Investors' Appetite is Unabated to European Infrastructure and Properties

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Although it is not surprising to us, we still take comfort to see that Aware Super, one of Australian largest pension funds, has just announced to invest A$16 billion (10% of its total assets) into European infrastructure and properties over the next three years despite of the geopolitical tension in Europe. FT article of March 7th attached.

Australia's Aware Super joins megafund rush into Europe

The country's funds that collectively control more than $2tn are targeting offshore deals

Aware has outgrown the Australian market and is looking to open a dedicated investment office for Europe. Another megafund, AustralianSuper, already has a base in London © Simon Dawson/Bloomberg

Source: Bloomberg

What is worthy of noting is not only the investors' unabated appetite toward Europe, but the investors' unabashed focus of their asset allocation into European infrastructure and property sector only, which, dare I say, seems to be a fancy way of saying to invest probably a majority in European logistics warehouse and industrial properties. Aware Super actually is not the only one to do so, as the FT article says, Australian Super has decided last month to invest further 10% of its total AUM into Europe and the UK.

CGL has started investing in European industrial property sector five years ago, and now not only has accumulated 1.5 million sqm of warehouse space, but also more importantly, built a strong and experienced global platform, which has competed successfully against many bulge bracket asset managers in the sector and proved its capabilities to grow its asset base into a much larger scale generating double-digit annual returns.

Source: CGL's current portfolio

As shared with you in our last quick write-up, we should again point out that CGL only invests in “European Union countries”, a concept hugely different from “European countries” in terms of geopolitical risk. Some asset managers would like to whitewash their misjudgments by saying that it is “systemic risk” or “Force Major” when the situation such as the Ukraine War happens. We will all make mistakes at some point, but being paid for fiduciary responsibilities to investors, professional asset managers, if truly professional, should not shirk away from being held accountable for investing in some clearly un-investable countries lack of basic check-balance institutions and rule of law. I think you all know which countries we talk about…… As such, since the founding day of CGL, it has been our unwavering principle that CGL is only investing in “European Union countries”, not just any of “European countries”.

If, God forbid, the current war were spreading into any of the EU member countries, which NATO including the U.S. is legally bound to send their own militaries to protect, we would all have had to brace for the global asset melt-down, not just the European asset’s. In that case, logistics and industrial properties, being safe-haven in nature as real estate, would still fare better than most other asset classes if not all.

For the above reasons, we continue to see mega investors such as Aware Super pouring their cash into European infrastructure and property investments. Even with so much flow into the sector, we still believe it is just a tip of iceberg. What we have seen the capital flows so far are mostly from developed countries such as the U.S., Canada or Australia. Asian investors, other than Korean to certain extent, by and large still have not fully grasped the investment potentials of European logistics and industrial properties. Why is that? We think there are three key reasons, which all point to a changing dynamic that will lead to increasing asset allocation into European infrastructure asset by Asian investors, particularly Hong Kong and China.

Firstly, Chinese economy is maturing and good investment opportunities are few and far between. In the past, Asian investors did not have to look beyond China for attractive opportunities, so few would bother to look into other markets such as Europe. But as China enters into a low-growth, tepid-demand, fast-aging demographic phase, the steady growth asset in developed market such as European logistic properties becomes way more desired than the ones in China.

Secondly, Asian investors, particularly Chinese ones, are becoming more sophisticated than before. Two years ago, a Hong Kong based investment manager ebulliently shared with me that his company earned no less than 8% returns by just investing in debts, so why would he bother to investing in equity? We all knew how that story ended last year. Investors finally understand the bond issued by most Chinese real estate developers are actually riskier than equity, and it is one-way bet with no upside...... As China is aging and wealthier, people are becoming more preferred of steady growth asset with stable dividend payout rather than high risk asset with outsized return/risk profiles. So we believe that Asian investors will join the developed market ones to increase their asset allocation to European logistic and industrial properties.

Thirdly, very few European infrastructure asset managers are available, particularly in Asia. Even fewer are the ones like CGL, who is purely focusing on European logistics warehouse and industrial property investment. Large investment houses such as Blackstone or Apollo does offer European property fund for investors, but obviously these firms are not specialized in such sector. The European property fund they offer is just one of the many the firm sells to the investors. Many those large investment institutions actually outsource some key responsibilities to third parties such as property management or land development.

In CGL, we are building ourselves fully integrated end-to-end asset management capabilities from asset acquisition, property operation, facility management, tenant retaining, land development, financing and tax until capital management. No doubt it has not been an easy undertaking and we still have a lot of room to grow, but it is well worthy effort because only first-hand knowledge, true market insights and undivided attention can produce consistent returns for our investors in a fast-growing competitive market……

CGL Investment Management Corporation Limited