The Role of Real Estate Securities in an Inflationary Environment

Stephen Hayes
First Sentier Investors

Global Property Securities

Real Assets – Real Inflationary Hedge

For advisors and institutional use only

First Sentier Investors

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Structural Benefits of REITs

Investors

Invest in REIT →

← Dividends in Distributions

REIT

Acquisitions and Capital recycling →

← Rental Income

Assets

General Features of REITs

- REITs must pay out at least 90% of their taxable income to shareholders (most pay out 100%), shareholders pay the income taxes on those dividends.
- Typically derive at least 75% of its gross income from rents from real property, interest on mortgages financing real property or from sales of real estate
- Listed REITs are professionally managed, publicly traded companies that manage their businesses with the goal of maximizing shareholder value.

1270 Valley Brook Avenue, Meadowlands

Source: Nareit and First Sentier Investors. All information is referring to the US REIT model. Image Source: Prologis

Sub-Sector Investment Opportunities

Property Types

- Data Centres
- Self-Storage
- Logistical Warehousing
- Hotels
- Healthcare
- Shopping Centres
- CBD and Suburban Office
- Retirement Assets
- Residential Investment and development

Observed Trends

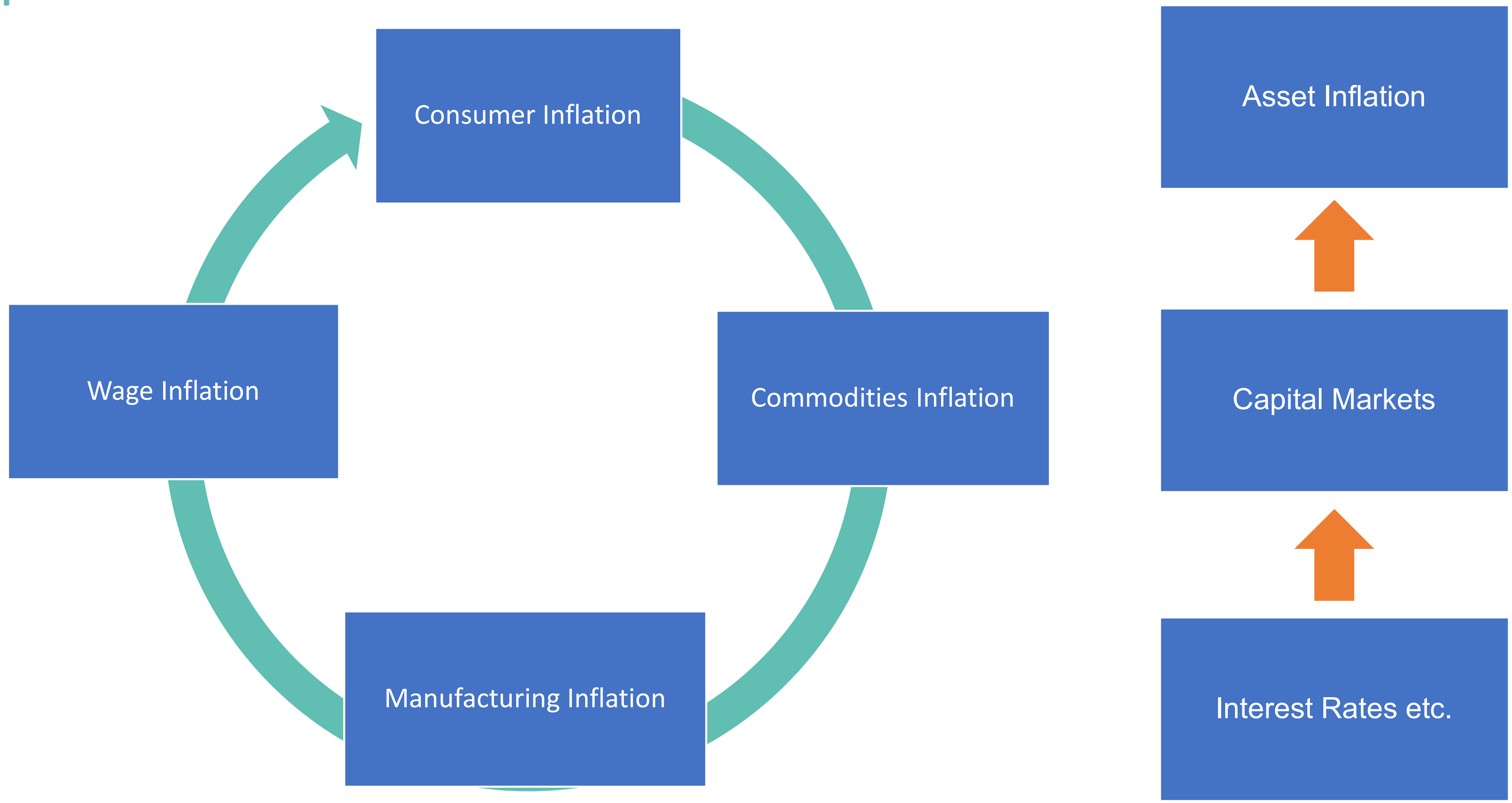
1. Rise of alternative asset classes
2. Defensive real assets within growth sectors
3. Adoption of specialised REIT models

Source: First Sentier Investors, for illustrative purposes only

Inflation

- Excess money supply. Central banks have started tightening from ultra-loose levels
- Pandemic related Government Fiscal stimulus programmes – in run off
- Pandemic related supply chain disruption – mainly labour productivity
- Geopolitical risk in Europe has added fuel to the inflation fire
- Either way inflation likely to persist longer than anticipated

Types of Inflation

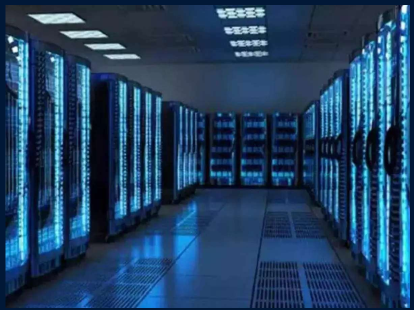


Source: First Sentier Investors, for illustrative purposes only

Points to Consider

- When considering inflationary hedges, we focus on inflation holistically rather than just consumer inflation

- Another simple way we think about inflationary hedges is ***Pricing Power***



Long Term Structural Trends

- Continued growth in e-commerce adoption
- Investment into improving supply chain efficiency and resiliency
- Technical advancement and rising data consumption
- Growth in renewable energy generation
- Rapid advancements in pharmaceutical research and development
- Falling home ownership

Image source: Economic times, business insider, getty images

Capital Reallocation

Traditional Industries

Dirty Energy

Redundant Technologies

Labour Intensive Manufacturing

New World

Digitalisation

Health Care

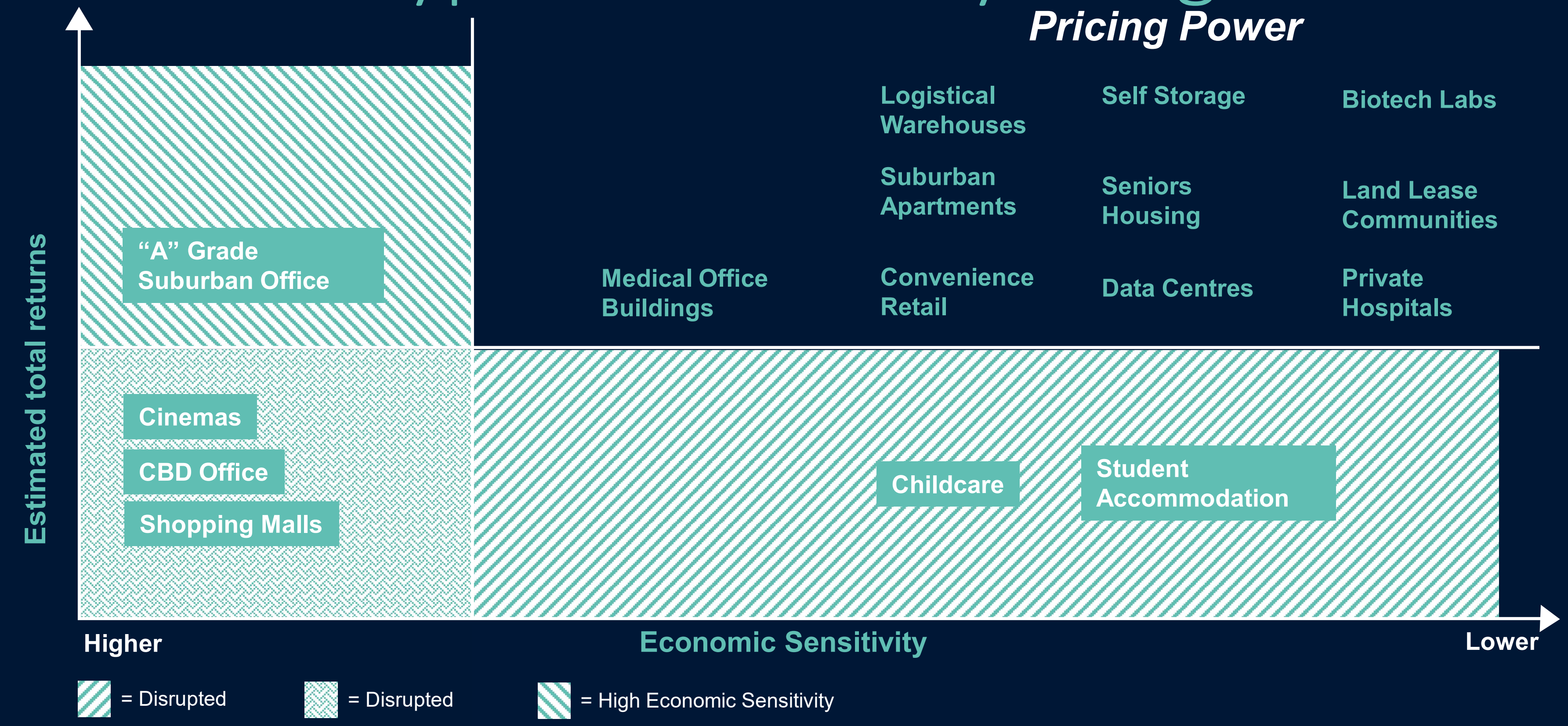
Renewable Energy

Social Media and Content

Mechanisation

- Source: First Sentier Investors, for illustrative purposes only. Image Source: vox.com, Digital Realty, theurbandeveloper.com

Real Estate Types Inflationary Hedge



Source: First Sentier Investors, for illustrative purposes only

Logistics - So what can a smart phone do?

Amazon Oakdale West Fulfilment Centre – Goodman Group

Image source: Goodman Group

Apartments for Rent

Societal change driving opportunity

UDR – Pacific City Huntington Beach

Image source: UDR

Digital Realty - 350 East Cermak, Chicago

Image source: First Sentier Investors

Data Centres

Societies rapid adoption of technology

Office Buildings

Disruption in the CBD

New York Central Business District

Image source: Quitnet.com

FSI Global Property Net Zero Initiative

Image Source gettyimages

ESG assessment and monitoring

"We believe the meticulous understanding of the global property securities sector garnered over many years is unrivalled, facilitating our in-depth ESG analysis"

ESG integration

- Like all fundamental risks, ESG factors are reviewed continuously by investment analysts and portfolio managers. In-house research is by far our most important source of ESG related information
- Within our team we have a dedicated ESG champion who acts as a conduit between the Global Property Securities team and the Responsible Investment team.
- We also monitor ESG information through third party data providers, including MSCI and Sustainalytics. This is a benchmarking tool rather than the basis of our approach

ESG Assessment Criteria

Environmental	Social	Governance
• Energy efficiency • Recycling and waste management • Use of renewable energy (e.g. solar panels) • Carbon footprint • Sustainability initiatives	• Community initiatives • Health and safety • Inclusion and diversity • Equal opportunity • Human rights • Occupational Health and Safety	• Board experience and composition • Alignment of interest • Accountability • Disclosure • Risk management • Shareholder rights

Real Estate and a Net Zero Initiative

Properties Global Importance

- Real estate including embodied carbon contributes to approximately 40% of global greenhouse gas emissions
- The building sector has the largest potential to reducing greenhouse gas emissions compared to other sectors
- As the population approaches 10 billion world building stock set to double in size

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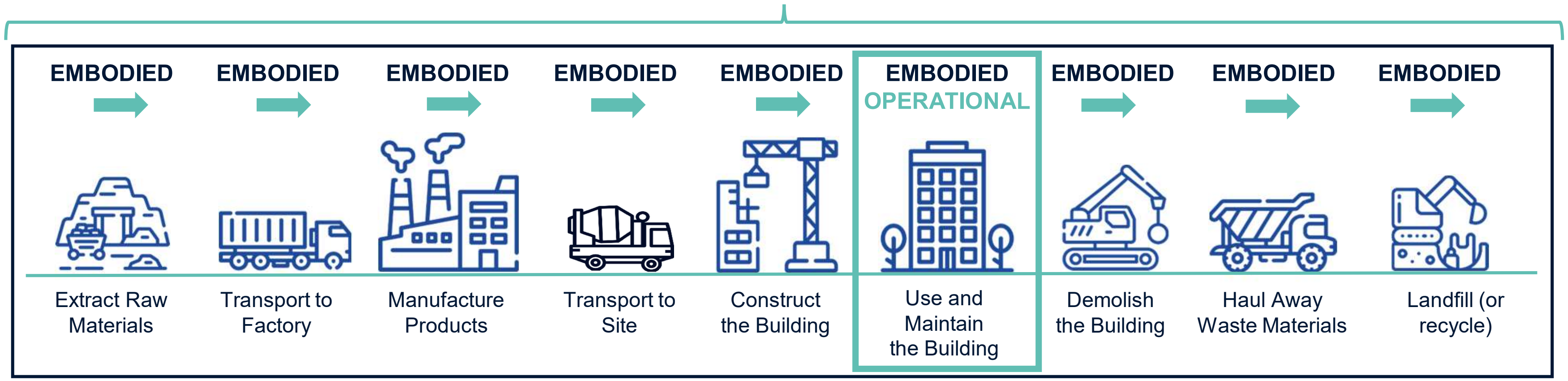
FSI Initiatives

- Already having **Responsible Investing criteria** in our **investment process** we are now taking it a step further
- Implementation of **proprietary,** ground up **carbon emission analysis**
- Ability to analyse **Embodied Carbon emissions**
- A vision to **bring about change**

Source: World Global Building Council

Embodied Carbon Real Estate Lifecycle

Complete Carbon Lifecycle Assessment



11%

of estimated global emissions are from embodied carbon

- Source: buildpass.co.uk.

Net Zero Analysis Summary

Portfolio Modernisation

- Development
- Re-development
- Capital recycling

Embodied Carbon

- Green Materials
- End of life recycling

Carbon Offset Programmes

- Redefining businesses corporate social responsibilities
- Regenerative programs
- Renewable energy investment

Renewable Energy Procurement

- Solar
- Wind
- Biomass

On-site Renewable Energy Generation

- Solar
- Wind
- Geothermal

- As at 30 June 2022

Global Property ESG Reporting

Proxy voting information
https://www.firstsentierinvestors.com.au/au/en/adviser/responsible-investment/responsible-investment-proxy-voting.html

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Questions

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