

New impact fund KGAL Core 5 LIFE reaches first closing and acquires sustainable residential property in Málaga

Grünwald, 31/01/2023 – A positive signal despite subdued market sentiment: Shortly after its launch, KGAL Core 5 LIFE, one of the few Article 9 residential real estate funds with a European focus, has received capital commitments in the hundreds of millions. The fund takes advantage of the current market cycle with increased initial yields and is scored against stringent ESG criteria. KGAL Investment Management used part of the fund’s equity to purchase a newly-built BREEAM-certified property in Málaga in southern Spain with 142 residential units.

KGAL Core 5 LIFE (Living Impact Fund Europe) is the right product at the right time. The rental housing supply is already scarce in many European regions, while the number of households in the EU is expected to grow by a further 13 million by 2040. The demand for living space is correspondingly high. KGAL Core 5 LIFE invests in seven Western European countries with liquid housing markets and positive demographic trends, with affordable housing and high energy efficiency forming important pillars of the fund’s strategy. "Sustainable real estate investments should achieve better long-term rental and value growth against the backdrop of high energy costs and tightening EU regulation," emphasises André Zücker, Managing Director of KGAL Investment Management. "At the same time, our investment approach protects against costly retrofits and stranded assets due to ESG deficits".

With a planned share of at least 80 percent Core properties, KGAL Core 5 LIFE will ensure a highly stable portfolio, while up to 20 percent Core+ investments aim to contribute above-average returns. The target volume of the Article 9 fund is €400 million of equity, with leverage of up to 45 percent. "What makes KGAL Core 5 LIFE unique is its ESG scoring model, developed together with established external ESG experts," explains André Zücker. "We measure the fund’s environmental, social and governance objectives against more than 30 criteria – far above and beyond the industry standard. Added to this is a taxonomy check."

Attractive for investors and tenants

KGAL Core 5 LIFE’s first purchase is a sterling example of the fund’s concept. Málaga is more than just beach and culture; the economy is flourishing, and multinational tech companies in particular are attracted to Spain’s sixth-largest city, with its population of around 580,000. By 2031, the number of residents is expected to grow by a well-above-average 10 percent. The increasing demand for affordable

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housing in Málaga speaks in favour of the acquired property, which was built in 2021. Another important argument is the attractive purchase price factor, combined with moderate rents considering the upscale furnishings. The property therefore represents good value for landlord and tenants alike.

The new building offers one, two and three-bedroom flats (142 in total) and four commercial spaces on a total area of 13,500 square metres, and is almost fully let. The property includes an underground car park with 215 parking spaces and six e-charging points. The building scores environmental points with, among other things, an energy-efficient building envelope, solar thermal panels for water heating, smart meters for energy and water, and very low CO₂ emissions. In addition to affordable rents, social factors include good infrastructure and barrier-free features such as ground-level entrances, ramps and lifts. There is also a communal kitchen and coworking space. Almost all the building's service functions can be done through an app – a first for Spanish rental management.

Well-filled pipeline

KGAL is conducting exclusive negotiations on further transactions in Austria, the Netherlands, Spain and Ireland. "The new market cycle in real estate presents challenges for all investors. But as this first investment of our impact fund shows, it also offers opportunities that didn't exist twelve months ago", explains Florian Martin, Managing Director of KGAL Investment Management.

The seller of the property was Madrid-based Spanish developer Neinor Homes. KGAL was advised on the transaction by its Spanish partner Edivivo Real Estate, Hogan Lovells (Legal Due Diligence and SPA) and TA Europe (Technical Due Diligence).

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KGAL is a leading independent investment and asset manager with a managed investment volume of more than €16.5 billion. The focus of its investments is on long-term real capital investments for institutional and private investors in real estate, sustainable infrastructure and aviation. The pan-European group was founded more than 50 years ago and is headquartered in Grünwald near Munich. 338 employees contribute to achieving sustainably stable earnings, taking into account return and risk aspects (as of 31 December 2021).

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