

## The critical role of institutional real estate investing

Long-term investment is critical to the European economy and society, and the significant role played by institutional real estate investment is part of this vital contribution.

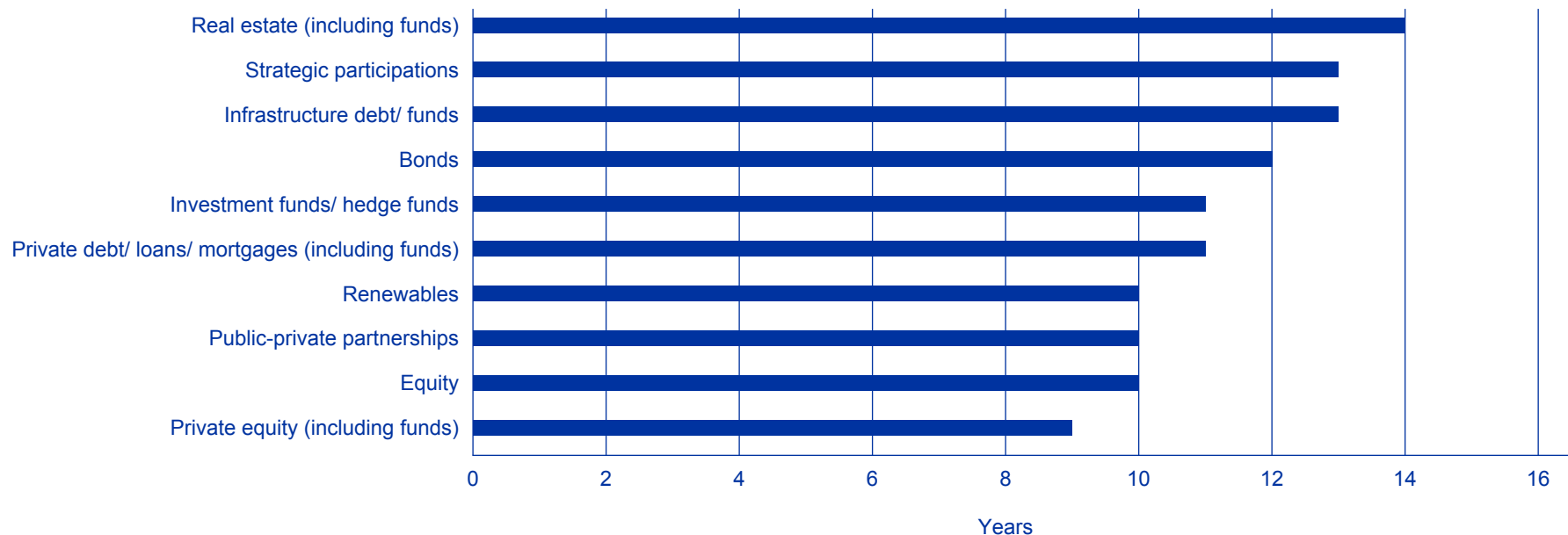
Long-term real estate investing benefits savers and pensioners but, by looking past short-term price movements, it also

anticipates and responds to fundamental changes in the financial markets, the economy and society.

Real estate investing by long-term investors ensures that space is fit-for-purpose for commerce and society from business premises and retail outlets to housing and healthcare facilities. At the same time, these

investors also protect and enhance the urban environment by maintaining and upgrading buildings as well as the wider public space surrounding them. Longer-term holdings in real estate have also provided institutional investors with an opportunity to support social infrastructure and implement sustainability initiatives to help mitigate climate risk.

Figure 1: Average holding period



## Long-term investing in real estate

Together, pension funds and insurance companies account for an estimated 80% of capital available for long-term investing, which stems from a fiduciary duty to their underlying policy holders that requires low-risk strategies linked to the payment of their future liabilities. Average holding periods for assets identified as long-term are considerably higher than for the total portfolio, with real estate having the longest average holding period of 14 years (Figure 1).

In real estate, core investment strategies are focused on prime assets that offer longer duration, secure income streams. Essentially, the lease provides long-term institutional investors with a coupon by way of the rent determined by the lease, often providing inflation hedging characteristics. This makes it particularly suitable for asset liability matching. It also delivers a higher yield due its risk premium over bonds and strong diversification benefits for the portfolio.

Core assets represent 80.5% of European pension fund and 89.6% of European insurance company real estate assets under management by value.

## The wider benefits

Real estate, in tandem with other real assets including infrastructure, is the scaffold for delivering a sustainable future for business and society. These benefits are natural outcomes of long-term real estate investment, particularly when undertaken by institutional investors whose wider remit ensures that universal objectives such as sustainability are intrinsic to their investment intentions. They include:

### Business and commerce

Real estate essentially acts as a factor of production for business and commerce, providing suitable offices, retail outlets, industrial premises, leisure facilities and residential units as well as hotels, educational and healthcare facilities. Essentially, it represents the required infrastructure fundamental to ensuring a productive and efficient economy and to meeting the changing needs of business and society (Figure 2).

### Social benefits

Social responsibility is a growing area of focus for long-term institutional investors. Many recognise that as real estate essentially provides the social infrastructure within which citizens work, rest and spend our leisure time, their portfolios have always had a social impact. Demographic, economic, technological and environmental mega-trends create waves of societal and behavioural change in how we live, work and play.

Adapting to these dynamics demands a long-term real estate investment horizon to enable asset strategies to respond.

### Environment

The role of environmental, social and governance (ESG) policies in investing has evolved significantly over the past fourteen years. It is now a primary consideration in investment decision-making and embedded in every stage of the real estate investment process from acquisition through to disposal. Directly and indirectly, commercial and residential buildings account for approximately 40% of the European Union's energy consumption and around 32% of carbon emissions. Long-term institutional real estate investors are pivotal to untapping the significant potential to reduce carbon emissions embedded in the sector to support efforts to tackle climate change.

Figure 2: Real estate as an enabler of business and commerce

