

Real Estate Investment: a Strategic Approach

Andrew Baum

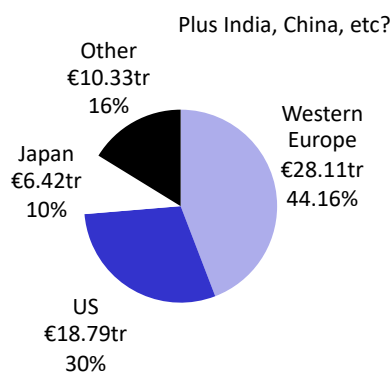
Chapter Two The Market and Players

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How big is the global residential market?



Global residential market estimated at €65tr / \$90tr in 2011 - now \$220tr?

Source: McKinsey Global Institute, Knight Frank Investors, Property Funds Research 2011

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Asset class sizes

- Global real estate \$280tr (includes housing)
- Global listed bonds \$110tr
- Global housing \$220tr
- Global equities \$50tr
- 'Investable' real estate \$30tr
- Gold \$8tr
- Private equity \$3tr

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The global property universe

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graph TD
    A["$280tr universe (Savills)"] --> B["$220tr residential"]
    A --> C["$35tr commercial"]
    A --> D["$25tr farmland and forestry"]
    B --> E["$50tr investable universe (CBRE/PFR)"]
    B --> F["$130tr Residential (owner-occupied)"]
    E --> G["$3tr in funds (McKinsey, MSCI)"]
    E --> H["$2tr in REITs (EPRA, NAREIT)"]
    E --> I["$45tr Privately held"]
    G --> J["$2tr in PERE funds (PFR)"]
    G --> K["$1tr in Core funds (PFR)"]
    I --> L["$100tr Commercial, farmland, other"]
    I --> F
    M["Equities: $70tr universe  
Bonds: $110tr universe  
Gold: $7.5tr universe"]
  
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Real estate sectors

- Commercial - occupied by businesses seeking revenue
 - Retail – shopping centres, strip and high street retail, big box
 - Office
 - Distribution and self-storage, industrial
 - Leisure – hotels, casinos, restaurants and pubs (f&b), cinemas
- Residential property - occupied by individuals seeking shelter
 - Student, retirement, private rented/multi-family
 - Social infrastructure - former government property
 - Medical, education, public housing, prisons
- Farmland and forestry - food and commodity production

The IPD UK universe, 1991 and 2001 (£m)

Number of assets/percentage of universe

	1991		2001	
Retail	17,227	37.4%	50,703	45.4%
Office	21,736	47.2%	42,866	38.4%
Industrial	6,120	13.3%	14,989	13.4%
Residential	141	0.3%	519	0.5%
Other	865	1.9%	2,685	2.4%
Total	46,090		111,761	

UK real estate market, sector structure 2021

	1991	2001	2021
Retail	37%	45%	24%
Office	47%	38%	27%
Industrial	13%	13%	27%
Residential	0%	1%	9%
Other	2%	2%	14%

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Sheds and beds replacing office and retail (US)

FTSE NAREIT All Equity REITs Index Ex-Infrastructure

Year	Retail	Office	Residential	Industrial	Centres	Data	Storage	Self	Healthcare	Lodging
2000	20%	30%	10%	10%	10%	5%	5%	5%	5%	5%
2005	30%	20%	15%	10%	10%	5%	5%	5%	5%	5%
2010	25%	15%	20%	15%	10%	5%	5%	5%	10%	5%
2015	20%	10%	25%	15%	10%	5%	5%	5%	15%	5%
2020	15%	5%	30%	20%	10%	5%	5%	5%	15%	10%

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The players

- Investors – sources of capital
- Managers – of money
 - Fund managers
 - Portfolio managers
 - Asset managers
- Funds, or vehicles
- Advisors
 - Property managers

Sources of capital

- Pension funds
- Sovereign wealth funds
- Insurance companies
- Investment banks
- Endowment and charities
- Private investors
 - Family offices and high net worth investors
 - Retail investors

Top 15 global investors

Domicile	Capital name	Type	Total value of fund (€bn)	Value of property (€bn)
Japan	Japanese Government Pension Investment Fund	Government Fund	1056	41 (4%)
US	MetLife	Life Assurance Fund	856	36 (3%)
Norway	Norwegian Government Pension Fund Global	Government Fund	788	25 (3%)
China	China Investment Corporation	Government Fund	670	66 (10%)
Canada	Manulife	Life Assurance Fund	663	12 (4%)
UAE	Abu Dhabi Investment Authority	Government Fund	651	47 (8%)
Germany	Allianz Insurance	Life Assurance Fund	504	10 (2%)
Italy	Generali	Life Assurance Fund	501	12(4%)
Saudi Arabia	Saudi Arabian Monetary Agency Foreign Holdings	Government Fund	492	58(12%)
Kuwait	Kuwait Investment Authority	Government Fund	487	16 (3%)
Japan	Nippon Life Insurance	Life Assurance Fund	431	4 (1%)
Netherlands	Aegon	Life Assurance Fund	425	8 (2%)
Netherlands	ABP	Pension Fund	397	45 (10%)
China	Ping An	Life Assurance Fund	352	2 (1%)
Korea	Korean National Pension Scheme	Pension Fund	336	38 (11%)

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The GPIF case

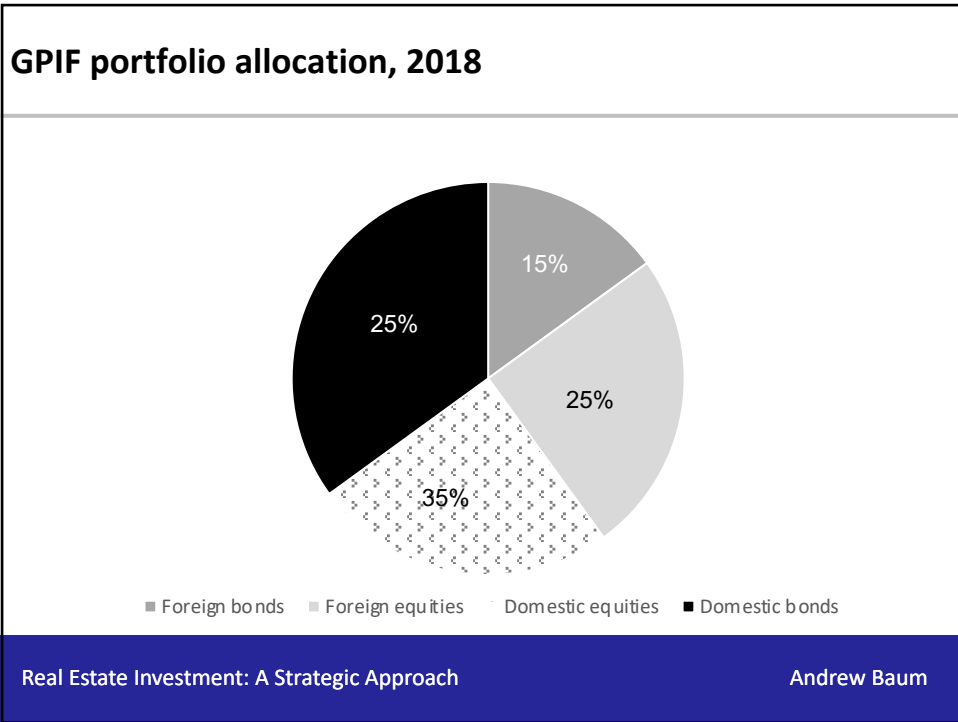
*It is inevitable that Japanese institutions will move into global real estate. But it will take time and poses many challenges, writes **Sharon Hayes (IPE Real Assets March/April 2016)***

Japan's Massive Government Pension Fund Shakes
Real Estate World
By ALEX FREW MCMILLAN Follow | DEC 19, 2017 | 10:00 AM EST
An investment-allocation process has begun that any fund manager should watch, particularly those involved in alternative assets such as real estate.

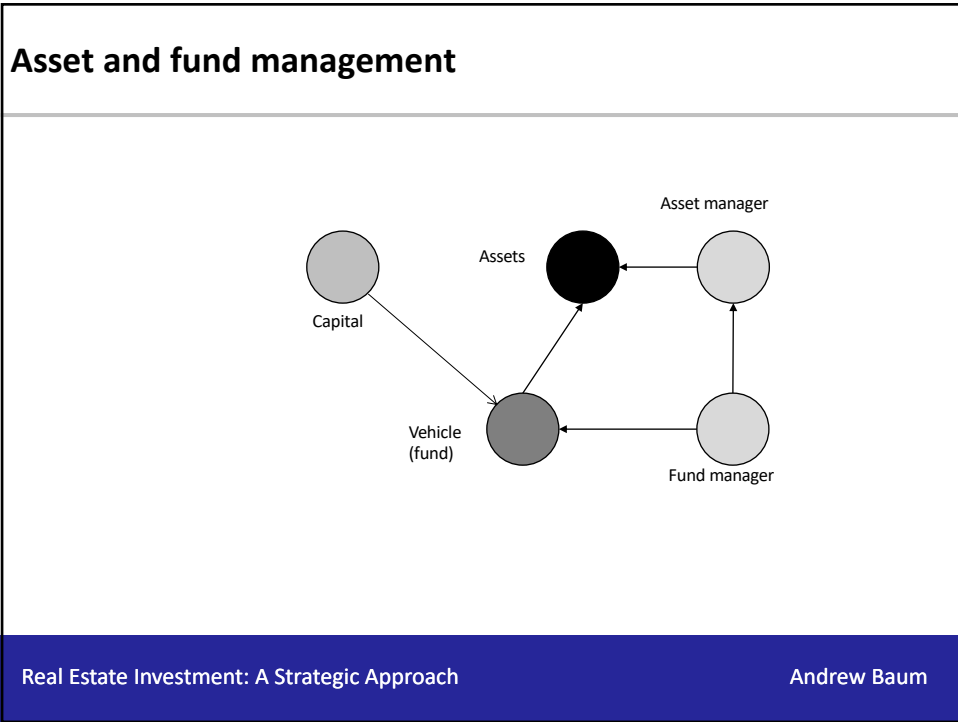


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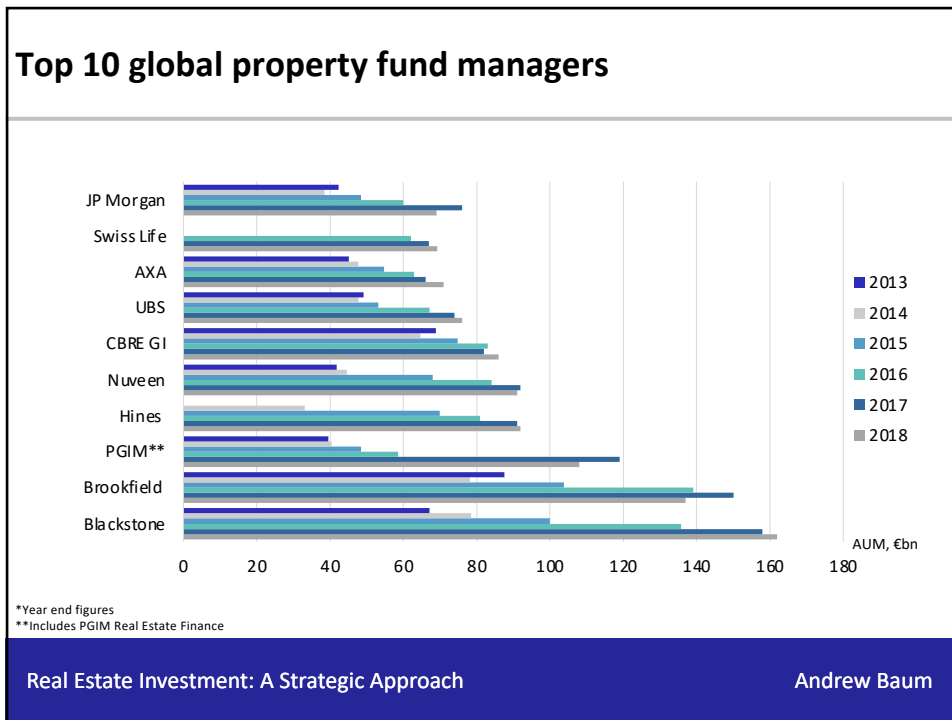
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The GPIF case

December 20, 2017 6:00 am JST

Japan's pension giant steps into real estate GPIF diversifying portfolio away from stocks and bonds

The Government Pension Investment Fund has been taking on riskier assets due to historically low bond yields

TOKYO -- Japan's Government Pension Investment Fund is starting to actively invest in domestic real estate funds in a bid to boost its returns.

The GPIF, which has no internal real estate expertise, has already decided to diversify its portfolio away from stocks and bonds. The entity will invest up to 5% of its 156 trillion yen (\$1.37 trillion) holdings in alternative assets such as infrastructure projects, private equity and real estate. The fund has been looking for outside asset managers specializing in those areas since April.

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The GPIF case

- The Japanese government pension fund - with Yen-denominated liabilities - is seeking a \$68.5bn exposure to alternative assets such as infrastructure projects, private equity and real estate
- The fund has no current exposure to real estate. Initial exposure expected to be \$5bn
- Long term horizon, moderate risk appetite, skeleton in-house team
- What is your recommended strategy? And your execution model?