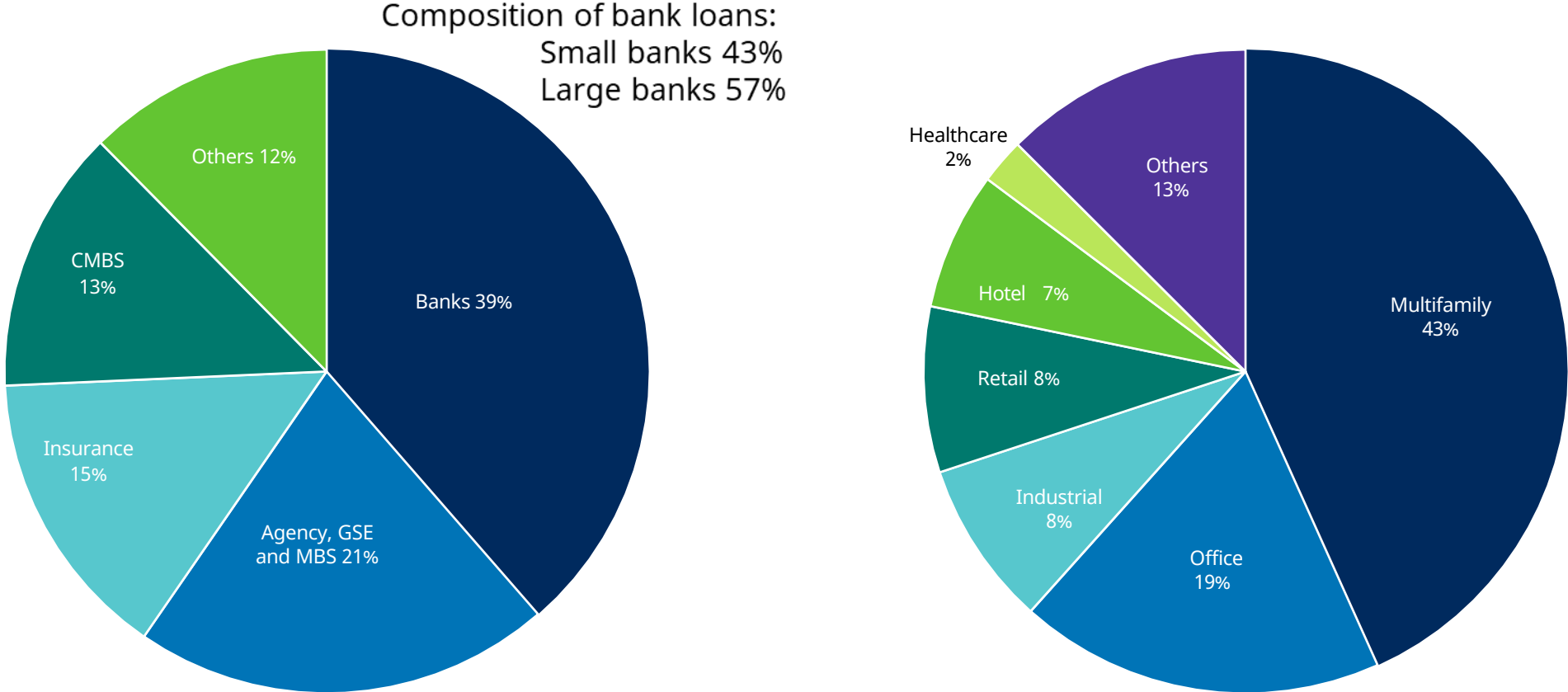


Limited office exposure in US Listed, higher exposure to Next Generation sectors

Source: CBRE April 2023. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

# US Commercial Real Estate (CRE) Loans

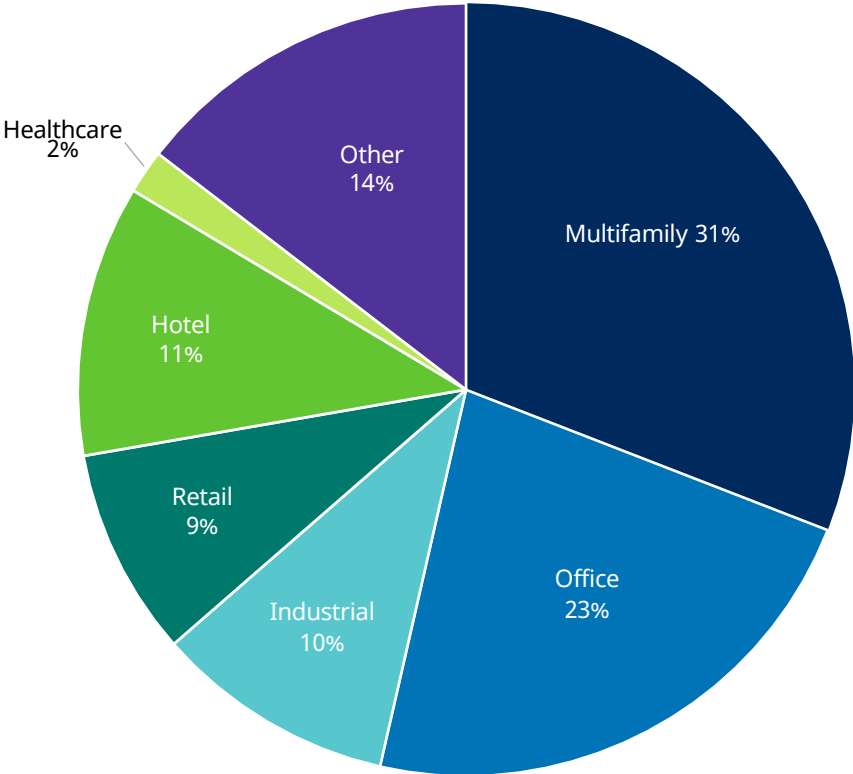
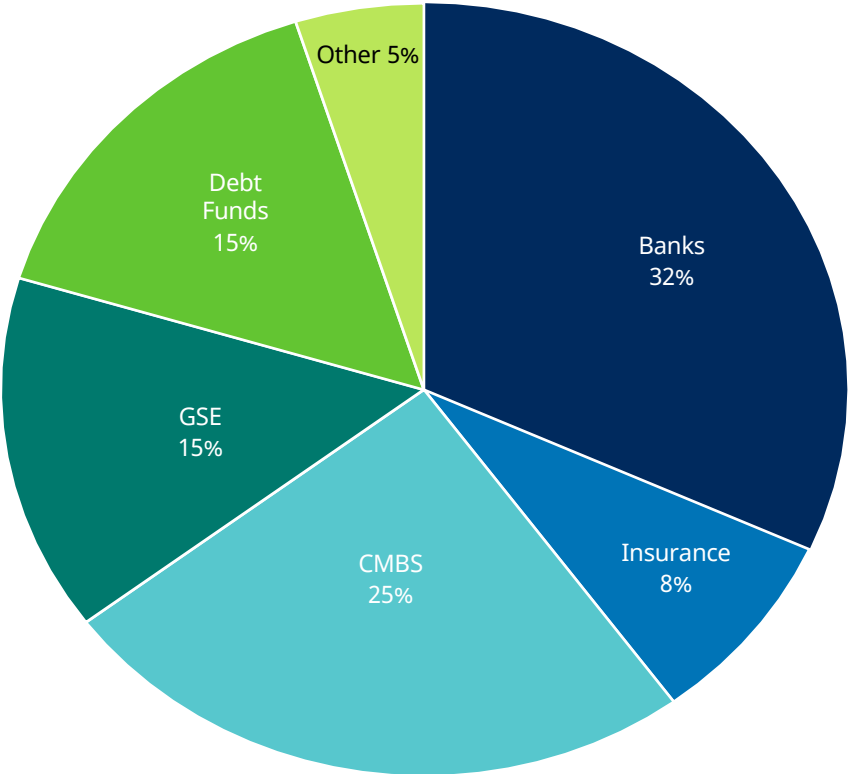
\$4.5 trillion of mortgages on CRE



Source: Mortgage Bankers Association, Trepp, Goldman Sachs Global Investment Research, March 2023. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

# US CRE debt maturing in 2023-24

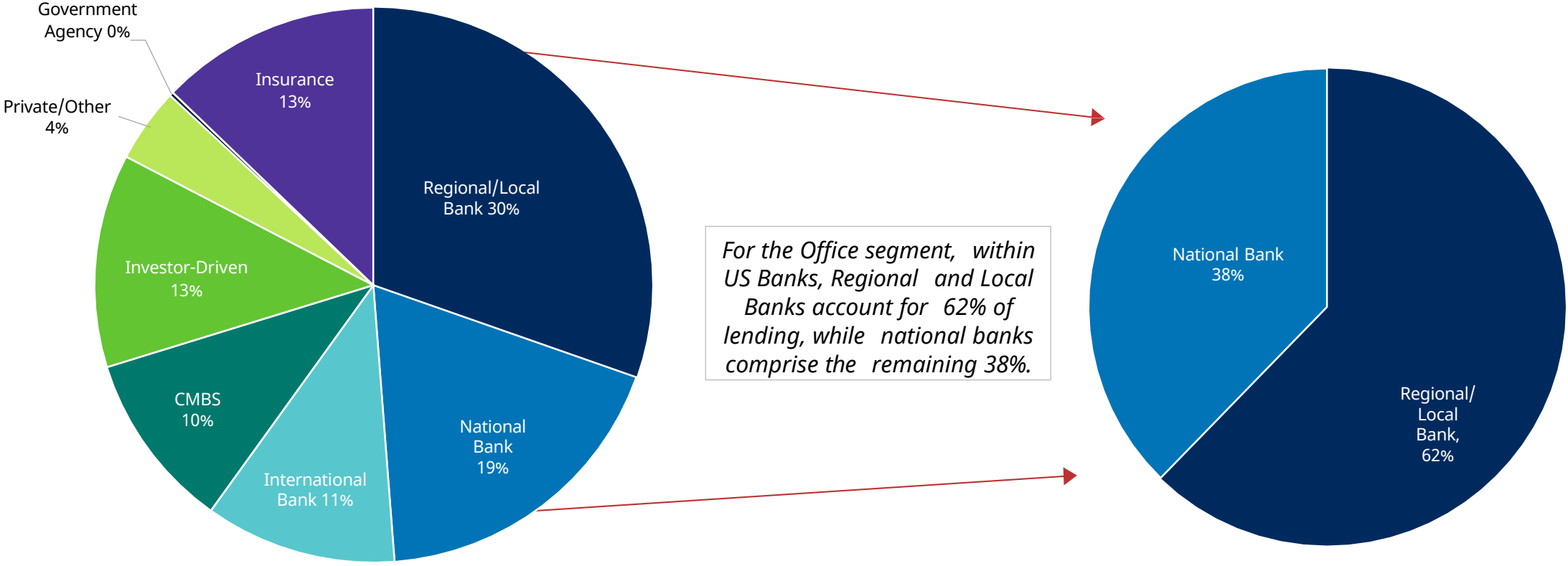
\$1.1 trillion debt needs refinancing



Source: NMRK, RCA, Goldman Sachs Global Investment Research, Mortgage Bankers Association, March 2023. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

# US office debt market

Defaults expected to be higher



Source: RCA, Goldman Sachs Global Investment Research, March 2023. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

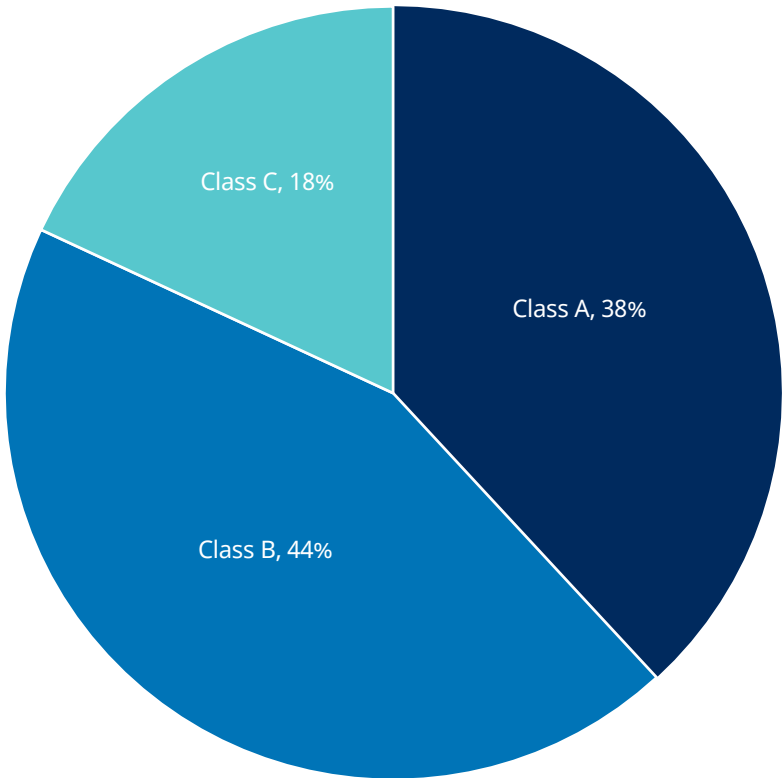
# Commercial Real Estate Loans

Class A office properties have dominated recent headlines on CRE loan defaults

## CRE loan defaults

Institution	Property Type	Locations	Class	Loan amount	Status	Property Name
Blackstone	Multifamily	Manhattan	A	\$270mn CMBS	Special servicing	11 apartment properties
Blackstone	Office and Store	Finland	N/A	€531mn CMBS	Default	47 office buildings
Blackstone	Office	Las Vegas	NA	\$325mn CMBS	Special servicing	10 office buildings
Brookfield	Office	Los Angeles	A	\$465mn	Default	The Gas Company Tower
Brookfield	Office	Los Angeles	A	\$319mn	Default	777 Tower
Chetrit Group	Construction	Manhattan	N/A	\$85mn	Default	545 West 37th Street
Chetrit Group	Multifamily	Multiple locations	N/A	\$481bn	Default	43 apartment properties
Coretrust Capital	Office	Los Angeles	A	\$64.7mn	Oaktree acquired the building through foreclosure auction	444 South Flower Street
Columbia Property Trust	Office	Manhattan(3), SFO(2), Boston(1), Jersey City(1)	A(6) & B(1)	\$1.7bn mortgage	Default	Seven buildings
GFF	Office	Manhattan	A	\$103mn CMBS	Default	The DuMont Building
Veritas and Baupost JV	Multifamily	San Francisco	N/A	\$450mn CMBS	Special servicing	62 properties
Washington Capitol Partners	Office	Washington, D.C.	B	\$38mn CMBS	Special servicing	717 14th St NW
Waterbridge Capital	Office	Los Angeles	A	\$200mn	Starwood Capital acquired through foreclosure auction	Broadway Trade Center
Wharton Properties	Retail	Manhattan	N/A	\$180mn CMBS	Default	1551-1555 Broadway
The 601W Companies	Office	Chicago	A	\$536mn	Special servicing	Chicago Aon Center

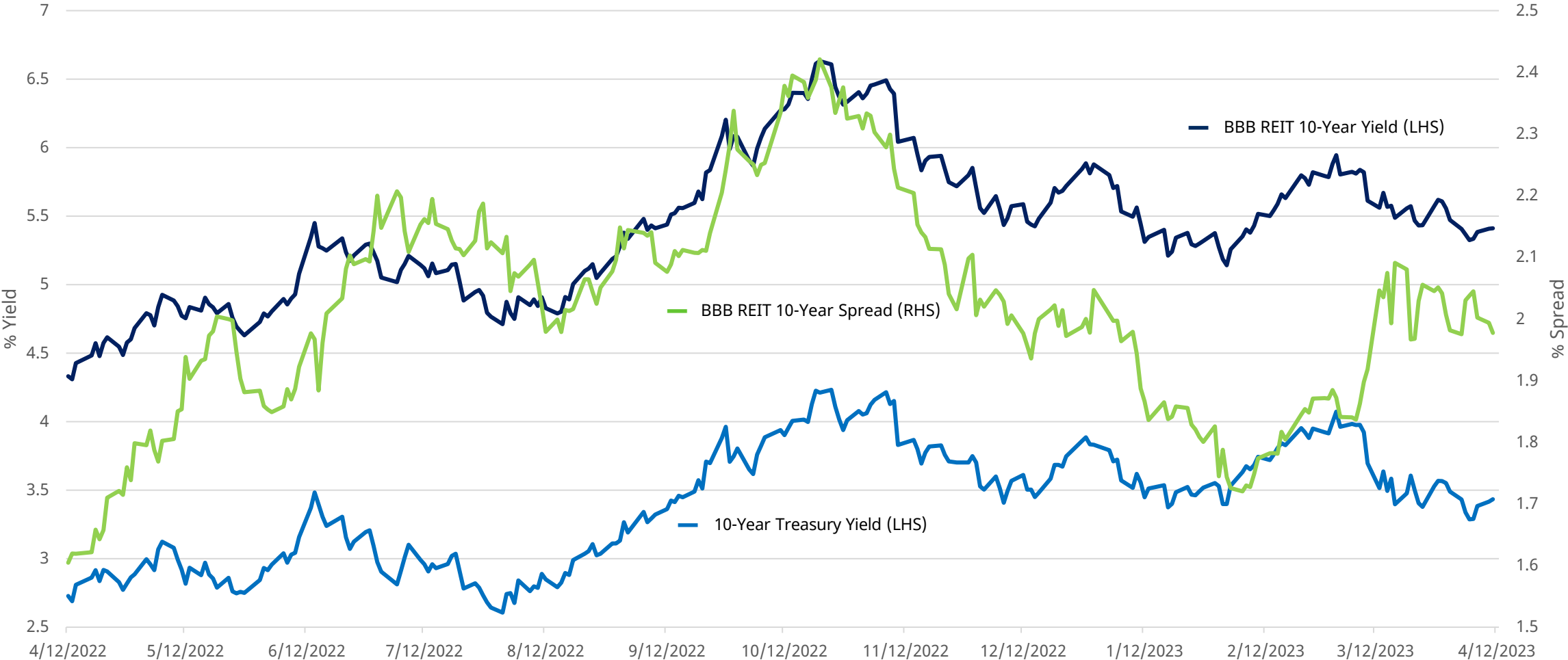
## Total US Office Inventory - 8.4bn sqft



Source: Company reports, CoStar, compiled by Goldman Sachs Global Investment Research, March 2023. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

# US REIT borrowing costs

Spreads have increased but markets are open



Source: Bloomberg, Refinitiv April 2023. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

# Bifurcated capital markets – the strong get stronger

\$300m raised during the midst of the SVB collapse fallout



## Company Information

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## Rexford Industrial Announces Pricing of \$300 Million of 5.000% Senior Unsecured Notes due 2028

March 28, 2023

LOS ANGELES, March 28, 2023 /PRNewswire/ -- Rexford Industrial Realty, Inc. (the "Company" or "Rexford Industrial") (NYSE: REXR), a real estate investment trust focused on creating value by investing in and operating industrial properties in Southern California infill markets, today announced that its operating partnership, Rexford Industrial Realty, L.P. (the "operating partnership"), has priced a public offering of \$300 million aggregate principal amount of 5.000% senior notes due 2028 (the "Notes"). The Notes were priced at 98.975% of the principal amount and will mature on June 15, 2028. The offering is expected to settle on March 30, 2023, subject to the satisfaction of customary closing conditions. The Notes will be fully and unconditionally guaranteed by the Company.

 [PDF Version](#)

## Top holding within Global Cities

Source: Rexford, Schrodgers 2023 For illustrative purposes only and should not be viewed as a recommendation to buy or sell.



# Real assets & inflation

Leases provide protection

**% Indexation**



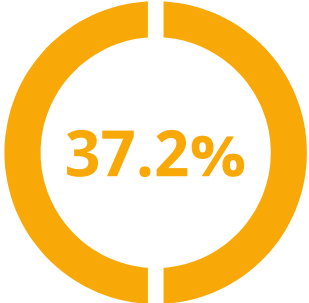
Direct link to inflation on a lagged annual basis

**% Fixed Uplift**



Typically 2-4%

**% Market review**



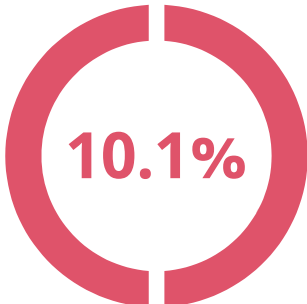
Inflationary increase captured at lease end typically <1 year

**% No review**



Inflationary increase captured at lease end typically 2 years

**% other**



Turnover linked leases

Source: Schroders, 2022



# All eyes now on commercial real estate

Should we be worried?

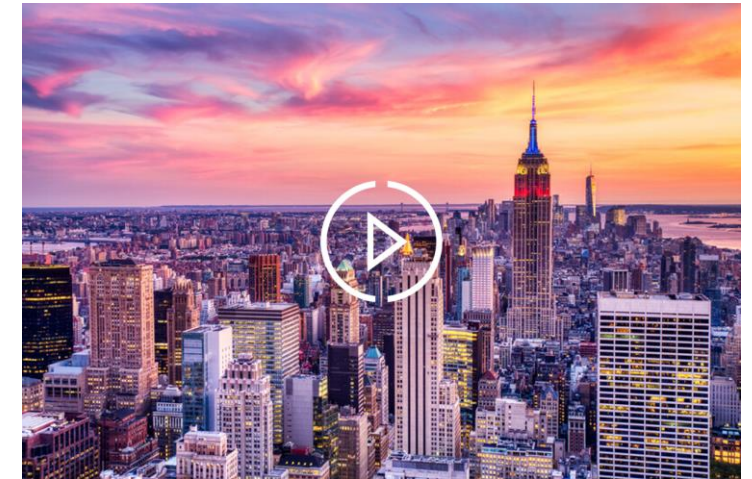


Podcast: Could real estate be the next domino to fall in the banking crisis?

What started as a crisis with US banks could spill into the real estate sector. Fund manager Tom Walker joins the pod to discuss how concerned investors should be.



Quickfire questions: Tom Walker meets Segro's CFO



Global Cities Fund Update: Covering March 2023

Monthly fund update covering Schroder Global Cities Real Estate

# Locally based research team

## Local knowledge of markets and sector drivers



### Ben Forster, UK

- Joined Schroders in 2008
- 14 years' experience
- BEng Prod Design and Manufacture, CFA

### Tom Walker, UK

- Joined Schroders in 2014
- 24 years' Real Estate Securities experience
- BA Hons in Politics, Graduate Diploma in Real Estate, MRICS

### Hugo Machin, UK

- Joined Schroders in 2014
- 24 years' Real Estate Securities experience
- BA Hons in English Literature, MSc in Real Estate Finance and Investment, Diploma in Cross Border Valuation

### Jon Consolo, Singapore

- Joined Schroders in 2014
- 18 years' experience
- BA in Finance and Real Estate, CAIA

### Charles Fox, UK

- Joined Schroders in 2019
- 10 years' experience
- BA Economics & Management, Oxford

### Armaan Hindocha, UK

- Joined Schroders in 2020
- 1 year Real Estate Securities experience
- BSc Accounting, Business Finance and Management

### Freddie Drummond, UK

- Joined Schroders in 2020
- 2 years' experience
- BA Economics & Politics, Passed CFA Level 3

### James Blake, UK

- Joined Schroders in 2017
- 16 years' experience
- BSc Geography and Geographical Information Systems

### Alice Liu, Hong Kong

- Joined Schroders in 2019
- 12 years' experience
- BA Finance & B.L Economic & Financial Laws

### Masaaki Nishikori, Japan

- Re-joined Schroders in 2004
- 29 years' experience
- BA in Law, MBA

### Chuanyao Lu, Singapore

- Joined Schroders in 2017
- 12 years' experience
- Double-degree in Accountancy and Business Management (Finance), Singapore Management University

■ Additional research collaboration with four US-based analysts covering real estate as part of their broader equity coverage.

Source: Schroders, May 2023. Team members and roles are subject to change.



For more information please visit:

[www.schrodersglobalcities.com](http://www.schrodersglobalcities.com)

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