

Room151

Roundtable

REAL ASSETS AND THE LGPS



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How are real estate investments being affected by inflation, demand for income, strategic asset allocation and net-zero targets? **Room151** convened a group of Local Government Pension Scheme (LGPS) investors, advisers and real estate providers to find out.

The roundtable debate was sponsored by ICG and Hines and took place at The Gherkin in London on 20 September 2022. It examined the role of real estate investments as part of a well-balanced LGPS portfolio, from infrastructure to commercial property and everything in between.

Room151

ATTENDEES

Chad Brown
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investment - managing director*
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Elizabeth Carey
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Peter Findlay
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Room151

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head of private markets
Merseyside Pension Fund

Damien Pantling
head of pension fund
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Simone Pozzato
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ICG



ROOM151 ROUNDTABLE: Real assets and the LGPS

Room151 convened a group of LGPS investors, advisers and real estate providers to explore the broader real assets world against a backdrop of inflation, demand for income, strategic asset allocation and net-zero targets.

With investors operating in an environment of soaring prices, huge economic uncertainty, geopolitical crises and concerns over climate change, real assets are increasingly seen as a way to generate stable, risk-adjusted returns that act as an inflationary hedge.

Room 151's latest roundtable debate, which took place at the Gherkin in central London, examined the role of real estate investments as part of a well-balanced LGPS portfolio, from infrastructure to commercial property.

The debate focused on four themes: inflation, demand for income, strategic asset allocation and net-zero targets. It began with some introductory comments from our sponsors, ICG's Chad Brown and Hines' Simone Pozzato.

Both ICG and Hines have extensive experience in real estate investments and offered their perspectives on which of the four themes are driving demand today.

Chad Brown (ICG): We focus on mission-critical real estate assets, by which we mean assets that are very important to the companies that operate within them. Our due diligence focuses heavily on the role an asset plays within a particular business, but also its context within the broader real estate market.

We're actively fund raising now and as you'd imagine, investors are very concerned about inflation and rising interest rates and how that impacts real estate. As a fund that typically buys long-let assets, say 15 or 20 year-leases,

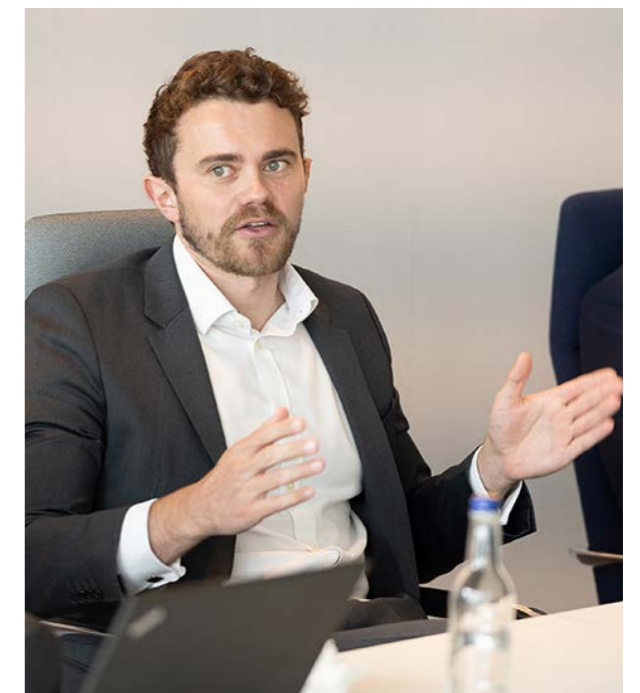
investors want to know how that is managed in an inflationary environment. One of our strengths is in identifying asset management leavers within lease structures that help us preserve and enhance value.

We also like assets where the operational risk sits with tenants rather than with the Landlord we favour triple-net leases, and we like leases where the operational responsibilities of the tenant are crystal clear.

Simone Pozzato (Hines): Since I took over the European Core Fund in 2017, we've developed the fund from investing mostly in office and retail, to a fully diversified core portfolio with a focus on rental growth. We identified 21 cities and decided to focus our energies on those geographies and on in-demand assets which appeal to the broadest group of tenants.

Real estate is about supply and demand, and our strategy is about finding assets which are supply constrained and in high demand. We're quite picky and currently we like trophy buildings like the one we're sitting in today (The Gherkin), creative office spaces, last-mile logistics, residential for rent and student housing, and luxury high-street retail.

In terms of lease-lengths we think there's a sweet spot around five years. It offers good financing terms from the banks but also provides scope for rental growth.



"One of our strengths is in identifying asset management quirks within lease structures that help us preserve and enhance value."

Chad Brown

Our investors want to see well-protected, reliable income streams and that's where we focus. Sustainability is also uppermost in investors' minds and ours too. We are a global sustainability leader in GRESB [formerly known as the Global Real Estate Sustainability Benchmark] for five years in a row and we're developing net-zero asset plans for each of our assets. Sustainability in real estate until now has largely been about collecting data. We think the next phase is all about rolling our sleeves up and working with the assets.

"Sustainability in real estate until now has largely been about collecting data. We think the next phase is all about rolling our sleeves up and working with the assets."

Simone Pozzato

“Some providers aren’t considering the huge cost of capital required to retrofit buildings and make them fit for purpose in ten, 15 years.”

Elizabeth Carey



Peter Findlay (chair): From a strategic point of view within the LGPS, which of our four themes [inflation, demand for income, strategic asset allocation and net-zero targets] resonates most strongly when looking at real assets?

Damien Pantling: Inflation has been high up our risk register, at least for the last year, on both the investment and liability sides of the operation. Of course, we want to have an appropriate asset allocation strategy, in view of our risks, and our real assets strategy is driven by the fact that we’re one of the lowest-funded LGPS funds in the country. We’re taking additional secondary contributions from employers to pay off that deficit and so we can expect to be cashflow positive for another ten or so years if all else remains equal. That gives a little more scope than many of our LGPS peers, a lot of whom are cashflow negative or will be soon, to take some additional liquidity risk. We can focus on private market assets where we have capital locked away for about ten years.

For us real assets essentially refers to infrastructure and real estate, and at this moment in time we’re a little more focussed on infrastructure.

Elizabeth Carey: There are lots of competing demands on LGPS funds at the moment. So depending on which conference you’re attending, the focus we’re told should be affordable housing or it should be impact or local investments. They should find assets that offset inflation or provide income.

Assets need to be sustainable, they need to comply with this standard or that standard, and I think there needs to be some reconciliation of these many and varied demands. The fund can’t be all things to all people.

I also think there’s some danger within the real asset space of being short-termist. I attend a lot of seminars and events and I think among real estate providers, and I’m not referring to either of the managers here today, but some providers aren’t considering the huge cost of capital required to retrofit buildings and make them fit for purpose in ten, 15 years.

There’s not enough talk about reducing operating emissions, let alone embedded emissions, and this is going to take a lot of capital investment. Investors not being sufficiently aware of this is one of my concerns.

Adil Manzoor: We’re looking at the moment at the Merseyside Pension Fund, along with our real estate provider, at whether or not the buildings we own are in compliance, and I completely agree that there are significant costs associated with sustainability requirements. It’s going to take a lot of time and a lot of capital.

We’re cognizant that if we want to achieve our net-zero target by 2050, then we have to start investing in retrofitting our existing property stock.

Peter Findlay: Does that mean sacrificing some returns?

Adil Manzoor: Over the longer term, we think retrofitting will be beneficial because there will be greater tenant demand for those types of properties. If you’re doing something in your portfolio that is destroying the environment, then you’ll pay the price somewhere else in your portfolio.

Simone Pozzato: The big buyers out there, the German pension funds for example, they just aren’t buying assets unless the EPC is rated A. So you might spend €5m on a retrofit and sometimes you may even have a tenant who

is resistant to that improvement, but when you calculate the eventual sale price of the building against the notional cost of the former, unsustainable version of the building, then we believe it’s a no-brainer commercially.

Peter Findlay: Adil, how many of your conversations about property investment begin with sustainability nowadays?

Adil Manzoor: It’s right at the top of the agenda. It wasn’t that topical even 18-months, two-years ago but it has shot up the list of priorities. ESG is now embedded in all investment management decision-making and we have short-, medium- and long-term net-zero targets that we’re committed to meeting.

Mike Hardwick: We have a specialist responsible investment team and, in a sense, they are just another vote on the investment committee but, realistically, if they don’t like something, it’s not going to get through. The RI team is a very powerful voice on the committee.

We’ve always thought about the environmental side of real assets investments. We’ve always been on the look out for blue chip tenants, but it extends well beyond that now and every large tenant has sustainability goals.

“If you’re doing something in your portfolio that is destroying the environment, then you’ll pay the price somewhere else in your portfolio.”

Adil Manzoor





“We’ve always thought about the environmental side of real assets investments. We’ve always been on the look out for blue chip tenants, but it extends well beyond that now and every large tenant has sustainability goals”

Mike Hardwick

Going back to the inflation point, I think building well is essential on that front too. If your buildings are future-proofed, they’re built well, and the energy costs are low, then you should see some inflation resilience from them.

Peter Findlay: What’s your outlook like in real estate?

Mike Hardwick: We’re about to build a portfolio from scratch, both direct holdings and indirect, through our own fund of funds. So we’re talking to lots of different managers and I think it’s less clear, compared to the last few years, which real estate sectors are going to be the clear winners. That’s a distinction I’d draw between the coming three to five years and the previous period where, say, logistics was an obvious place to invest.

Adil Manzoor: We’ve been underweight retail and overweight industrials and logistics for quite some time now. That’s not just because of the pandemic but those structural shifts were already underway and having that long-term view has stood us in good stead.

Peter Findlay: Who else has a view on sector picking within real estate?

Chad Brown: I think you have to look beyond the sectors to the major structural changes in society. So take retail – as Adil says – those headwinds have been there for a long time. People have been buying on the internet since the early 2000s.

Logistics is a great area and has been in huge demand because of the pandemic; businesses were building up a lot of inventory and there was significant growth in online sales. We took the decision three months ago to pivot out of big box logistics as we saw that consumer confidence had dipped, which we believed would result in a number of large e-com companies are going to scalscaling back on their expansion strategies. So instead, we pivoted away from the bigger, out-of-own boxes, towards the smaller, urban boxes which consequently offer better downside protection.

Simone Pozzato: The picture is much less clear than it was ten years ago. The only really strong sector conviction we have – and it’s a big deal for Hines which has been known for being an office developer – is that you have to be really careful investing in office space.

I think offices in the right parts of town, where there’s a work/play culture, will be OK. But when I think of large telecommunications offices, for example, where people are going into offices maybe three times a quarter; sooner or later the CFOs of those businesses are going to make changes as their balance sheets get squeezed.

With our income strategy we see more and more income coming from the demand for housing.

Peter Findlay: Are we going to see more commercial developers move into residential offerings?

Simone Pozzato: They will have to. And you need to start thinking about sub-sectors. There’s a big difference between a supermarket in a third-tier city and a luxury retailer in Florence. They’re both called retail investments, but one is driven by the local economy and the other by tourism. They’re completely different. The same applies to logistics, a big box in the middle of



Malcolm White

Germany and last-mile logistics on the fringe of London are very different investments.

So over the next ten years, at the sector level, we think offices will suffer. After that, it’s more about spotting the nuances between the sub-sectors.

Malcolm White: I’d be really interested to know what the group think are good hedges against inflation or market instability within the real estate space?

Mike Hardwick: I suppose an obvious one is supermarkets. It’s an essential retailer with a better than average chance of passing on inflation. The big problem there is that most leases are capped and collared. They were lovely deals in their day but with inflation running at 10%, perhaps not so clever.

How the office sector plays out is going to be very interesting. It looks like threats on all fronts, but we just had someone join us primarily because his former employer closed their office down. It might not be as straightforward as everyone thinks.

Chad Brown: Supermarkets are a really interesting area and if you can get store data and look at how the business is performing from the site, then you can make a meaningful judgment about revenues relative to rents. Where the asset has good rent coverage, you can start to have interesting conversations with the tenant about increasing the rents to support improving the building, with ESG enhancement such as LED lighting, for example. This provides ESG improvements in tandem with value preservation and inflation protection.

Adil Manzoor: Mike makes a good point about supermarkets but the other area we’re interested in is ground rents. Although the returns aren’t that high, they are incredibly defensive and well matched to inflation.

Infrastructure is somewhere else where we’re trying to obtain inflation protection. We have direct investments (through GLIL) and indirect strategies. As a cross-pool initiative, GLIL has invested in various regulated infrastructure assets and contracted cashflow generating assets. As both GP and LP, we’re able to keep



“We allocate between direct and indirect assets, but we tend not to think in terms of sectors.”

Damien Pantling

our cost ratio relatively low and we’ve been pleased with the resilience the portfolio has shown in the face of higher inflation.

Elizabeth Carey: Just returning to the discussion on sectors briefly, I think the days of separating things into convenient little buckets doesn’t suit what we’re doing any more. There are all sorts of mixed-use initiatives emerging that straddle property and infrastructure. Battery facilities embedded in communities, twinned with affordable housing for example, is an interesting idea but it doesn’t fit conventional thinking about asset classes.

Damien Pantling: I second that. At Berkshire fund level, we tend not to think or prioritise in terms of sectors. We try to be diversified for the long term and allocate across all sectors. We take our investment advice from our pool, LPPI, and the extent to which we invest in specific sectors or sub-sectors is largely guided by them. Of course, everyone has a view but we try not to express that view in our strategic asset allocation but instead in our responsible investment strategy.

Adil Manzoor: I think when you want to express a short- to medium-term view in real assets you have to be nimble, and the problem with local government pension funds is that the investment process is quite regimented. At Merseyside we are fortunate in that regard,

and we can be nimble. If we want to express a particular sector view in the short term, we turn to our commercial loan portfolio and we can access sectors that way.

Peter Findlay: How are you able to be nimble?

Adil Manzoor: We selected a different pooling route – the joint committee structure – so we’re not a pool in the sense that some of the other pools are. We don’t have an ACS [Authorised Contractual Scheme] structure at the top so we don’t have to go to the pool for approval. Decision making is quote local.

Peter Findlay: Mike do you find you’re able to be nimble at LGPS Central?

Mike Hardwick: In a fund-of-funds structure you want to be able to invest in managers who are nimble. Our role is to maintain a discipline and a structure to what we do and then employ managers who can express these shorter-term views. Through the direct route, and we do plan to co-invest in some schemes, then yes, we’ll need to be nimble. As a long-term investor, you have to be able to ignore the noise, or at least try to understand when it has stopped being noise and started being a trend.

Chris Hepburn: I’d love to hear more about the ESG expectations of underlying investors. What information or data do you prioritise and how do you want your managers to deliver it?



Chris Hepburn



Elizabeth Carey: I would say the answer is twofold. Firstly, you have the manager who wants to report on the assets that they manage and show how they’re doing well across their own range of assets. Then you have the pension fund who needs to roll all this information up with all the other managers they employ and present it in a coherent and collated way. And that is really a challenge. How do funds take all of the varied data they get from different managers and then collate it in a way that meets their TCFD [Task Force on Climate-Related Financial Disclosures] obligations, their sustainable stewardship accounting and is actually meaningful to them? I don’t think anyone has an answer to that yet.

Damien Pantling: We all have our own way of looking at things. We have a responsible investment strategy that prioritises affordable housing provided the Fund’s fiduciary duty to scheme members is never de-prioritised. Every fund will have their own priorities. Whether or not they are then reflected in their investment decision making is another matter. I think it really does depend from fund to fund.

Mike Hardwick: That’s certainly been our experience. There’s an awful lot of commonality in the LGPS and while some might prioritise local investing, for example, over some other metric, there’s also a lot of common ground. I don’t think there’s any danger of a compromise not being suitable to anyone.

Peter Findlay: And what do our sponsors think about their reporting obligations?

Simone Pozzato: I think data is the big challenge. Sometimes we spend more time collating and sending data than we do implementing ESG initiatives.

An investor asked us last year for the data for all the carbon emissions from all of our buildings. We had the data and we were happy to provide it but I really wanted to ask: what are you going to do with all of that? It’s highly technical data and I don’t know how you would integrate it into a wider report.

I think we’ve been most effective at delivering the ‘S’ of ESG when we’ve given local asset management teams the discretion to do drive projects. They understand their local tenants, their buildings and their communities. We’ve done some good stuff with John Lewis, sending goods to Ukrainian refugees. How you then report all of that in a way that makes sense to your investors is the challenge.

Chad Brown: We’re very focussed on being proactive in getting results from the information we’re gathering. We like to have not just the opportunity, but the right to work with tenants to help them improve their assets. We wanted to get away from the typical GRESB questionnaire and build something bespoke for ourselves to maximise the usefulness of the information, which we send out to tenants every year. Similarly, we like to work with tenants at the local level and work with them to support their communities. We were able to set up a pop-up vaccination clinic with one tenant, for example.

INVESTING IN UNCERTAINTY: the resilience of real estate income

Alex Knapp, CIO, Europe at Hines explains how real estate is a natural hedge against inflation and why now is the right time to upgrade assets to take on board environmental, social and governance requirements

It is no secret that the current global economic environment has several potential pitfalls that make investing well a cautious chess game with potentially expensive outcomes. Now more than ever there is a focus on the resiliency of real estate investments.

While volatility is a short-term inevitability, real estate has shown through cycles an ability to bounce back. It is a natural hedge against inflation risk. While market fundamentals have materially shifted today, real estate markets have typically recovered to their trendline of value over time.

Real estate investors have faced value declines since the beginning of 2022, to date most visibly in the public markets. These changes were driven by financing costs which have more than tripled since Q4 2021. Central banks are now acting vigorously to counter spiraling inflation, while many governments are providing fiscal stimulus to cap energy prices, thereby themselves adding inflationary pressures to their economies. Recessions are on the table in many leading countries, but even in markets which escape recessions in nominal terms, real GDP losses are likely.

We are of the view that this correction will be milder than the 2008 Global Financial Crisis (GFC), but a material market correction is almost certain. Indicators that have been green for a long time (occupancy, rising rents, compressing yields, etc.) may now look set to deteriorate dependent on local market dynamics influencing each asset. Different sectors and different geographies may not suffer homogeneously but one aspect of real



estate investments likely to become the most relevant driver for relative performance: income resiliency.

During economic distress, top-quality assets in prime locations historically have remained more resilient. These assets tend to be supported by stronger tenant demand as occupiers become more selective. Firms often use the disruption in property value as an opportunity to cut legacy space and to trade up to better locations in a flight to quality. In the current environment, a focus on the energy costs of new space is more in focus than ever.

The investment opportunity of core property

investments is not lost on the Greater Manchester Pension Fund (GMPF). GMPF provides pensions and benefits for more than 375,000 members, and it placed \$75 million into an open-ended Hines U.S. investment vehicle (Hines U.S. Property Partners - HUSPP) in 2022 to position its holdings over the medium term. GMPF's investment in HUSPP allows new investments at a moment where there are many more 'motivated sellers' than in recent history.

Within each product type, there are sectors that deserve greater focus: prime centrally located offices with strong ESG performance, last mile logistics, mid-market residential for rent assets, and best in class retail where

occupiers have rebased rents through Covid. Secondary assets, and those that are not ESG-friendly will likely suffer more and take longer to recover. Just like the occupiers, investors also become more selective.

Time for Diversification

Another important resiliency factor is investment diversification. Whether constructing a new portfolio or rebalancing an existing one, broadening scope geographically should allow one to maintain a more balanced profile. The UK was the first European country to bounce back after GFC, together with Nordics. Will that be the case again?

When considering inflation, one should seek to look through into the underlying portfolio of assets and better understand how much of the income stream is index-linked. European exposure offers index-linked leases, which are more prevalent on the continent although still rare in the UK market. Indexation should help capture rental growth passively and not leave investors holding under-rented assets. Despite being part of the same economic ecosystem, Europe offers a range of market conditions: for example, we can look at inflation rates: around 6-7% in France while more than 15% in Poland.

This deep and fragmented investable universe can – even today – provide assets with strong rental growth potential, provided investors have a sufficiently deep network of local teams. Despite all the market gloom, European property markets have generally not suffered oversupply. New construction starts are now also being markedly slowed by high costs, setting the market up for a strong recovery in due course.

Don't postpone ESG investments

In a market where values could deteriorate in the short term, investors might be inclined to postpone their ESG investments in existing assets. This is a huge mistake and creates opportunity for those willing and able to execute on asset improvements that help future proof their investments. There remain are opportunities for select new developments, as well as retrofitting existing building stock, which may be essential to meet

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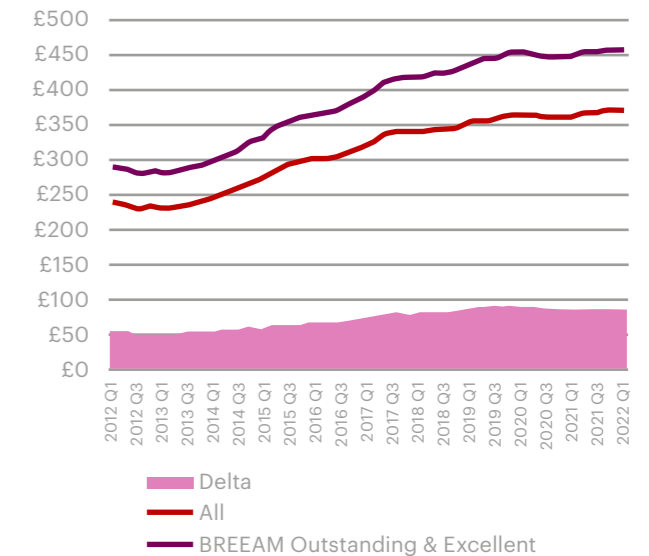
market demand for net-zero and low-carbon space, while also being more responsible when considering embodied carbon.

With the current energy crisis, occupiers of lower performing assets with higher energy costs will become even more cost-conscious. As occupiers often control their space, including the energy they use, it can be difficult for the owner or asset manager to influence the ESG transition of an asset with respect to the tenant space.

With that said, the pandemic provided evidence that occupiers, landlords and investors alike, now more than ever, are aligned with their ESG goals. A mindset shift occurred, given that many occupiers themselves have set ambitious ESG targets. Many are now actively looking for a dialogue with landlords and seek to collaborate to jointly reduce the environmental impact and carbon footprint of their space, the building frame, its envelope and systems. Equally, investors – not just in the transactions market when they buy assets directly, but also if they invest in funds – have a much more heightened awareness of ESG factors. They want to understand how a fund is dealing with its carbon footprint and how quickly it will be reduced over time. Accurate measurement of improvements is almost as important as the work itself.

There is growing data evidence that brown to green as a value-add strategy holds real promise. Buildings are also being valued on their ability to improve health, wellbeing, and human performance. Hines Proprietary Research conducted an analysis of energy certifications within the United Kingdom (UK) office market to gauge the extent of any green premium. Despite being an imperfect measure for assessing asset sustainability, the BREEAM energy certification dataset allows for a level of comparison with a growing delta in values in favor of certified assets. Demand for ESG upgrades should only increase among occupiers and core investors that do not have the technical ability to deliver cost-effective solutions. In the long term, consistent and well-proportioned investments in ESG upgrades aim to produce higher occupancy rate (driven by tenant demand)

AVERAGE CAPITAL VALUES £PSF



Source: CoStar, Hines Research as of Q2 2022. Average of City of Central London, Manchester, Birmingham, Glasgow, Edinburgh, Bristol, Leeds, Newcastle, Liverpool & Cardiff city centres.

and more liquid assets, protecting investors from the downside of “Brown discounts” and help achieve stronger pricing at exit.

Landlords that lean into ESG improvements and work with tenants should ultimately be the winners through new leases being signed and high rates of tenant retention.

Conclusion

One overriding truth: for all the negative headlines in the press, this moment too will pass. Just as the market tends to unreasonably expect ongoing structural continuity when times are good, real estate markets have equally historically ‘over-called’ the potential for structural change in moments on market weakness. Reversion to the trendline is still the most reasonable assumption. A patient pension fund viewpoint can help investors ride through pricing fluctuations. Until markets recover, investments in quality real estate can help manage downside risk while a focus on ESG improvements should optimize performance over the medium term.

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MISSION CRITICAL REAL ESTATE INVESTMENT

Protecting downside risk while delivering inflation linked income

ICG's **Chad Brown** examines why there is a large market opportunity, particularly in Europe, to utilise sale and leaseback as a means of raising long-term capital

Let us be under no illusion, these are challenging times for investors in any asset class. Whichever direction we look there are headwinds. Inflation, central bank interest rate policy, equity market volatility and Russia's war in Ukraine have resulted in an uncertain macro environment.

While uncertainty is expected to remain in the short to medium term, it is the unenviable job of investment professionals to navigate the markets and deliver a return on investable capital. Even with this backdrop, there are pockets of opportunity, for example investing in mission-critical real estate in Europe. Mission-critical real estate is best defined as property

that is critical to a tenant's business operation and that is difficult to substitute. These opportunities can be accessed via several routes, with one of the best known being sale and leaseback; where a real estate owner occupier sells its real estate to raise capital but retains operational control through the signing of a lease. These leases are often long term, triple net with rents indexed to inflation.

Data suggest that there is a large and attractive market opportunity for sale and leaseback in Europe. According to a Cushman & Wakefield report published in February 2022, 66% of real estate in Europe is owner occupied vs. 49% in the USA (the world's most developed sale and leaseback market). This 17 percentage-point difference is equivalent to approximately one trillion euros of value or 100 years of transactions at current market volumes, meaning there is huge capacity for the sector to grow. As the capital markets become increasingly restrictive and businesses become capital constrained, more and more corporate occupiers are looking to sale and leaseback as a means of raising long-term capital.

Net lease mission-critical investing offers investors the counter cyclical protection of long leases (10 years plus) and contractual

inflation-indexed rental income. This removes the uncertainty of open market rental movements and reletting risk, which are both fundamentally tied to wider economic performance. Furthermore, as the assets are mission critical, tenants typically maintain a high level of operational control, which results in them signing triple net leases. This means that the tenant is responsible for all maintenance, tax and insurance costs, and ensures that the landlord's rental income is not subject to variable costs such as CAPEX or changes in tax and insurance costs.

Just because an asset is leased by way of a triple net lease, does not mean that the landlord is unable to positively influence its ESG credentials. ICG has found that through proactive asset management and refined data harvesting, it is possible to work with a tenant to improve energy efficiency KPIs. Tenants are often aligned to this goal and open to partnering with their landlord to deliver ESG and other physical asset enhancements. These improvements can enhance underlying value and liquidity and help unlock wider value enhancements, such as lease extensions and rental increases.

Regardless of the broad benefits of investing in

mission-critical real estate, ICG still advocates a selective investment process. We believe that by focusing on key criteria, investment value can be preserved and enhanced over the long term:

- Robust tenant credit. Ensuring that the occupier is financially strong, with an ability to service all obligations (in addition to rent) with a clear business model to grow both revenue and earnings before interest, taxes, depreciation and amortisation (EBITDA).
- Sectors that serve non-discretionary spend. This ensures that even in a downturn the underlying business will continue to perform, relative to cyclical businesses negatively impacted by a drop in consumer confidence
- Ensuring that a meaningful percentage of the businesses revenue and EBITDA is generated from the site(s). This increases the tenant's focus on meeting lease obligations to ensure the business can continue to drive revenue.
- High barriers to exit, materially reducing the probability of exit from the assets. Such barriers often manifest as a material cost barrier and a fundamental reason why specific assets in specific locations are deemed mission critical by the tenant.
- Strong real estate fundamentals, ensuring that the real estate has alternate use potential, which could either be through reuse of the asset by a competing business or a business in an entirely different sector, or through redevelopment in part or whole for a higher rental income or value.

By carefully balancing the above criteria, we believe investors can deliver strong downside protection and favourable returns, regardless of market conditions, driving robust, long-term income growth with a low risk of tenant default. Furthermore, active asset management can enhance value by partnering with the tenants to help them improve the assets, especially from an ESG perspective.

We are confident that these characteristics will result in the growth of the mission-critical real estate sector during the current economic environment, as corporate occupiers turn to alternate forms of finance.

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