

FEATURE ARTICLE ON

REAL ESTATE

OVERVIEW

Real Estate (RE) exemplifies an asset class which offers diversification and inflation hedging benefits for the GIC Portfolio. As real estate projects are illiquid and require a high degree of customisation, investing in real estate requires insights and ground knowledge of local markets. This plays to GIC's strengths: our global presence and local connections; our expertise in active asset management built up over the years; and our long investment horizon. Today, our real estate holdings are well diversified in more than 40 countries, including assets such as Shiodome City Center in Tokyo; Azia Center in Shanghai; Chifley Tower and the Queen Victoria Building in Sydney; Westin Hotel in Paris; Broadgate in London; Time Warner Center in New York City and 101 California in San Francisco.

REAL ESTATE AS AN ASSET CLASS

Real estate refers to land and the buildings, as well as facilities that are fixed to the land. Real estate investments generate financial returns in two ways: (1) income from rent; and (2) appreciation of the real estate's value over time. The volatility in real estate returns arises mostly from the capital appreciation component of returns. Income returns tend to be more stable, depending on the tenancy profile and lease structure.

While national growth, employment, demographic and other macro factors influence returns on real estate investments, local and micro factors such as demand and supply, as well as government regulations particularly pertaining to city development, play an equally important role.

Investors are in real estate in part because it is tangible. However, investors need to be able to hold the investments for a period of time, as it is difficult to divest a real estate holding quickly. Hence, investors will typically expect a return for assuming the illiquidity risk as well.

Real estate investment also requires a high degree of customisation, since most transactions are privately brokered. Accessing real estate opportunities therefore requires expertise, information and local understanding. The market is less efficient and transparent than public markets, and so investors with greater information, expertise and access can earn above average profits in real estate.

OUR REAL ESTATE INVESTMENT STRATEGY

Why We Invest in Real Estate

GIC's asset allocation strategy is based on a trade-off between expected risk and return, with the goal of building a diversified portfolio to deliver good overall long-term real returns.

Real estate is an important asset class to GIC for three reasons. First, real estate offers diversification benefits, as its return drivers are somewhat different from the traditional asset classes of bonds and equities. In fact, real estate can have both bond and equity-like characteristics. Like bonds, income-producing real estate can give secure contractually-based income streams over the long term. Like equities, real estate is a growth asset with the potential to see growth in both incomes and capital values.

Second, real estate has inflation-hedging characteristics. The ability of real estate to track inflation is supported by certain structures – for example, where property rentals are tied to inflation – and also because real estate values are linked to replacement costs.

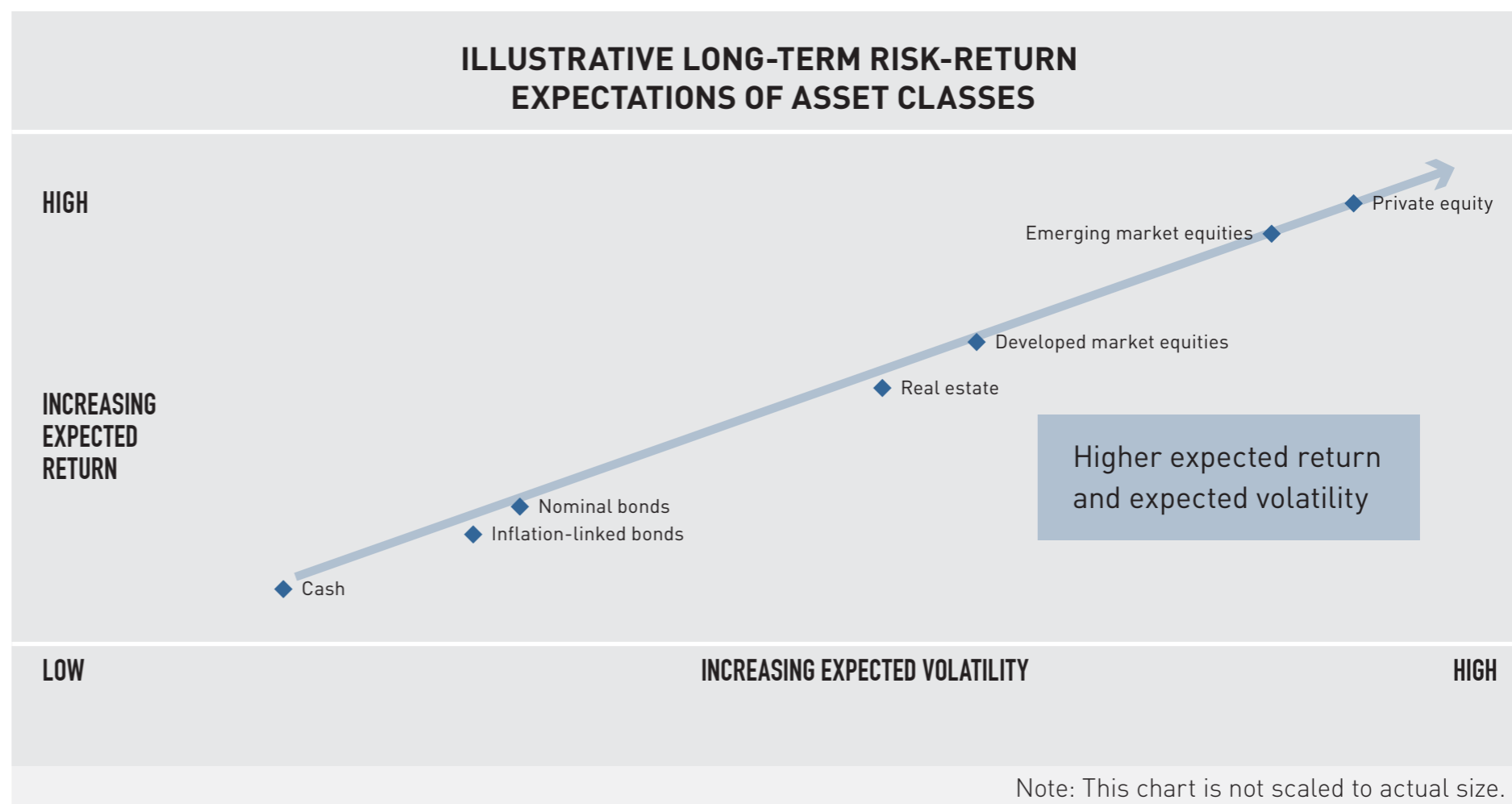
Third, investing in an illiquid asset class such as real estate suits GIC, which is a long-term investor. Being able to ride out short-term volatility and market cycles allows us to reap the illiquidity premium inherent in the real estate asset class.

CORRELATIONS OF US REAL ESTATE ASSETS VS EQUITIES, BONDS AND INFLATION BETWEEN 1972 AND 2014

	Private Real Estate	Government Bonds	Equities (S&P 500)	Inflation
Private Real Estate	1			
Government Bonds	-0.01	1		
Equities (S&P 500)	0.08	-0.03	1	
Inflation	0.38	0.07	-0.11	1

Real estate has a **low correlation** with bonds and public equities... and a **positive correlation** with inflation.

Data obtained based on US Markets between 1972 to 2014.



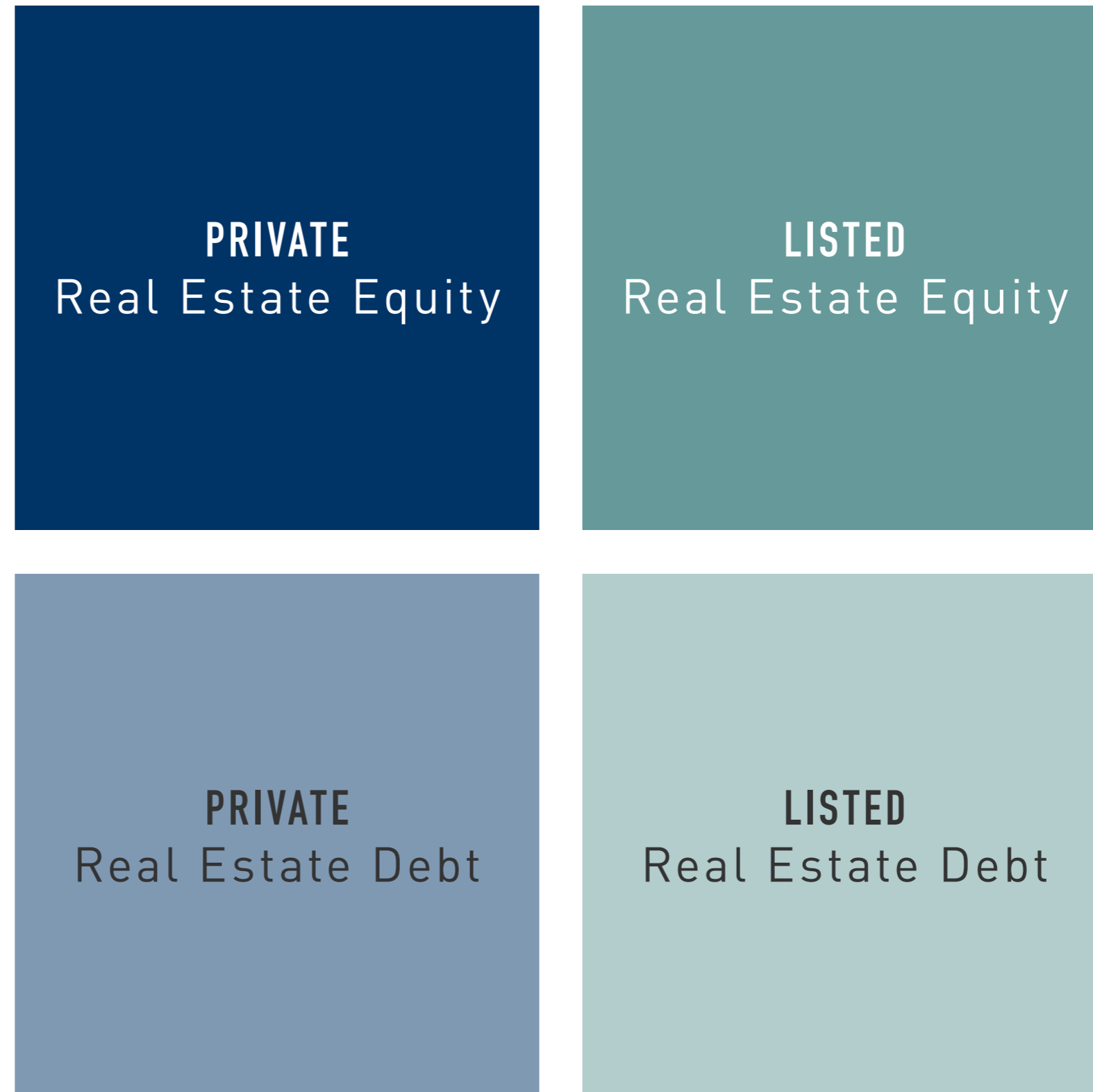
How We Invest in Real Estate

GIC is one of the more established real estate investors in the world today. We started cross-border investing in real estate before most other players, and have a substantial presence in emerging markets, especially in Asia. Through local teams spread over nine offices on four continents, GIC has built a real estate portfolio of direct and indirect investments with more than 350 investments in over 40 countries. Our investments are predominantly directly in privately held properties, either wholly-owned or partly-owned through joint ventures or co-ownerships. We also invest indirectly into real estate through funds, listed and unlisted equity of property companies, as well as real estate mortgages. We actively manage our properties, to improve their competitiveness and enhance value.

Investing Flexibly Across the Capital Structure

We invest across the capital structure (whether in the equity or debt side of the balance sheet) of real estate, in both public and private markets. This flexibility allows us to seek out the best risk-adjusted returns at any given time in the market cycle, and lets us invest in projects using the most appropriate instrument and structure.

FOUR QUADRANTS OF REAL ESTATE INVESTING



Investing With the Best Local Partners

We believe in developing long-term partnerships with our global network of established and best-in class partners. Our close working relationships with our like-minded partners are mutually beneficial, and give GIC an edge in access to opportunities and execution.

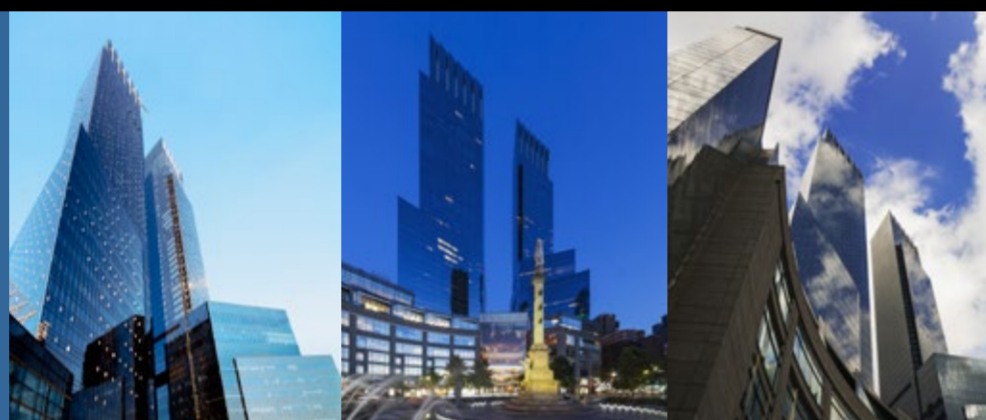
Investing Across Major Property Sectors

GIC invests across all major property sectors, including office, retail, hospitality, residential, industrial and student accommodation. Each type of real estate has a different set of drivers influencing its performance. For example, the office sector is affected more by GDP and

white-collar employment growth, while the hospitality sector relies more on tourism growth. This allows GIC to create a diversified real estate portfolio across geography and sectors.

Time Warner Center, New York City, USA

Office



Westin, Paris

Hospitality



Bluewater, UK

Retail



Iglu Portfolio, Australia

Accommodation



Shenyang Vanke City, Shenyang, China

Residential



GLP Tokyo II, Tokyo, Japan

Industrial



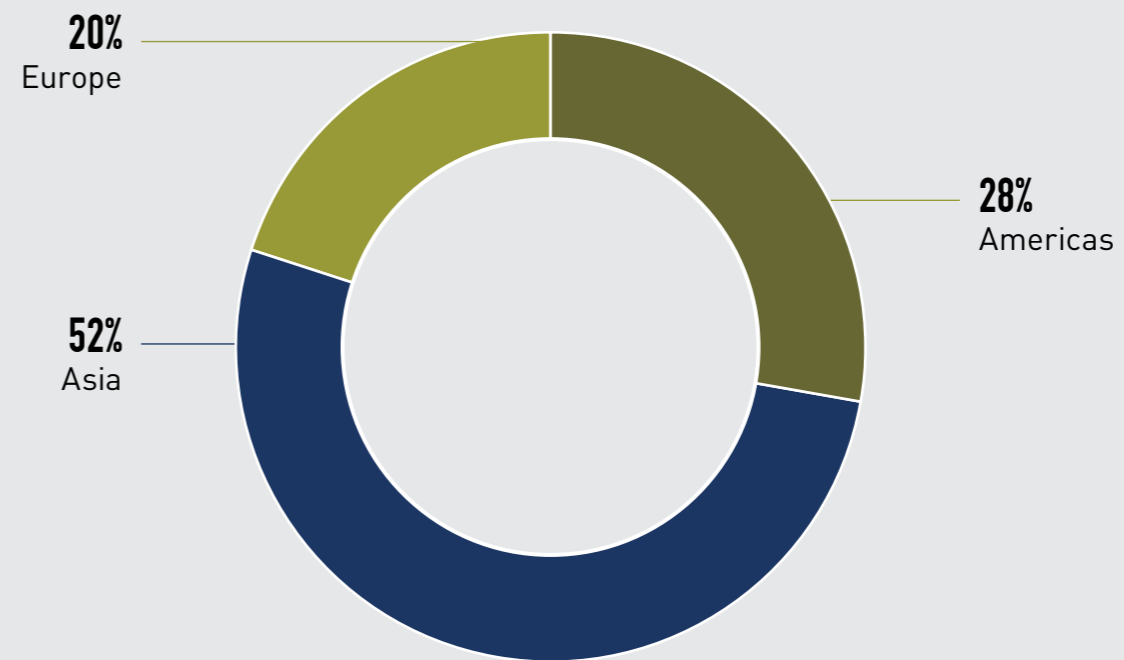
Investing With 'Boots on the Ground'

Due to the local nature of real estate markets, it is critical to have local expertise and insights in the key markets that we are in. We believe in having 'boots on the ground' for key markets and regions that we invest in. We currently have nine offices globally and in each of these markets, we undertake asset management for our wholly-owned assets. This allows GIC to enhance the value of our properties. Having a local presence also allows GIC to keep a closer watch on changing market conditions.

Investing With a Robust Process

We strive to link our view of the global macro environment to the investment opportunities that arise in local markets. While real estate markets are fundamentally driven by asset-specific conditions and risks, astute asset selection and capital allocation across geographies and sectors can enhance returns. Our teams pay close attention to risk control during the entire investment cycle, from underwriting to ongoing asset management. We make new investments only after a rigorous underwriting process, including physical, legal, tax and structuring due diligence and careful consideration of the overall market cycle.

**AVERAGE HOLDINGS IN THE PAST DECADE
REAL ESTATE EXPOSURES BY REGION**



**AVERAGE HOLDINGS IN THE PAST DECADE
REAL ESTATE EXPOSURES BY SECTOR**

