



# **REAL ESTATE INVESTMENTS**

## **GOVERNMENT PENSION FUND GLOBAL**

**PRESS SEMINAR  
OSLO, 28 APRIL 2016**



# REAL ESTATE INVESTMENTS

GOVERNMENT PENSION FUND GLOBAL

REPORT /2015

No. 01

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Translated from Norwegian. For information only.

# Milestones



## 2010

The Ministry of Finance issues a mandate in March to invest up to 5 percent of the fund in real estate  
The first investment in unlisted real estate, Regent Street in London, is announced on 4 November



## 2011

Norges Bank creates a platform in Luxembourg in May to bring together the operational and administrative management of real estate investments in continental Europe



## 2012

The fund makes its first investment in logistics in December



## 2013

The mandate is broadened with effect from 1 January to include investments outside Europe. The first investment in the US is announced on 11 February. The market value of real estate investments hits 1 percent of the fund's total market value in the fourth quarter



## 2014

The real estate operation is reorganised as a separate unit in August



## 2015

The fund opens real estate offices in Tokyo and Singapore in October



# Market value

Billions of kroner

11 bn. kr  
**2011**

25 bn. kr  
**2012**

51 bn. kr  
**2013**

106 bn. kr  
**2014**

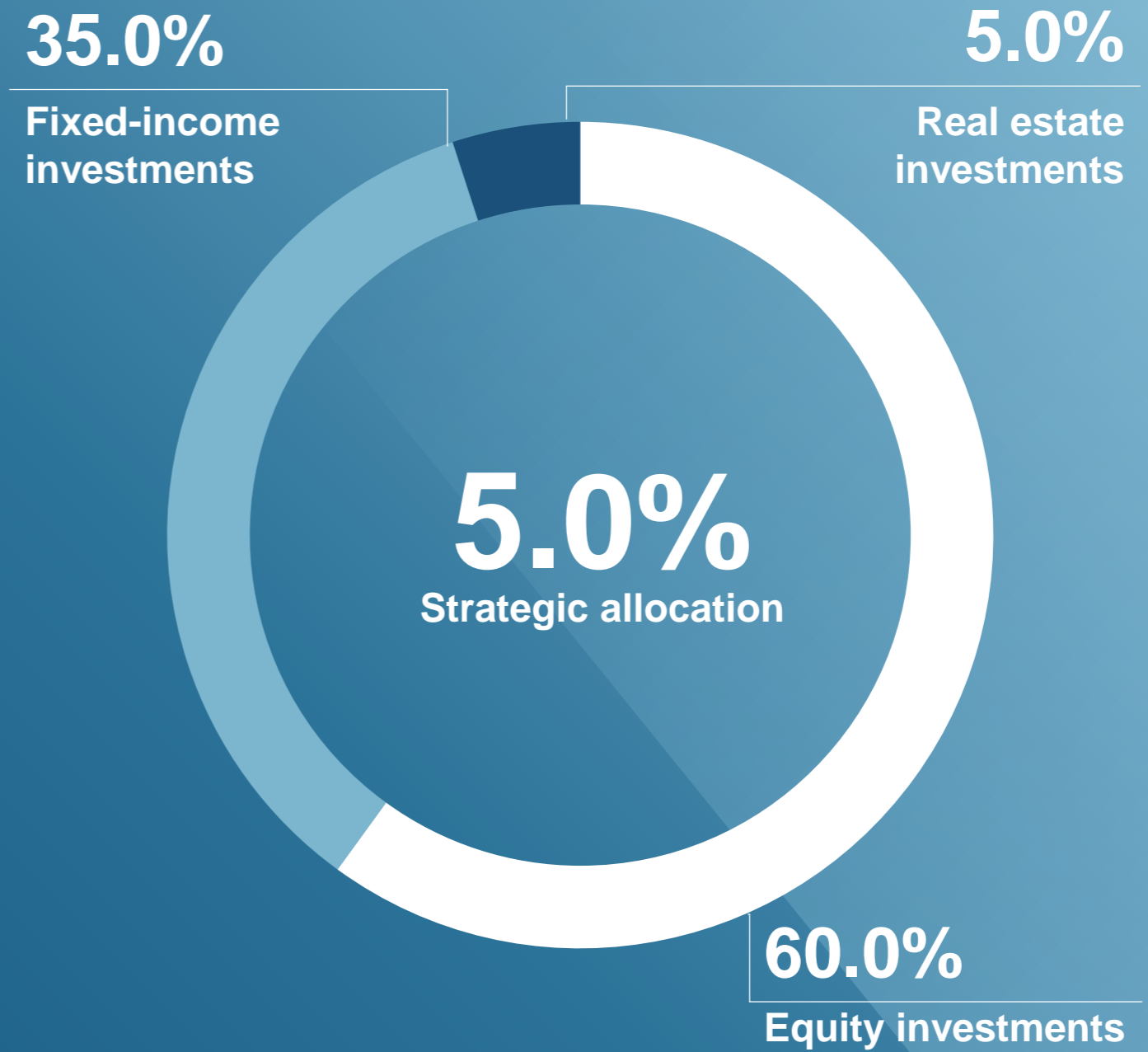
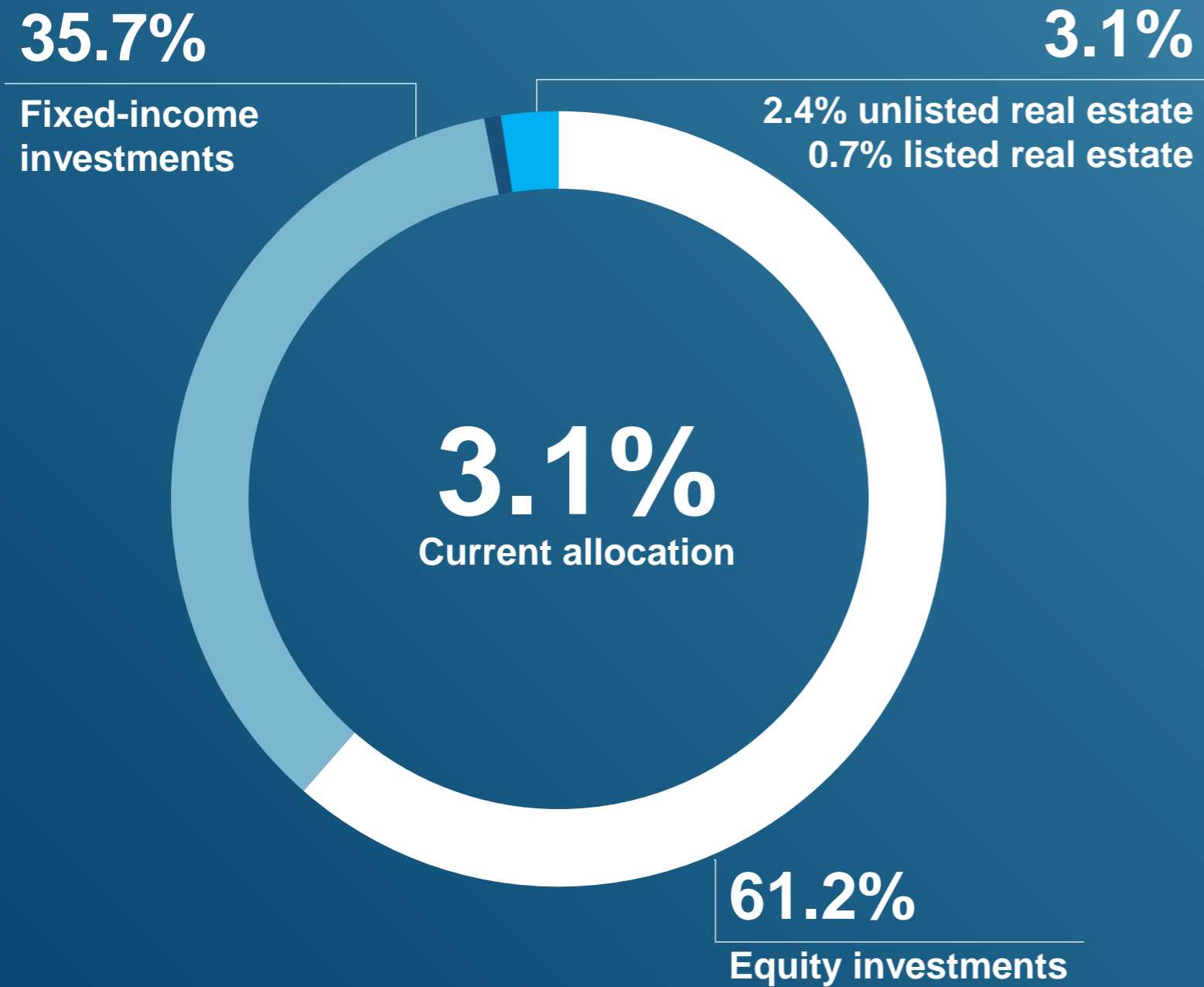
180 bn. kr  
**2015**



- Office and retail in Europe
- Logistics in Europe
- Office and retail in the US
- Logistics in the US



# Asset class allocation





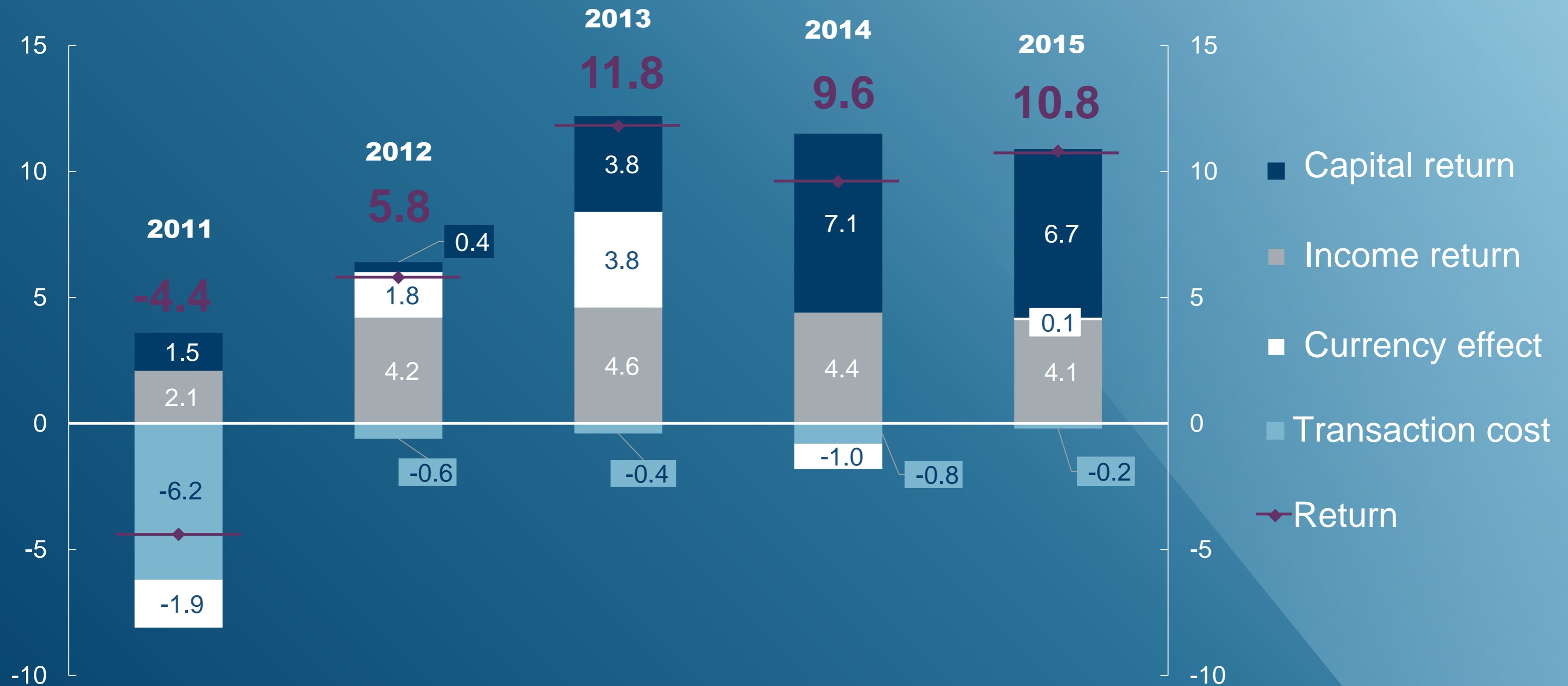
# RESULTS





# Annual return on real estate

Measured in the fund's currency basket. Percent



# Return on real estate investments

Annualised return measured in the fund's currency basket. Percent

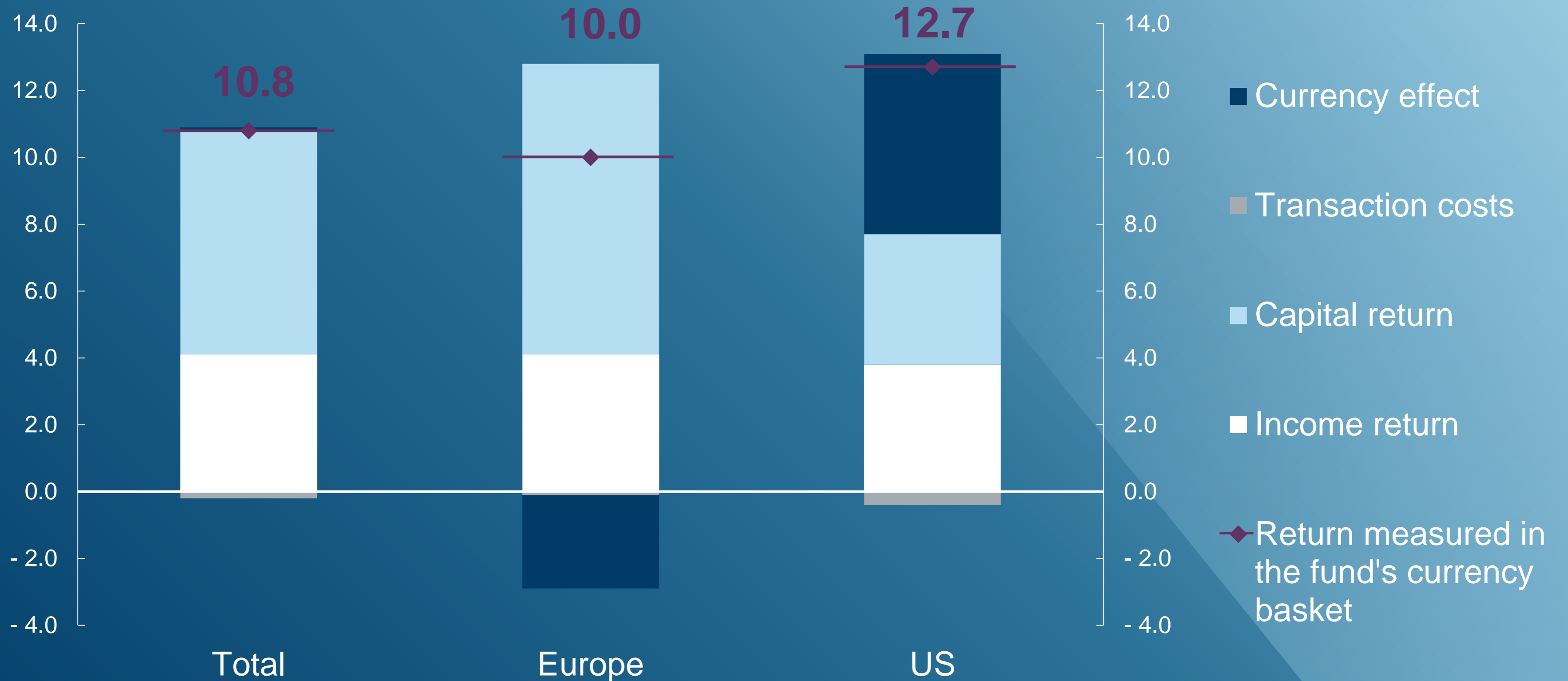
	2015	2014	2013	2012	2011
Annual return, time-weighted	10.8	9.6	11.8	5.8	-4.4
Annual return, money-weighted	11.1	10.1	12.9	4.7	-5.0
3 years return, time-weighted	10.7	9.0			
3 years return, money-weighted	11.2	10.4			
Since 31 March 2011, time-weighted	6.9	5.9	4.6	0.7	-4.4
Since 31 March 2011, money-weighted	10.2	9.5	8.8	1.7	-5.0

- Time-weighted return assigns an equal weight to each period, regardless of how much was invested in each period
- Money-weighted return takes account of how much was invested in each period



# Return per market

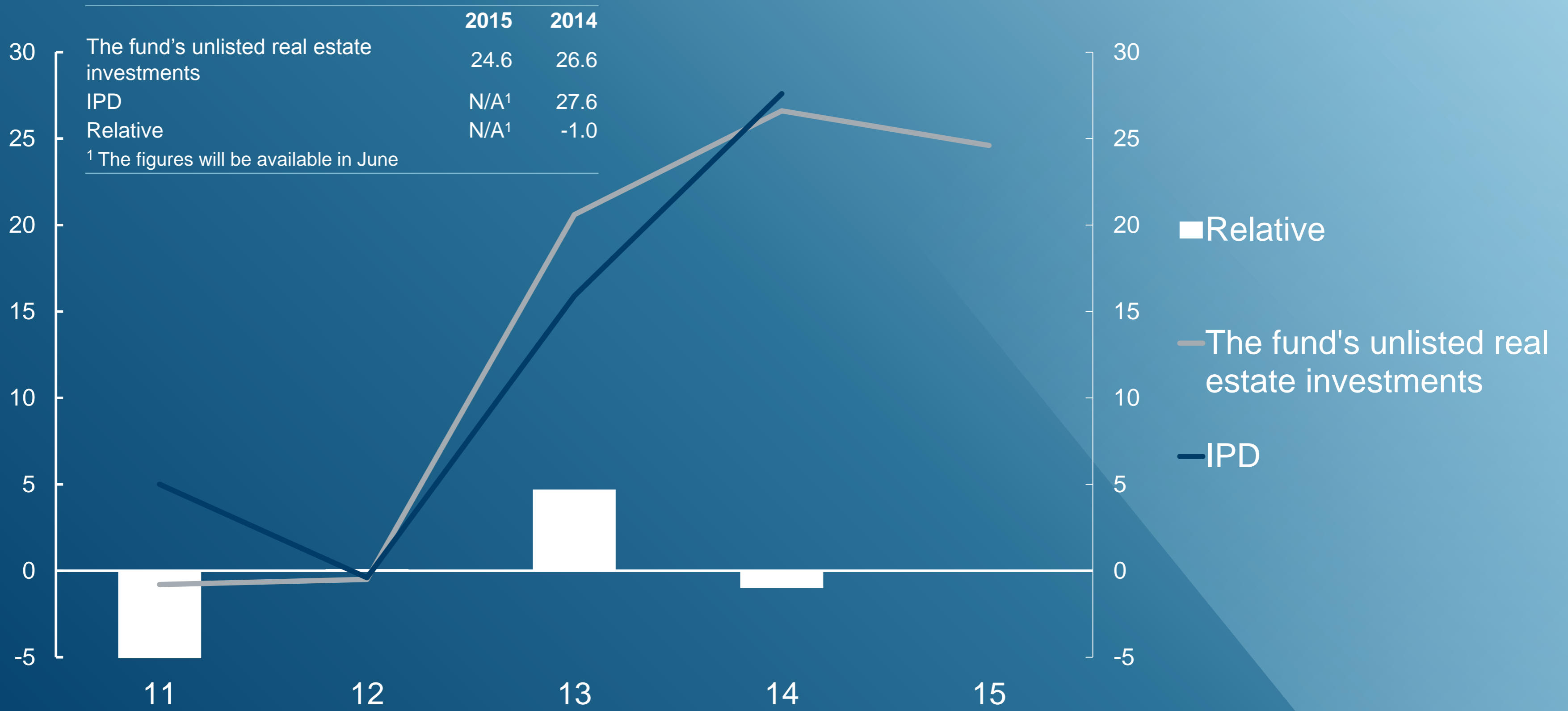
Return in 2015 measured in the fund's currency basket. Percent





# Annual relative return

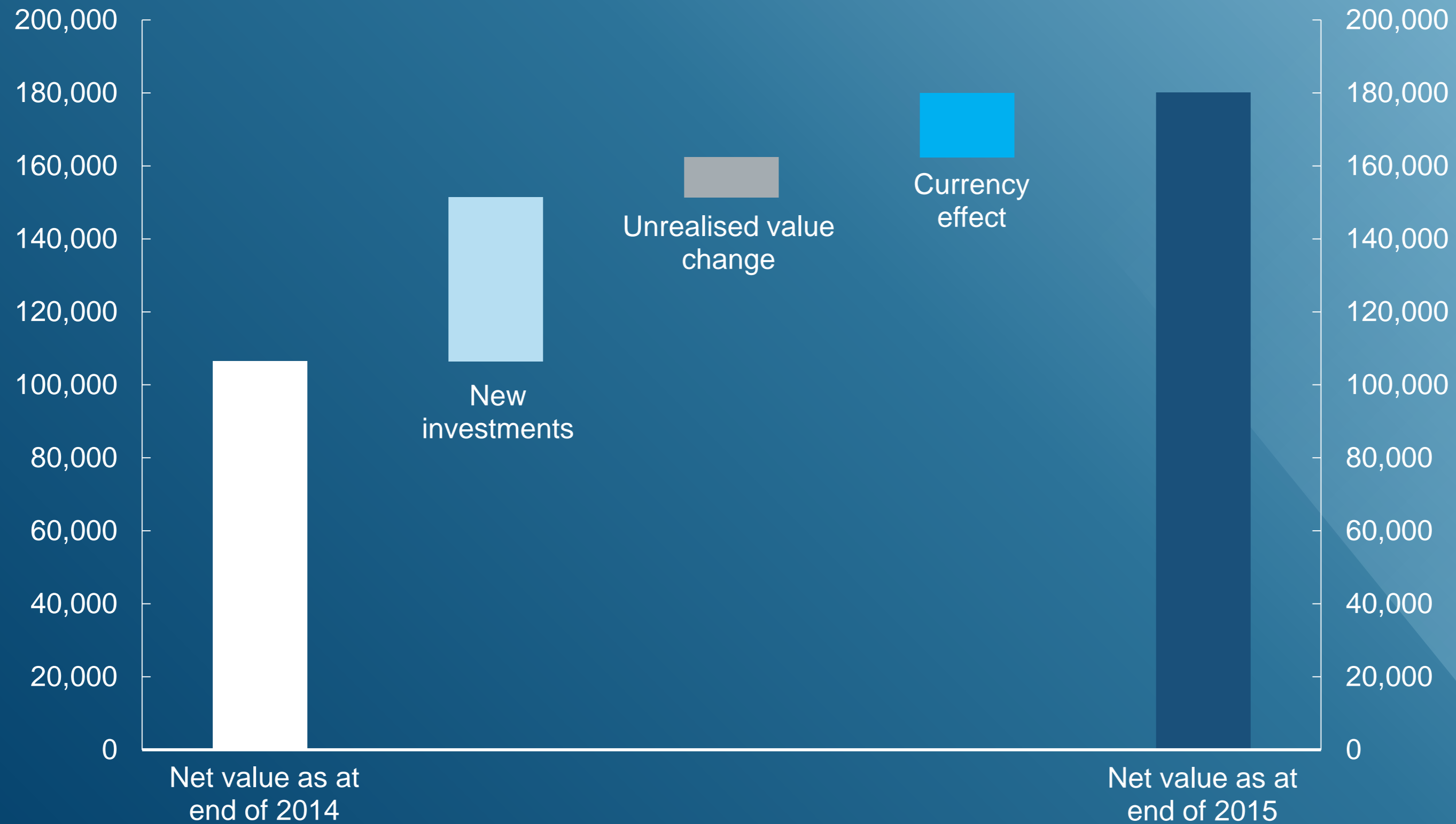
Return measured against IPD Global Property Benchmark. Percent





# Change in market value

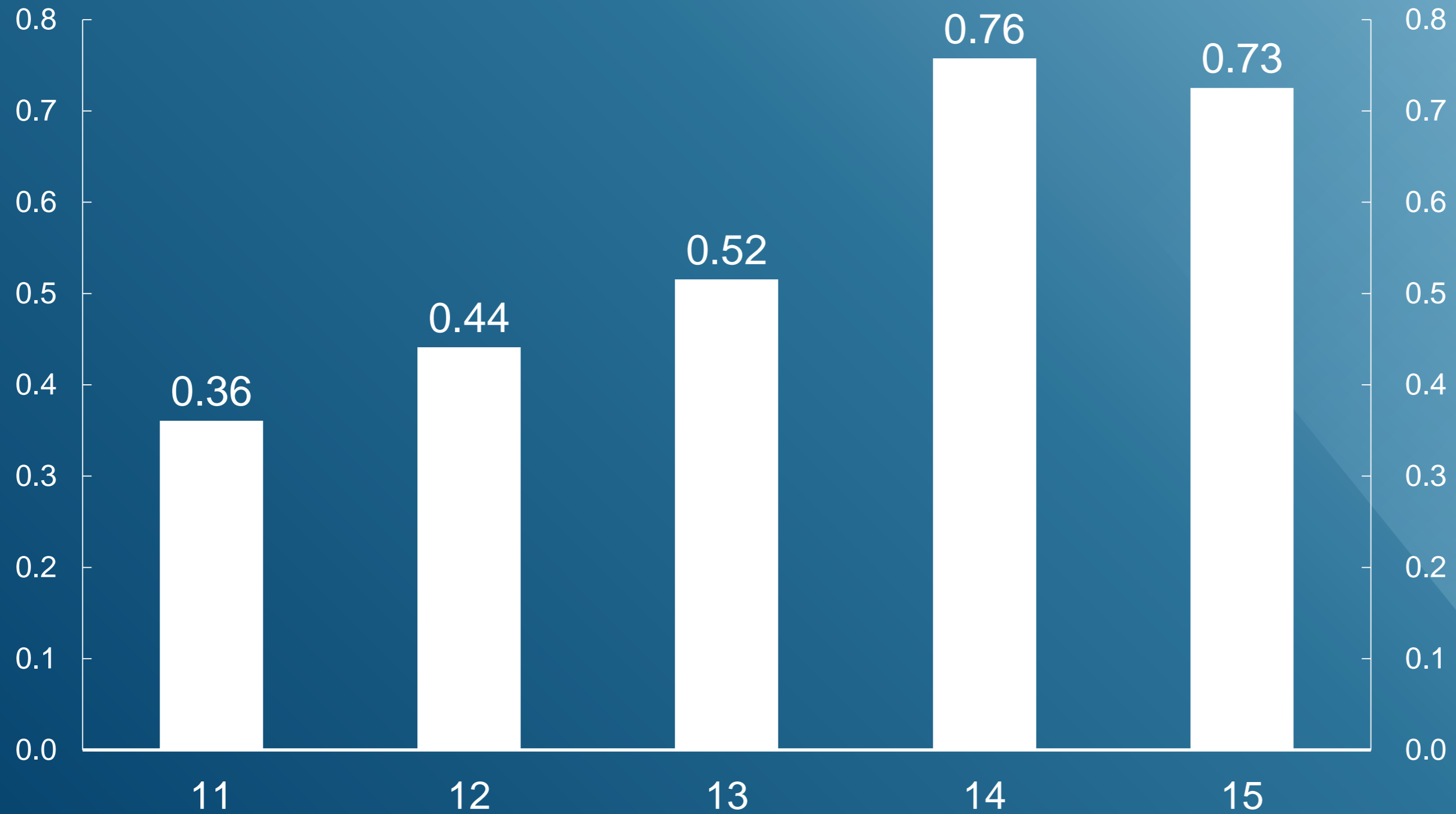
Millions of kroner





# Annual investments

Percent of the fund's market value





# THE INVESTMENTS





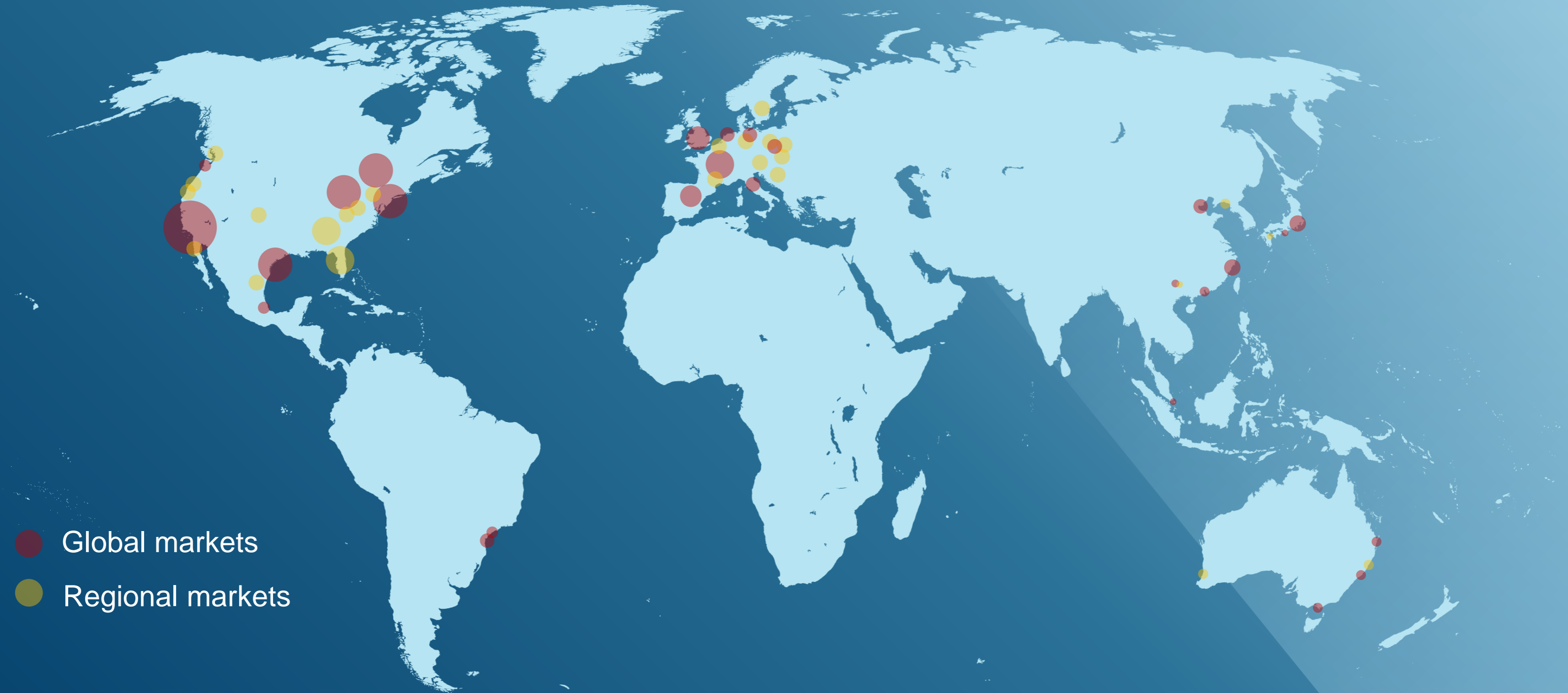
# Investment strategy – office and retail

10 global cities



# Investment strategy – logistics

Global and regional supply chains





# Investment philosophy

**Long-term markets**

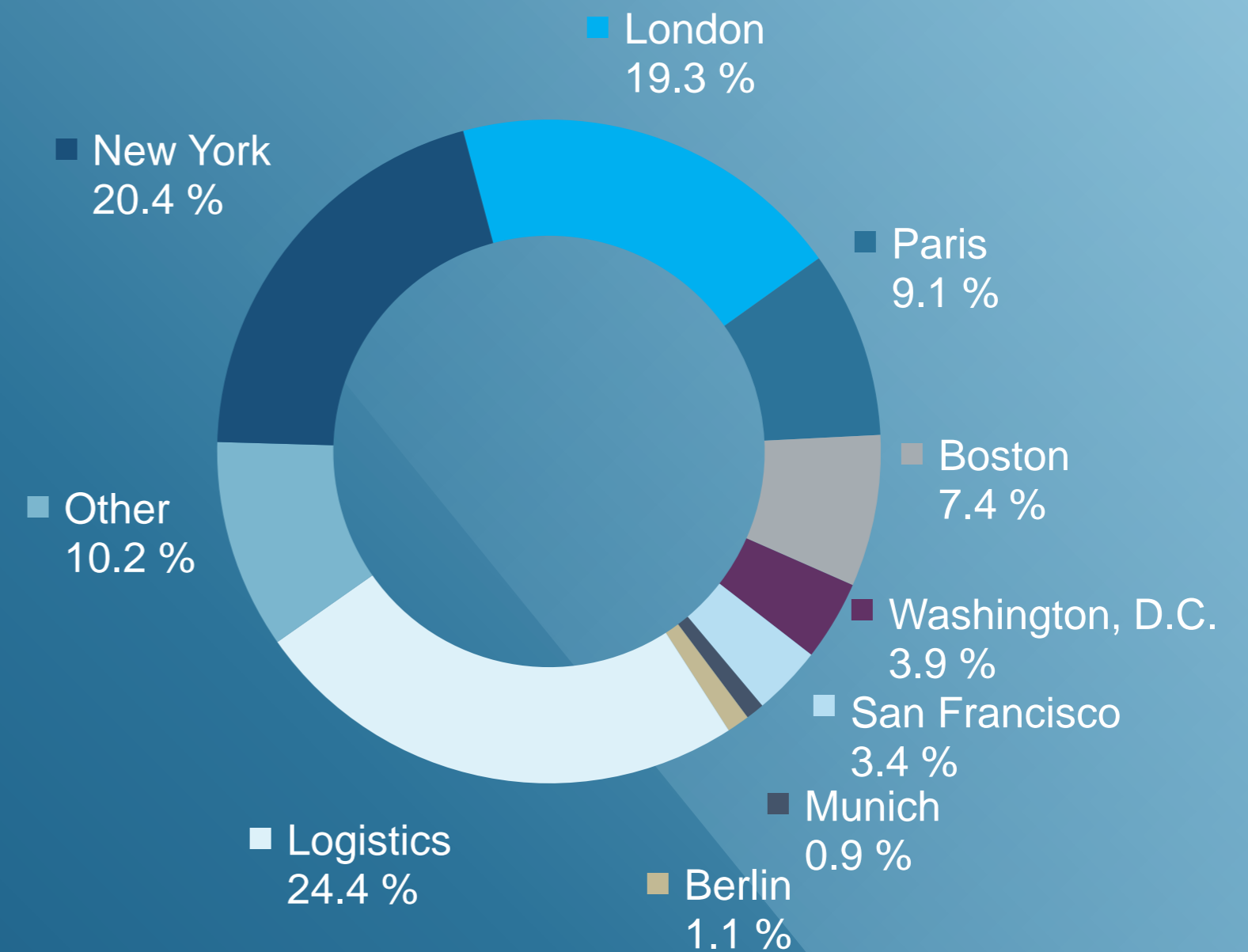
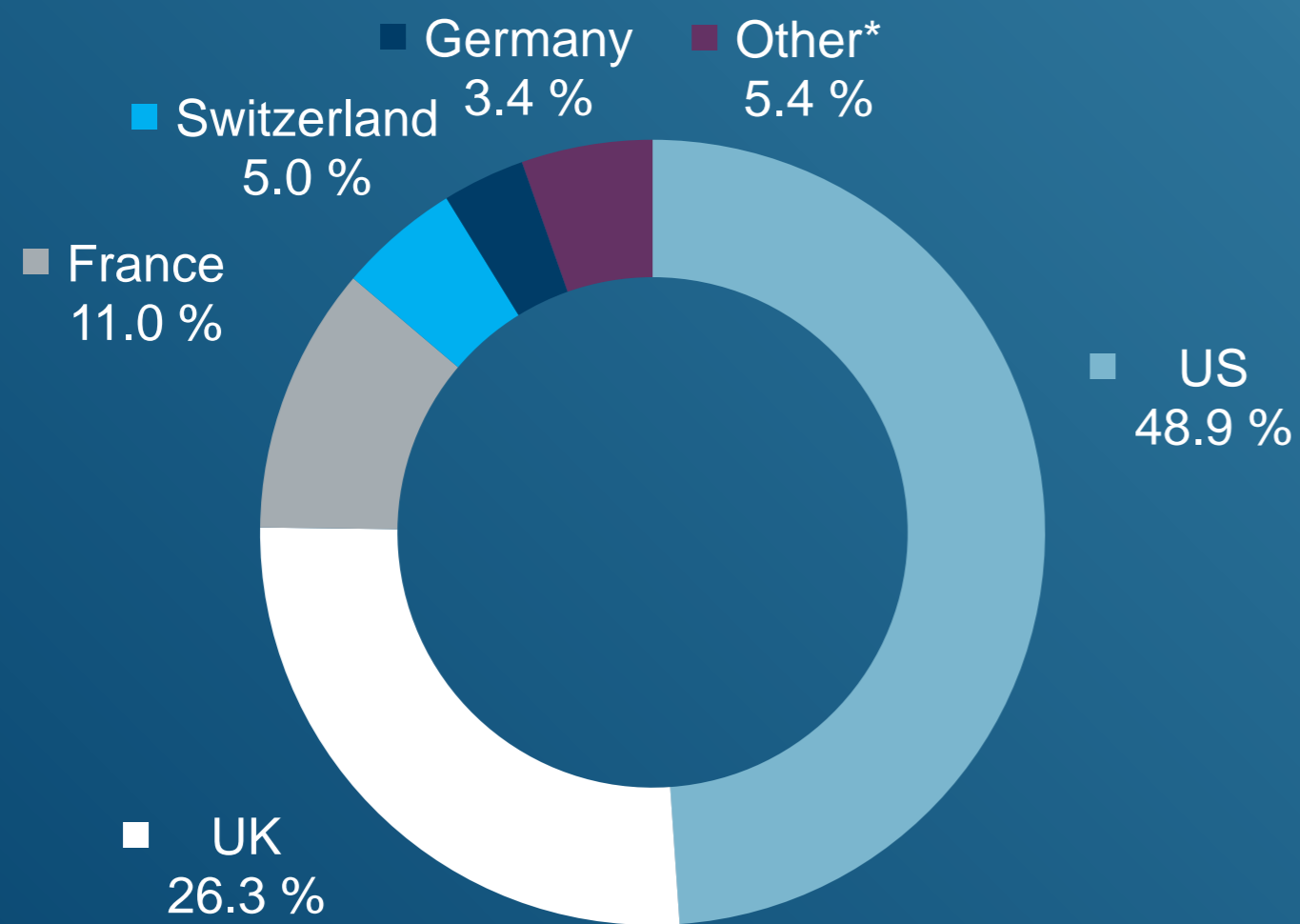
**Local expertise**

**Investment  
organisation**

**Risk-adjusted return**

# Real estate portfolio as at 31.12.2015

## Country and city distribution

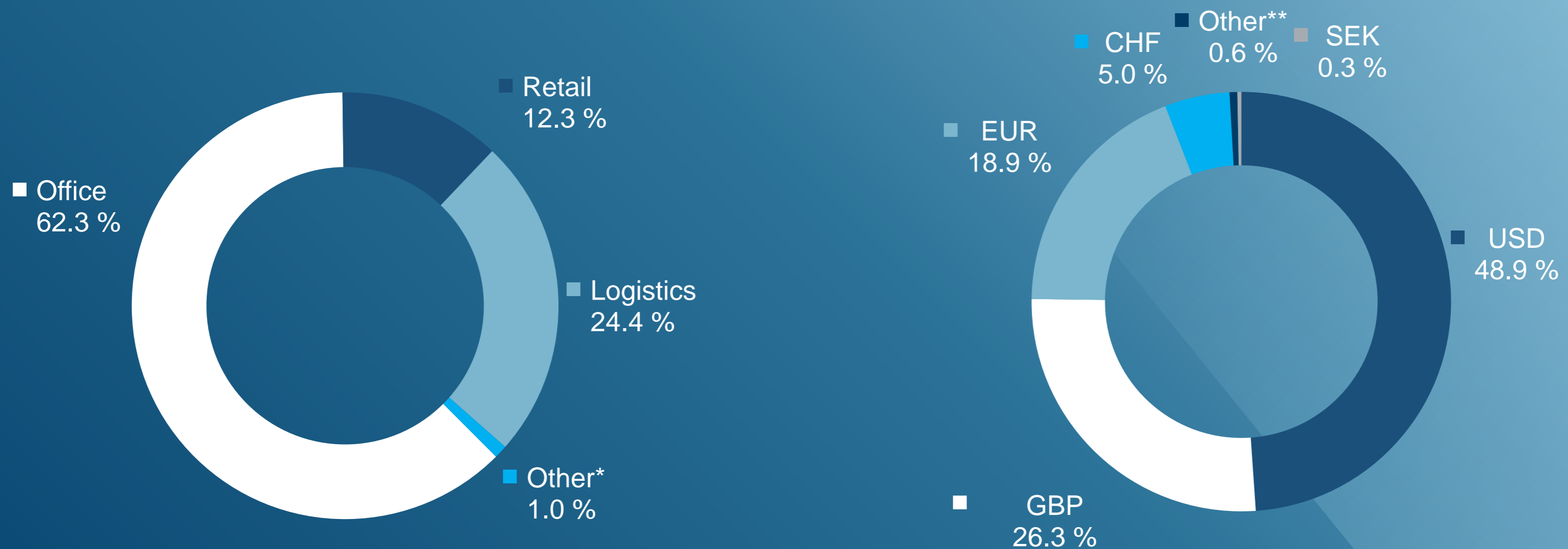


\* Properties in other countries, bank deposits and other claims



# Real estate portfolio as at 31.12.2015

## Currency and sector distribution



\* Other sectors, bank deposits and other claims

\*\* Bank deposits and other claims

# Investment partners

Share of investments in percent

Investment partner	Market	Sector	Share of portfolio
Prologis	US	Logistics	13.9
Boston Properties	US	Office	11.6
Prologis	Europe	Logistics	10.5
The Crown Estate	UK	Office, retail	8.8
TIAA	US	Office	8.5
Trinity Wall Street	US	Office	7.8
AXA Real Estate	France, Germany	Office, retail	7.6
MetLife	US	Office	5.2
British Land	UK	Retail	3.6
Prudential Real Estate Investors	US	Office	2.2
Generali Real Estate	France	Office, retail	1.7



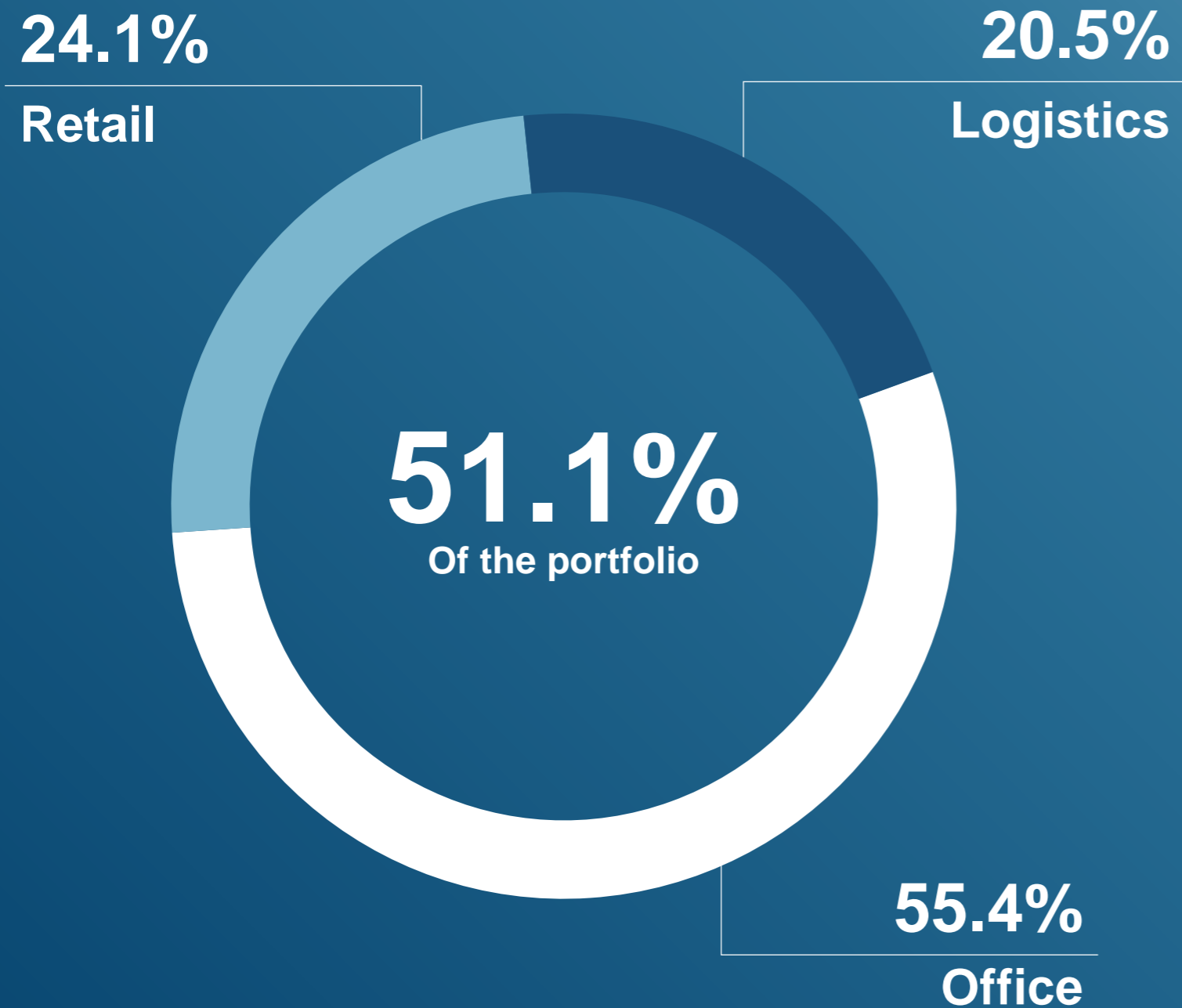
# EUROPEAN INVESTMENTS





# European investments

As at 31.12.2015



## Office and retail

Properties	176
Return in 2015	11.1%
Average remaining lease term	8.3 years

## Logistics

Properties	240
Return in 2015	6.0%
Average remaining lease term	5.8 years



# NEW EUROPEAN INVESTMENTS IN 2015





# Queensberry House

3 Old Burlington Street and 33 Savile Row, London

Sector

Office, retail and residential

Ownership

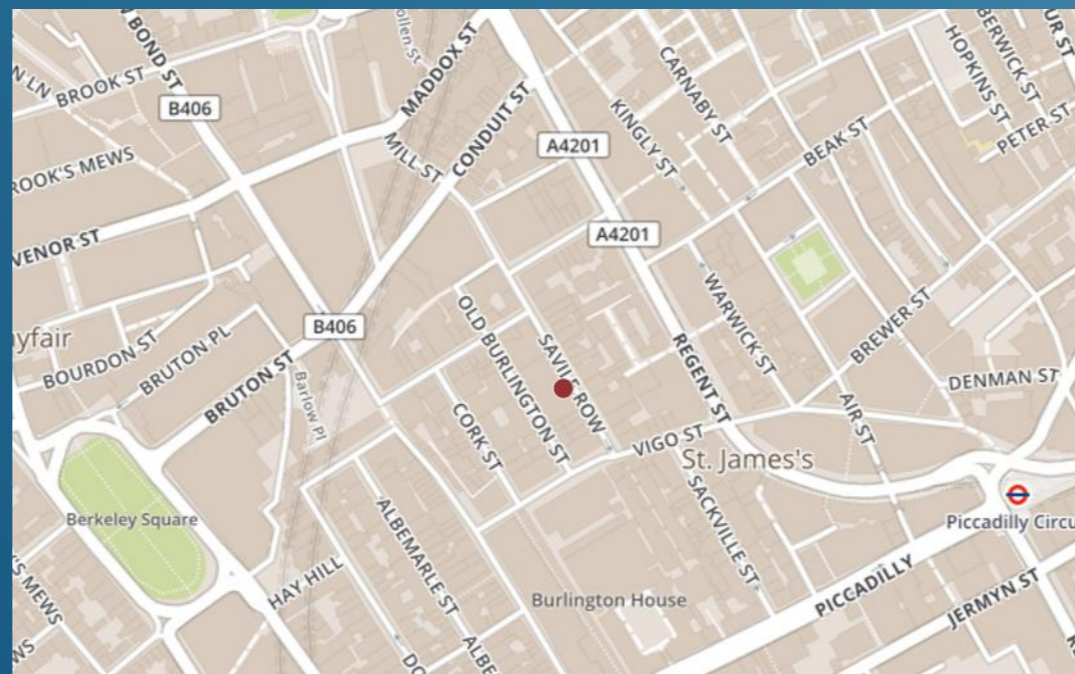
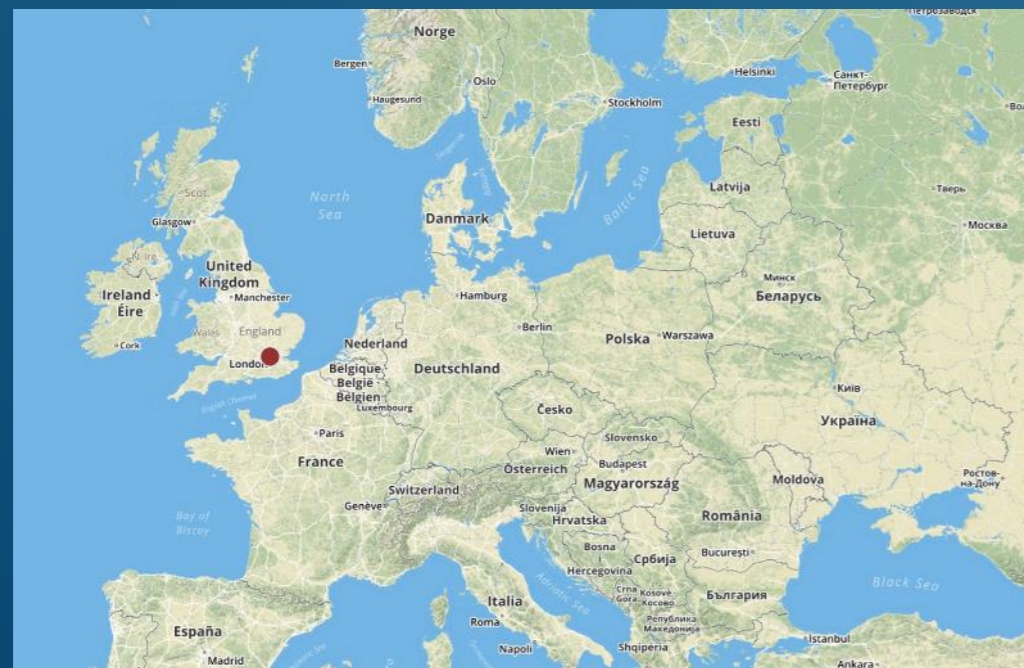
100%

Invested capital

234 million pounds

Size

6,921 square meters





# 75 Davies Street / West One Shopping Centre

75 Davies Street, London

Sector

Office and retail

Ownership

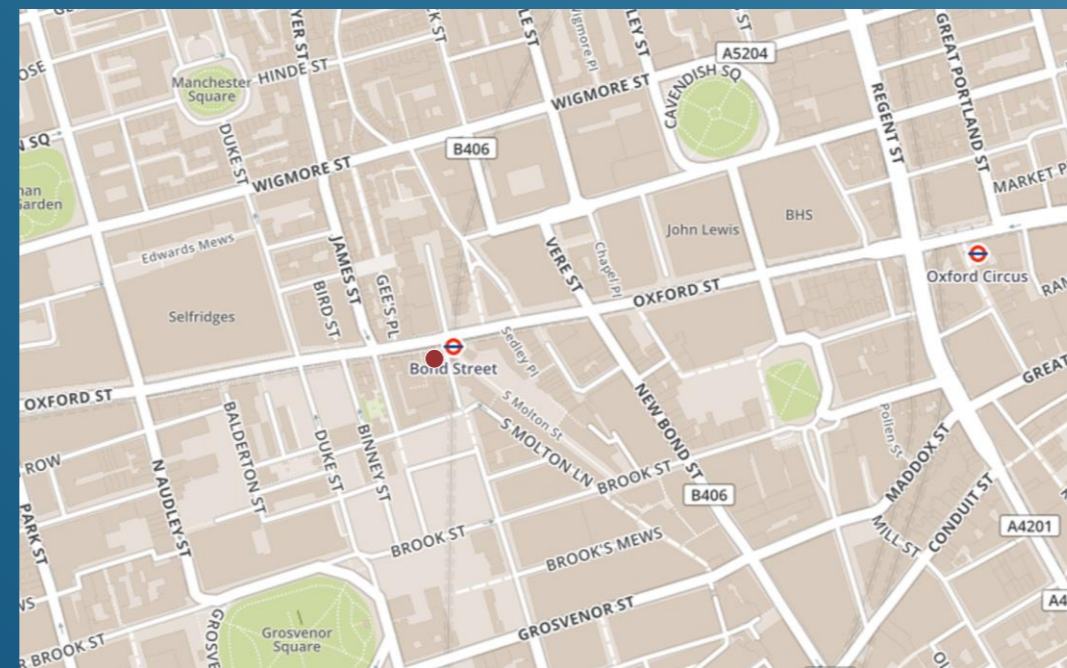
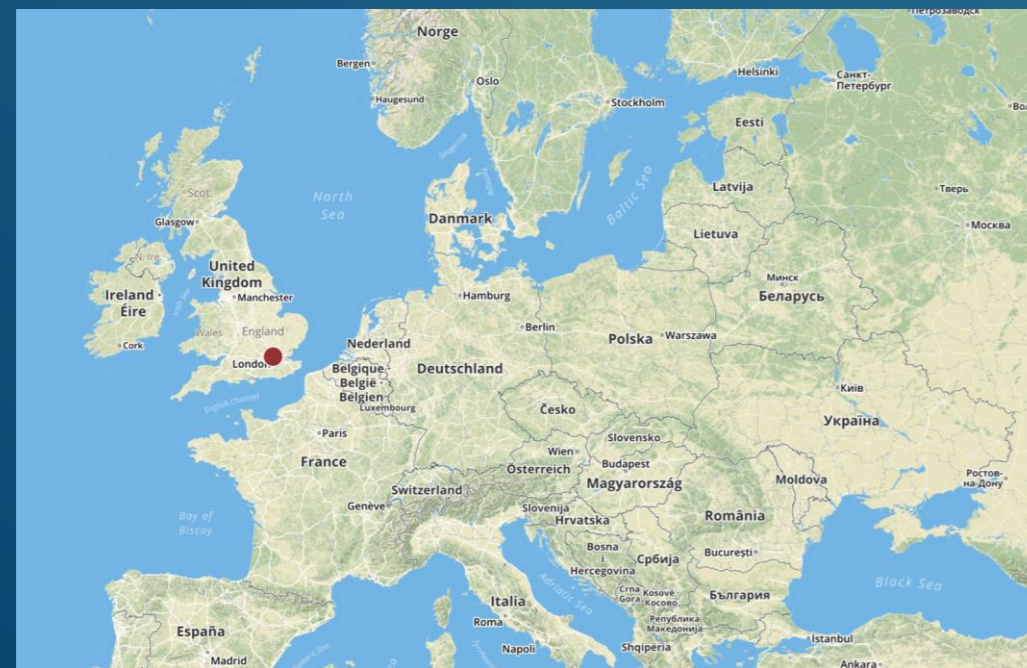
100%

Invested capital

240 million pounds

Size

8,362 square meters





# Logistics properties

Eight buildings in the United Kingdom, Poland and France

Sector

Logistics

Ownership

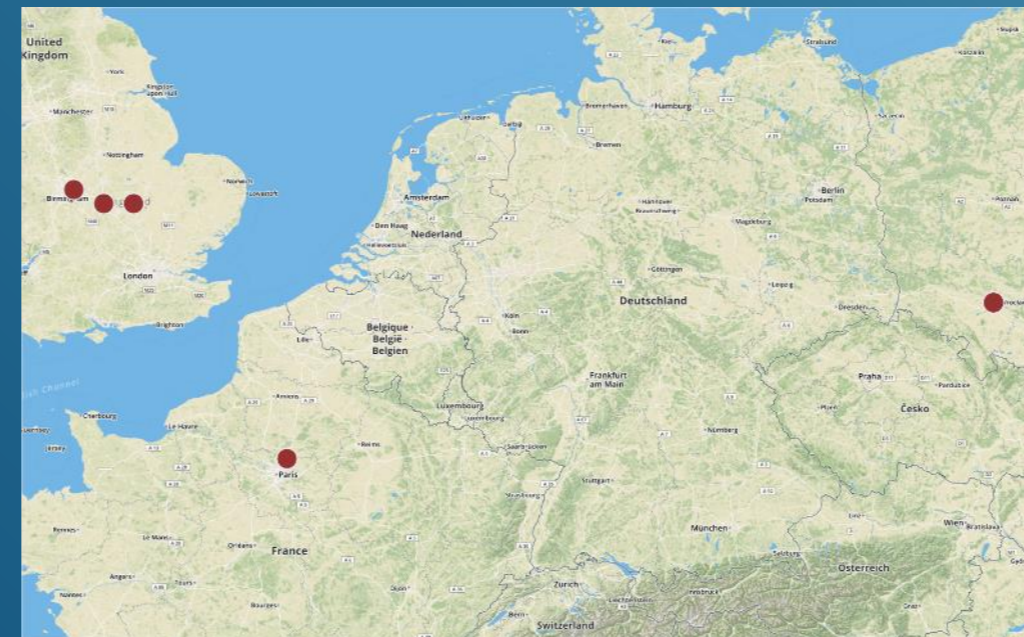
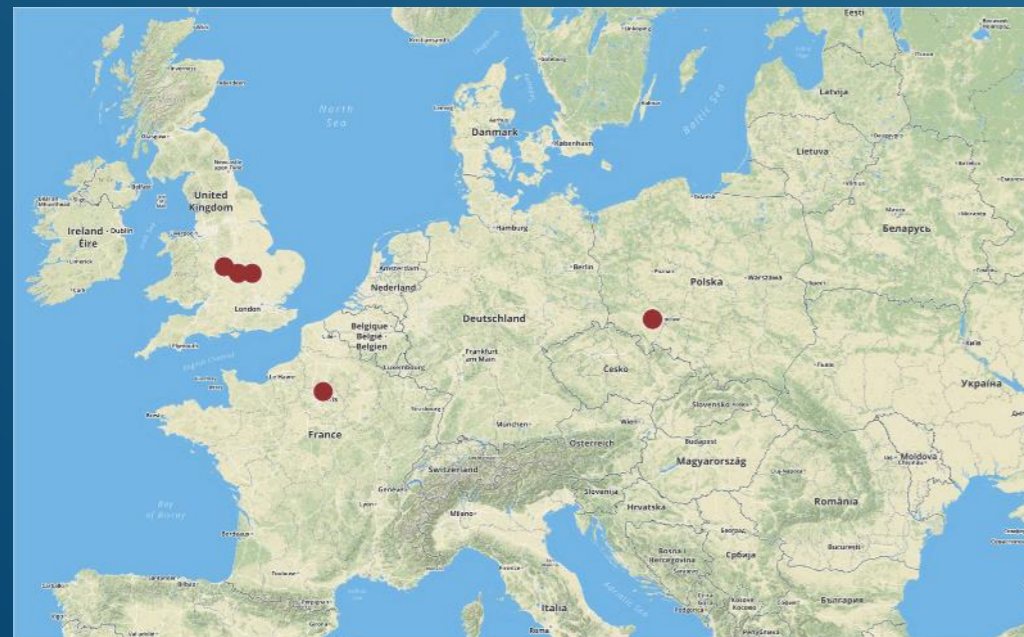
50%

Invested capital

155 million euro

Size

260,130 square meters





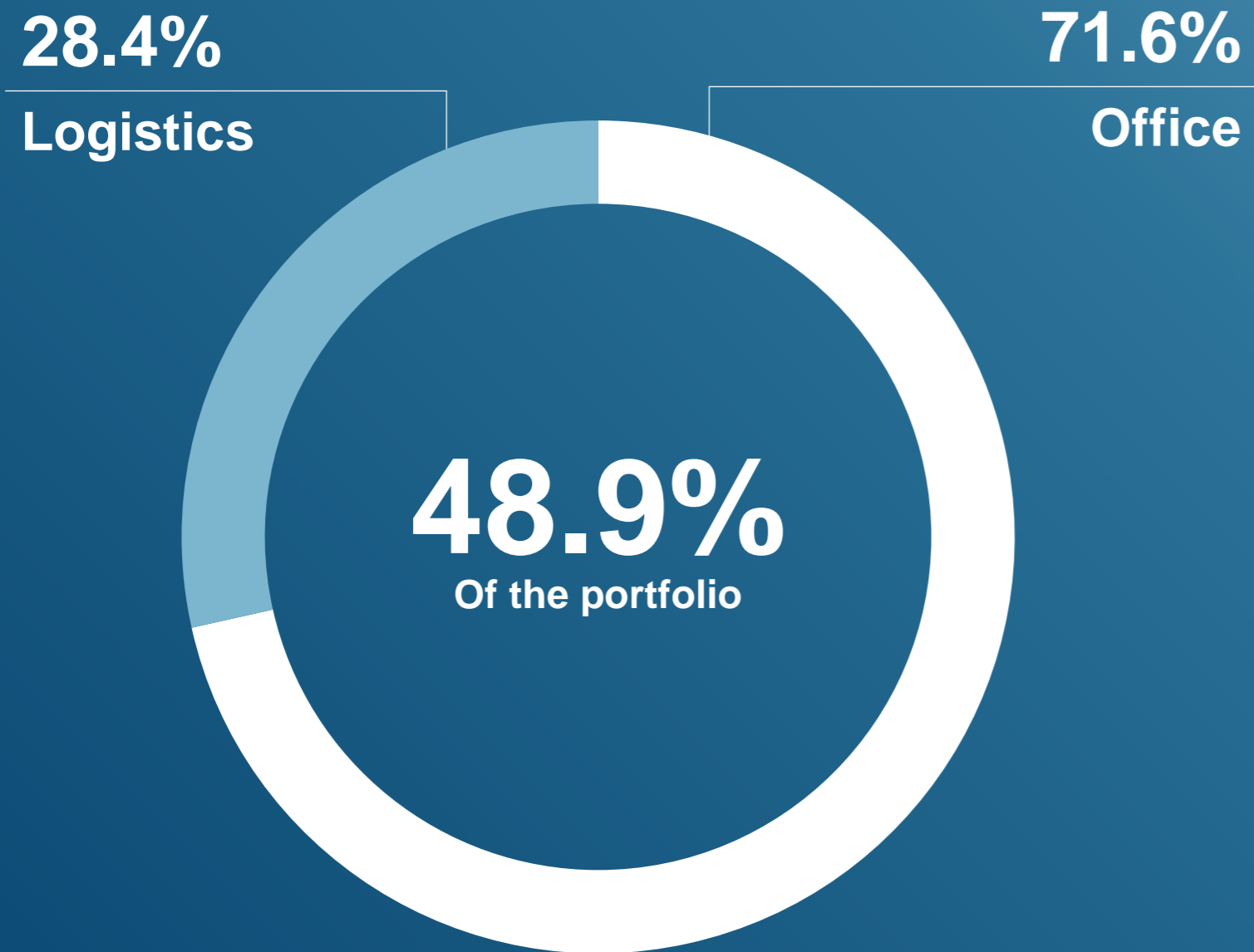
# US INVESTMENTS





# US investments

As at 31.12.2015



## Office

Properties	31
Return in 2015	13.5%
Average remaining lease term	7.0 years

## Logistics

Properties	390
Return in 2015	12.6%
Average remaining lease term	5.7 years



# NEW US INVESTMENTS IN 2015





# 11 Times Square

## New York

Sector

Office and retail

Ownership

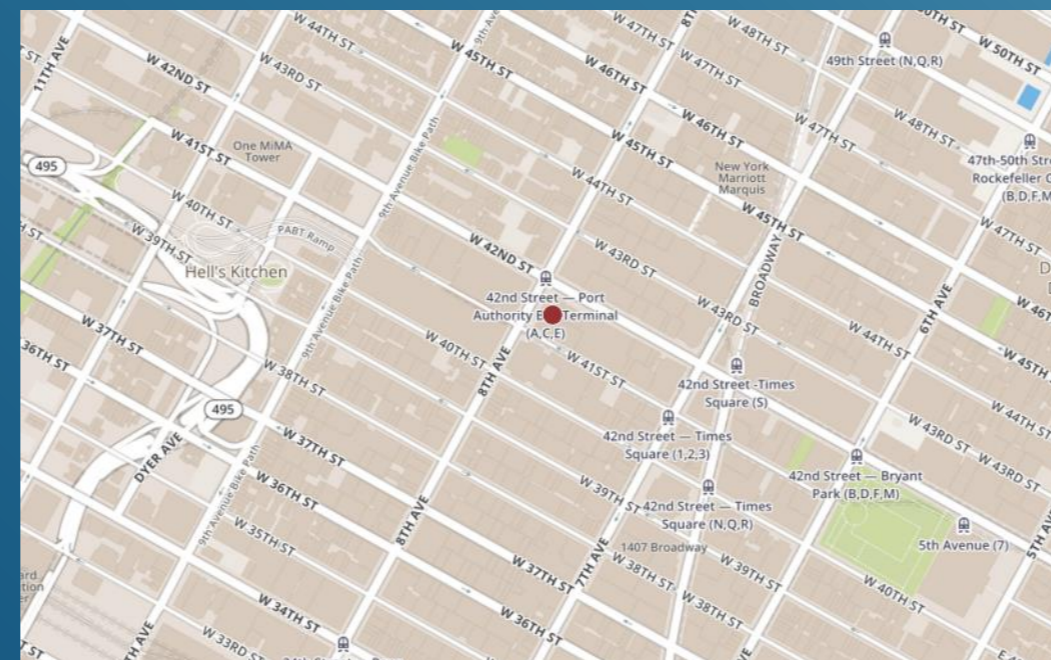
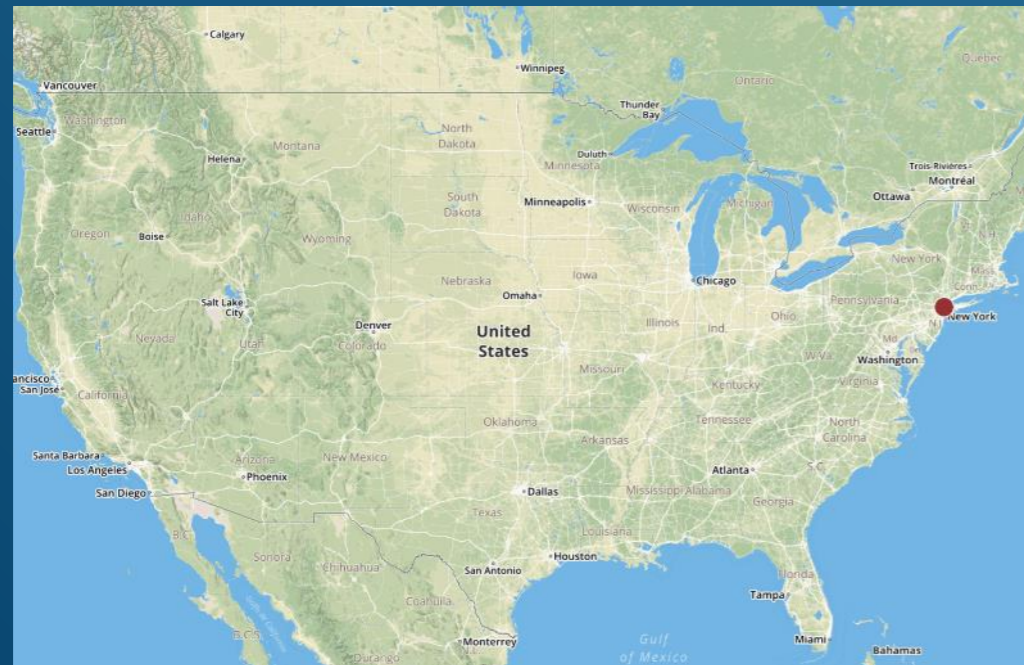
45%

Invested capital

401.9 million dollars

Size

102,193 square meters





# 25 Massachusetts Avenue

## Washington, D.C.

Sector

Office

Ownership

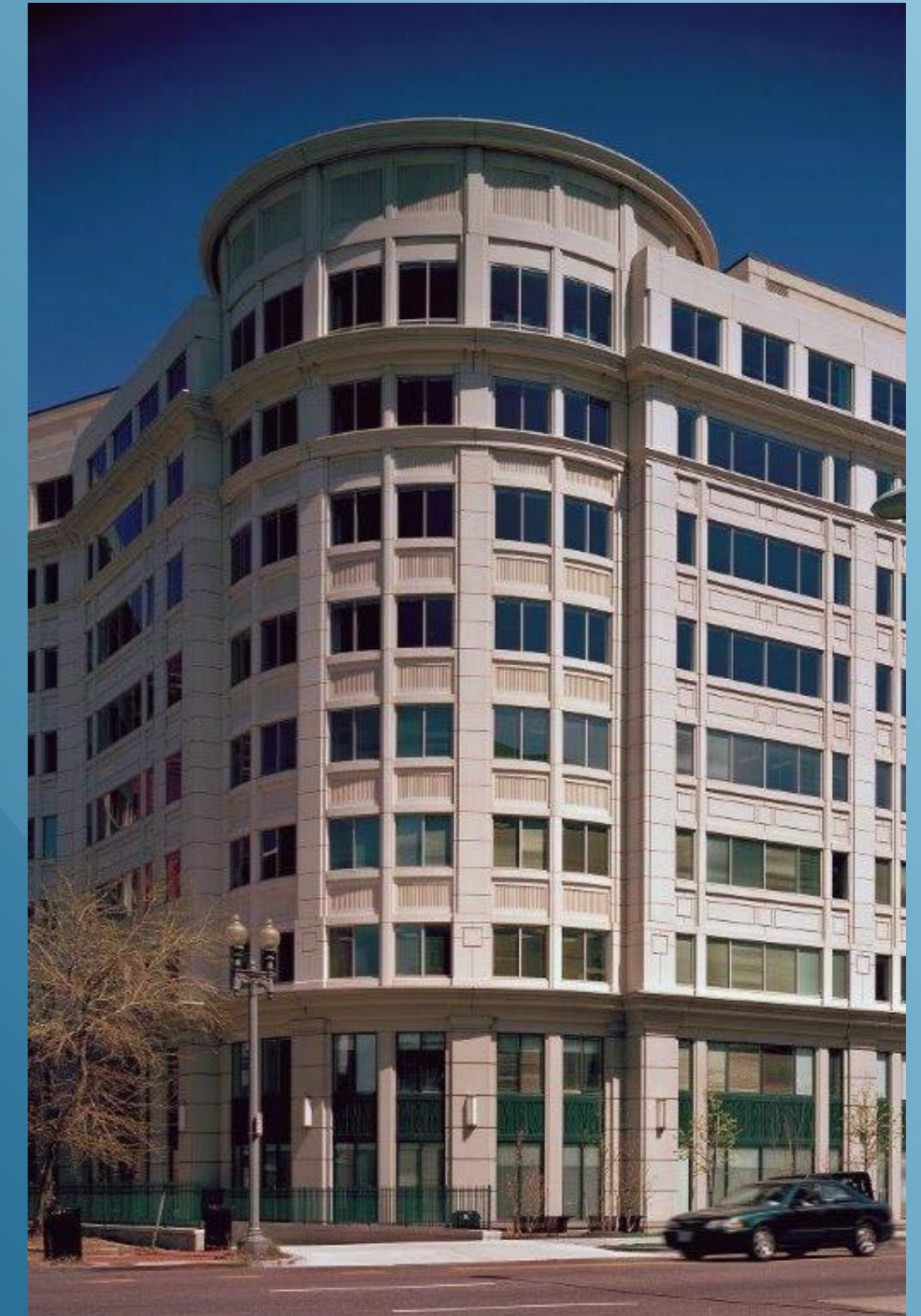
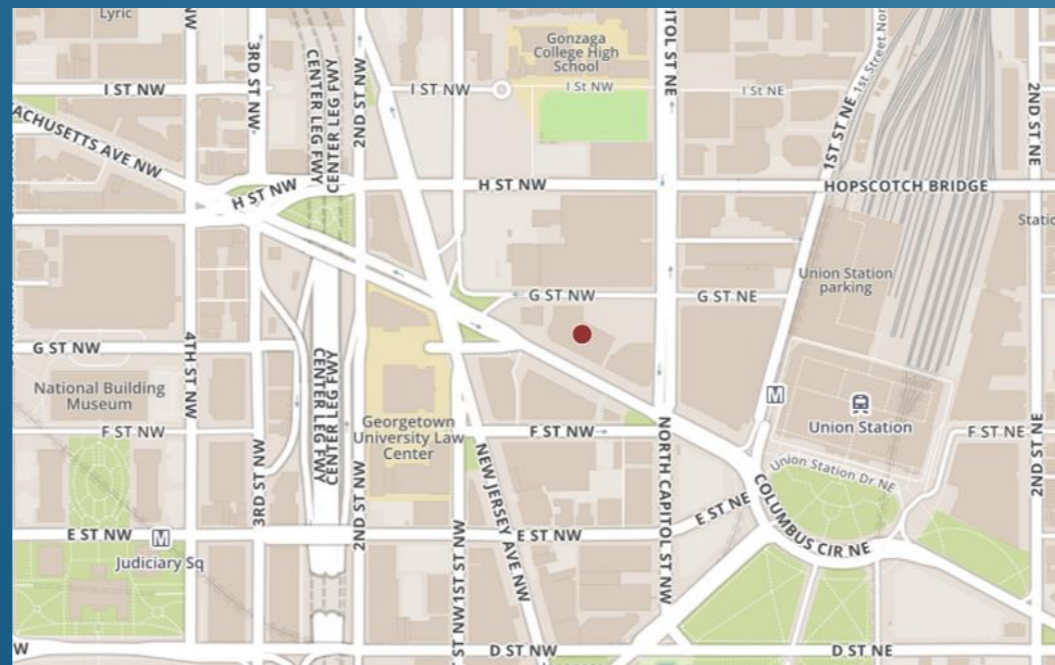
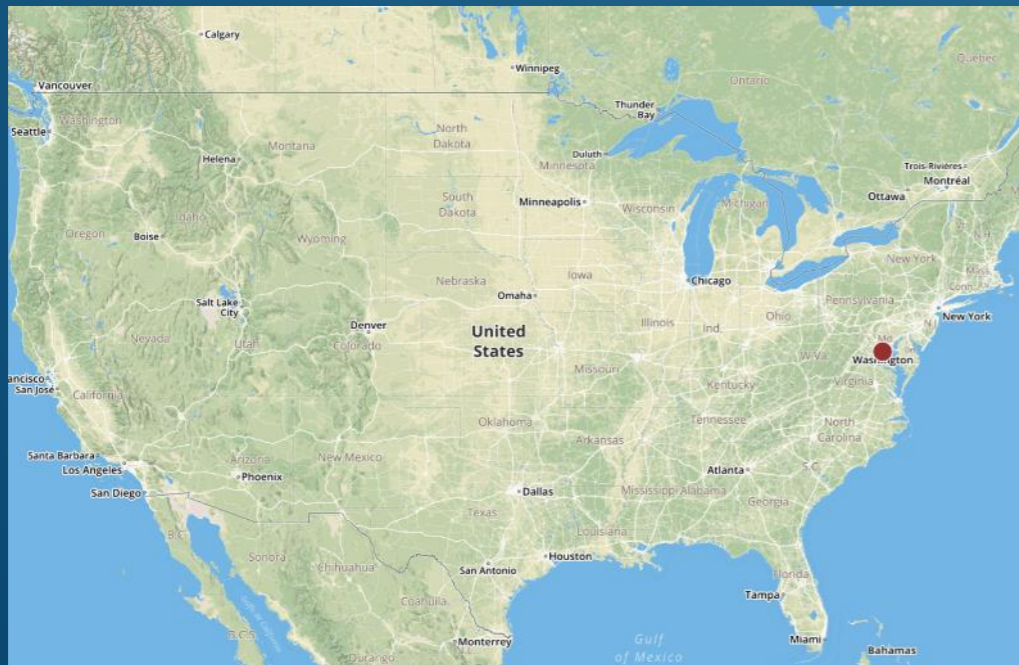
49.9%

Invested capital

60.8 million dollars

Size

35,823 square meters





# 888 Brannan Street

## San Francisco

Sector

Office

Ownership

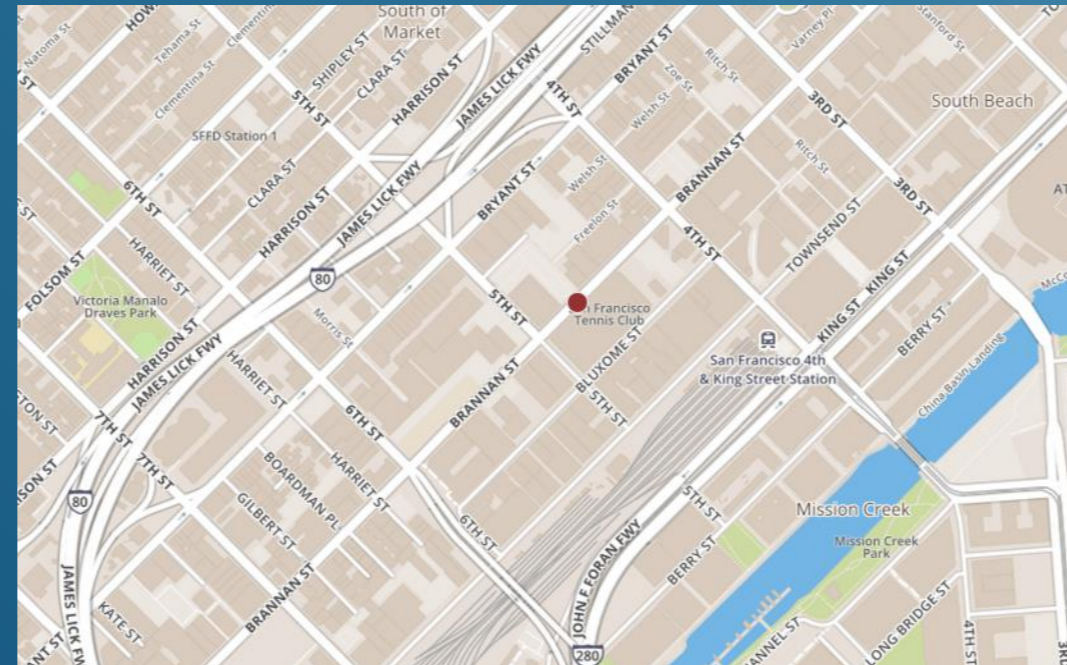
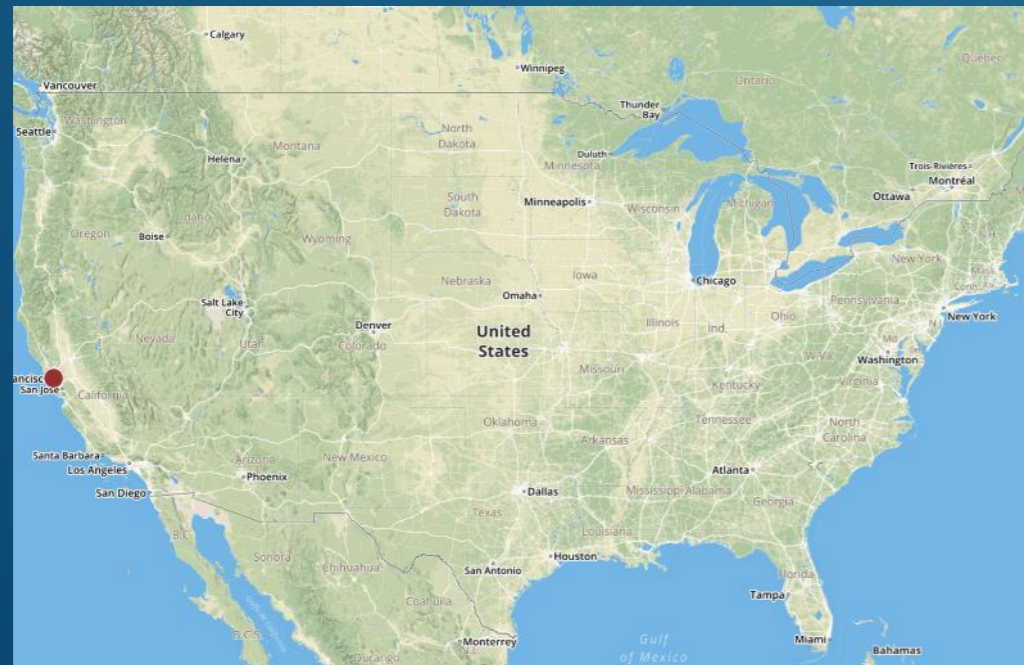
49.9%

Invested capital

153.2 million dollars

Size

41,342 square meters





# Hudson Square

11 office properties

Sector

Office

Ownership

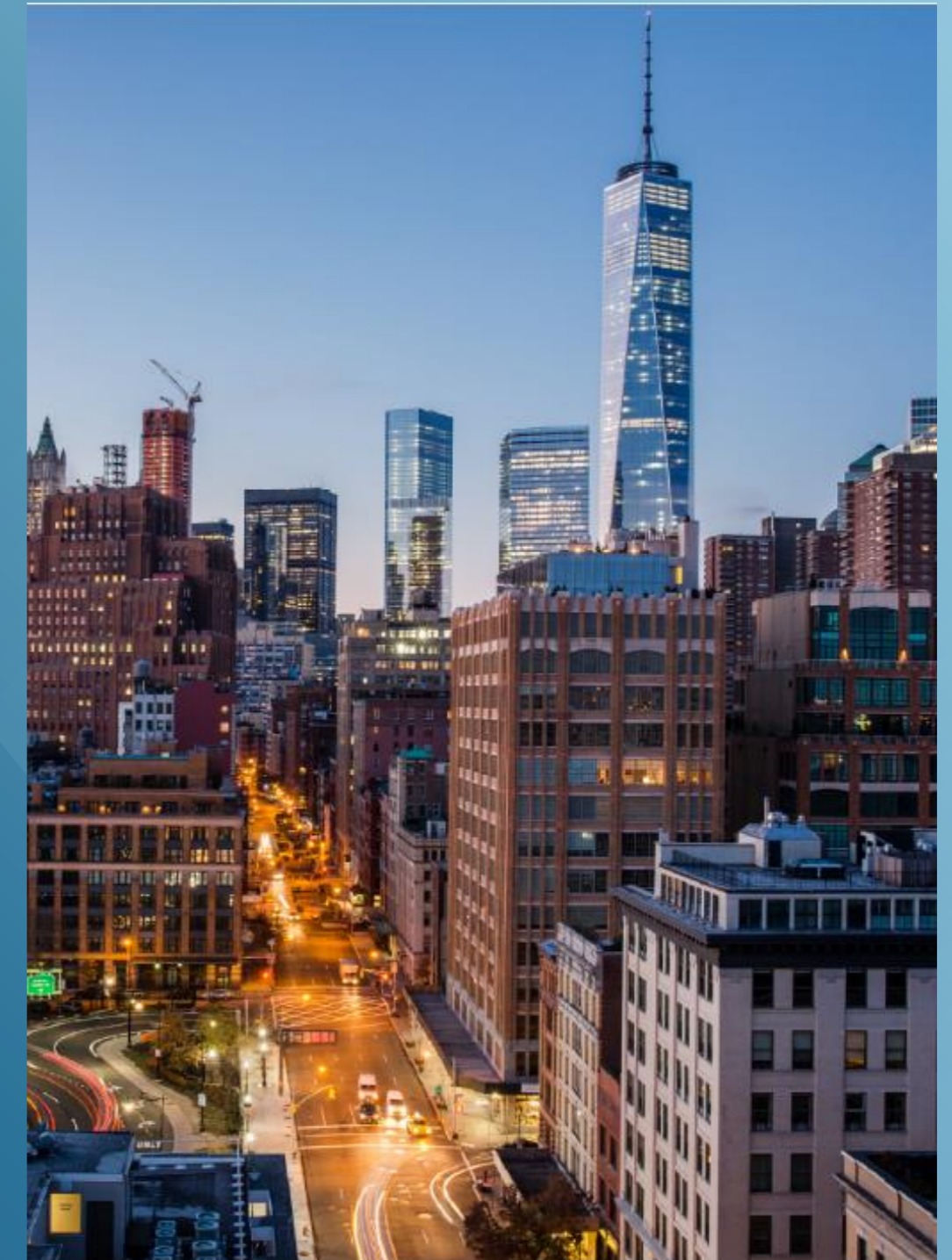
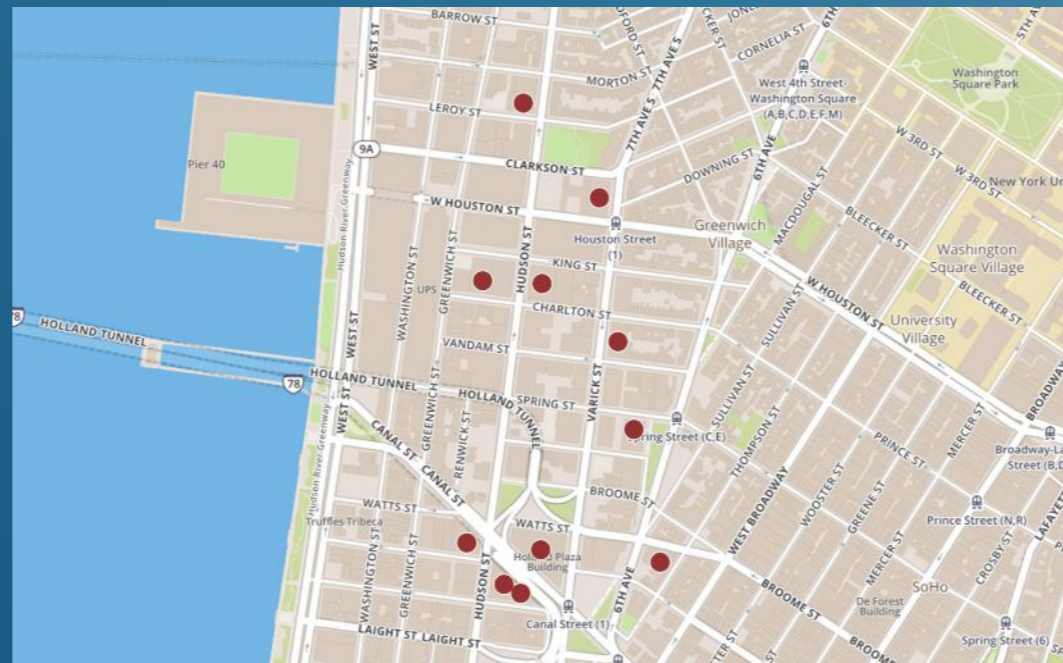
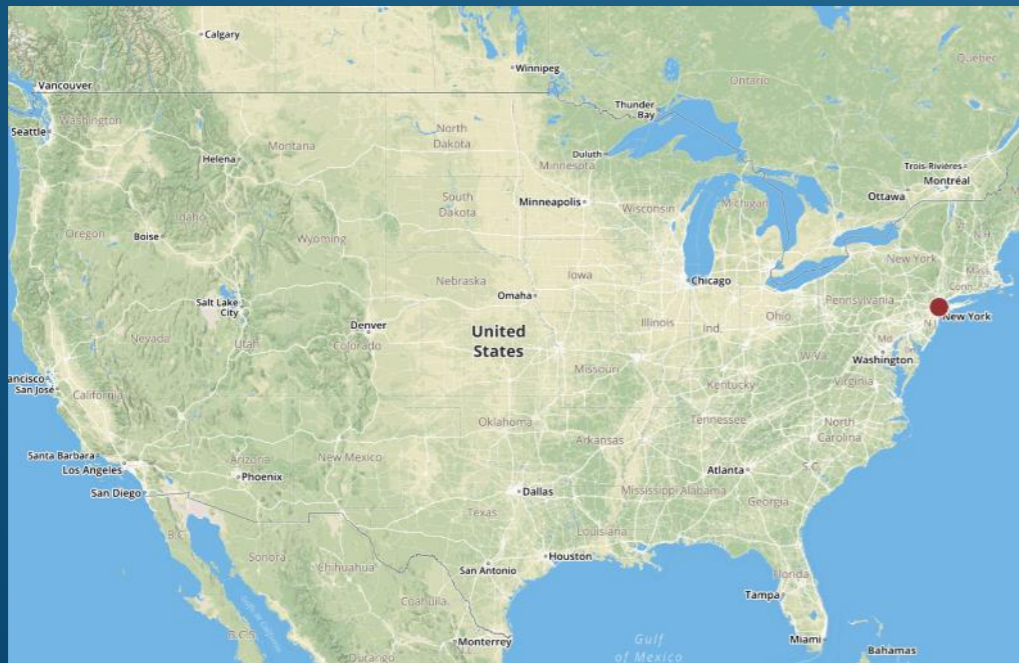
44%

Invested capital

1.56 billion dollars

Size

455,000 square meters









# Logistics properties

## Seattle

Sector

Logistics

Ownership

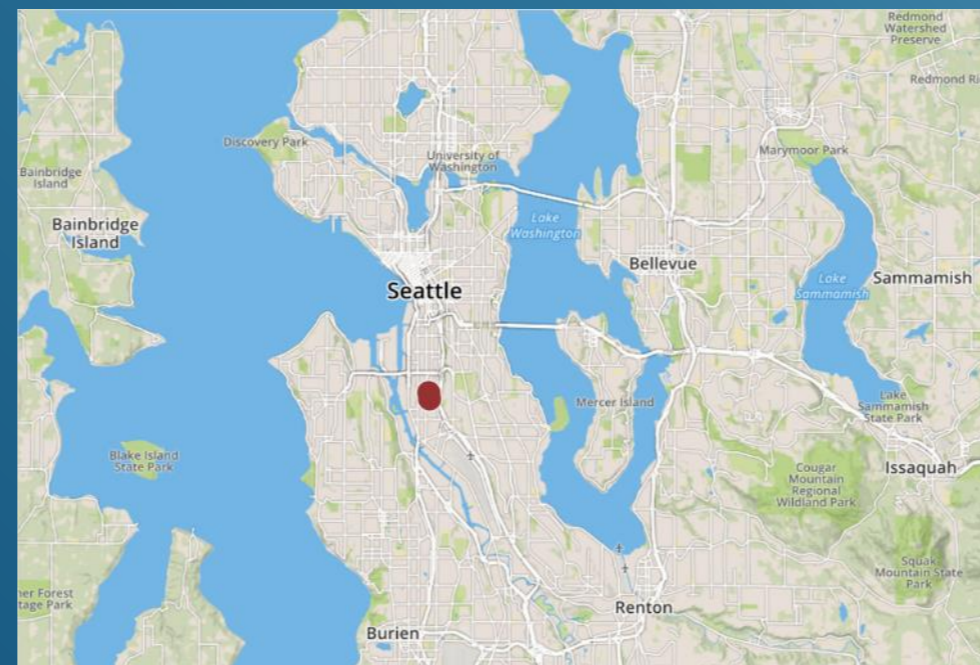
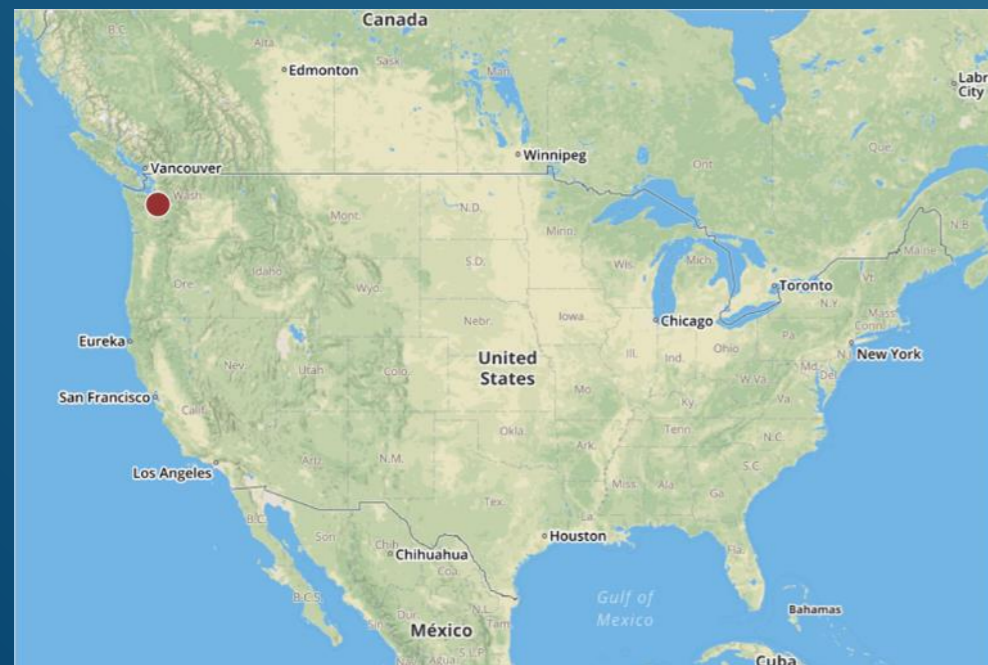
45%

Invested capital

28.5 million dollars

Size

35,796 square meters





# Logistics properties

## Chicago

Sector

Logistics

Ownership

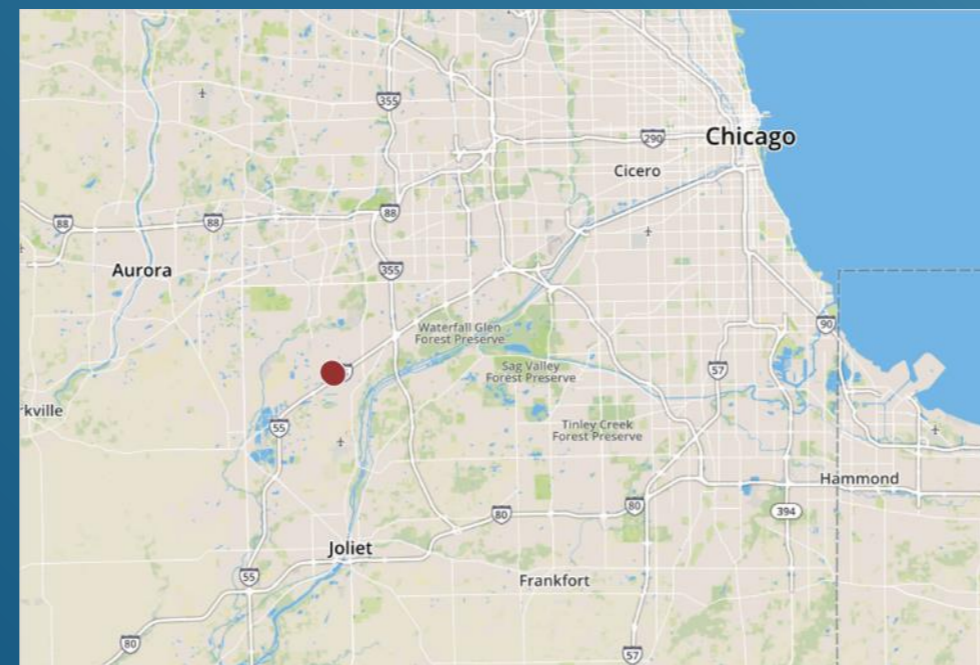
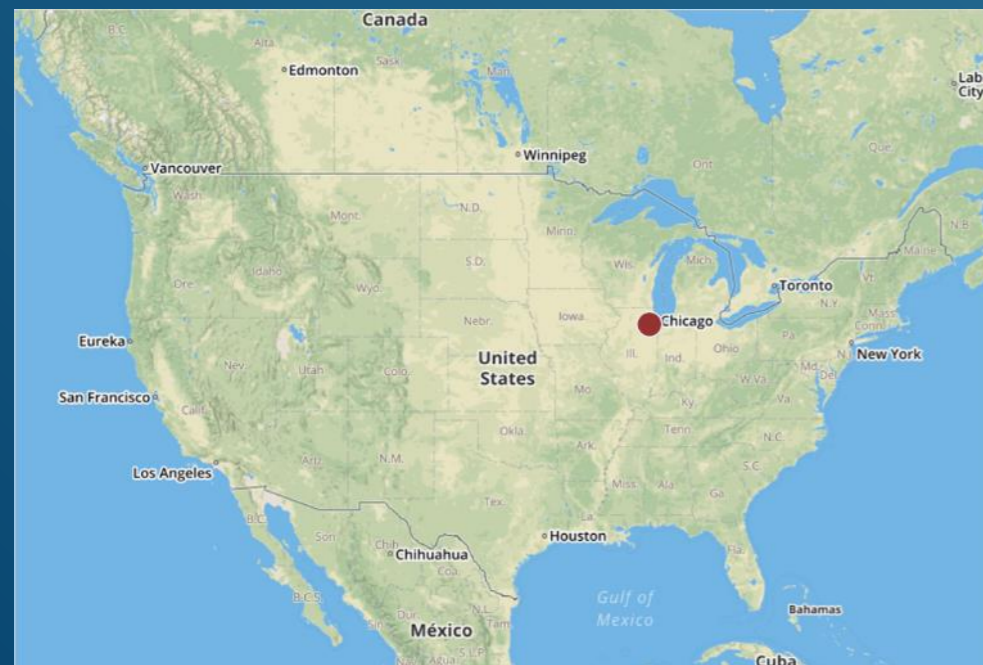
45%

Invested capital

18.2 million dollars

Size

63,763 square meters





# RISK MANAGEMENT





# Risk management

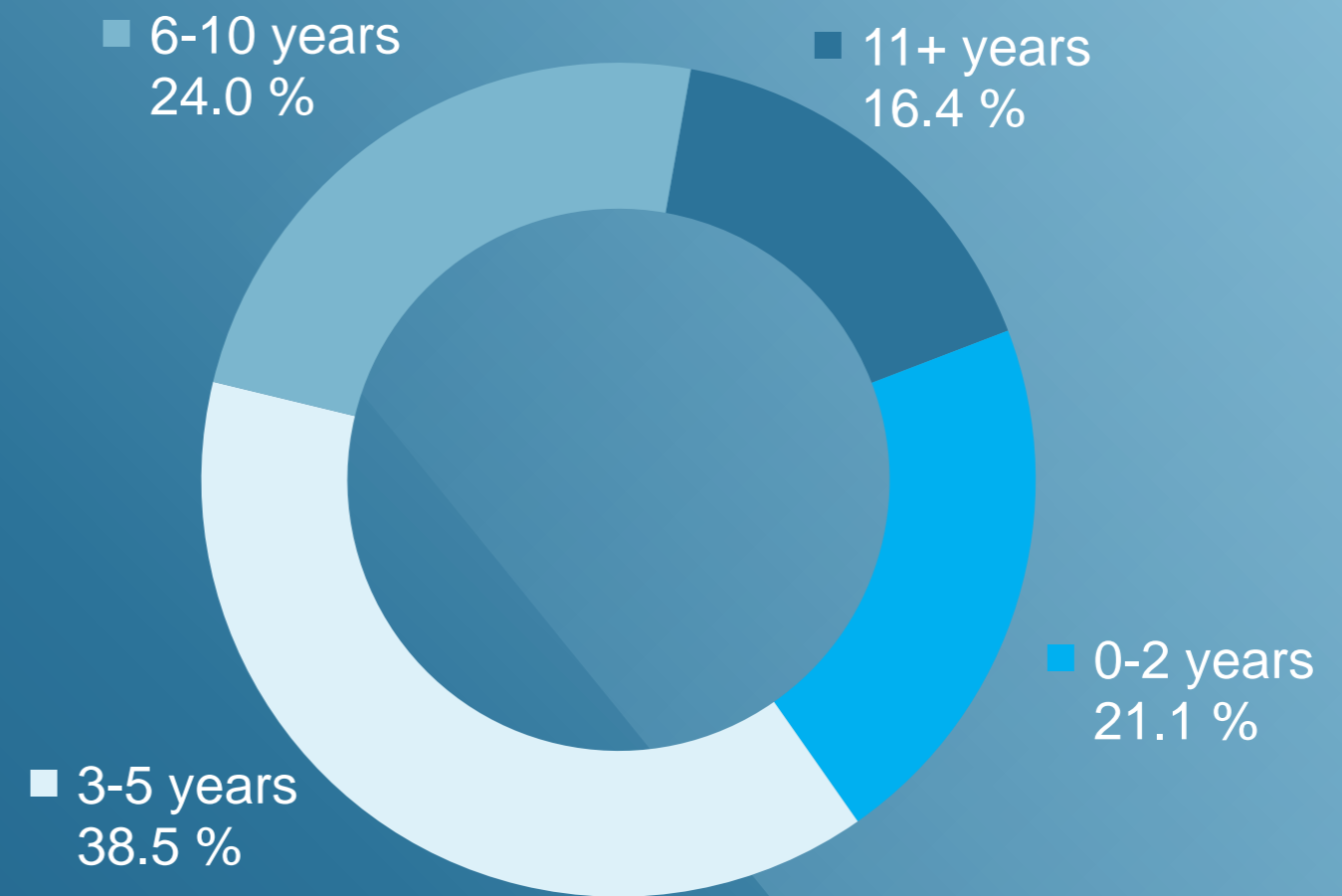
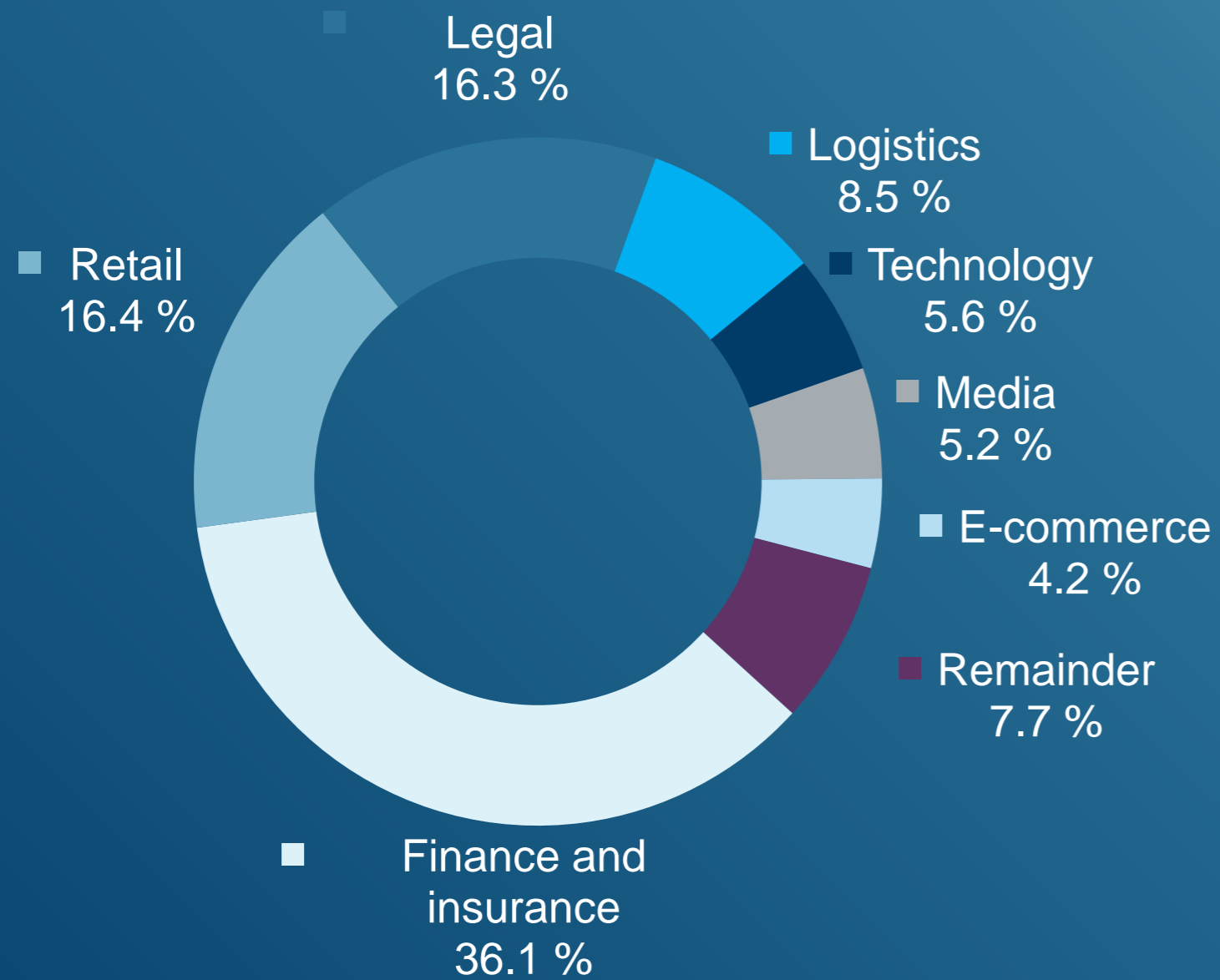
## Geographical diversification





# Risk management

## Tenants by sector and remaining time on leases

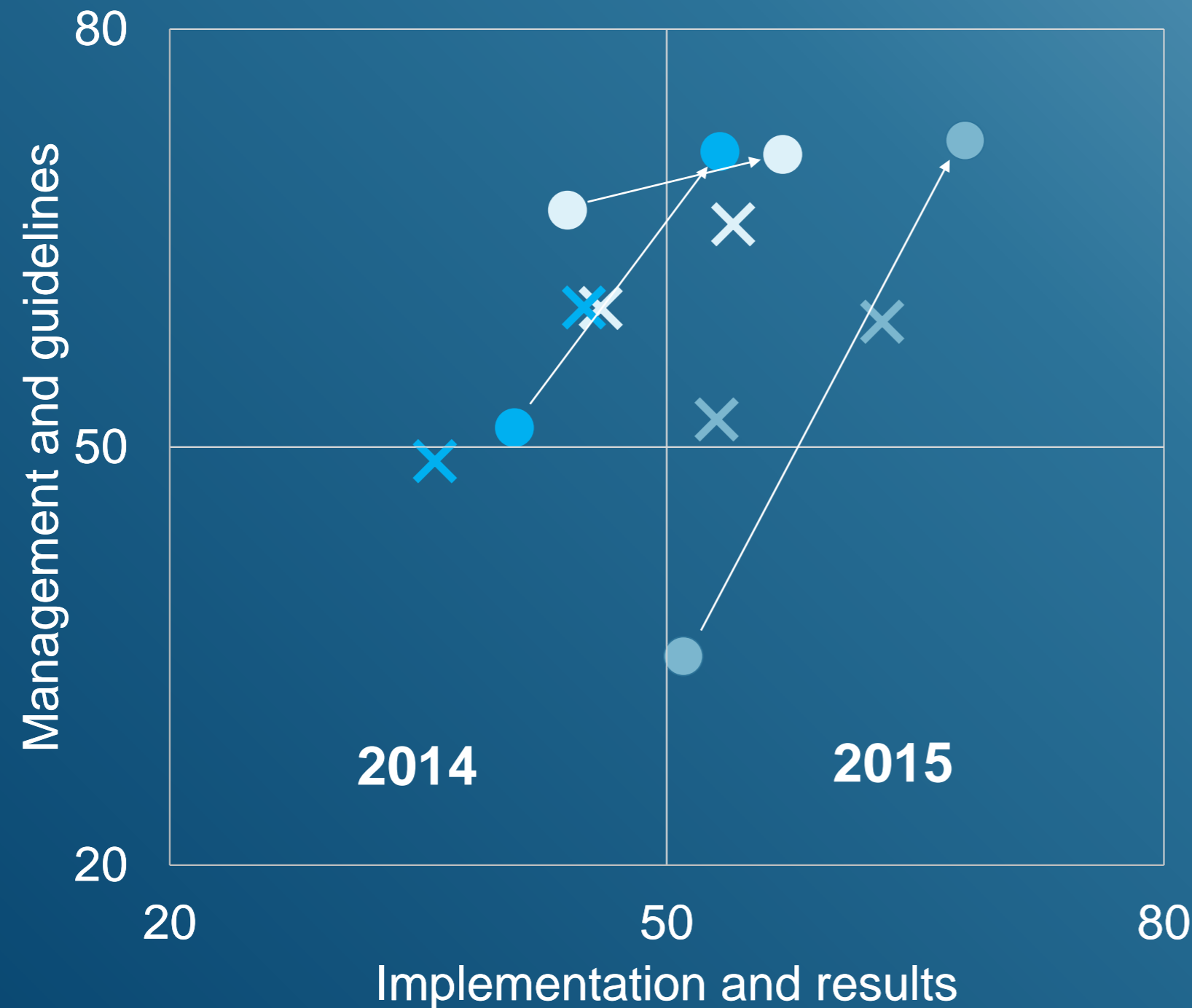


Occupancy rate	93.5%
Development projects	1.0%



# Risk management

GRESB survey. Results from 2014 vs 2015

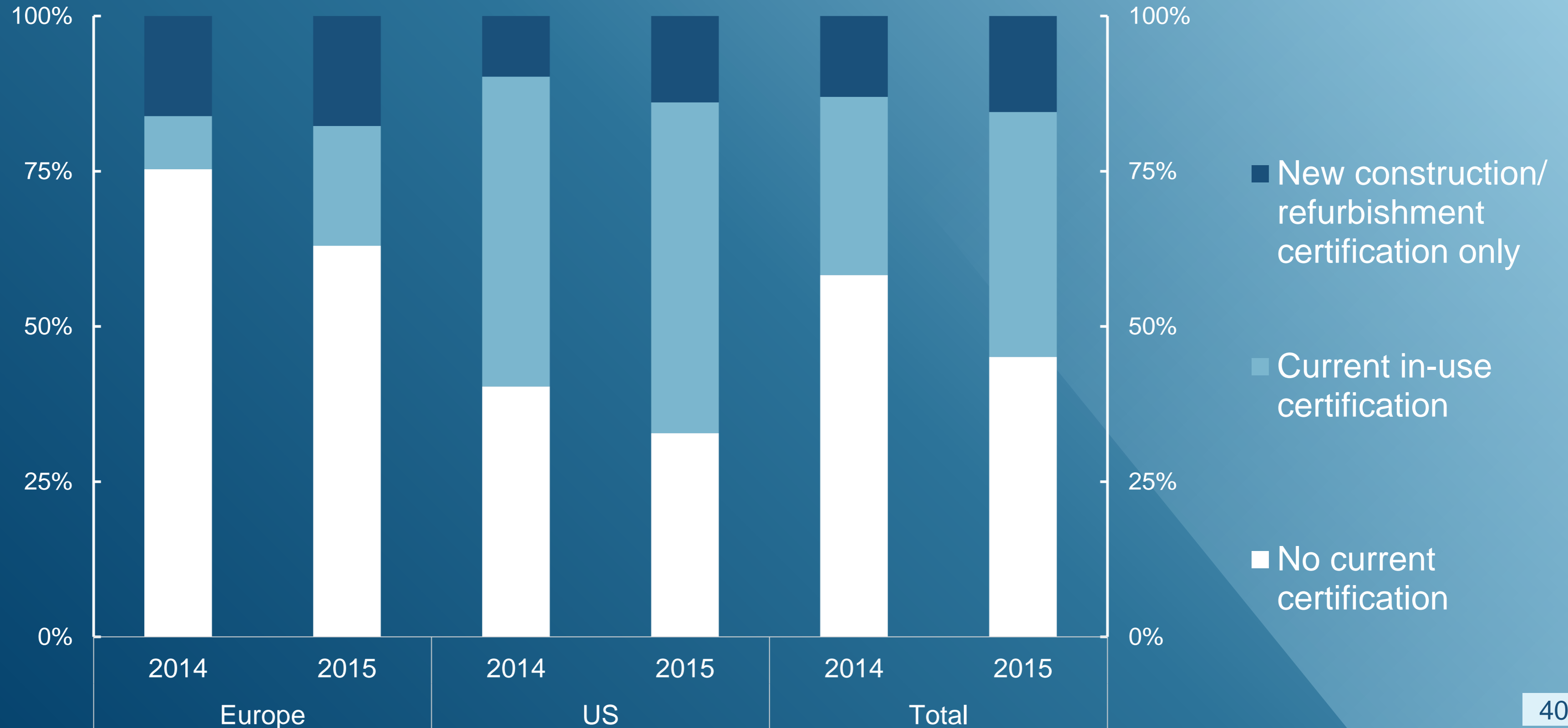


- (The fund) Europe – office and retail
- × (GRESB portfolio) Europe – office and retail
- (The fund) US – office and retail
- × (GRESB portfolio) US – office and retail
- (The fund) Global - logistics
- × (GRESB portfolio) Global - logistics



# Risk management

## Green building certifications





# Quarterly valuations

External valuers as at 31 December 2015



## US

### BOSTON

CBRE, Cushman and Wakefield

### NEW YORK

CBRE, Cushman and Wakefield,  
Integra Realty Resources

### SAN FRANCISCO

NPV Advisors, Integra Realty Resources

### WASHINGTON, D.C.

CBRE, Cushman and Wakefield, Joseph Blake

## EUROPE

### SHEFFIELD

CBRE

### LONDON

Cushman and Wakefield

### PARIS

CBRE, Cushman and Wakefield

### BERLIN

CBRE

### FRANKFURT

CBRE

### MUNICH

BNP Paribas Real Estate

### ZÜRICH

EY

### LOGISTICS

CBRE, Cushman and Wakefield,  
JLL



# INCOME AND COSTS





# Income

Millions of kroner

	2015	2014	2013	2012	2011
Net rental income	6,921	3,747	2,237	695	243
Realised gain/loss	320	-	-	-	-
Fair value changes	9,700	5,069	1,875	-131	138
Transaction costs	-320	-586	-201	-126	-443
Interest expenses	-666	-354	-239	-44	-
Tax expenses	-552	-373	-246	-7	-
Fixed fees to asset managers	-308	-165	-94	-20	-3
Variable fees to asset managers	-343	-16	-	-	-
Other costs	-215	-163	-96	-66	-21
<b>Net income</b>	<b>14,537</b>	<b>7,160</b>	<b>3,236</b>	<b>301</b>	<b>-86</b>



# Cash flow

Millions of kroner

	2015	2014	2013	2012	2011
Net rental income	6,921	3,747	2,237	695	243
Net rental income - non cash items	-312	-97	-50	-13	-
Transaction costs	-320	-586	-201	-126	-443
Interest expense external loans	-666	-354	-239	-44	-
Taxes paid	-100	-81	-64	-5	-
Fees to external asset managers	-308	-165	-94	-20	-3
Operating expenses	-215	-163	-96	-66	-21
<b>Total operating cash flow</b>	<b>5,000</b>	<b>2,301</b>	<b>1,493</b>	<b>421</b>	<b>-224</b>
Realised gains and losses from sales of properties	320	-	-	-	-
Total cash flow repaid from operating activities <sup>1</sup>	-4,186	-2,402	-1,349	-443	-86
Reinvestments	207	575	224	237	364
<b>Change in retained cash</b>	<b>1,342</b>	<b>475</b>	<b>368</b>	<b>214</b>	<b>54</b>



<sup>1</sup> Paid to Norges Bank



# Management costs



**INVESTMENT  
MANAGEMENT COSTS**



**HOLDING STRUCTURE  
COSTS**



**ASSET MANAGEMENT  
COSTS**

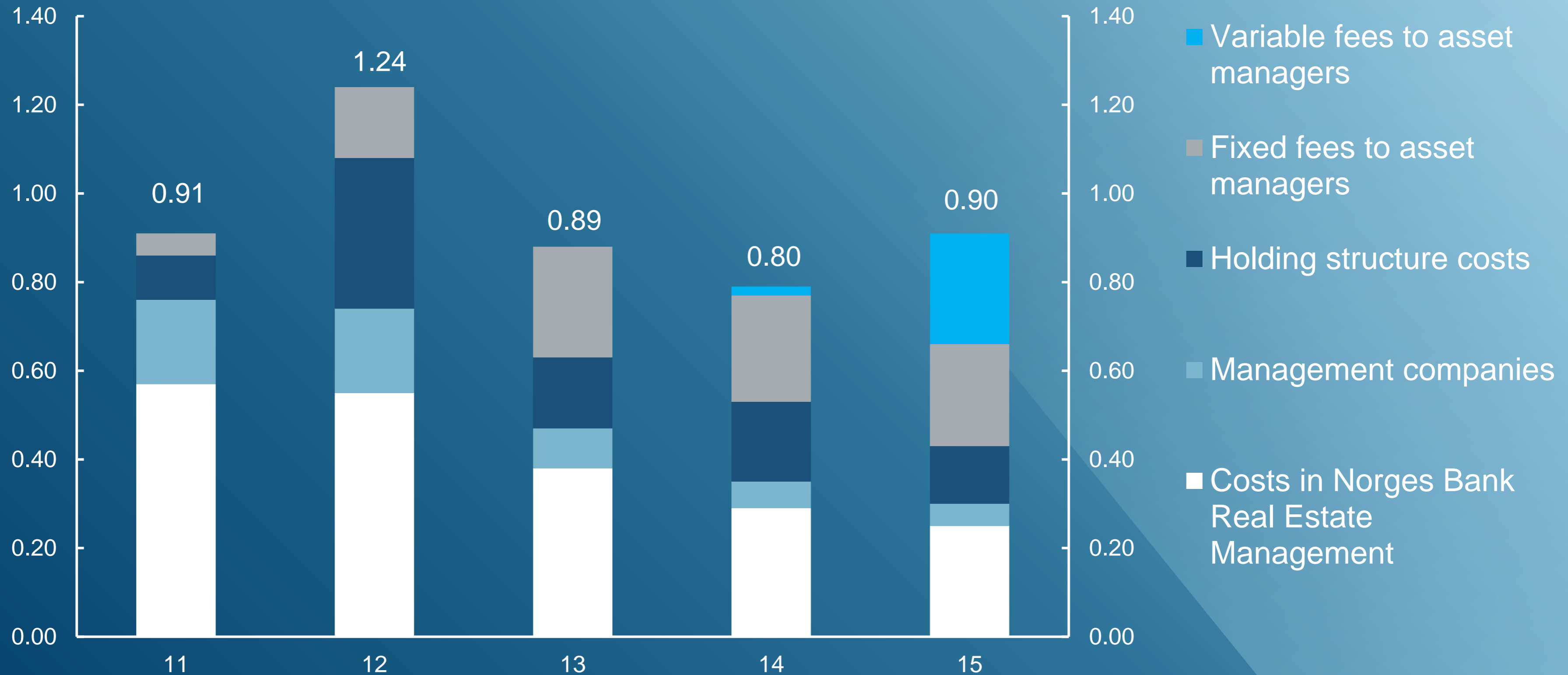


**PROPERTY COSTS**



# Management costs

Share of the portfolio in percent





# THE ORGANISATION





# Investing through holding structures

## Key criteria considering the choice of holding structures

- Limitation of liability
  - Protect the fund against claims
  - Limit any claims to the individual property and its value
  - Ensure risk management
- Good control and governance structure
  - Ensure oversight, control and clear roles and responsibilities
- Efficient operational management
  - Limit costs, including tax costs
  - Ensure operational platforms for property management
  - Ensure efficient and secure cash management



# Holding structure

As at 31 December 2015

## DELAWARE

Directly owned: 6  
Indirectly owned: 213  
Total: 219

## OTHER IN US

Directly owned: 0  
Indirectly owned: 1  
Total: 1

## UK

Directly owned: 13  
Indirectly owned: 55  
Total: 68

## LUXEMBOURG

Directly owned: 1  
Indirectly owned: 99  
Total: 100

## OTHER IN EUROPE

Directly owned: 0  
Indirectly owned: 162  
Total: 162

## SINGAPORE AND JAPAN

Directly owned: 1  
Indirectly owned: 1  
Total: 2



# Luxembourg

## Key considerations in the choice of Luxembourg

- Central geographical location
- High quality multilingual pool of skilled personnel and advisors
- Well-developed and predictable legal structures including tax rules
- A widely used jurisdiction for institutional investors
- Cost efficient including tax costs
- OECD member
- There is a tax treaty in place between Luxembourg and Norway and the other countries in Continental Europe where the fund has invested



# Luxembourg

- No different tax position at acquisition
- Marginal tax advantages through the holding period
  - Lower withholding tax in France when investing from Luxembourg instead of Norway
  - Income is seldom paid by dividends, but rather intercompany loans which is tax neutral
- Lower taxes at disposal in Switzerland and France
  - Capital gains on a Luxembourg share sale are not taxed in Switzerland or in Luxembourg, saving 20-40% tax on any capital gain realized compared to Norwegian holding structures
  - Lower withholding tax in France when investing from Luxembourg instead of Norway



# Intermediate jurisdictions

- Luxembourg in Continental Europe
- Luxembourg and the Netherlands for our logistics portfolio
- Euro Post Pte Ltd in Singapore
  - Included in the acquisition of Merrill Lynch Financial Centre
  - Currently in the final stages of liquidation
- GP Limited and Meadowhall Limited Partnership on Jersey
  - Included in the acquisition of Meadowhall shopping centre
  - No tax advantages for NBREM or partner
  - Part of the financial structure
- Newport Business Space Limited on Guernsey and The Bermuda Park Unit Trust on Jersey
  - Included in the acquisition of the logistics portfolio in Europe
  - Owns logistics properties in the UK
  - No tax advantages for NBREM
  - The company on Guernsey is in liquidation



# The organisation

6

OFFICES

122

EMPLOYEES

23

NATIONALITIES

36

PERCENT WOMEN

35

AVERAGE AGE

47

Oslo

33

London

19

New York

15

Luxembourg

5

Singapore

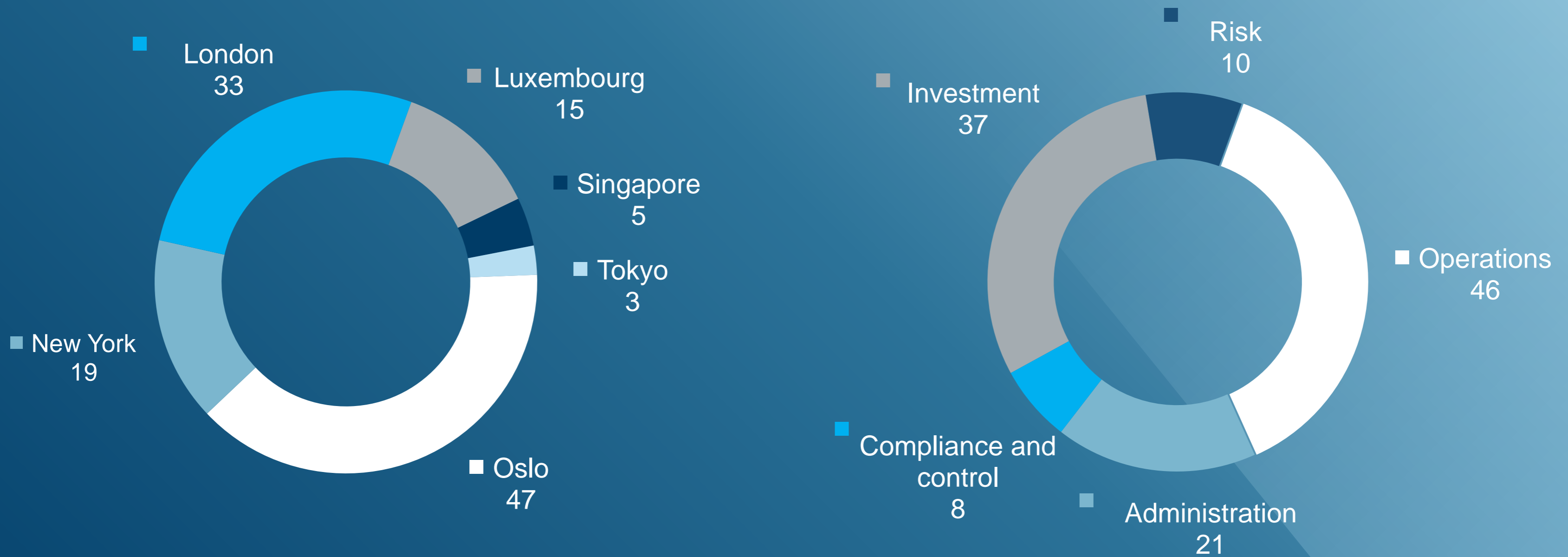
3

Tokyo





# A global organisation





**180 BN. KRONER UNLISTED REAL ESTATE**

**6.9 BN. KRONER NET RENTAL INCOME**

**5 CURRENCIES**

**10 INVESTMENT PARTNERS**

**837 PROPERTIES**

**17 MILL. SQUARE METERS**





# **REAL ESTATE INVESTMENTS**

**GOVERNMENT PENSION FUND GLOBAL**

**PRESS SEMINAR  
OSLO, 28 APRIL 2016**

