

Infrastructure and real estate: long-term investments building Europe's future

The Parliament Intergroup on Long-term Investment and Reindustrialisation and the European Real Estate Forum (EREF) jointly sponsored a breakfast event in the European Parliament on 23 November 2017. The event focused on how infrastructure and real estate are long-term investments that are attractive to institutional investors such as pension funds and insurance companies and that have many similarities and synergies. The event was part of Invest Week and about 45 people attended.

Introduction by Dominique Riquet, MEP

The event started with a welcome and introduction by Dominique Riquet, MEP, Chairman of the Long-term Investment Intergroup. Mr Riquet noted that both infrastructure and real estate are real assets that make an important contribution to both the European economy and society.

As long-term investments, Mr Riquet pointed out that they stimulate economic activity and create jobs, while generating the returns that investors need to meet their obligations to pensioners and savers. These investors support the development and maintenance of a clean, safe, modern built environment that citizens demand. Furthermore, governments on their own cannot fund the investment needs and institutional capital invested in these assets is therefore necessary.

Presentation by Dr Brenna O'Roarty, RHL Strategic Solutions

Following Mr Riquet's remarks, Jeff Rupp, Director of Public Affairs at INREV, the European Association for Investors in Non-Listed Real Estate Vehicles, introduced Dr Brenna O'Roarty, an expert on institutional investment in real assets, who presented *Infrastructure and real estate: long-term investments building Europe's future*.

Dr O'Roarty began by explaining that institutional investors invest in real assets because they allow them to capture the higher returns from these assets' relatively lower liquidity and transparency, in turn enabling them to match their long-term liabilities and protect against inflation, among other benefits. She noted that infrastructure and real estate have a synergistic relationship and that the success of projects is often mutually interdependent.

Dr O'Roarty went on to explain that real assets are very diverse and include a range of transparency and liquidity characteristics, compensated for by risk premia. Together, they constitute the three dimensions of a sustainable built environment. Infrastructure and real estate also enable commercial activity together through functional management of the built environment while acting as a catalyst for urban regeneration.

While infrastructure projects are anchored to real estate, the real estate component frequently supports the financial viability of infrastructure projects, Dr O’Roarty explained. In addition, infrastructure and real estate create solutions to meet structural and cyclical challenges facing the economy and society.

Institutional investment in real estate is much more mature than infrastructure and the strategies and structures that have been developed can serve as good models for infrastructure investment as it grows and becomes more mainstream. As depreciating assets, both infrastructure and real estate need re-investment to maintain value and reverse obsolescence.

Dr Hauke Brede, Chief Risk Officer, Allianz Real Estate

Dr Brede noted that Allianz is Europe’s largest insurance company and that Allianz Real Estate is its captive asset and investment manager. They invest in both infrastructure and real estate through equity and debt investments directly and indirectly and have approximately EUR 50 billion invested in real estate and EUR 3 billion in infrastructure.

The presentation by Dr O’Roarty captured the reasons why they invest in real estate very well, he noted. Furthermore, though, pointed out that real assets carry a certain amount of risk but these risk vary and can be entered into consciously, generally bringing higher returns with them. Infrastructure and real estate investments also allow them to diversify their overall portfolio, which is primarily invested in equities and bonds, so in the low bond yield environment, they are especially important for generating returns.

Dr Bede emphasised, though, that they invest in order to generate the returns their obligations to savers require. They cannot fund projects unless they deliver enough returns with a reasonable amount of related risk.

Hans Op ‘t Veld, Head of Listed Real Estate, PGGM

Mr Op ‘t Veld noted that PGGM, one of Europe’s largest pension funds, which supports Dutch pensioners, has EUR 30 billion in real estate and infrastructure investments. He made the point that institutional capital is very fluid and can be invested globally in order to meet their investment strategies. Approximately one-quarter is invested in EMEA.

He noted that pension funds are uniquely positioned to provide long-term private capital to meet key economic challenges such as energy transition, infrastructure modernisation and the challenges of an aging population. In their view, real assets are a key investment category to deliver change as they directly impact key challenges of future-proofing real estate investments, offering solutions in housing and developing and securing energy grids. The important prerequisites to grow European pension fund investments are homogeneity, visibility on policy and consistency.

Jeroen Reijnoudt, Senior Portfolio Manager International Real Estate, MN

Mr Reijnoudt explained that MN is the third-largest pension fund in the Netherlands. It has EUR 126 billion of assets under management, about 10% of which is invested in real assets. They invest primarily in core, low risk real estate assets in Europe and seek out infrastructure investments that fit their long-term objectives. They are especially keen on ESG goals and have a special focus on investing in renewable energy related infrastructure related to energy transition.

They invest both directly and through non-listed funds, especially very large open end funds, similar to the Odyssey funds in the US, which provide transparency, long-term opportunities and, if needed, liquidity. Their current real assets investment strategy has them looking for opportunities to invest in Europe in logistics, student housing, residential and senior living.

Mr David Percheron, Permanent Representative to the EU, Caisse des Depots Group

Mr Percheron explained that Caisse des Depot is a long-term investor supporting urban policies in France. As a public group serving the general interest, it has been financing economic development in France for more than 200 years and currently has over EUR 360 billion of assets under management.

Of the EUR 237 billion held in its savings fund and EUR 18 billion held in equity and other resources, approximately EUR 182 billion is used to support long-term loans, 86% of which is allocated to investment in social housing and urban planning projects and 14% of which is allocated to local infrastructure investment. EUR 72 billion is held as financial assets and cash, 83% bonds and the balance equities.

Caisse des Depots prioritises investments that have a significant social and environmental impact and adopts a differentiated approach based on territorial strategies. It works to ensure the long-term profitability of projects if finances, while carrying out investments in partnership with local authorities and private investors.

Discussion among participants

The participants discussed how, together, infrastructure and real estate create Europe's built environment where people, live, work and enjoy leisure activities. As asset classes, they are long-term investments that generate the returns pension funds and insurance companies need to meet their obligations to stakeholders while stimulating the economy and creating jobs. Dr Klinz noted, however, that these investments do carry risk and are subject to economic cycles.

Participants from the infrastructure sector agreed that infrastructure and real estate are mutually dependent and, as a result, neither would be successful alone. Moreover, synergies are created when investments in infrastructure and real estate follow a coherent path and for both asset classes, coherent statutory, regulatory and administrative policies are critically important.

Dr Wolf Klinz, MEP

Dr Klinz wrapped up the event by delivering the closing remarks. Said he found the presentations very interesting and thanked all the presenters for their insightful and relevant remarks on the important issues discussed. Dr Brenna O’Roarty’s presentation, in particular, highlighted the size, role and synergies of infrastructure and real estate investment. She articulately explained the extremely valuable contribution infrastructure and real estate investment make to European society and economy.

At the same time, Dr Klinz thanked the institutional investors, who each gave meaningful elaboration of how the principles Dr O’Roarty explained work in their investment strategies and enable them to deliver the returns they need for their pensioners and insurance policy holders.