



# Infrastructure and Real Estate:

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Long Term Investments Building Europe's Future

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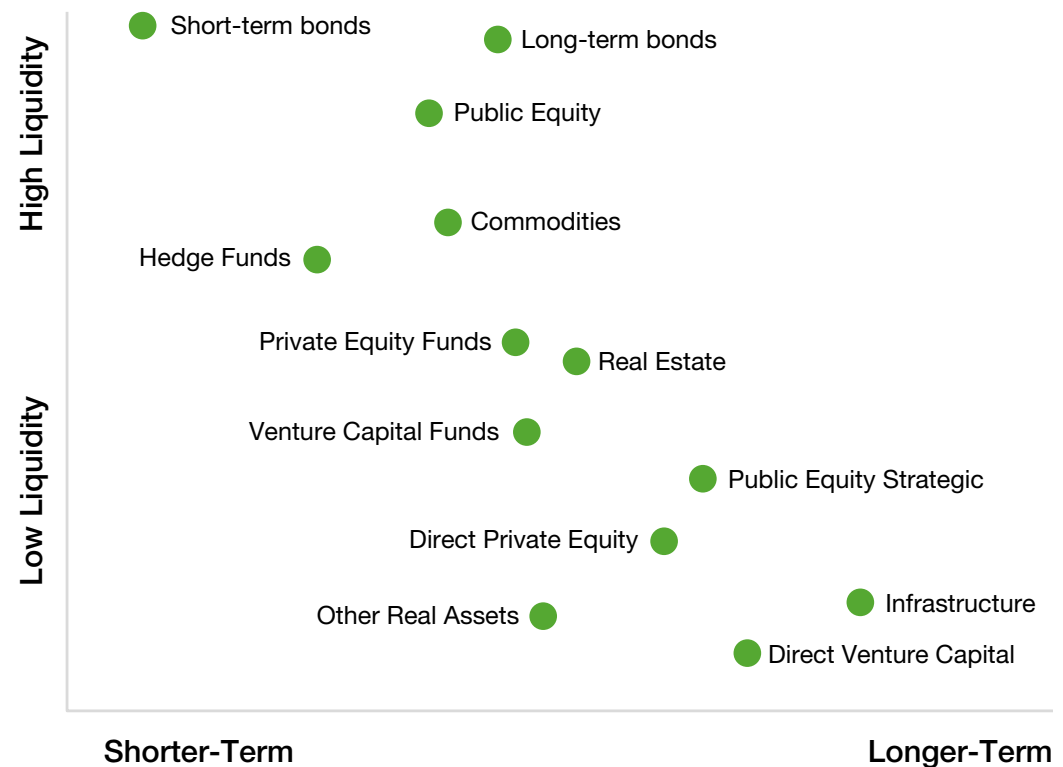
# Why do pension funds and insurance companies invest in real assets?

**Real Assets - Infrastructure and Real Estate – allow long-term investors to capture higher returns from these assets' relatively lower liquidity and transparency, in turn enabling them to:**

- Match long-term liabilities
- Protect against inflation
- Deliver commitments to pensioners and savers
- Diversify portfolio risks and returns with equities and bonds

## Infrastructure and Real Estate investments have a synergistic relationship:

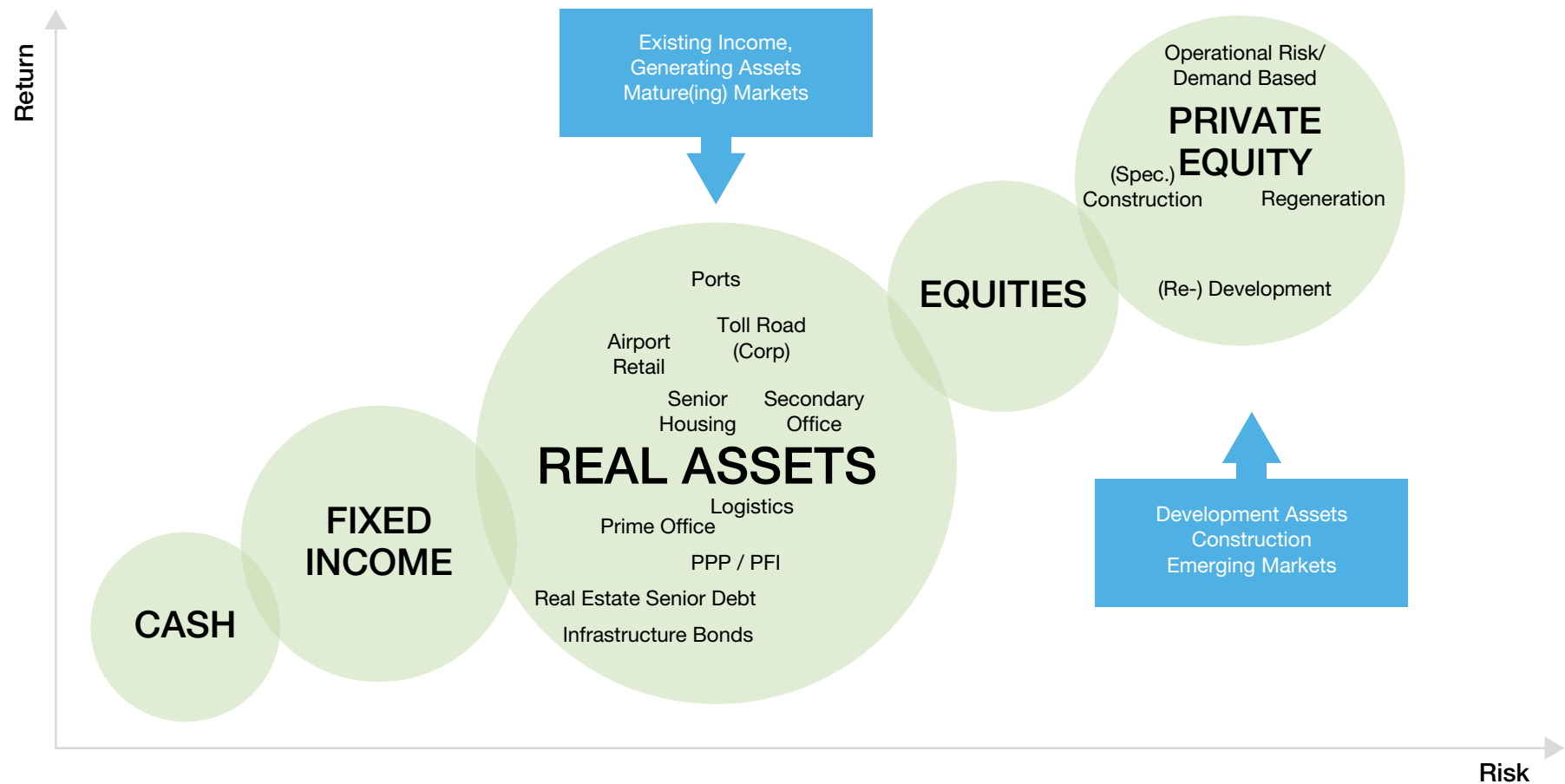
- The success of projects is mutually interdependent
- Real estate often secures the financial viability of private sector infrastructure investments



*Source: Adapted from World Economic Forum (2011)*

# Real Assets: Risk Reward Profile

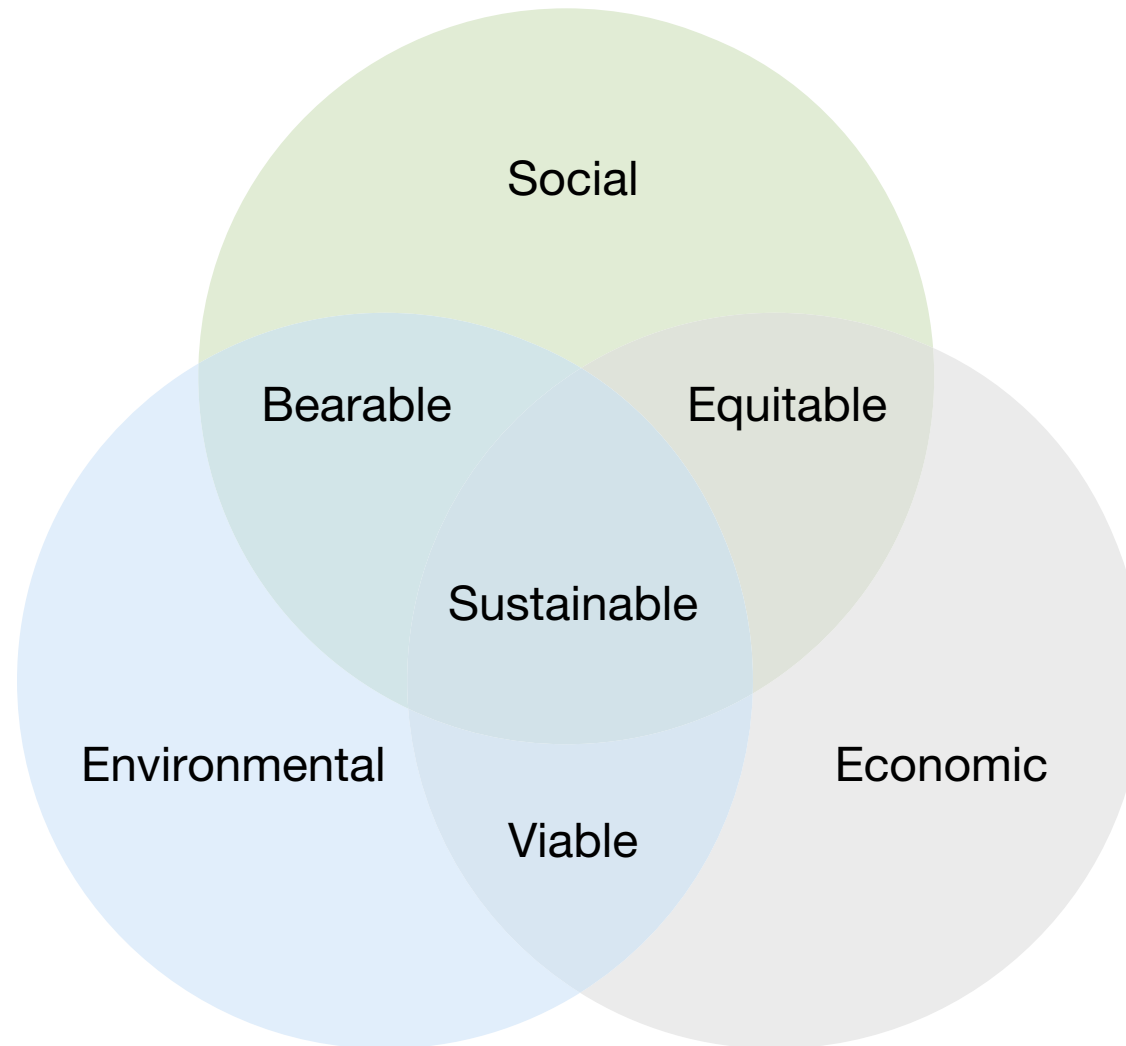
Real Assets are very diverse and include a range of transparency and liquidity characteristics, compensated for by Risk premia.



*For illustration purposes only*

# Three Dimensions to a Sustainable Built Environment

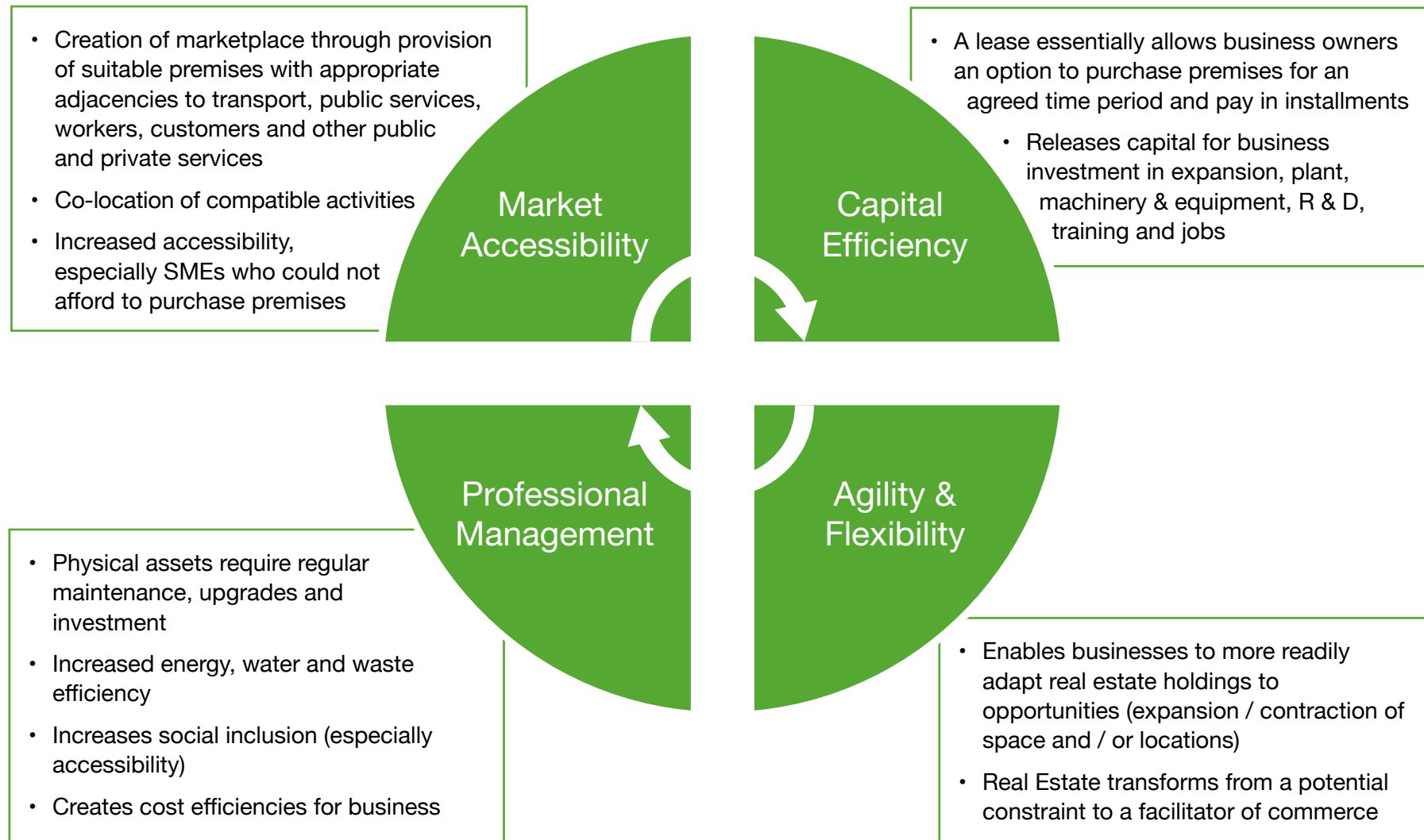
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*Adams, W. (2006); Dreo, J. (2009)*

		Economic	Social	Environmental
Real Assets	Utilities	Provision of fundamental requirements of energy, water, waste and communication systems and networks	Inclusive access to energy, water, waste and communication systems and fibre optic networks	Renewal of systems to reduce waste, recycle materials, reuse water and incorporate renewable energy sources. Requires close integration with built environment through smart technologies including smart grid and renewable technology, rainwater collection etc.
	Transport	Accessibility; efficiently linking workforce to jobs; customers to business and goods to market	Democratising mobility and access to employment, public services including health & education and other public services, and community services and activities	Reducing energy consumption, congestion and carbon emissions
	Real Estate	Physical manifestation of strategic planning. Co-location of compatible and competing activities. Provision of built environment as a factor of production for commerce including offices, retail outlets, industrial units, distribution centres, hotels, data centres, transport hubs (stations, airports) etc. Respond to macro drivers to facilitate change	Place-making. Housing. Public space. Respond to drivers of social change (eg socio-demographics). Provision of physical infrastructure for health, education and other services including hospitals, health centres, senior living, student accommodation etc.	Ensures progression of built environment through protecting, restoring and retrofitting existing real estate and developing smart buildings for the future. In doing so, is a major contributor to achieving reductions in energy consumption and emission targets

# Infrastructure and Real Estate: Enabling Commercial Activity



# Infrastructure and Real Estate:

## Functional Management of the Built Environment

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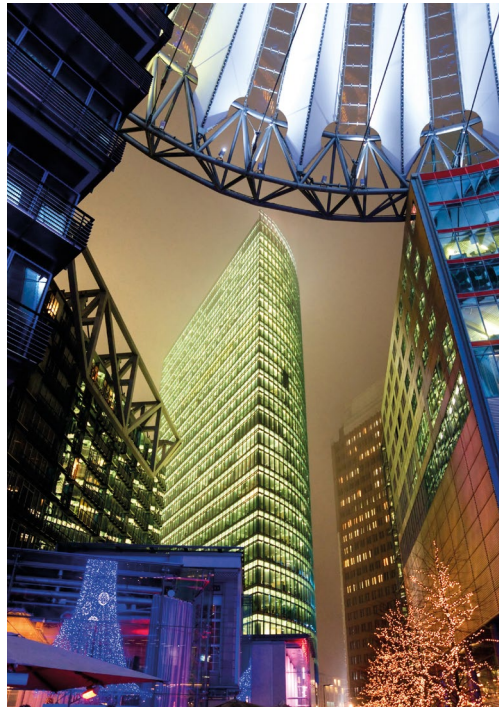
- Provision of public space and services
- Protect the historic fabric of buildings while reducing obsolescence through refurbishment, repurposing and redevelopment:
  - Energy efficiency systems
  - Change of use (i.e., commercial to residential; office to hotel etc.)
  - Installation of technology and communication systems
  - Increasing accessibility
  - Retaining façade as skin for new development
- Management and repair of existing buildings and streetscapes retain value and keep up local environment
- Often done in collaboration and / or partnership with public authorities
- Enable appropriate co-location of activities, offices, retail and leisure, services, hotels, residential etc.



# Infrastructure and Real Estate: Catalyst for Urban Regeneration

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- Often long-term partnership with public authorities, including PPP
- Real Estate and Infrastructure planning, development and success are inter-dependent
- Significant indirect social and economic benefits:
  - High associated economic multiplier of 2.9 given scale of indirect (supply chain) and induced (household income, spending and demand) effects
  - Increased employment pronounced for lower skilled workers
  - Strong environmental impact resulting in lower pollution, enhanced built environment, provision of public space and amenities and delivery of 'place', restoring civic pride
  - Increased well-being results in improved health, educational attainment and life expectancy thereby narrowing social inequalities



# Infrastructure and Real Estate:

## Transport anchored to Real Estate

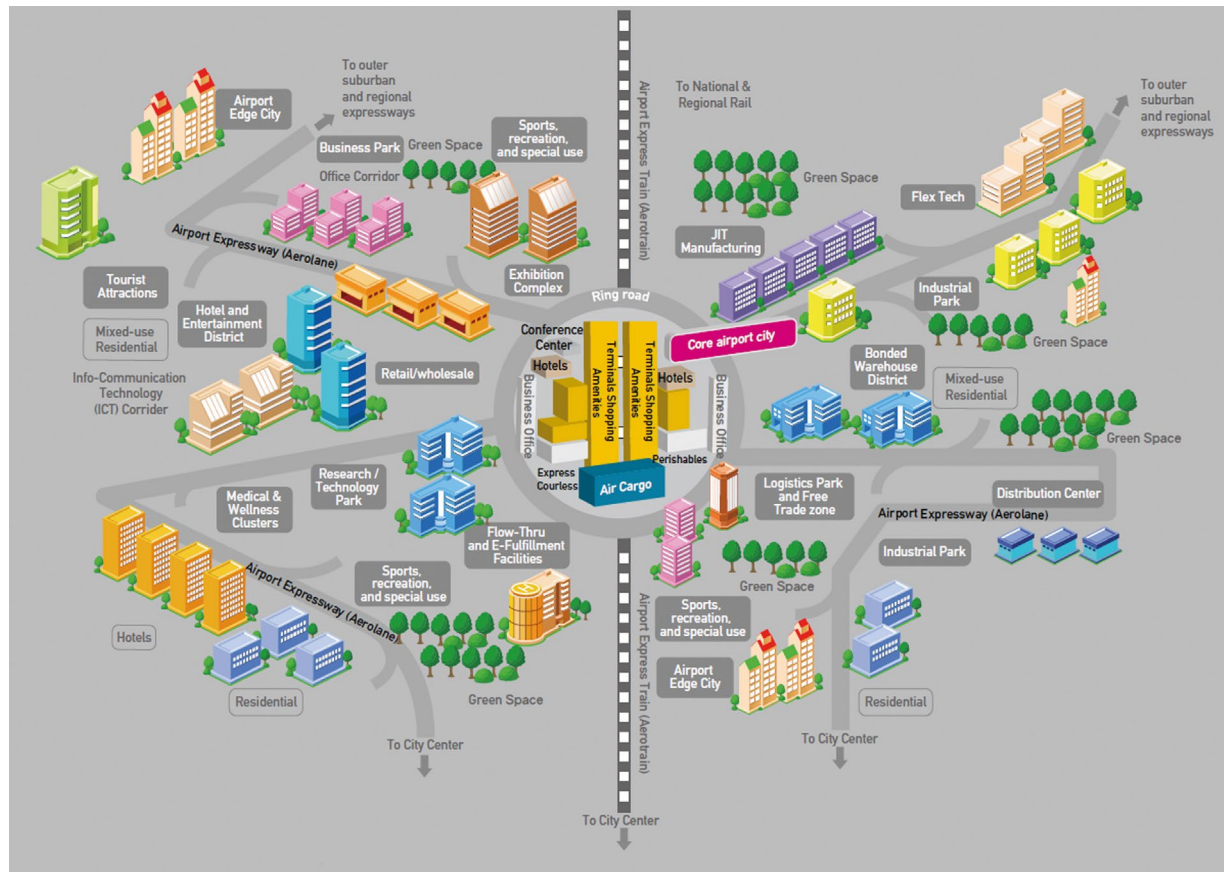
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- Synergistic relationship
  - Airports
  - Ports
  - Train stations and inter-changes
- Essential to operational success – Meets customers' space requirements (airlines, passengers, time sensitive commercial businesses, distributors, cargo, logistic operators etc.), including provision of:
  - Logistics facilities
  - Cargo
  - Bonded Warehousing
  - Long-term storage
  - Retail
  - Industrial clusters
  - Offices
  - Residential



# Infrastructure and Real Estate: Real Estate supports financial viability of many transport projects

- Revenues from transport operators (airlines, shipping, trains) are often controlled or capped
- Revenues from commercial real estate development and management offer higher returns and rental growth potential
  - Bond income + growth often required to attract institutional investment in order to:
  - Generate required risk adjusted return relative to other investments
  - Deliver returns for pensioners and savers



Source: John D. Kasarda and Taoyuan Aerotropolis

# Infrastructure and Real Estate:

## Create solutions to meet structural and cyclical challenges

- Real estate industry responds to ever changing demands of business and society, financing solutions in face of constraints on public finances
- Examples of the industries' ability to continually innovate are widespread and integral to building design, new sectors and segments, as well as re-conceiving / re-purposing established sectors. Illustrations of these include:

### Building Design:

Businesses are continually under pressure to improve productivity and since the GFC, lowering the cost base has been the primary focus of achieving such gains given challenges to revenue growth. Many companies have achieved this through greater efficiencies in their occupational portfolio, enabled by advances in the (re-)design and (re-)construction of office space that has delivered greater space efficiency, higher functionality and reduced energy costs resulting in a lower cost of occupation per employee. It also greatly lowers the environmental cost. Yet, such advances also benefit savers and pensioners as such buildings command higher rents, and being in greater demand, at a lower risk given the greater security of income.



# Infrastructure and Real Estate:

## Create solutions to meet structural and cyclical challenges

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### New Sectors:

Megatrends such as ageing society create new demands for senior housing and / or healthcare facilities that have also increased demands on public finances in an era of constraint. The CRE sector has responded through the private funding of new solutions in the form of both senior housing developments and senior care facilities, leased to specialist operators.

Similarly, expanding university places and increased use of university facilities for conferences/ exhibitions increased the quantity and quality of student housing needed. Meeting the needs of institutional investors demands for long-term secure income, the CRE sector has invested in the sector, providing a solution that meets the accommodation requirement and eased the pressure on university finances.

Technological advances pervade all aspects of real estate including changing occupier needs, increased mobility of workers, the demands of a shift towards omni-channel retail and related new customer services and revenue streams, high tech distribution facilities and the expansion of third-party logistics providers. The latter involves changing requirements for major distribution hubs through to the more emergent need for local fulfillment centres. The shift towards a technology enabled world creates a direct need for specialist real estate to house related facilities, for example, data centres.



## Responding to Structural Change:

Demographic, economic, technological and environmental megatrends create waves of change that create societal and behavioural change in how we live, work and play. CRE investors continually adapt their real estate holdings in all sectors to respond to such change.

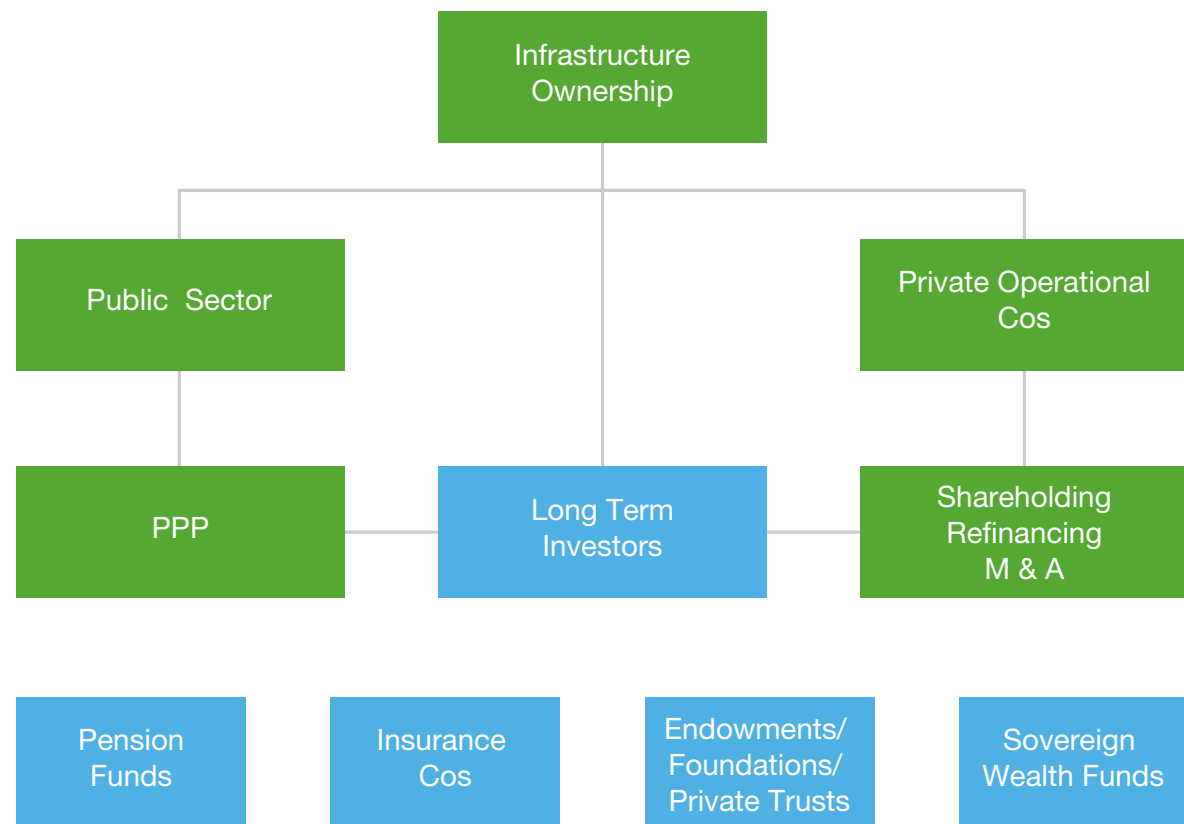
The design of office space has evolved from a cellular office and central admin pool model to accommodation that is more tailored from the outset to activity based workspaces that can accommodate multiple working modes. Moreover, the role of the accommodation in attracting and retaining talent is central to its purpose, resulting in mixed use developments that co-locate retail, leisure and residential amenities and at the same time, build social activity.

Social and technological change is transforming the retail sector from being a mere point of sale to a sector driven on delivering experience and a sense of place, community and belonging. Retail spaces are transforming into people places, increasingly anchored by social space and services, where real and virtual worlds collide to enhance consumers' knowledge, choice and experience.



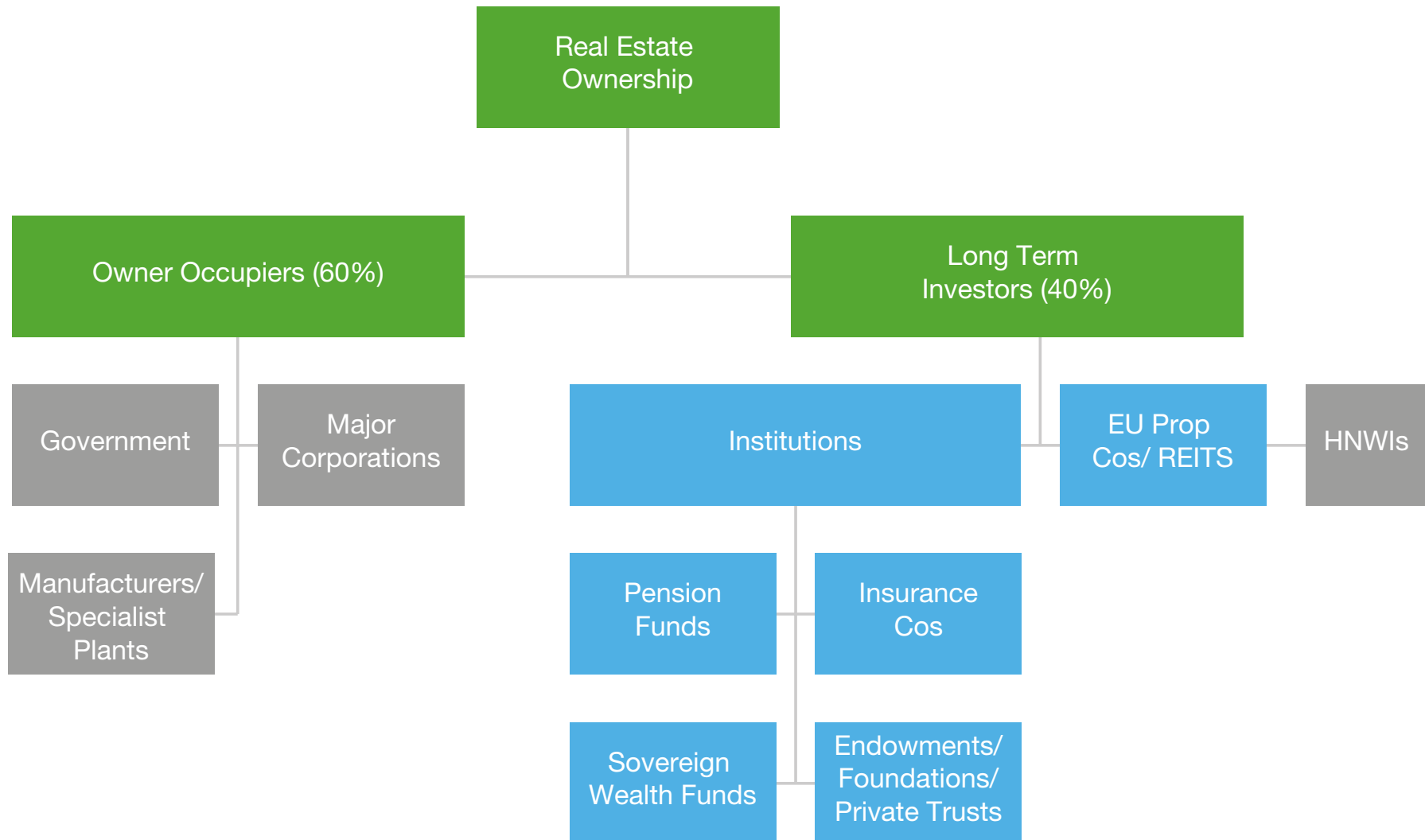
# Who Owns Infrastructure?

- Continuing rebalancing of ownership from public to private sector in an era of growing investment need against constraints on public spending
- Long-term institutional capital attracted to long-term secure income of infrastructure assets
- Activity is cross-border, lowering concentration of risk in any one economy and diversifying specific risk of any one investment for investors
- High volume of capital is recapitalising private infrastructure companies
- Strong appetite for regulated activities and PPPs
- Key to unlocking potential is in appropriate structuring against risk and reward
- Real Estate may offer a useful ownership model for infrastructure



# Who owns Commercial Real Estate?

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## How do they invest?

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	Public	Private
Equity	REITS Listed Property Cos Listed Funds / Unit Trusts	Direct Acquisition Non Listed Funds Joint Venture
Debt	CMBS	Non Listed Debt Funds Real Estate Loans Corporate Bonds

# Like Infrastructure, Real Estate Offers a Range of Investment Profiles

	Core: Secure Income	Value Add: Semi-secure Income + Growth	Opportunity: Growth
% Institutional RE Capital Invested*	75.3%	7.9%	16.7%
Balance of Returns			
Income	High	Medium	Low
Capital Growth	Low	Medium	High
Depreciation	Wasting Asset	Sustaining	Appreciating
Relative Exposure			
Liquidity Risk	Low	Moderate	High
Transparency Risk	Low	Moderate	High
Timing	Lower and cyclical	Either cyclical or structural	Cyclical and Structural

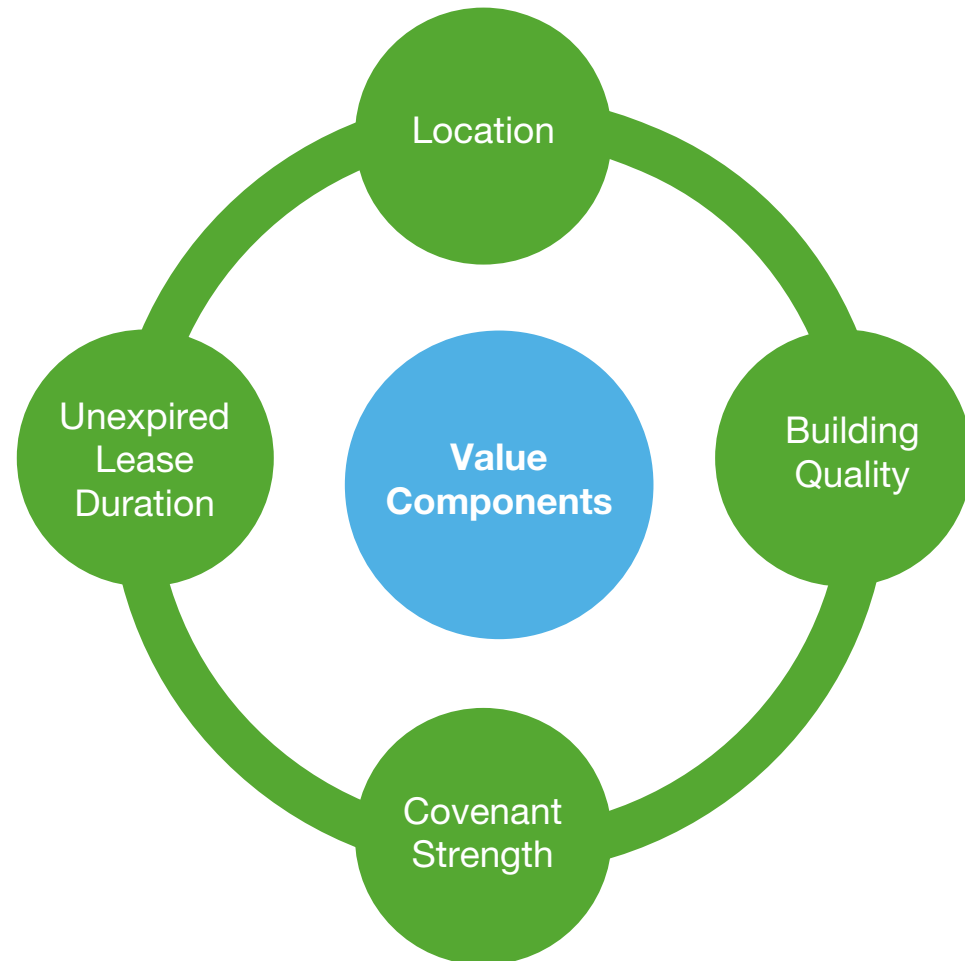
\* INREV (2011 to 2016) Capital Raising Surveys, Weighted Average of Total Capital Raised for European Non Listed Funds 2011-2016

# Real Estate as a Fixed Income (Core)

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Like infrastructure investments, it offers long-term investors an attractive risk return profile:

- No / low leverage
- A long-term, inflation-hedged, secure income stream
- Opportunity to capture higher returns from its relatively lower liquidity and transparency, enabling institutions to:
  - Match long-term liabilities
  - Provide protection against inflation
  - Deliver on commitments to pensioners and savers
- Ability to create value from asset management strategies



# Real Estate as Fixed Income + Growth (Value Add)

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Like infrastructure investments, it offers long-term investors an attractive risk return profile:

- Purchase of a quality asset at a discounted price due to a weakness impacting on the certainty of income
- Retain safety net of moderately riskier asset, but compensated by a higher yielding income stream
- Remedy through active asset management to increase and / or secure income stream, for example:
  - Rolling refurbishment programme and re-leasing strategy (increase value of space, stronger covenants, longer terms)
  - Refurbishment / redevelopment / extension of asset to increase space and building efficiency (increase lettable space and value of space, stronger covenants, longer leases)
  - Requires moderate levels of leverage
- Capacity to capitalise on expertise and create added value from asset management strategies



# Real Estate as Growth (Opportunity)

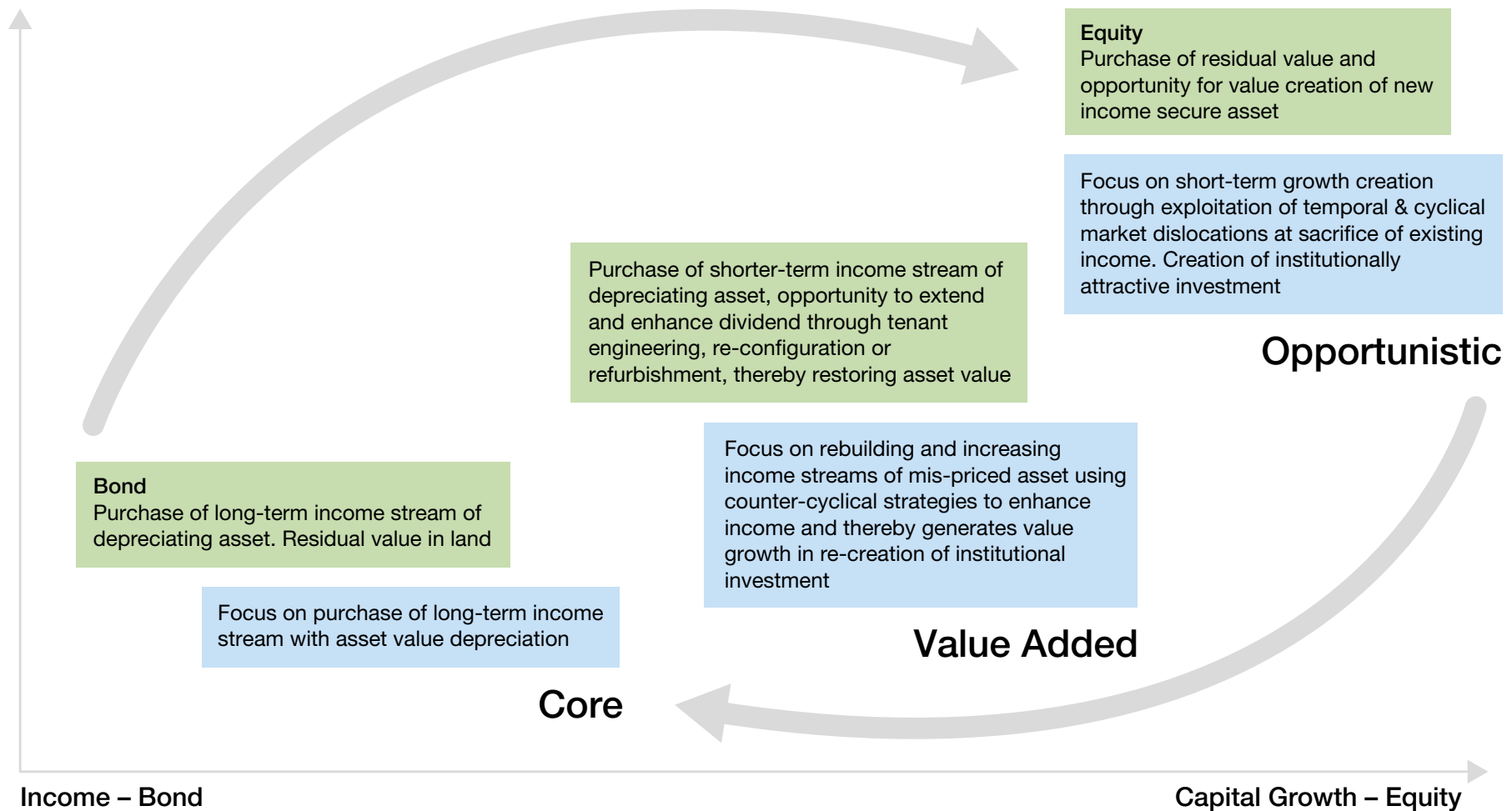
Is similar to infrastructure investments that carry construction, development or operational risk:

- Purchase of an under-utilised asset for redevelopment, repositioning or repurposing to meet existing demand
- Pre-leasing can reduce risk
- Development component necessitates high leverage
- Can generate high returns
- Remedies obsolescence and spiral of urban decay
- Generates strongest externalities for wider economy and society
- Activity creates core investments characterised by stabilized longer-term income streams



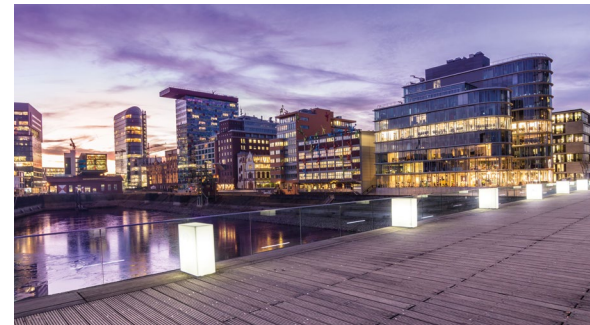
# The Life-Cycle of Infrastructure and Real Estate:

Depreciating assets need re-investment to maintain value and reverse obsolescence



# Infrastructure and Real Estate are Vital to Delivering Liveable and Sustainable Cities and Towns

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<http://www.europeanrealestateforum.eu/>