

10 January 2018

LEGAL & GENERAL FOCUSES ON RESILIENT REAL ESTATE FOR 2018

- *LEGAL & GENERAL SAYS OCCUPIER ENGAGEMENT KEY FOR 2018 AND BEYOND* -

LGIM Real Assets (Legal & General) says that returns in 2018 are set to favour more defensive portfolios, whilst an uncertain outlook highlights a need to balance resilience with optionality.

This means that in shaping portfolios, Legal & General is focusing on building resilience against potential weaker economic conditions, whilst retaining sufficient growth potential to deliver in more benign environments.

Consensus expectations for GDP growth are for a further slowdown in 2018, weighing on rental growth prospects. With the low rates environment a powerful anchor for yields at current levels, consensus expectations for five year market returns are in the mid-single digits, founded almost entirely on income.

This consensus inevitably reflects a particular path for politics, policy and the broader global economy in the coming years. This means that the range of outcomes has widened. For Legal & General this calls for a hedging approach.

More defensively positioned portfolios, and those where managers have been focusing on assets which are positioned to meet occupier needs, will be the winners in the short-term. The next twelve months are likely to see underperformance for assets which are highly geared to the economic cycle.

Longer-term, Legal & General sees two broad strategies for delivering resilience and optionality. Long-income portfolios are a contracted income approach. The long lease creates a bond-like cash flow that is relatively immune to recessions. Equally, portfolios where the income is indexed to inflation can deliver growth as well as contributing to liability matching for institutional investors.

The second broad approach is founded on identifying income which is resilient not because of the protections provided by leasing contracts but the fundamentals of the buildings themselves. A number of alternatives can be viewed as being needs-based and hence less exposed to the economic cycle, residential being the best example.

In the core sectors, there are a cocktail of factors that investors use to understand the resilience of demand; they all start with meeting occupier needs. The layout of buildings, the ability to refit them economically and

their location in their locality are all important. Moreover, identifying towns and cities which are positioned to grow their populations and local economies should underpin long-term resilience and investment performance.

Rob Martin, Research Director at LGIM Real Assets, commented: “2018 could take a number of paths and inevitably there are many unknowns. Winners will be those investors who not only have resilient assets to protect them against downside risk, but can also adapt to capture growth potential if occupier demand surprises to the upside. The thread running through all of this is the need to understand and respond to occupiers, and meet their evolving requirements.”

- Ends -

For further information, please contact:

Olivia Bayliss

Head of Communications, Legal & General Capital and LGIM Real Assets

Tel: +44(0) 20 3124 2777

Email: Olivia.Bayliss@lgim.com

Faye Bennett

PR Manager, Legal & General Capital and LGIM Real Assets

Tel: +44(0) 20 3124 2823

Email: Faye.Bennett@lgim.com

Notes to editors

LGIM Real Assets

LGIM Real Assets is a division of Legal & General Investment Management (LGIM), one of Europe’s largest institutional asset managers and a major global investor. LGIM manages £951.1bn in assets on behalf of over 3,200 clients (as at 30 June 2017), providing products and solutions spanning all asset classes. LGIM Real Assets, headed up by Bill Hughes, has AUM of £24.9bn (as at 30 June 2017), actively investing and managing assets across commercial property, private residential, infrastructure and property lending and, most recently, corporate credit.

Legal & General Group

Established in 1836, Legal & General is one of the UK’s leading financial services groups and a major global investor, with a number of growing businesses in the US and in other countries. At 30th June 2017, we had over

£951 billion in total assets under management. Over fifteen million people worldwide rely on us to help them save for the future and to protect their families and their homes.

We work with companies and pension trustees to help people build security in retirement, being the UK's largest investment manager for UK corporate pension schemes, a major provider of auto-enrolled pensions and a market leader in pensions de-risking. We have also made a commitment to invest around £15 billion in direct investments, with £12 billion already invested in areas such as homes, urban regeneration, clean energy and small business finance, driving economic growth and making a positive difference to the UK's built environment.