The Urban Investment Landscape

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Real estate investment market changing rapidly

DEAL WATCH

Norges-Crown Estate JV expands into Mayfair in €478m deal

L&G Property in £54m London rail infrastructure deal

PGGM and BAM joint venture grows to €600 million

Ivanhoé, APG lead $920m investment in Chinese developer

L&G brings property and infrastructure under one roof

PGGM backs London office venture

ABP-backed venture buys Norwegian hydropower operator

PKA to provide long-term financing to Danish developer
City selection
Which decision making criteria do investors use for city selection?

1. Tax & regulatory framework
2. Transparency
3. Critical mass
4. Clear city vision & urban development strategy
5. Clear governance
6. Liquidity
7. Demographics
8. Robust economic growth
Most dynamic cities receive most real estate investment

Real estate investment in European countries, Q4 2014–Q3 2015 (€ billion)
Real Estate investment → City performance → Real Estate investment
Investors prefer dynamic, innovative & liveable cities

Cities rankings 2016 (investment prospects)
1. Berlin
2. Hamburg
3. Madrid
4. Dublin
5. Copenhagen
6. Birmingham
7. Lisbon
8. Milan
9. Amsterdam
10. Munich

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Creation of ‘place’ is becoming the most important factor for real estate performance.
Differentiating good density from bad density

**Mixed Use** | **Connected** | **Planned** | **Spacious**
--- | --- | --- | ---
**Liveable** | **Outcomes of Good Density** | **Cohesive** | **Incremental**
**Designed** | **Green** | **Appropriate**
**Monotonous** | **Isolated** | **Unmanaged** | **Unliveable**
**Crowded** | **Outcomes of Bad Density** | **Conspicuous**
**Segregated** | **Inflexible** | **Ugly** | **Polluting**
The urban investment landscape
The traditional allocation model....

Listed fund
Listed fund
Unlisted fund
Direct / JV

Investors

Listed fund
Unlisted fund
Direct / JV

Real estate type
Geography
Sector / property
... is changing rapidly
The four quadrants

- Public equity
- Private equity
- Private debt
- Public debt
Investment styles: combining risk & return

<table>
<thead>
<tr>
<th>Category</th>
<th>CORE ≤ 40%</th>
<th>CORE &gt;40%</th>
<th>VALUE ADDED</th>
<th>OPPORTUNITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target percentage non-income producing investments</td>
<td>≤ 15%</td>
<td></td>
<td>15%&gt; - ≤40%</td>
<td>&gt; 40%</td>
</tr>
<tr>
<td>Target percentage of (re)development exposure</td>
<td>≤ 5%</td>
<td></td>
<td>&gt; 5% - ≤25%</td>
<td>&gt; 25%</td>
</tr>
<tr>
<td>Target return derived from income</td>
<td>≥ 60%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum LTV</td>
<td>≤ 40%</td>
<td>&gt;40%</td>
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Which investors invest where across the spectrum?
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Which investors invest where across the spectrum?

- **Core**
  - Pension funds
  - Insurance companies
  - Listed property companies

- **Value Add**
  - Specialist funds
  - Global pension funds

- **Opportunistic**
  - Developers
  - Specialist funds
Holding period vs target return

#emergingtrends
What type of product are investors looking for?
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**Core**
- Long let grade A building in a mature real estate market/sector (gateway cities, Western European capitals)

**Value Add**
- Buildings that need refurbishment/reletting in mature market/sector
- Long let grade A building in a developing market (CEE, secondary cities, maturing sectors)

**Opportunistic**
- New / re-developments in mature/developing markets
- Long let grade A building in an emerging market (BCRICS, etc)
- Corporate stake in real estate start up (student housing, etc)
What type of product are investors looking for?

Core  Value Add  Opportunistic
Current trends and outlook
Investor perspective on risk

- Short term:
  - Brexit, US election and other elections in Europe

- Medium term:
  - China’s debt unwinding
  - Brutal interest rate normalisation

- Long term: Accelerated obsolescence
  - Tech disruptors
  - Carbon-heavy real estate
Key trends & developments

- Focus on the operational performance of real estate
- Prime assets overpriced: “Develop to core”
- Combined focus on infrastructure and real estate -> real assets
- Urban regeneration – PPP
- Technology!
- Sustainability
- Residential as an asset class