

# LEADING FROM THE FRONT

How are real estate investments and strategies evolving? Simon Hope, Head of Global Capital Markets, Savills, speaks to investors who are leading the charge

Global investors are at the forefront of change. They spearhead investments in emerging sectors and provide leadership for transformational issues, such as sustainability, climate risk and the move to more operational real estate models.



**Simon Hope, Head of Global Capital Markets for Savills,** speaks to Michael Neal, Nuveen, and Paul Brundage,

Oxford Properties, about their approach to these major shifts.



**Michael Neal, Chief Investment Officer, Real Estate, Europe & Asia-Pacific, Nuveen.**

Nuveen Real Estate is one of the largest investment managers in the world with \$130bn of assets under management.

**Simon Hope: How do you differentiate your strategy to attract global investors?**

Michael Neal: One way we are doing this is to provide a global solution based on investing in real estate in resilient cities. Our European Cities Fund resonated with investors and we did the same with Asia-Pacific. Both filter cities based on factors including demographic and technological change, sustainability, liquidity and transparency that will define how these cities perform. It is a unique strategy for long-term investment where we can be confident of investing through cycles. The assets that we invest into in these cities will have longevity, provide the income characteristics and the return profile that we need.

**SH: Which cities stand out with this approach?**

MN: In Asia-Pacific, there are 11 principal investment cities that have been selected, and six progressive cities. We made our first investment with that strategy in the liquid markets of Tokyo, Seoul and Sydney in the logistics, office and multifamily housing sectors.

**SH: As real estate becomes more operational, how do you ensure you have the right expertise across the range of sectors?**

MN: The operational aspects of changing sectors like retail or alternatives, such as housing can be challenging. Investment advisors like ourselves can't do it all. We need operating partners to be able to find solutions for our clients. One example is where we partnered with Milestone for a pan-European student accommodation strategy on behalf of a US client.

**SH: Where does ESG fit in to your investment agenda?**

MN: ESG considerations are incorporated into all the investment thinking that we undertake, and our sustainability team inputs into every investment decision. Climate change and the necessity for carbon emission reduction will lead to stranded assets in the future. We believe renovation to core strategies

will become more prevalent where the energy consumption that has gone into the construction of the slab and frame are preserved. We are currently working on a number of projects like this.

**SH: Do you see long-term implications on real estate from the Covid-19 epidemic?**

MN: The most likely lasting impact on real estate is an acceleration of the structural changes that were already taking place as consumers and service providers have been forced to change behaviours. The clear example is the increasing use of online shopping leading to stronger logistics demand.

For industrial and logistics, 're-shoring' is also likely with manufacturers and suppliers realising that they cannot rely on one supplier in one region. They will look for new sources to shorten supply chains.

In Europe, this could create opportunities in lower-cost locations, such as Eastern Europe, Turkey and North Africa.

Consolidation is likely in the co-working segment of the office market and, more broadly, companies will demand higher-quality fit outs with a real focus on wellbeing and flexibility.

For real estate investment, we expect even greater focus on business resiliency and the business criticality of occupied assets. Fundamentally, real estate investment is about determining the resilience and growth potential of an income stream to determine the appropriate multiple. This pandemic has brought that simple equation under even great scrutiny.



**Paul Brundage, EVP, Senior Managing Director, Europe & Asia Pacific, Oxford**

**Properties, the real estate investment arm of OMERS, one of Canada's largest pension plans.**

**Simon Hope: From a real estate perspective, what was your immediate response to the Covid-19 crisis?**

Paul Brundage: On the investment side, we were able to conclude deals that we

"THE CRISIS HAS INCREASED OUR COMMITMENT TO INVESTING IN LOGISTICS, DATA CENTRES AND LIFE SCIENCES"

had in the pipeline to sell, but some acquisitions didn't get finalised unless they were at an advanced stage so we slowed down in that respect. The other thing we have been doing is trying to collect rent, which has not been an easy exercise by any means and, of course, we've been talking to our lenders.

**SH: For the longer term, how do you think the pandemic changes your allocations?**

PB: We've gone through all of our asset classes and geographies and our long-term capital allocations, and we've either reaffirmed them or adjusted them. The overall conclusion is probably that the crisis has just deepened our convictions on our sector and geography choices both ways.

**SH: What does this mean for your sector and geography targets?**

The crisis has increased our commitment to investing in logistics, data centres and life sciences. We like residential but we do have to see whether there is increased government intervention in this sector following the crisis. Offices, which was already facing some headwinds, is probably something we will do less of now, as well as retail. By geography, it is likely to play out as more investing in Asia and less in Europe.

**SH: What challenges do you see in satisfying those allocations?**

PB: One challenge will be to achieve the returns we are targeting in those sectors and geographies as many people will be shifting in the same direction as well. In the long term, it will also be about getting comfortable as to whether the returns we were targeting before Covid-19 will be the same. We're still trying to understand whether the market is truly ready to reflect what we believe are higher risks. Therefore, we're going to be going at a slower pace to hit those allocations.

**SH: Are there other wider factors that will affect investments?**

PB: I think the role governments have played in the crisis around the world

will become a factor. They've essentially become the employer of last resort, the public service provider and the lender of last resort in many countries. And, if there was ever a moment in time when you needed a government to do this, it was now. But at some point that has to be paid for, and we will see that in future growth rates. As we move into a post-Covid-19 world as government intervention relaxes, real estate needs to play a role. We need to work in partnership on employees, on taxes, on planning, on lending and finance and then on the future of the investment opportunity, and how can we bring our capital to support that.

**SH: How is Oxford Properties approaching ESG?**

PB: Our ESG team is investing across many different projects globally. It's a thoughtful, commercial approach, and we're aiming to be a leader around it. We're trying to be even more of a leader around climate change.

**SH: Do you see a tipping point coming for real estate on climate change?**

PB: We're past the tipping point. We're in it, and we have to deal with it. We have to deploy our capital in a manner that is consistent with that and to take a leadership role.

# BRINGING REAL ESTATE TO LIFE

During the past five years, global funding for life sciences reached \$2.5 trillion. This investment will trigger high demand for real estate, which is only set to increase in the wake of Covid-19

Words: Steven Lang, Director, Savills UK Commercial Research

We've seen the growth of innovation districts in cities such as San Francisco, Boston and Cambridge in both the UK and USA. But now, the intersection of these technology-rich environments with the demand for advances in medicine and healthcare, means that the life science sector is truly reaching a tipping point.

Life science covers a wide range of medical fields, such as biotechnology, pharmaceuticals, biomedical technologies, life systems technologies, nutraceuticals, environmental and biomedical devices. Its funding levels are as deep as the sector is broad. During the past five years, more than \$2.5 trillion of capital has been raised globally, a 111% rise on the previous five-year period.

One major influencing factor is technology. Global funding for the digital health market reached \$22 billion in 2019, a pace that has essentially doubled every two years over the past decade. Potential for software and hardware tech offers new avenues to improve human health,

whether through artificial intelligence (AI) and machine learning, or data-driven approaches to health solutions.

The growth has not gone unnoticed by traditional technology companies. Google entered the health market five years ago with the acquisition of DeepMind, which uses AI in the development of new drugs.

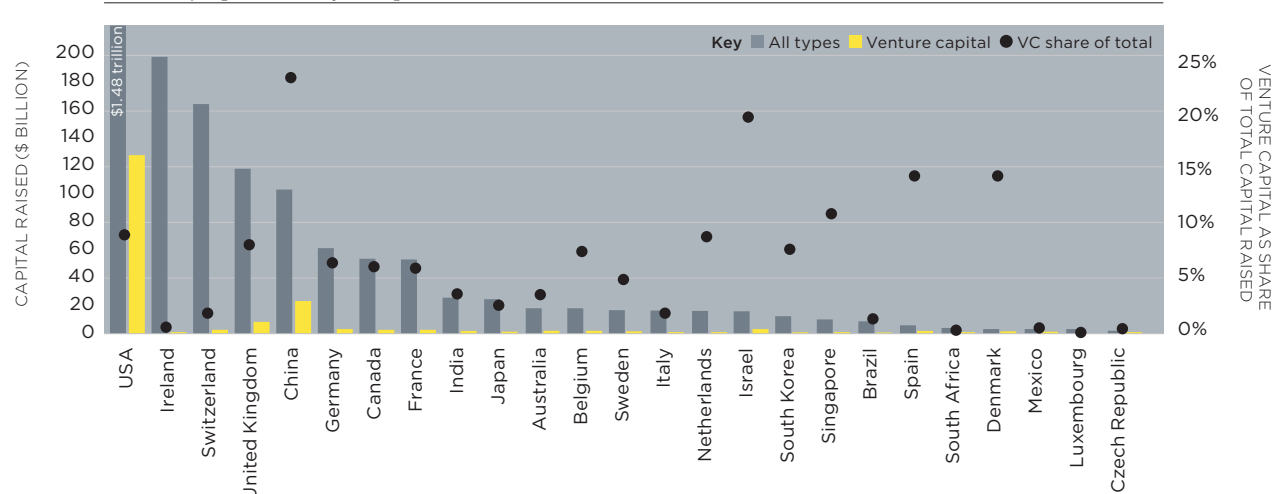
In a post-Covid-19 world, there will be a continued rise in the vaccines sector as well. The early money into this sector, being venture capital (VC), for the last five-year period (2015-2019), has seen around \$5 billion invested, globally. This is 150% higher than the preceding five-year period.

## LIFE SCIENCE AS A REAL ESTATE SECTOR

The rise of the sector has ramifications for real estate, and life science is about to be recognised as a real estate sector in its own right. Life science gives investors a chance to build a portfolio around investments that benefit from clustering in innovation districts and the triple helix of government, universities and industry to deliver on a specific aim, which, among other global issues, will include dealing with coronaviruses. From startup incubators and R&D facilities to major headquarters, the sector can also offer diversity of investments.

## GLOBAL LIFE SCIENCE SECTOR

The level of capital raised by the top 25 countries, 2015-2019



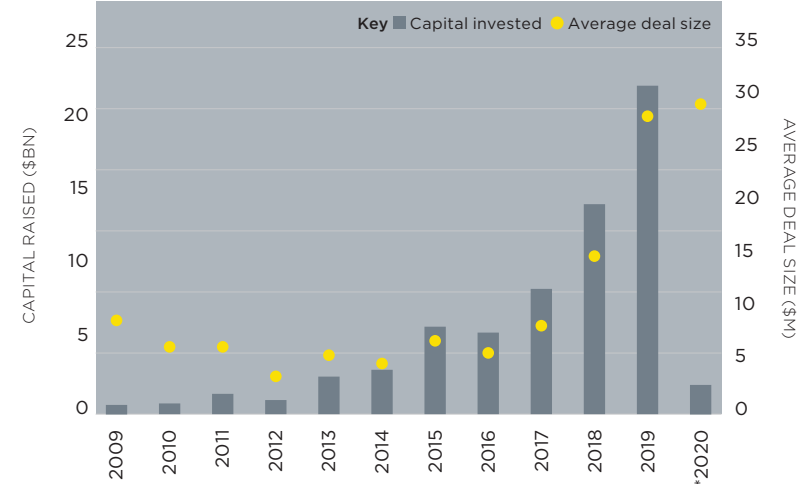
Source Savills Research using Pitchbook

61%

The USA dominates the field, taking a 61% share of the top 25 countries based on total raised in the last five years

## CAPITAL RAISED IN GLOBAL DIGITAL HEALTH

Capital flow can help be a predictor of future real estate demand



Note \*as at mid-February Source Savills Research using Pitchbook

Capital flowing into life science can help be a predictor of future real estate demand. When it comes to VC money, merger and acquisition activity and private equity investments, the USA dominates the field, taking a 61% share of countries that raised \$1 billion or more in the past five years. The global reputation of San Francisco, San Diego and Boston-Cambridge is essential to this appeal.

For early VC money, which is a good indicator of rising areas of innovation, the USA remains dominant with a 68% share (2015-2019 period).

However, China has emerged with a 12% share during the same period, compared with a 3% share in the preceding five years (2010-2014).

The growth of the VC market also highlights some interesting locations that may not yet be on the radar for real estate investors. Countries that sit within the top 25 global markets, but which also saw significant VC growth in 2019, include India, Spain, Australia and Austria. ■

## BIOMED REALTY



Tim Schoen, President and CEO, BioMed Realty discusses investment in the life science sector

**Simon Hope, Head of Global Capital Markets, Savills: How have you built up your portfolio?**

**Tim Schoen:** We've focused on established core life science markets: San Francisco, Boston-Cambridge, San Diego, Seattle, New York and Cambridge in the UK. Our total portfolio represents 11 million square feet and a further 2.5 million square feet under development.

**SH: Will you expand on those locations?**

**TS:** Our strategy has been to go deeper into these markets but we would like to expand in the golden triangle in the UK (Cambridge, Oxford, and London), and we've looked to some extent at Western Europe (eg Switzerland and Germany).

**SH: What are the important ingredients to these being successful ecosystems?**

**TS:** Each location needs to have the three tribes: researchers, venture capitalists and entrepreneurs. They all speak their own language, but when they are located in one area it creates a pretty powerful ecosystem.

**SH: What role do institutions other than universities play?**

**TS:** The medical system, along with the university in that hub, is very important. The mix of universities and hospitals provides the 'bench to bedside' research that is so important for innovation.

**SH: What can real estate do to support companies in life science?**

**TS:** Companies are starting to use real estate to attract and retain talent. They need places where researchers feel they are part of a community. A good example is our Canal District complex in Kendall Square, Cambridge, where it's easy to meet with other researchers.

**SH: How important is sustainability?**

**TS:** We want to be a good steward of the capital we invest. One quarter of our portfolio is LEED certified and we look at reducing energy in all of our buildings.

**SH: Do you see long-term implications on real estate from the Covid-19 epidemic?**

**TS:** The magnitude of long-term implications to real estate will be sector specific and correlated to the ability to widely test and develop an effective therapy/vaccine for the virus. Resumption of tenant and consumer demand are dependent upon it.

In the life science sector, scientists and researchers collaborate more extensively to accelerate R&D solutions, a trend that will likely increase in the core innovation markets. Also, I would expect biotech companies and research institutions to seek out experienced, well-capitalised owners with full-service, integrated platforms to ensure their mission critical facilities operate without interruption.