

# Invesco Real Estate

Recently, Sheila Hopkins, senior editor and managing director – Europe with Institutional Real Estate, Inc, spoke with **Scott Dennis** of Invesco Real Estate. The following is an excerpt of their conversation.

*Invesco Real Estate has been around for 30 years, which makes you one of the longest running investment firms in the market at the moment. What differentiates IRE from the other firms in the market?*

**Dennis:** We began our business as a separate account manager in the U.S. for institutional clients, which prompted us to develop systems that provide for accountability and transparent communication with our clients. As we have grown into a global funds management organization with \$49 billion in assets under management and over 300 professionals, we have kept those systems in place and have stayed completely focused on the client. Everything we do is for the client. We are not in any other business, so we have kept a very simple platform in the investment management industry. Our only source of revenue is from our clients. In addition, early on, once we decided to become a global organization, we proceeded very carefully and put a lot of thought into building our global platform. We made a commitment to understand the local markets in order to have best execution and hired experienced local professionals to build a presence in those markets.

*As a truly global business, what does IRE offer to investors?*

**Dennis:** We have a diversified investor base along with a diversified business, which has helped to sustain us even through difficult economic periods. As a global organization, we provide many investment opportunities to clients. Many clients like having a real estate manager that can invest across the globe. Investors are looking for firms that are going to be around tomorrow and 30 years from now. We are diversified, which provides stability to our platform and allows us to put the best team on the field. We believe this translates into the best performance for our clients. Clients know us for our dedication to transparency and great communication.

*How does the global business operate in practice?*

**Dennis:** We have four major lines of business: North American direct investment; European direct investment; Asian direct investment; and real estate securities, which is by nature global. We maintain the same culture around the globe and believe that is what our clients are looking for. We provide the same investment process, the same reporting and the same research discipline all around the globe. Whether you are in Dallas or London, you are talking to investment professionals following the same disciplined process. We are very well traveled, and we take advantage of



**R. Scott Dennis** is the Chief Executive Officer of Invesco Real Estate and is responsible for the day-to-day strategy execution and management of the global real estate unit. He chairs the Global Real Estate Executive Committee. He has 31 years of real estate investment experience and has been with Invesco for 20 years.

Prior to his role managing the global real estate group, he was head of Invesco's US acquisitions team. He has been involved in more than \$20 billion of real estate investments, covering a broad range of property types and investment structures.

technology to ensure we are in touch with each other and our colleagues around the world on a consistent basis.

*How has Invesco fared during the past few years, when everything was pretty much crashing down around you?*

**Dennis:** Due to our diversified and stable platform, we have not had many of the issues facing other fund managers. Although asset values declined, clients and consultants understood how we operate our business and how we are a safe choice. You really can't validate that until you go through a downturn, but I think that a lot of clients realize that now. We generally maintain low levered funds and investments, and the real estate group as well as our parent company, Invesco Ltd. (NYSE: IVZ), are very well capitalized. As a result, we came out of this downturn relatively well positioned.

*With that positioning, how have you been able to take advantage of the market downturn?*

**Dennis:** In Europe we have used the downturn to launch a new Pan-European strategy in 2008, which benefits from the relatively low pricing levels we've brought in. In addition, in 2010, we had the opportunity to acquire AIG's Asian real estate business, which allowed us to expand our business in the region. This was a chance for us to grow our presence in the region with a solid platform and a team of very senior, well-established real estate professionals. Also, we have been able to identify and hire talented senior real estate professionals in the U.S. and Europe to match the growth of our real estate business. It does take a special person to come work for us. We do not have a star system but work in a team environment with a lot of collaboration.

*You've just announced that Tim Bellman has joined you as Head of Global Research. What's the*

*significance of this appointment for both your clients and your business?*

**Dennis:** We are very fortunate to have Tim join us; we think he brings a wealth of knowledge and perspective. He has lived in London and Hong Kong, and now he has moved to Dallas. We are looking forward to him working with clients on global allocation, modeling and also tying our research together. We think Tim's perspective can enhance the services we provide to our clients on a global basis.

*We've been talking about the growth of your firm. Has that translated into additional clients?*

**Dennis:** We believe the most important client is the client we have today so we are very measured about taking on new business. We want to make sure that anything we do won't adversely affect them, so we are disciplined in our approach to adding new clients. During the downturn we stayed fully staffed, which allowed us to maintain a strong team with ample capacity. As a result, we were able to grow assets under management by helping clients work through distress. Specifically, we have seen inflows into all of our global strategies with over 40 new global institutional clients and \$2.3 billion in new commitments in 2011.

*What are investors doing differently now compared with a few years ago?*

**Dennis:** A few years ago, everyone was in search of yield and return. A lot of investors went out on the risk spectrum and invested on the very high end, so now a lot of investors want to de-risk their portfolios. Investors are very sophisticated: they want solid research, they want to know why you're going into markets, and they want to see the data. Many investors are considering consolidating managers. Being able to provide a global platform is a win-win for them because they get economies of scale right from the beginning. We offer investments throughout the risk spectrum — core, value-added, opportunistic — so we have a variety of investments and products. It is up to us, though, to be excellent in all those fields.

*Are there any particular sectors attracting your attention right now? Where do you see opportunity?*

**Dennis:** There are opportunities all around the world right now, but there is also a lot of distress. We are being very selective, so we look at how we can take advantage of the opportunities created by distress and how we can exploit inefficiencies in various markets. As an example, we have been overweight multifamily in the U.S., and that has served us very well. We will take a risk — leasing risk, redevelopment risk, etc. — if we can quantify that risk, and we feel that the premium is appropriate for that risk. Our research is important; we have boots-on-the-ground, granular analysis that we think helps make our research good and we are always back-testing it. When you analyze real estate investments, you have to focus

on the underlying assets and cash flows, regardless of leverage and structure. When looking at returns, you need to examine how the returns are being generated: Was it through income? Was it through appreciation? Was it through financing? Was it through a joint venture structure? What are the risks you took to achieve that return? Not all returns are created equal.

*Are new investment trends emerging? Where is the capital going?*

**Dennis:** Everyone is concerned about Europe, and while the investment case at the macro level is difficult, what we have seen on the ground is strong flows, particularly from Asia, into the gateway cities in Europe. We have seen a lot of Asian capital come into the U.S., including capital from sovereign wealth funds. We have seen a lot of interest in core/core-plus investing in Asia from both U.S. and Asian investors. Capital is flowing into the well-capitalized and stronger investment management firms. Investors cannot afford to add manager risk to their portfolios. They also demand a high level of transparency and data that can best be provided by a firm with a significant platform.

*Where do you see the industry going?*

**Dennis:** I think the industry is evolving toward fewer and larger real estate manager relationships. Our happiest clients utilize a very small number of real estate managers and invest with them in multiple strategies. It is up to those managers to produce good results.

*What do you see as the future of institutional real estate? Has the recession hurt it or helped it?*

**Dennis:** The last economic cycle has validated real estate as a legitimate asset class within a multi-asset portfolio. Real estate has become more sophisticated, more institutional, and it has earned a seat at the table. Especially in this low-interest-rate environment, alternatives continue to provide clients opportunities in search of yield. There is still significant capital from investors who want to have exposure to the real estate asset class. ❖

#### CORPORATE OVERVIEW

Invesco Real Estate (IRE), a subsidiary of Invesco Ltd. (NYSE: IVZ), has been investing in real estate since 1983. Today, IRE is one of the largest managers of private real estate investments and public real estate securities in the world. IRE has direct real estate investments across the United States, Europe and Asia, and offices in 16 financial centers. This global presence allows us to identify and manage some of the best investment opportunities in the most attractive markets.

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