Invesco Real Estate

Recently, ***Geoffrey Dobrmann****, publisher and editor-in-chief of* The Institutional Real Estate Letter–Europe, *spoke with* ***Andy Rofe*** *and* ***Simon Redman*** *of Invesco Real Estate. The following is an excerpt of that conversation.*

Andy Rofe, managing director, leads the European team of Invesco Real Estate. He has over 21 years' fund management experience with both UK and overseas institutional clients, broad real estate transaction experience across all sectors and capital markets experience in debt raising and pooled funds. Andy chairs the European executive and investment committees and sits on the global executive committee. He is a member of the Royal Institution of Chartered Surveyors.

Simon Redman, head of product management, is responsible for product development, structuring, client servicing and marketing. Simon has 20 years' real estate experience including investment fund management, debt management and structuring. He is a chartered surveyor and holds a Land Management Degree and an MBA from the John Cass Business School specialising in corporate finance and international business.

The past couple of years have been pretty rocky. How has Invesco fared?

Rofe: Despite the upheaval in much of the industry, we've been very stable during the past couple of years. We haven't given any assets back. We've had no redemptions, no secondary market trades, no additional capital cost, no redundancies. To the contrary, we have actually increased our work force by adding personnel in key areas. In addition, we've increased market share by adding 31 new clients globally, 10 of which are in Europe.

Redman: Because we haven't been suffering from inward-looking problems, we've been able to be very active fundraisers and investors during this period. We've raised approximately US$3 billion globally of new capital for our funds and separate accounts over the past 12 months, which I think by any measure in this environment is an extremely good achievement. In Europe, we transacted about US$1.1 billion in 2009, and we've completed about another US$590 million so far this year. We're one of the people who has had dry powder to invest and have made the most of what I think people will look back on as a vintage year in investments.

Why were you able to grow during this period when others have struggled?

Rofe: The vast majority of our assets under management are in the core and core-plus space. We've always utilized leverage to increase returns where it's prudent to do so, but we've used it very sparingly. So our institutional portfolios had no leverage issues that would have caused us to fire fight in any way. This allowed us to move forward rather than look back.

How have you been able to differentiate your services from those of others in the marketplace?

Redman: We take our fiduciary responsibilities very seriously and a part of that is interacting regularly with our clients. It's not a time to be quiet and hide behind difficult times. In fact, it's a time to deploy more people and resources to increase contact with both investors and prospects, which we have done.

Rofe: One of our most prominent differentiators has been our ability to visibly increase our communication with clients over the past 12 to 18 months because we've had the capacity and the focus to do so. That has manifested itself in increased reporting, as well as talking to the clients about what is happening in the market and utilizing our expertise in cross-border investing. We've been able to guide them on what to do and when to do it in terms of putting investments into the market, as well as where to focus their real estate exposure to prepare for the next part of the cycle.

It's interesting that during this period you've actually added clients. Where is that interest coming from?

Rofe: The interest has been from institutional capital sources including banks, insurance companies and pension funds. As far as investment structures, we've seen a striking interest in separate accounts as well as core funds. The renewed separate account focus has been led by US and German clients wanting more control over not only the strategy that they invest in, but also how their capital is deployed. Over the next 12 to 18 months, I think there will be an increasing focus on determining the right time to look at higher-return strategies as interest in that strategy tends to increase side by side with improving fundamentals and the increasing stability of the markets.

Why have you been so successful in capital-raising during this period?

Redman: We've focused on raising capital for the types of strategies investors are interested in. We're looking to invest in core assets in Europe, and other global markets which offer opportunities. There's definitely been a preference for portfolios that have been acquired at today's pricing and structured for the markets in the future. Our clients have been wary of funds with big legacy portfolios, which often have valuation issues, as well as whether the portfolio's allocation is right for the market going forward.

What are investors doing differently since the downturn?

Redman: They are all looking for reduced levels of debt, which probably means not more than 40 to 50 percent loan-to-value for core investments and around 60 percent for value-added. When they're looking at managers, they're looking at those who were able to manage portfolios effectively through the downturn. They're not looking for investment managers who are purely using structured finance or corporate finance techniques to derive value; they're looking for those who've got proper real estate expertise and on-the-ground knowledge. They want to know that the people who they're investing with really understand their assets. They want those people who have both a level of responsibility when looking at debt, and also the expertise in-house to be able to manage it effectively, rather than just putting it in place and hoping for the best. Finally, the due diligence process is more rigorous than it was, and there's a greater degree of focus on corporate governance, fiduciary responsibilities and the stability of the people they are investing with.

Are you seeing a lift in market fundamentals?

Rofe: The expectation is that things will improve, but I don't think they are improving yet. We're seeing rental declines slowing down, and our expectation is that by the end of this year we will have bottomed out in many markets in Europe. We will see fundamentals improving in the right direction from 2011 onward. But today's activity is not based on fundamentals. It is being driven by the investment community's expectation that things will improve and capital's classic flight to quality that you always see in turbulent times, as well as a desire to access lower-risk premium property.

Earlier you mentioned investing in other markets which offer opportunities. Is this the time to invest in the US?

Rofe: We think so. We had three US-focused funds in the past that finished their investment phases some time ago, and we have been waiting for the right time to raise and deploy capital into the US market again. We think the time is now right. There is a lot of interest in Europe in finding managers who can credibly move capital across the border and pick the right markets. We can do that.

Are you seeing interest in Asia as well?

Rofe: Yes. In fact, we have a dedicated team in Asia operating through three offices in the region. This allows us to allocate capital around the globe at the right time, for our clients. It is exactly what we can and should do as a responsible fiduciary and global investment manager. We're very aware of what is going on in the three main regions of the globe, and we provide investment solutions for clients to move in whatever direction is appropriate at any given time.

So what is your outlook on those markets around the globe right now? Will 2010 be a vintage year?

Rofe: The short answer is I don't think there's going to be a single vintage year. There will be a series of vintage years, whether you look at the European market in isolation or whether you look at Europe, Asia and the US as a group. Last year was a good example. People who were brave enough to invest in the early parts of 2009 into the core space in the UK are now placing those assets back on the market and successfully selling them at repriced levels. For those early buyers, 2009 will be a vintage year. In the US market, it's the right time to have capital ready to be looking at opportunities. 2010 or 2011 could be the vintage years there. But looking at the markets right now, we would invest in all three if we find the right opportunities. The prospect to buy particularly good-quality assets in recovering locations globally is quite a compelling story. There will be increasingly more fruitful discussions with the banks on a global basis. Not so much that they're forcing sales, but they're encouraging lenders to restructure, which is leading to assets coming onto the market. If you go into those discussions with capital in hand, you have a good chance of unlocking very attractive opportunities.

What do you think the future holds for institutional real estate investment?

Redman: We've had some turbulent times, but the rationale for investing in real estate remains the same — investors are still looking to diversify away from equities and fixed income into an incoming-producing asset that provides less correlated returns. We will see more investments and increasing allocations as people start coming out of their bunkers and gaining confidence in the market again. Most of the capital will be looking for strategies in the core to value-added range, certainly in the short- to medium-term. There will be an element looking for more opportunistic strategies in new markets, but I don't think that's going to be finance-driven. It's going to be wanting to access new growth markets as they appear. I think we will also see the requirement for a higher level of trust between the managers and investors.

Rofe: It is up to the investment management community to better understand clients and what they want. A lot of clients are talking about not only doing due diligence on the strategies and investment managers, but also on their fellow investors. Its not managers who hold the negotiating power, it is the investors, and it is up to us to assist them.

Do you welcome that development?

Redman: We're very happy to be scrutinized in detail. We have nothing to hide at all, in fact quite the contrary. We believe a more detailed due diligence process will highlight our strengths. The era of boutique investment managers with single products and not a lot of substance behind their organisations is over. Managers who have a great level of stability and resources through good and bad times will be the ones that succeed. ❖

CORPORATE OVERVIEW

Invesco Real Estate is a global real estate firm, which has been providing real estate investment and asset management services since 1983, first in the US and then expanding into Europe and Asia. In Europe, it currently has offices in London, Munich, Madrid, Paris and Prague and over 75 employees managing 124 assets across 12 countries. Globally, Invesco Real Estate has US$26.3 billion of assets under management, of which US$6.7 billion is managed in Europe. *All figures as at 31 December 2009.*

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