Analysis

What role can real estate play in an allocation and what is the best way to invest?

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A look back at the Swiss Life Asset Managers France Conference held a few weeks ago at the Cité de l'Economie.

The asset allocation strategy of institutional investors remains driven by the persistently low interest rate environment despite signs of inflationary pressures that could push up long-term interest rates. *“In this context, MAIF is resolutely continuing its strategy of allocating to unlisted assets such as private debt, private equity and real assets, with real estate at the forefront,”* says Carole Zaccheo, Investment Manager at MAIF.

Béatrice Guedj, Head of Research and Innovation – Swiss Life Asset Managers France, Arnaud Taverne, Chief Executive Officer – CDC Investissement Immobilier, Fabrice Lombardo, Head of Real Estate Activities – Swiss Life Asset Managers France, Gaël Thomas, Chief Editorial Officer – Business Immo

“Real estate thus remains the leading alternative asset, accounting for more than 6% in the institutional portfolio, half the equity market exposure,” says Béatrice Guedj, Head of Research and Innovation at Swiss Life Asset Managers France.

Real estate suffered from the onset of the Covid-19 crisis, especially the listed sector, the performance of which fell by more than 30% in 2020 according to the IEIF index. *“Direct real estate, on the other hand, has held up better for investment vehicles, especially SCPI, which posted an overall return of almost 5%, as well as certain asset categories such as office properties in the Paris CBD,”* points out Béatrice Guedj.

Office sector still sought after

Ultimately, the Covid-19 crisis did not really have an impact on the overall allocation of institutional investors in real estate, but rather on sectoral allocation. There has been no change to institutional real estate allocation. Office remains the leading asset category with almost 60% exposure, ahead of residential (17.5%) and retail (11.7%). *“Logistics, which has shown a strong rebound in investment intentions since the outbreak of the health crisis, only accounts for less than 3% of institutional portfolios"* reports Béatrice Guedj.

“The office, despite the rise of teleworking, remains indispensable. It has become a place for socialising, not just a workspace. The office will have to adapt to new uses, new demand and be attractive for employees,” says Carole Zaccheo. Institutional investors will not be able to ignore the office. *“We have no choice if we wish to invest our capital in real estate. The office is therefore indispensable and also attractive due to its market depth,"* confirms Arnaud Taverne, CEO of CDC Investissement Immobilier. Not all offices are the same.

"Our strategy is geared towards centrality and the belief that we should not hesitate to go to expensive locations, such as the Paris CBD," says Fabrice Lombardo, Director of Real Estate at Swiss Asset Managers France. Expensive but nevertheless attractive. *"If you compare the capitalisation rate of offices in the Paris CBD to the ten-year OAT, you remain at the top of the range for the risk premium with a spread of 400 basis points,"* says Béatrice Guedj.

Cyclical and structural approaches

Outside the office, institutional investors view investment opportunities in terms of cycles and major trends. From a cyclical perspective, one asset category is returning to investors' radar – the hotel industry. *"We are well placed for a return to the hotel industry, particularly Parisian hotels and the business hotel segment that have suffered most from the health crisis,"* explains Fabrice Lombardo.

Over the longer term, three asset classes are attracting a lot of interest from institutional investors. One is health, where the market is promising due to the enormous investment needs arising from an ageing population. Another is residential, where, as Fabrice Lombardo notes, *"we are witnessing a powerful return of institutional investors to the residential sector and even excitement when an asset is put up for sale"*. This is an attractive asset class due to its low volatility. *"It is all the more attractive after the health crisis, with yields close to those of offices,"* confirms Carole Zaccheo. Finally, there is logistics, which some are viewing "with a little suspicion" in view of the current valuations. *"Logistics real estate is expensive, but it has key features that justify the interest of institutional investors, starting with the dynamism of e-commerce, where every billion euros in additional turnover generates a need for 100 000 m^2 of warehouse space,"* says Fabrice Lombardo. *"Rents have started to increase very slightly and there is potential for further rental growth,"* says Arnaud Taverne. The health crisis has shown that land used for logistics real estate has retained its value and that warehouse obsolescence is a fairly limited affair. *"Based on the level of ten-year OATs, logistics still offers a solid risk premium,"* he concludes.

Carole Zaccheo, Investment Manager – MAIF

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As at 30 June 2021, Swiss Life Asset Managers managed EUR 250.3 billion in assets for the Swiss Life Group, with more than EUR 90.2 billion in assets under management on behalf of third-party clients. Swiss Life Asset Managers is a leading real estate manager in Europe[1]. Of the EUR 250.3 billion in assets under management, EUR 74.6 billion are invested in real estate. In addition, Swiss Life Asset Managers manages EUR 26.3 billion of real estate assets jointly with Livit. Thus, as at 30 June 2021, Swiss Life Asset Managers managed EUR 100.9 billion in real estate assets.

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[1] INREV Fund Manager Survey 2021 (based on AuM as at 31 December 2020)
Swiss Life Asset Managers, data from 30 June 2021