MAS REAL ESTATE INC.

# NEWSLETTER JULY 2016

## BREXIT CREATES NEW OPPORTUNITIES FOR MAS

**MAS is focused on delivering sustainable growing income distributions to its shareholders currently via a three pronged strategy:**

**1**

A strong and growing income stream from our existing portfolio, as it becomes fully invested over the 2016 calendar year. This income is derived primarily from a lowly geared portfolio of German and UK assets with long leases and strong covenants. The rents are denominated in Euro and Sterling. Further capital will be allocated on a selective basis to delivering the existing developments in the portfolio.

**2**

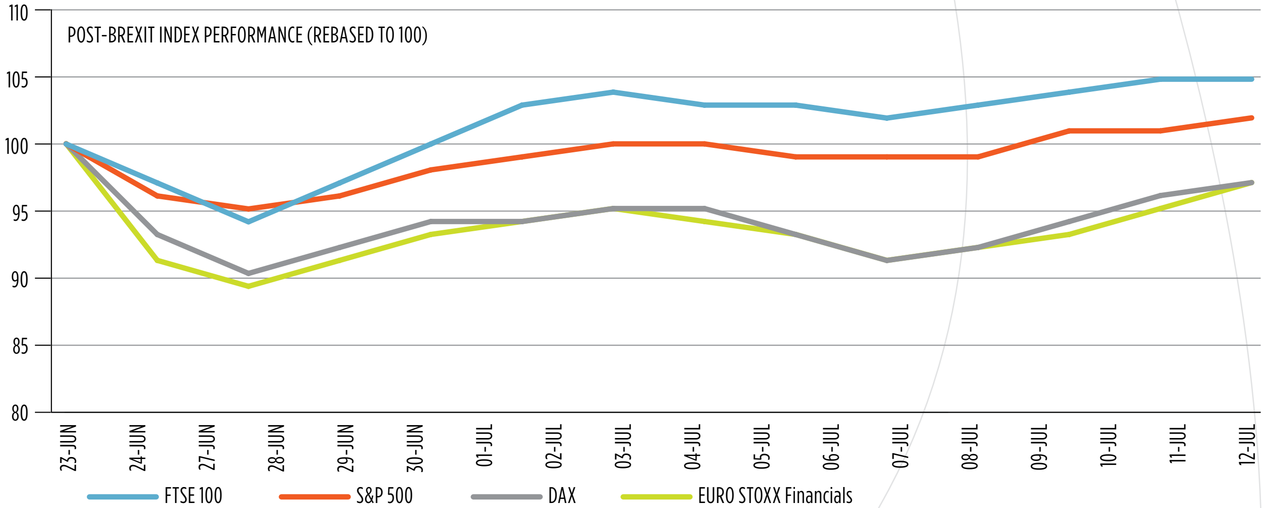
Developments in CEE in partnership with Prime Kapital. MAS has committed €120m to this partnership with the potential for a further €100m, and strong progress has been made on this front, with land having been secured, and permitting currently underway on multiple schemes in various CEE countries. The partnership should eventually deliver in excess of €800m of new high quality and dominant assets with strong and growing income streams.

**3**

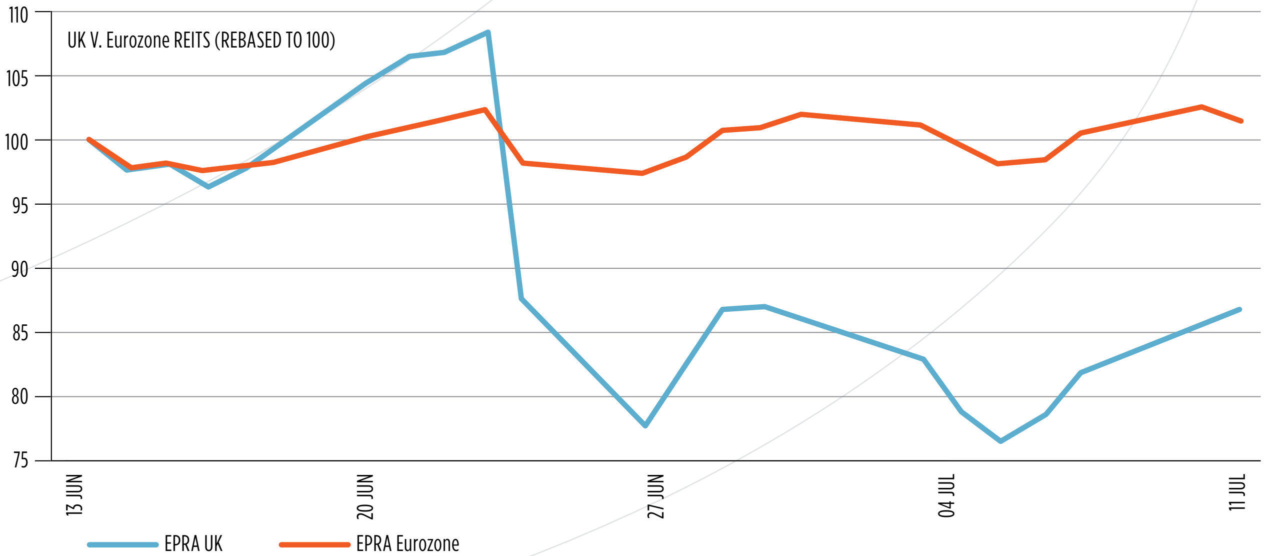
Further income producing investments in CEE and Western Europe, which will continue to enhance our portfolio income distributions in an environment where rent is expected to grow strongly over time.

## BREXIT

The citizens of the United Kingdom have voted by referendum to leave the European Union, with 51.9% voting 'Leave' against 48.1% voting 'Remain'. The immediate impact was a collapse of the Sterling against major currencies, and stock markets across the world seeing immediate falls, with subsequent recoveries in most sectors.




The UK REIT sector has been the victim of negative movement and continued uncertain sentiment, due partly to some fundamental over pricing and oversupply in some sectors, and also due to the impact of economic uncertainty as a result of Brexit. UK asset prices (especially London residential and London office, which has a greater international investor and financial sector composition) will likely experience a softening, the extent of which will be determined by the direction of sentiment in coming months, as the impacts of Brexit are better understood, and as the direction of travel politically and economically becomes clearer in the UK. We expect less of an impact on UK regional centres, which are coming off a lower base, and have less exposure to international investment. In fact the drop in Sterling could attract more foreign investors, given that UK commercial real estate is now 8-10% cheaper in nominal dollar and euro terms than it was before the EU referendum. European REITs have also been relatively less affected, and our local knowledge informs a continued bullish feeling towards European real estate due primarily to the ongoing search for yield amongst investors, given the continued "lower for longer" interest rate environment, and thus a sustained positive asset pricing sentiment.



There has also been a UK-specific political impact in the short term with David Cameron resigning as Prime Minister, and the official opposition, the Labour Party, experiencing ongoing leadership challenges. The conservative party's leadership seems to have resolved things relatively speedily, with Theresa May becoming the new Prime Minster and expected to swiftly set about stabilising the Government as it prepares for negotiations with the EU on trade and other agreements in the coming months. The negotiations will be interesting for both parties and will not begin until the UK activates Article 50 of the Lisbon Treaty, which gives a 2-year timeline for a negotiated exit. The UK's priority is likely to be maintaining as much access to the Single Market's freedom of movement of goods, services and capital as possible. Continental Europe's concern will likely be twofold: securing the financial stability of the remaining members, and fighting Euroscepticism, which may involve ensuring Brexit is not painless for the UK, so as to deter others. There is also the possibility of a new referendum on Scottish independence, and the situation is likely to remain fluid for some time.

As to possible forward looking scenarios, we think there are broadly two:

1. Positive albeit progressive resolution of both the UK and European position. This is our expectation, namely that the remaining EU countries will galvanise, pull together and bring through reforms that address the concerns flagged by the UK's exit. The EU has been a very positive project, for Europe generally, and especially for the CEE region, given the benefits that EU law, single currency, trade agreements, and free movement of people bring. There is significant positive sentiment in most CEE and EU ascension countries, and support for the EU's unity. CEE market fundamentals remain strong, with prospects for growth due to earnings convergence, and growing GDP per capita, as well as lower cost employment relative to Western Europe. This will probably be supplemented by a settling down and strengthening of the UK, with positive political and market sentiment already evidenced in the short time since Brexit.

2. Further political and market dislocation in the longer term. While less likely, it is possible that economic and political uncertainty and instability may escalate, with nationalist agendas rising in other European countries. This could slow inward investment, business confidence, and thus demand. While this would not be positive for the market generally, it would create pricing opportunities for those poised to capitalise upon it.

Our strategy continues to be the generation and distribution of sustainable and increasing income streams from our growing European portfolio. MAS is very well positioned in both of the above scenarios. In the first due to the strength of its current portfolio base, low gearing, focus on income distribution growth, and pipeline of opportunities in the markets which it is targeting, which should see significant growth in distributions over the coming periods. In the second, as MAS is well positioned to monitor the 'on the ground' markets for distress and resulting opportunities, as it did in 2008/9, and to capitalise upon these from a base of strong income.

EDEKA

## HIGHLIGHTS

MAS has acquired two retail portfolios in Germany let to Edeka, the largest German supermarket group. One portfolio comprises three cash and carry outlets in southern Germany and has already completed. The second portfolio of properties situated in northern and central Germany has been acquired under a sale and leaseback arrangement and is expected to complete in August. The two portfolios comprise a total of 23 buildings with 72,953 sqm lettable area together with 2,192 parking spaces and a weighted average lease term of 14,5 years. The acquisitions will add approximately EUR 5,9m gross rental income p.a. with little impact on central costs thereby boosting the core income of the portfolio.

**"OUR STRATEGY CONTINUES TO BE THE GENERATION AND DISTRIBUTION OF SUSTAINABLE AND INCREASING INCOME STREAMS FROM OUR GROWING EUROPEAN PORTFOLIO."**