

For institutional investors only, not for retail clients

# An introduction to Octopus Real Estate

Providing specialist finance to promote growth  
and change in the UK property market.

octopus

A brighter way

# Key Investment Risks

- The value of an investment in the real estate sector, and any income from it, can go down as well as up and investors may not get back the amount invested
- Investment risk may be concentrated in specific sectors, countries, currencies or companies. Where this is the case, the strategy may be more sensitive to any localised economic, market, political or regulatory events.
- Neither past performance, nor any forecasts should be taken as a reliable indicator of future results.

## Important Information

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## Benjamin Davis

Benjamin joined Octopus in 2010. He is responsible for the management of Octopus Real Estate, a specialist fund manager formed in May 2019 through combining Octopus Healthcare and Octopus Property.

Octopus Real Estate has over £2bn in funds under management from institutional and retail investors, and a team of over 80 professionals. Octopus Real Estate's healthcare team invests in and develops properties exclusively for the healthcare sector, with a focus on care homes and retirement communities. Octopus Real Estate's property team is one of the UK's leading non-bank lenders, providing finance for residential, commercial and development properties.

# The growing institutional opportunity in real estate

Octopus Group has always believed in transforming broken industries. We want every pound that we invest to have a positive and measurable impact on the world around us. We do this by building businesses that enter sectors where change is desperately needed and by offering innovative solutions to customer problems. Octopus Real Estate is tackling 3 very important areas of real estate:

### Commercial debt

The global financial crisis of 2008 opened up commercial property lending right across Europe to new investors when banks had to pull out of this area due to the increased capital requirements. The market has since seen a diversification of lenders, whose propositions vary and are influenced by the cost of capital and their funding sources.

As banking regulations have increased, the market has seen a growing pool of non-bank lenders who now make up 26% of all commercial lending. Octopus is the largest non-bank lender in the UK, and one of the largest in Europe,<sup>1</sup> with over £4.5 billion lent in bespoke loans to landlords, property developers and property investors. The current loan book is valued at over £1 billion.

### Care homes

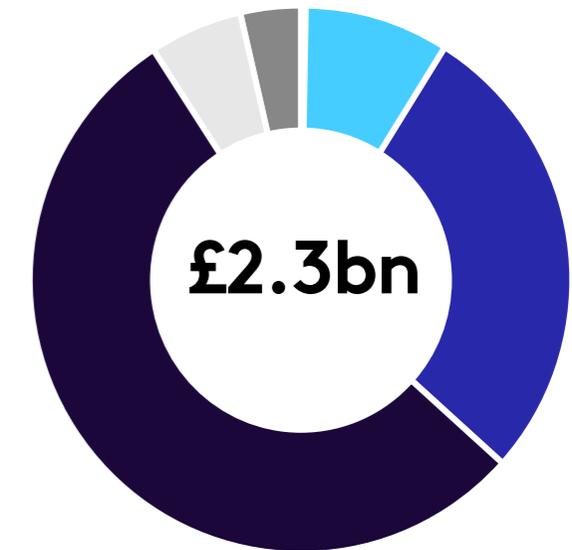
A great deal of investment is needed to ensure the UK's aging population receives the quality care accommodation it deserves. We believe the investment community can play a crucial part in helping to meet this need through the provision of private capital, where investors can benefit from a stable and diversified return stream over the long term.

Healthcare real estate also has a clear ethical and impact investing dimension. Investing in care homes drives much-needed capital into infrastructure that changes people's lives and improves the wellbeing of the elderly. It's also a catalyst for positive change in the surrounding communities and eases the pressure on the social care system.

### Retirement

Retirement living is another sector in need of major investment given the aging population. Age-adjusted real estate provides homes that are attractive to the older population when they want to downsize from a family-sized home, that also foster a sense of community. In the UK, approximately one in four over 65s expressed interest in living in a retirement community, but less than one in ten will realise this ambition due to a lack of availability. Market penetration for retirement living stands at just 0.7% [of retirees] in the UK compared with 5-7% in the US and New Zealand. This suggests the UK market is ripe for investment, with demand for retirement homes outstripping supply by four-to-one.

## ORE manages £2.3bn in real estate assets and secured lending



- Care homes
- Residential lending
- Retirement communities
- Commercial lending
- Other
- Development lending

<sup>1</sup>Source: Real Estate Capital Debt Fund, June 2020

With more than £2 billion under management, our multidisciplinary team of more than 80 dedicated property specialists includes behind-the-desk and on-the-ground asset management expertise and encompasses lending, investment, development and operations. This combination gives us deep market insight and the ability to be agile in an increasingly uncertain world, from initial development stage through to long-term asset ownership and portfolio management.

## What we bring to the table:

**Experience:** Our award-winning team has a strong track record of delivery on behalf of investors and clients. We have a history of being an early mover into new, specialist sectors, creating expert teams and investment opportunities.

**Established relationships:** Our team enjoys long-standing relationships with partners and clients across our chosen sectors. Being a partner of choice helps to create scale, growth and expansion.

**Supporting real estate lifecycle:** We participate at every stage of the property cycle, from land acquisition and development, through to the long-term financing and management of assets resulting in a diverse range of investment opportunities.

“At Octopus Real Estate we are known for our refreshingly different approach. People are at the heart of our business and recruited for their deep sector expertise and problem-solving outlook. Their knowledge, as well as their long-held sector relationships, gives us the flexibility to think creatively about property lending, healthcare investment and beyond.”

-Benjamin Davis,  
CEO of Octopus Real Estate



## Ludo Mackenzie

Ludo is Head of Commercial Property. Since joining Octopus in 2013, he's set up and grown a team of Chartered Surveyors, who have raised three institutionally backed debt funds and completed c. £1.5bn of commercial lending across the UK.

He started his career in 1994 at JLL, before moving to LaSalle Investment Management and then becoming a Fund Manager for the Henderson UK Property Fund.

He has managed a number of property investment funds, both debt and equity, relative and absolute return. Ludo has always been a value investor, seeking to deliver outperformance through opportunistic and value-add strategies.

# Commercial lending

## A growing opportunity

Our loan book has grown fast since inception and we believe that the illiquidity in banking will continue to create strong demand for non-bank finance. A 2018 report showed non-bank lending represents 26% of all commercial real estate lending in the UK<sup>1</sup>. Over the next three years, over 50% of UK banks' loan books will need to be refinanced<sup>2</sup>. Our expertise in this field, plus our agile and fast-paced service mean we will be in an excellent position to further grow our business.

### Decades of experience:

As one of the UK's leading non-bank lenders, we have been offering specialist property loans since 2008 and during that time we've lent more than £4.5 billion in bespoke flexible finance to landlords, property developers and property investors. Today our loan book is valued at more than £1 billion. It's an award-winning business, known for putting its customers first.

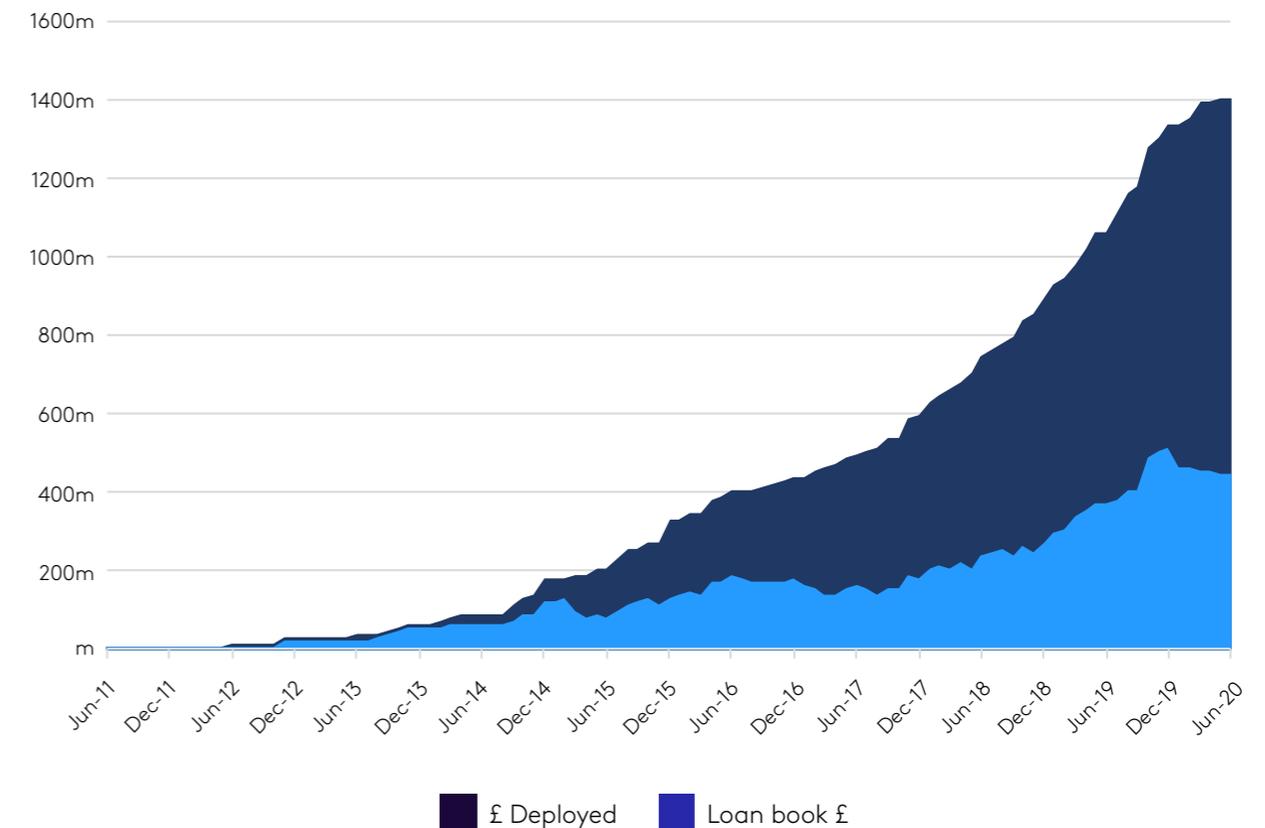


Our team of specialists looks after this award-winning area of the business, where there has been a zero loss of capital since inception. We carefully mitigate risk by lending to strong counterparties on well located assets, and with significant equity buffers of at least 30%.

As non-bank lenders, we are able to bring speed and flexibility to the lending process, and our borrowers are prepared to pay a premium for this. In fact, many borrowers have lost trust in bank lenders being able to meet tight acquisition timetables.



### Growth of the Commercial Loan Book



<sup>1</sup>Source: Cass Bank Lending Survey, 2018 Full Year

<sup>2</sup>Source: Cass CRE Lending Survey, 2019 Full Year pitchdeck

## Our expertise

We are not a bank, which means we can be fast and flexible, but we do bring highly professional practices to this specialist lending sector. This includes excellent compliance and governance procedures.

We focus on individual deals rather than sector themes, looking at each lending opportunity in granular detail, stress testing and judging each loan opportunity on its own merits. This ensures our business encompasses a broad asset base, with our loan book being diversified across office, hotel, industrial, leisure, retail and student properties. We have a strong bias towards London and the South East of England, other major cities and university towns.



Sky Gardens, London, from the Commercial Real Estate Debt portfolio

# £4.5bn

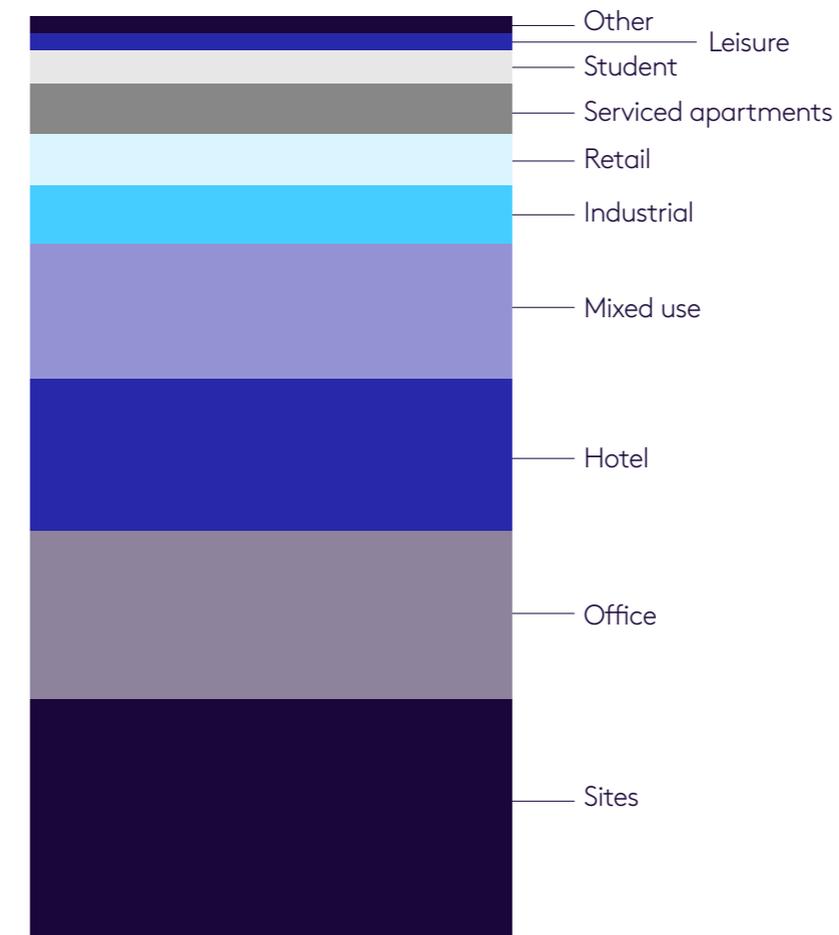
Over £4.5bn loans completed since inception

The members of our commercial team are all chartered surveyors with the knowledge and understanding that investors and borrowers require. We have regional teams on the ground and, for all loans, we conduct site visits to gain a full understanding of the proposition. Less than 10% of the initial enquiries we receive make it through to the loan stage due to our careful and robust screening process.

From a governance perspective, we believe that it's important for lenders to maintain a patient and pragmatic approach with borrowers, particularly during difficult market environments. We seek to take a long-term approach, helping borrowers work through their various challenges, while still protecting our lending position.

Through our strong broker networks and direct client relationships, we have access to a solid pipeline of deals. This is how we've become the UK's leading non-bank lender, with over 10% of the bridging market as at 2018<sup>3</sup>.

## Diversified across liquid sectors with strong demand characteristics



## Non-bank lender

We're not a bank, and have discretionary capital. This enables us to accommodate clients, move quickly and deliver.

## Regional coverage

Our BDMs offer regional expertise, with local teams including credit and sales. We also use valuers with local knowledge.

## Specialist lender

We lend across niche sectors, bringing best practice, good compliance and strong governance.

## Focus on speed

We work in line with each client's completion date, using refined processes, synced up teams and a dedicated case manager.

## Flexible approach

As market and client requirements change, we change with them, always tailoring loans to individuals.

<sup>3</sup>Source: Mintel-Bridging Loans 2018



## Ed Clough

Ed is a Fund Manager, responsible for Octopus Real Estate's care homes fund. He invests in and develops healthcare properties and has considerable experience working with health and care operators and providers, NHS Trusts, CCGs and lenders. He previously acted as an Investment Director on behalf of the Octopus Real Estate-managed MedicX Fund REIT before its £2.3bn merger with Primary Health Properties REIT in March 2019. Prior to joining Octopus Real Estate in 2017, Ed was a lawyer with international firm Allen & Overy LLP acting for public and private companies across a range of sectors. Ed holds an MBA from the University of Cambridge, Judge Business School.

# Care Homes

## Aging population creates investment opportunity

The world is aging. The number of people aged 65 and over is set to double between 2019 and 2050<sup>4</sup> and the amount of people aged over 85 is projected to rise even more rapidly. In the UK, this growth is not being matched by an increase in care facilities for the elderly. This has created a worrisome short-fall.

The supply of care homes is falling far below demand – for example the projected need for specialist dementia beds is over 200,000.<sup>4</sup> This lack of long-term care facilities is also creating pressure on our already over-stretched NHS, as patients ready to be discharged often have no suitable accommodation to go to.

### Undersupply of quality homes

#### Obsolescence

50% of registered UK care homes were first registered over 20 years ago

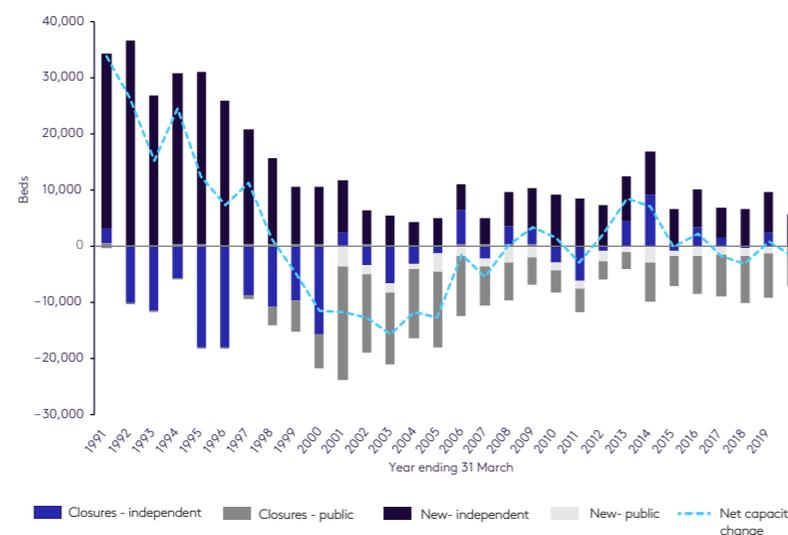
#### Closures

Closures are driven by both the regulatory regime and staffing issues

#### Land

The supply of development land in the UK is constrained

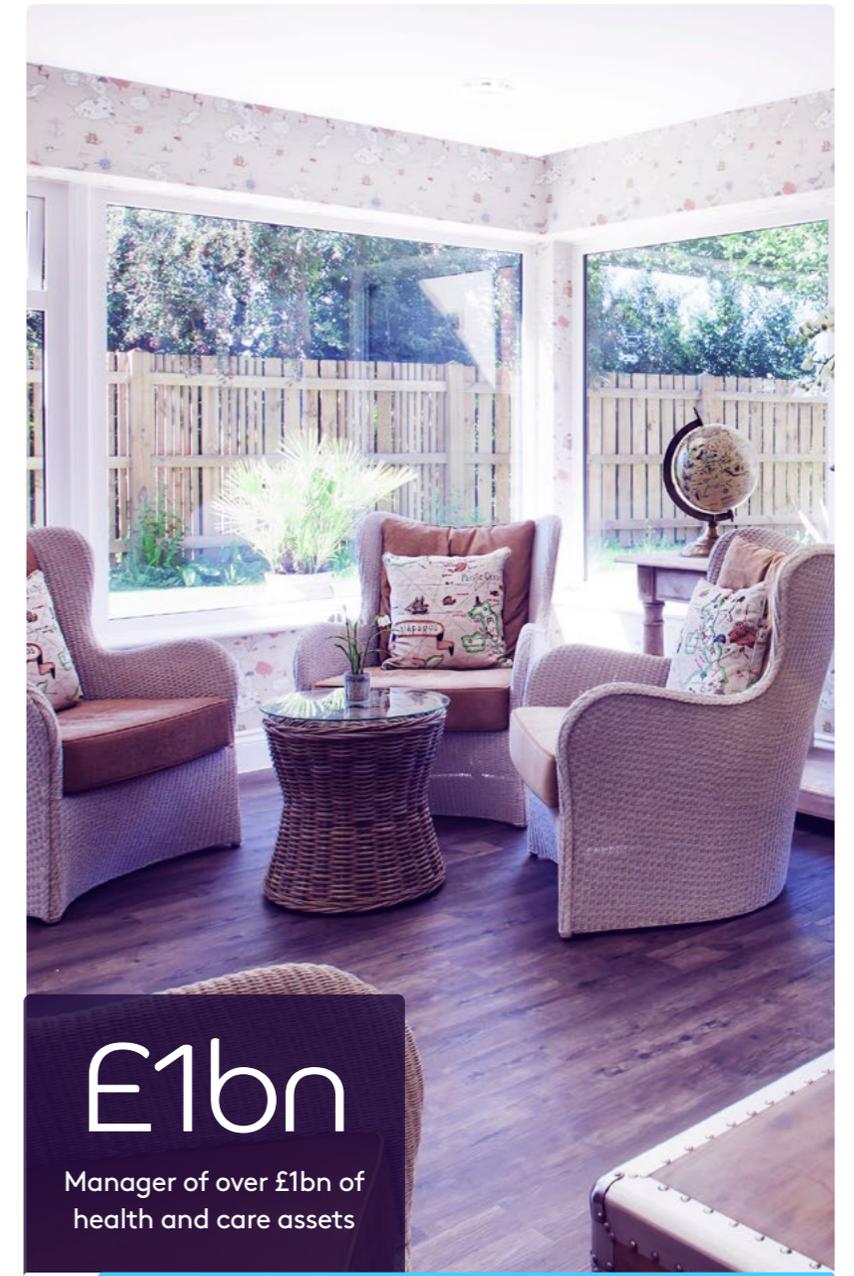
### Net bed capacity change<sup>4</sup>



### How we address the under-supply of quality care homes

Our involvement with the elderly care home sector goes back to 2010. Our award-winning team is experienced in creating exceptional care homes which balance functional needs with modern, fit-for-purpose living surroundings. Our focus on best-in-class care homes reflects a growing demand from the 'baby boomer' generation, people who have benefitted from rising standards of living during their lifetime and have an expectation of quality care accommodation when it is needed.

As experienced investors in this space, our portfolio of properties currently encompasses over 60 care homes across the UK. Through a combination of forward funding, forward investment and sales and leaseback, we partner with quality care home operators who deliver the much-needed care for residents. Each has been planned and designed around residents' needs, facilitating high quality, accessible and safe healthcare services and making efficient use of space and resources. For an investor, such developments offer the benefits of stable, long-term leases of 30-35 years and inflation-linked rent increases.



**£1bn**

Manager of over £1bn of health and care assets

Modern, fit-for-purpose care homes with high clinical standards and contemporary interiors

<sup>4</sup>Source: Care of Older People, UK Market Report 29th Edition, LangBuisson, 2018.

## Our role as an engaged landlord

Our focus is on building long-term, stable and scalable investments in the care sector by offering long-term financing to experienced healthcare operators. We take care to only select partners who can commit to the same quality standards that we would want for our own loved ones.

Our large team mixes in-house specialists with on-the-ground experts to ensure we have the experience and resource to cover a range of functions, including identifying development opportunities, overseeing planning and development, selecting the best operators and managing the portfolio of these specialist assets.

Unusually for a real estate investor, we have also created an in-house Clinical Assurance team including both a doctor and several nurses who provide clinical insights to investment due diligence. They also help our operators maintain high clinical standards throughout the portfolio with their ongoing support and sharing of best practices from across the industry.

**“As a landlord we are looking to facilitate best practice throughout the portfolio, to the benefit of everybody.”**

**-Chris Hulatt,  
Co-Founder of Octopus Group**



## Investment and Finance

- Long-term financing as a specialist investor and engaged landlord
- Sale & leaseback, forward funding or forward investment
- Strategic partnerships often including deals with operators across multiple homes

## Development

- Sourcing land in ideal locations for care homes
- Working closely with architects, planners and designers
- Actively involved in planning, attending events and engaging with communities
- Providing development finance

## Delivery

- Bringing the capacity to take the strain and ensure a stress-free build for partners
- Applying extensive experience in negotiating all aspects of building, starting with planning applications
- Working throughout the building process to ensure high standards and regulations are met

## Support

- Understanding operators and deals as part of governance through our in-house clinical assurance team
- Providing advice, guidance and hands-on support for property management or home operations
- Encouraging sharing of best practice via events with the expert speakers including our Quality Care Forum



Kevin Beirne

Kevin joined Octopus in 2018 as Director, Retirement Communities. Kevin is a member of the Octopus Real Estate Investment Committee and is responsible for both investing and raising funds to facilitate the development of high-quality retirement communities that meet the aspirations of the UK's ageing population as well as overseeing the Groups equity investments in retirement operators such as Rangeford. Kevin recently led the formation of the Schroders/Octopus Retirement Communities programme and the subsequent 2019 joint venture investment with Audley to deliver 4 new retirement communities.

# Retirement Communities Meeting the housing gap

At Octopus Real Estate we are focused on increasing the supply of aspirational housing and facilities that embrace the full potential of retirement living and make it something for our residents to enjoy. We want to change how people think about retirement – and how they experience it – while targeting healthy returns for those willing to invest in change.

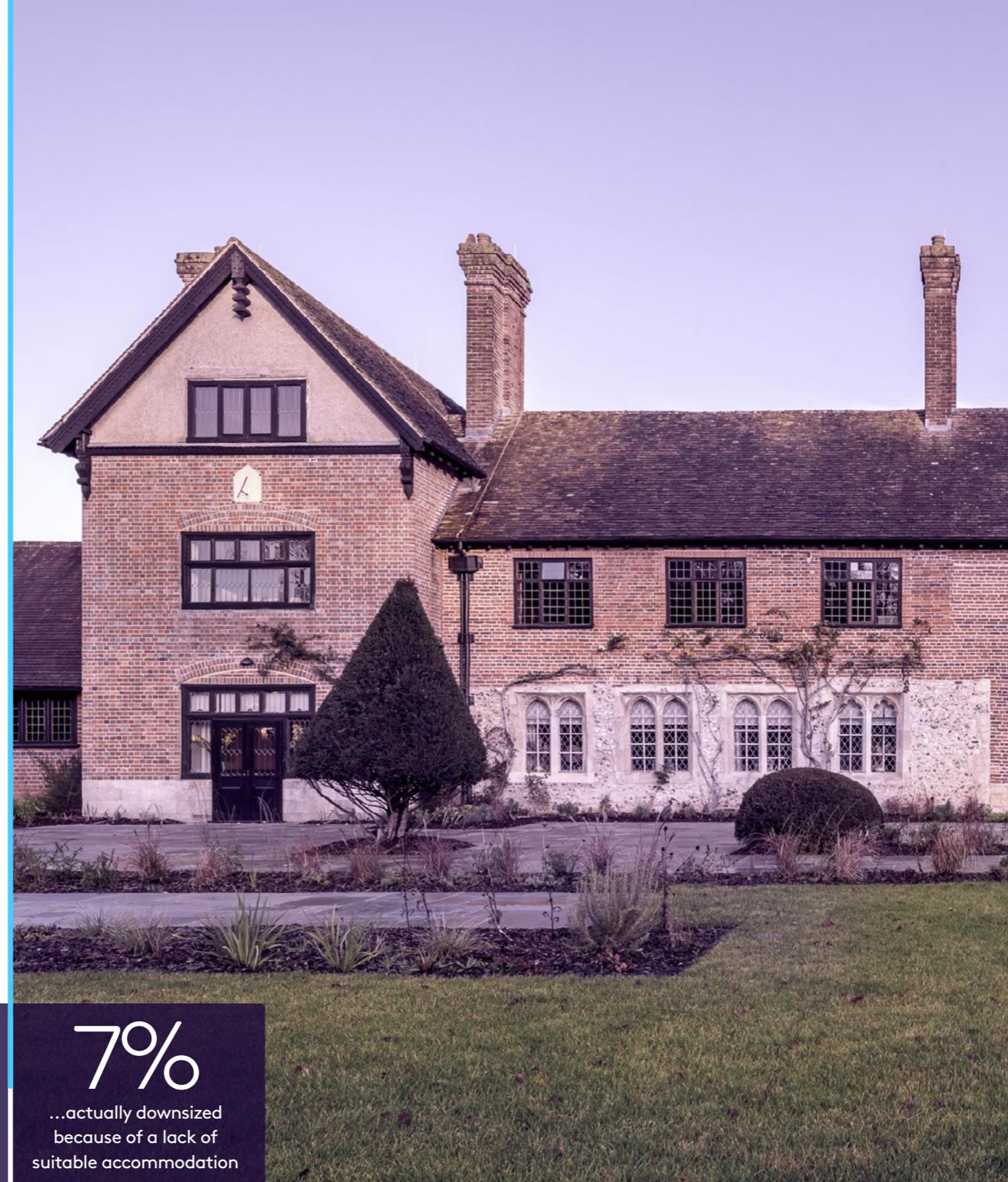
Undersupply of retirement accommodation on the mid to high affluent sector

33%

of over 55s considered downsizing in the last 5 years, but only...

7%

...actually downsized because of a lack of suitable accommodation



## Experienced in building best-in-class developments

Sustainable development is a fundamental part of these projects, ensuring new buildings meet both present and future requirements.

To develop these communities, we choose strategic partnerships with retirement community operators who have ambitious growth plans to deliver exceptional lifestyle-driven real estate. We have also established a large team of in-house specialists and on-the-ground experts with the experience and resources to carry out a range of functions including investment and operator due diligence as well as overseeing developments.

We provide equity investments for retirement community development, forming joint ventures with best-in-class developer/operators. The typical cycle of these projects is around five and a half years, investing after planning has been secured to help mitigate some of the investment risk. Returns are achieved by selling the freehold once the site reaches maturity and the entitlement to Event Fees (payments by leaseholders on events such as a sale or change of occupancy). We also provide development debt to retirement community operators.

## Sector leading experts

As part of our membership with Associated Retirement Community Operators (ARCO), we continue to work with stakeholders both across the sector and in UK Government for a fair representation of retirement communities. Part of this includes new standards which have been implemented to provide consistent information across transactions and full transparency for buyers, as well as helping introduce industry standardised language to define what falls in or out of the retirement real estate asset class.

We offer the skills of one of the leading asset management teams in this emerging sector, adding value through specific retirement community expertise. This is essential in being able to assess the opportunity in due diligence through an intimate knowledge of the operational and management requirements of retirement real estate.

Through our in-depth partnerships, we are able to work closely with operators to maximise the opportunity for value in their business, drawing on the skill of several industry leaders in our investment team.

## Financing

- Providing equity investments for retirement community development.
- Forming joint ventures with best-in-class developer/operators, recognising the values of event fees and freeholds.
- Leveraging our existing relationships with operators such as Rangeford, a wholly owned platform. We also provide development debt to retirement community operators.

## Support

- Offering the skills of the leading asset management team in the sector.
- Adding value to teams through specific retirement community expertise.
- Working with operators to maximise the opportunity for value in their business, drawing on the skill of several industry leaders in our Investment team.

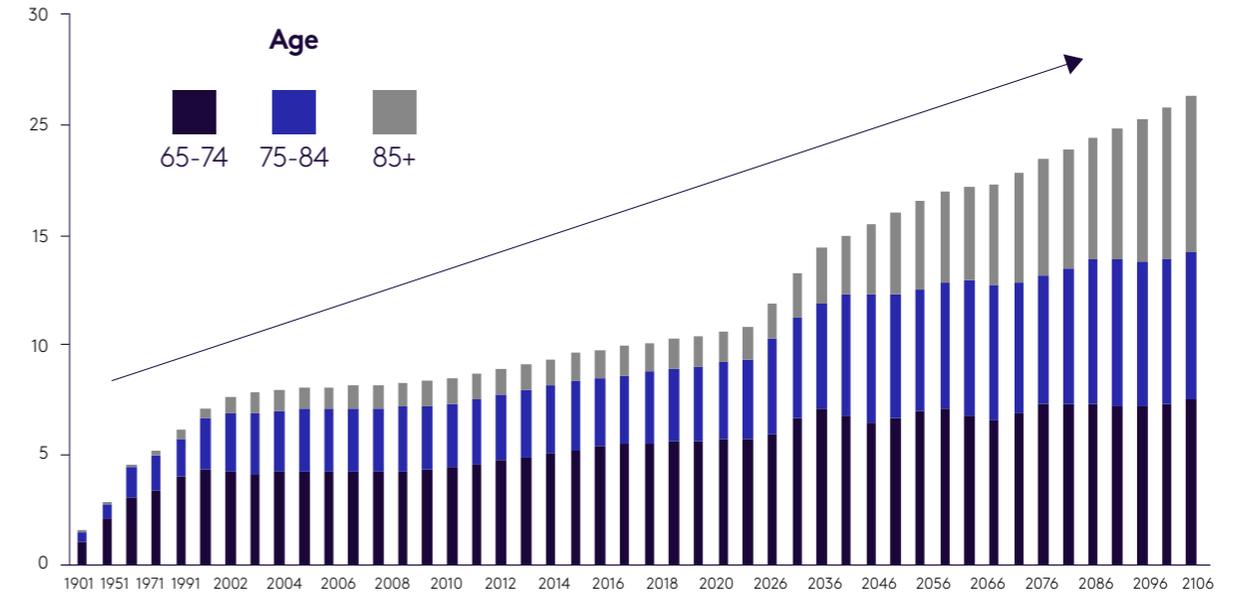


# Bringing your impact to life

Health benefits of living in a retirement community to residents and society<sup>5</sup>



## Growing UK elderly population<sup>6</sup>



### Ageing population

Over 85's population forecast to grow by 47% to 2.4 million between 2018 and 2031 and 390% by 2081.<sup>6</sup>

### Chronic illness

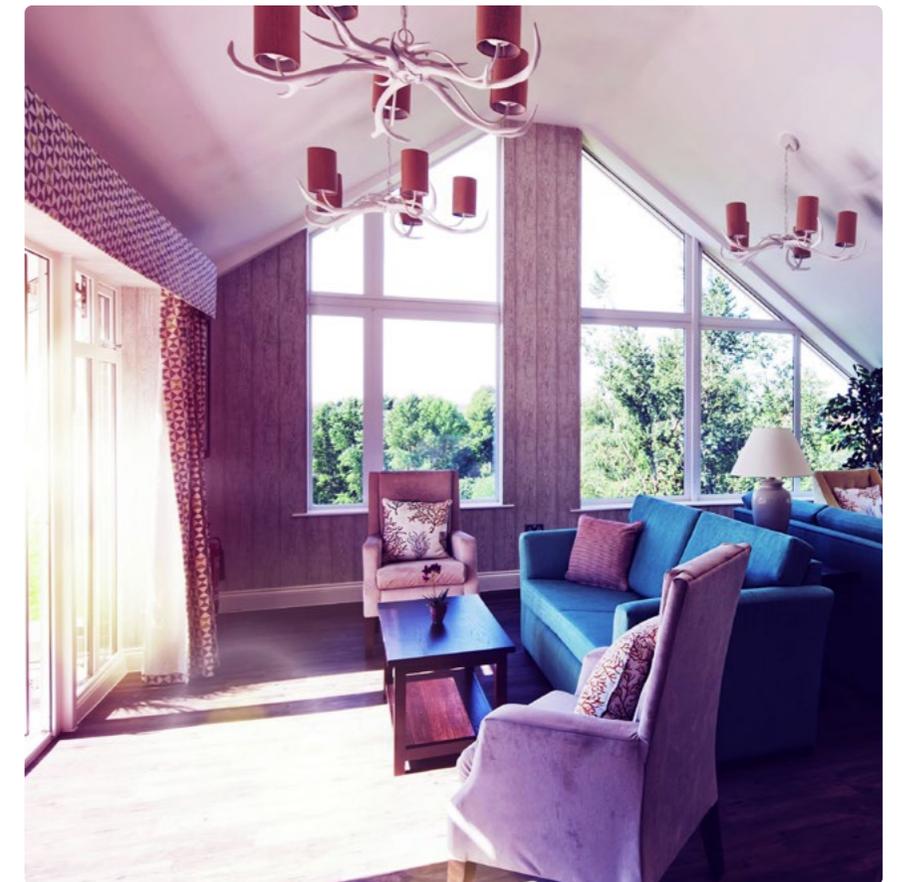
Projected need for 200,000 new specialist dementia beds.<sup>6</sup>

### NHS

Pressure on NHS to discharge patients into long-term care when ready but there is no available bed for them.

### Rising expectations

Quality of accommodation and care



<sup>5</sup>Source: Anchor Housing with Care 2018. <sup>6</sup>Source: Care of Older People, UK Market Report 29th Edition, LangBuisson, 2018.

## Octopus Real Estate investment structures

Investors are at the heart of everything we do. We offer a range of fund structures, co-investment vehicles and separate managed accounts, managed on behalf of our institutional clients.



## Our open investment opportunities

	Strategy	Investment style	Target (gross) returns	Description
<b>Real Estate Debt</b>	Commercial Real Estate Debt	Income	8-9% IRR	Short-term lending secured against commercial real estate
	Investment Real Estate Debt	Income	5% IRR	2-5 year lending secured against income-producing commercial real estate
<b>Healthcare Real Estate</b>	Elderly Care Real Estate	Income	5% income yield; 7-8% IRR total return	Annual cash yield and long term growth from investing in UK healthcare real estate assets
	Senior Living Real Estate Development	Growth	15% IRR	Development of retirement real estate in the UK

The value of an investment can fall as well as rise. Investors may not get back the full amount they invest.

For further information please contact our  
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