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Real Estate Investing by Insurers: Examining Current Views on the Asset Class

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Re-evaluating Real Estate: A Closer Look

While real estate has long been an important asset class for insurers, investing in this sector requires far more than a one-size-fits-all approach. As insurers currently ponder how to best to match their liabilities and funding needs in the future in a close to 0%-interest-rate environment, they may reconsider the share of real estate in their portfolio of alternatives assets: when seeking incremental yield on a risk-adjusted basis, real estate may compare favorably to other alternative investments available today.

Considering the effects of the global pandemic and its impact on the real estate sector, we sought to gauge the current views of insurers on investing in this asset class. We conducted a brief survey with 120 insurers, across various insurance company types and sizes, skewing to the larger end of the market (see p.17 for the complete picture of the respondents). What we discovered offers a realistic view as well as an optimistic perspective.

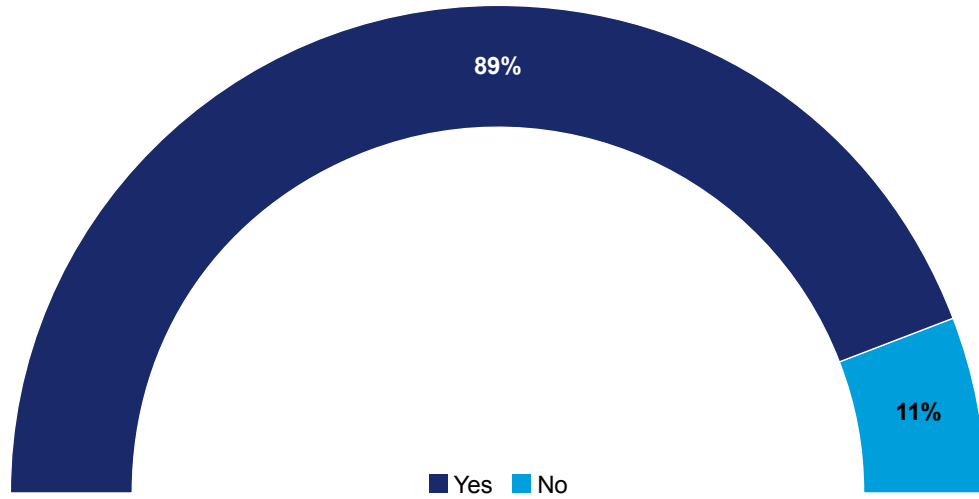
Among the insights yielded by our research:

- On the cautionary side of the discussion, the main barriers to investing include transparency and liquidity.
- The majority of CIO respondents say that the office sector will not be quite as challenged as some believe, and that workers will return to their office spaces following lockdowns for extended periods. Office spaces will become hoteling spaces, with floor plans reduced in some cases to what organizations will truly need.
- However, there was a split response among CIOs surveyed on how their own organization's office footprint is changing; savings achieved by a smaller commercial space are not insignificant, and will be a factor as some leases expire and landlords gain a clearer picture of which tenants will return and which will seek a smaller or more inexpensive spaces elsewhere.
- Most CIOs believe that volatility will continue across the entire commercial real estate sector/asset class itself, as too many wild cards remain in play as to when organizations will return to their office spaces.
- ESG (Environmental, Social and Governance) factors were cited among survey respondents as critical to consider when investing in commercial real estate. Questions abound over how "green" the buildings truly are, raising queries about true sustainability and precisely how properties are being managed – particularly from an environmental standpoint.
- Public and private real estate equity allocations are expected to increase overall, whether they be investment trusts purchased through publicly available offerings or private commingled vehicles or direct transactions.

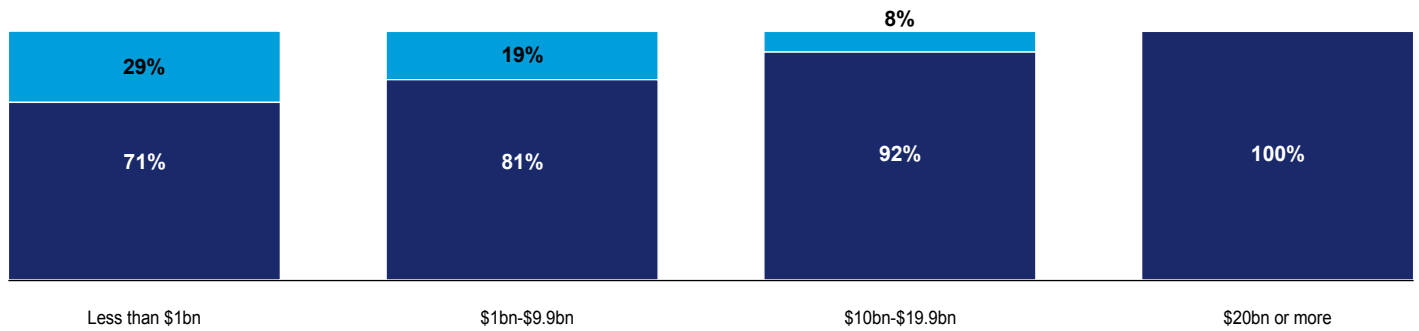
We hope you find the details of the survey helpful in comparing your perspectives on real estate.



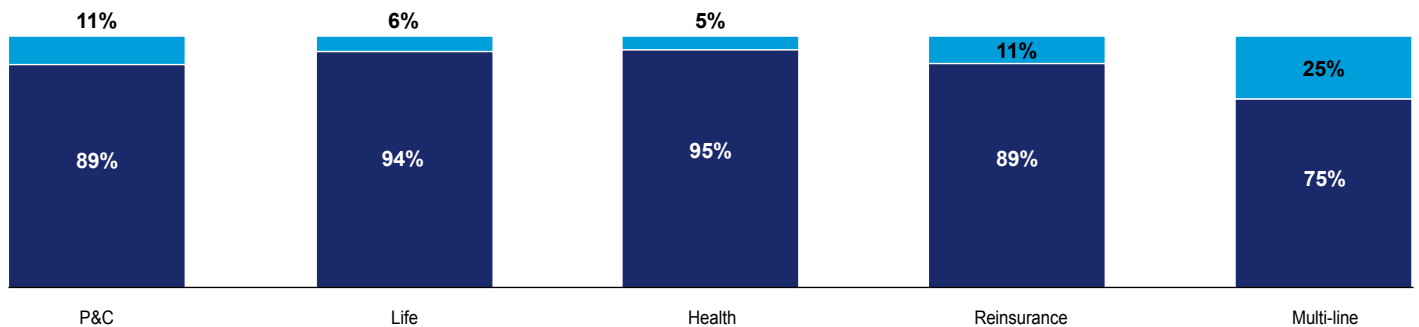
Do you currently invest in real estate?



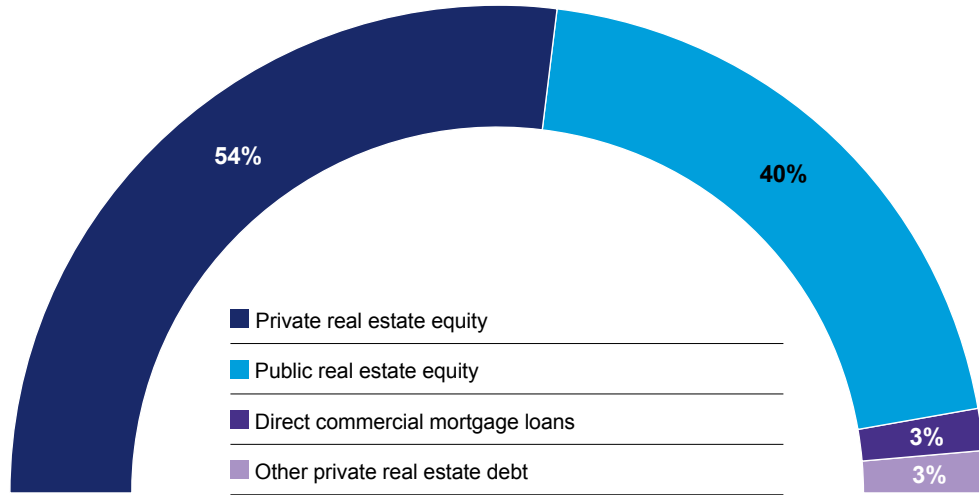
Split by size of company



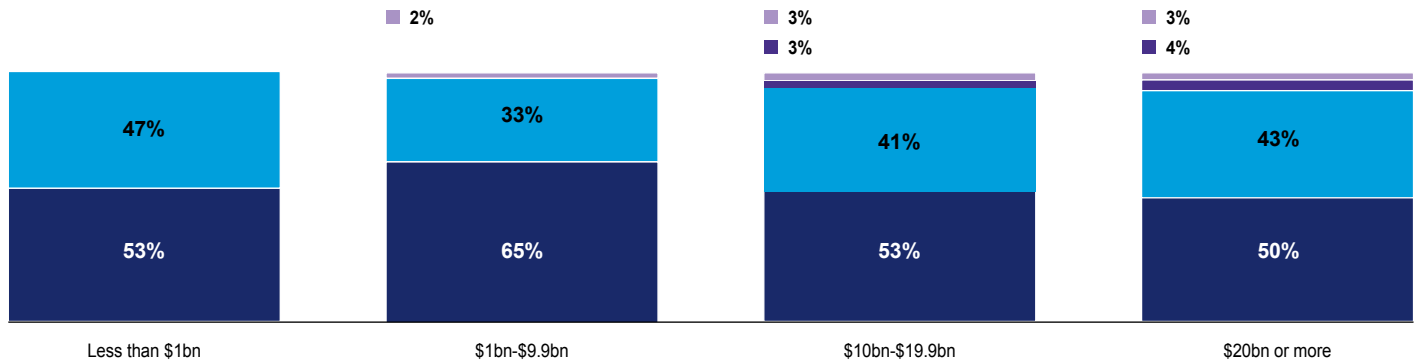
Split by company type



If “Yes,” we invest primarily in ...

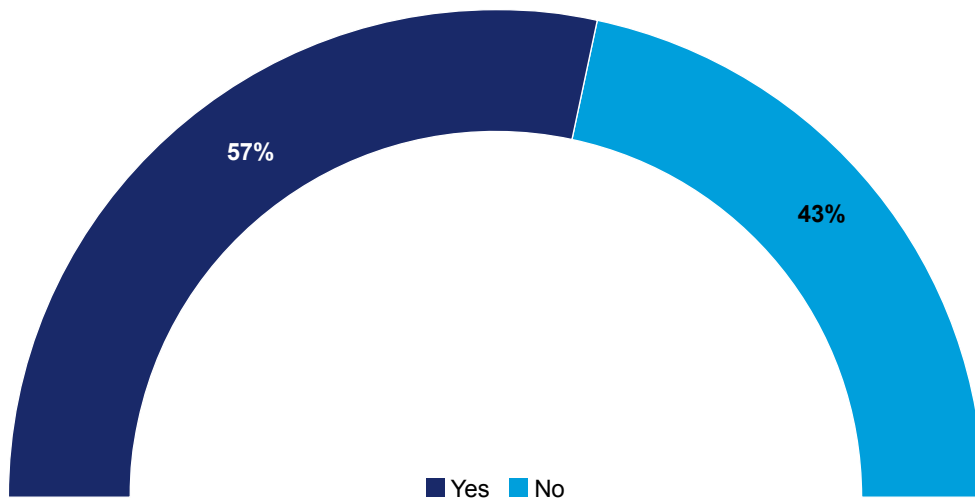


Split by size of company



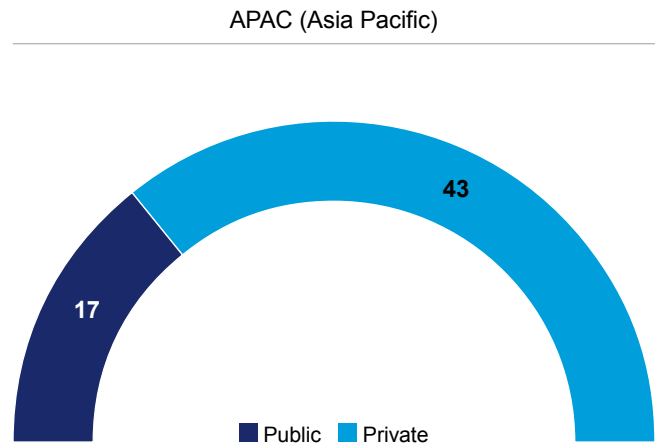
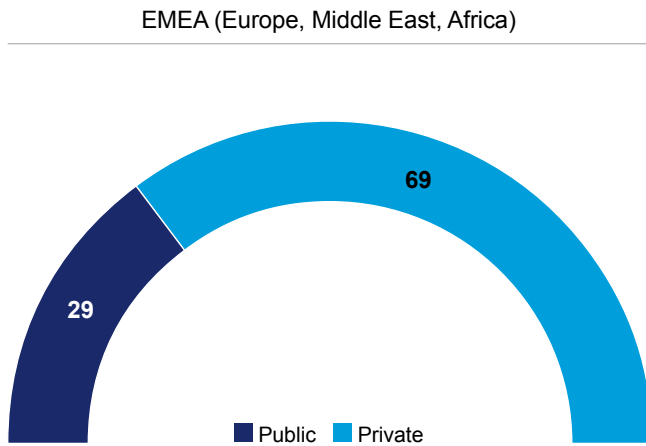
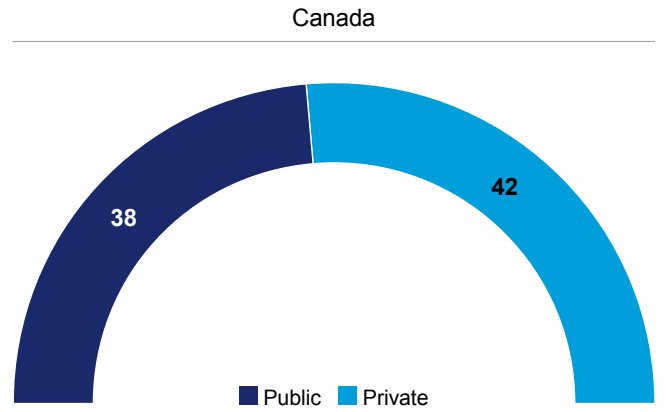
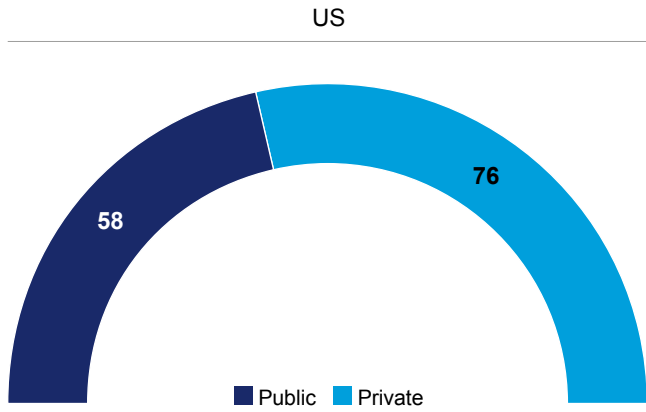
If no, would you consider investing in real estate going forward?

Of the 11% of respondents not currently investing in real estate, over 57% say they would consider investing in the asset class going forward. This would increase the group investing in real estate to 95% of respondents in this survey.

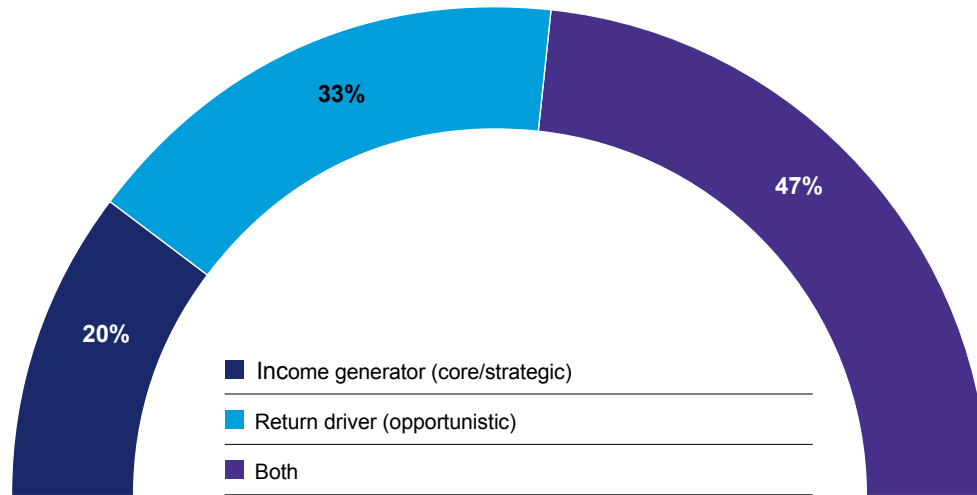


What is your real estate investment strategy?

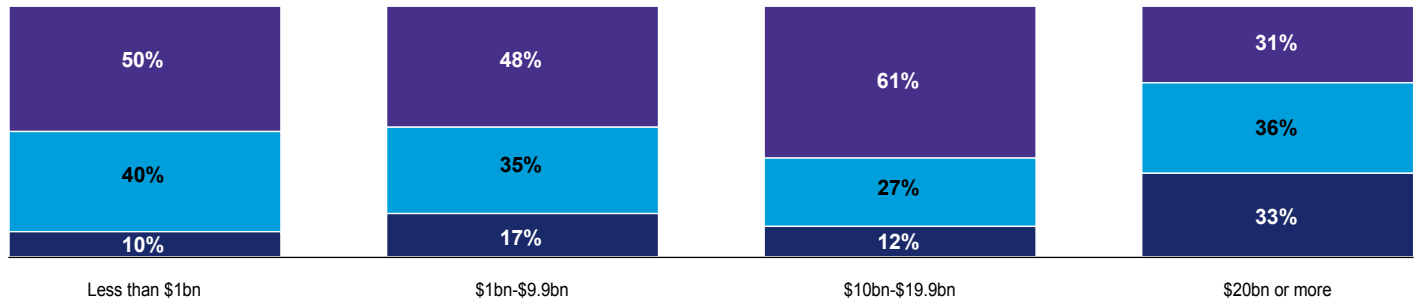
(Figures represent number of respondents. Respondents could select multiple categories)



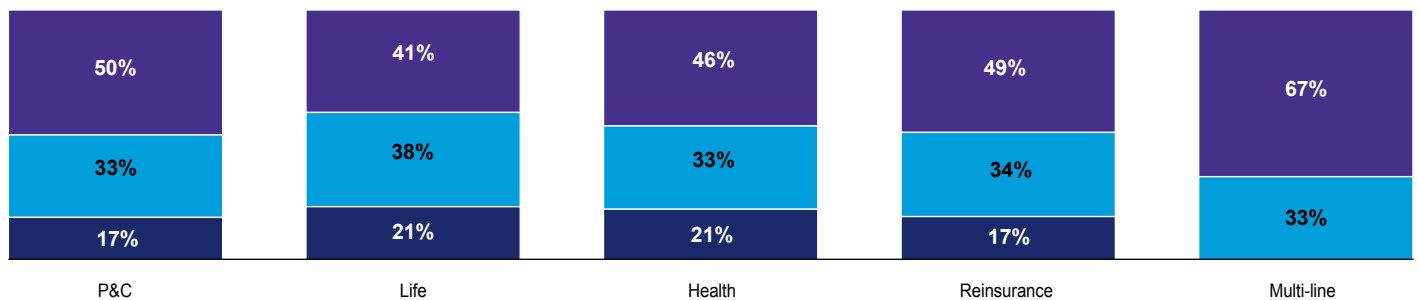
What is the primary role real estate plays in your portfolio?



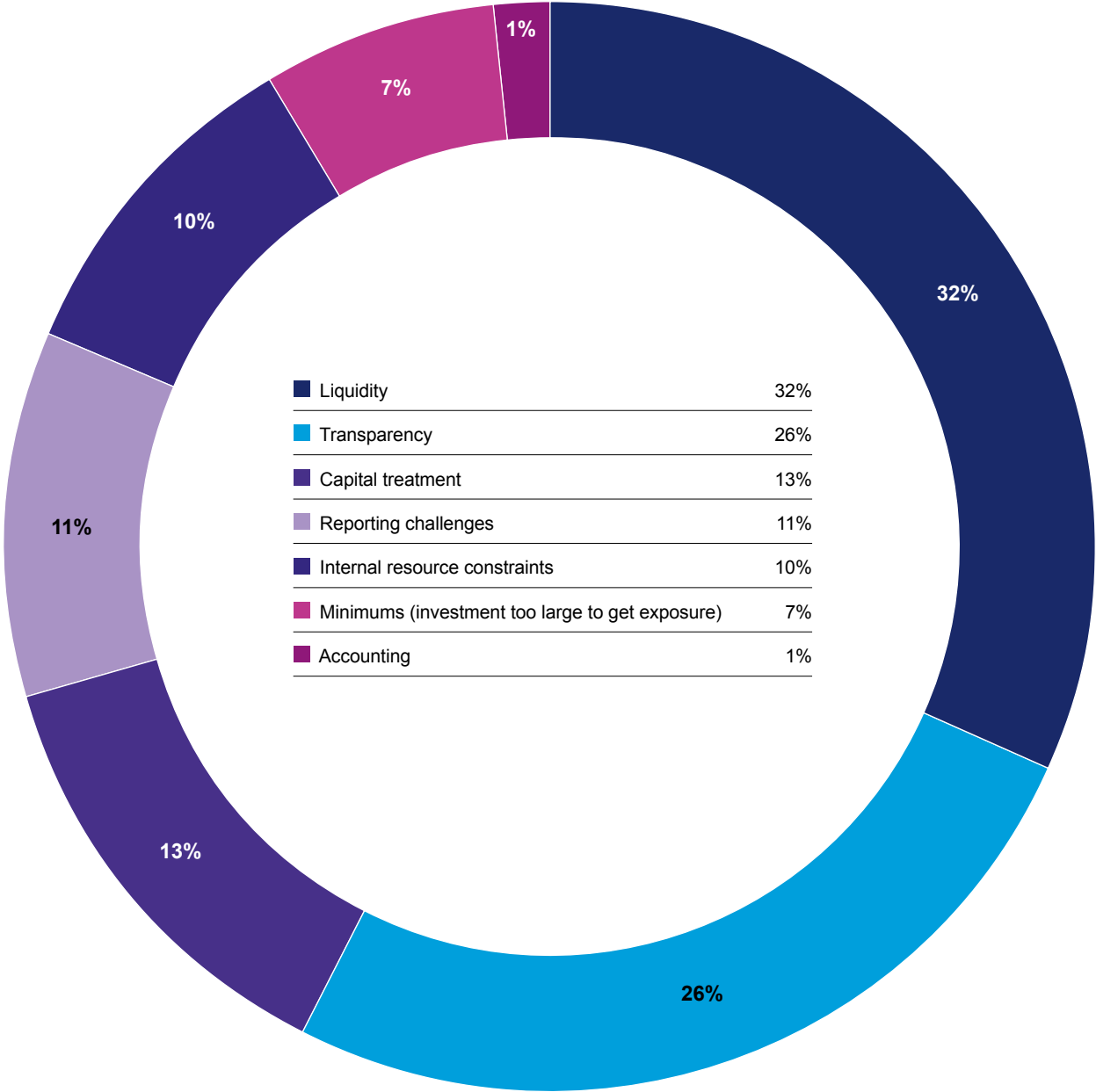
Split by size of company



Split by company type

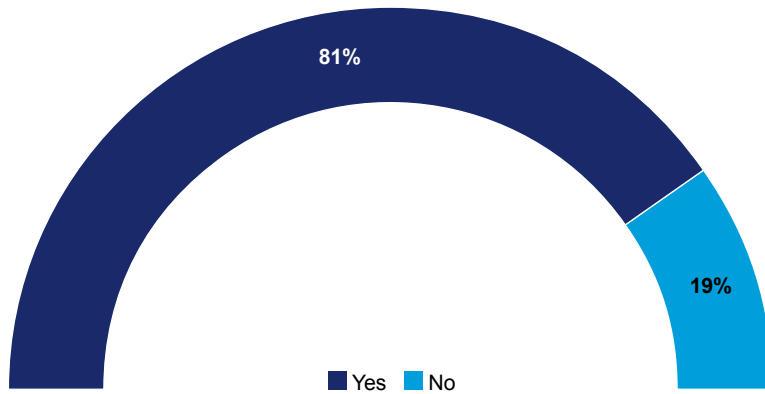


What are the barriers that you encounter in real estate investment?



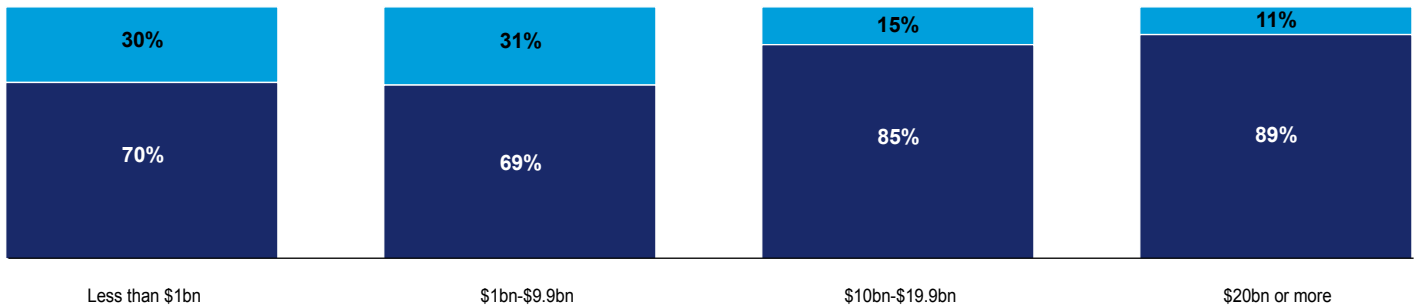
The primary barriers to investment are transparency and liquidity, according to the CIOs surveyed. The nature of limited data on the properties (as they are not public information) and insufficient clarity on how quickly they can be sold remain impediments to wider adoption.

Do you currently invest in specialty real estate sectors?

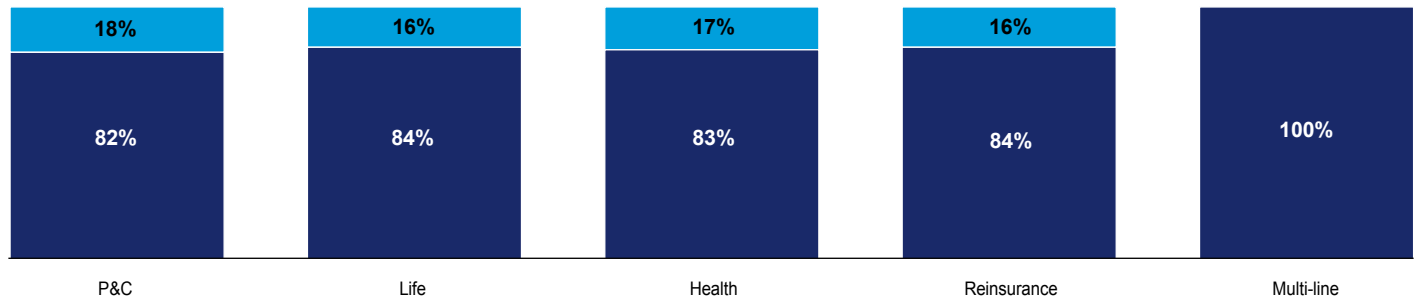


High tangible asset value, long-term financial security, economies of scale and operational efficiencies, growth opportunities, monthly passive income and steady cash flow were cited by respondents who either invest in or are attracted to the specialty real estate asset class.

Split by size of company

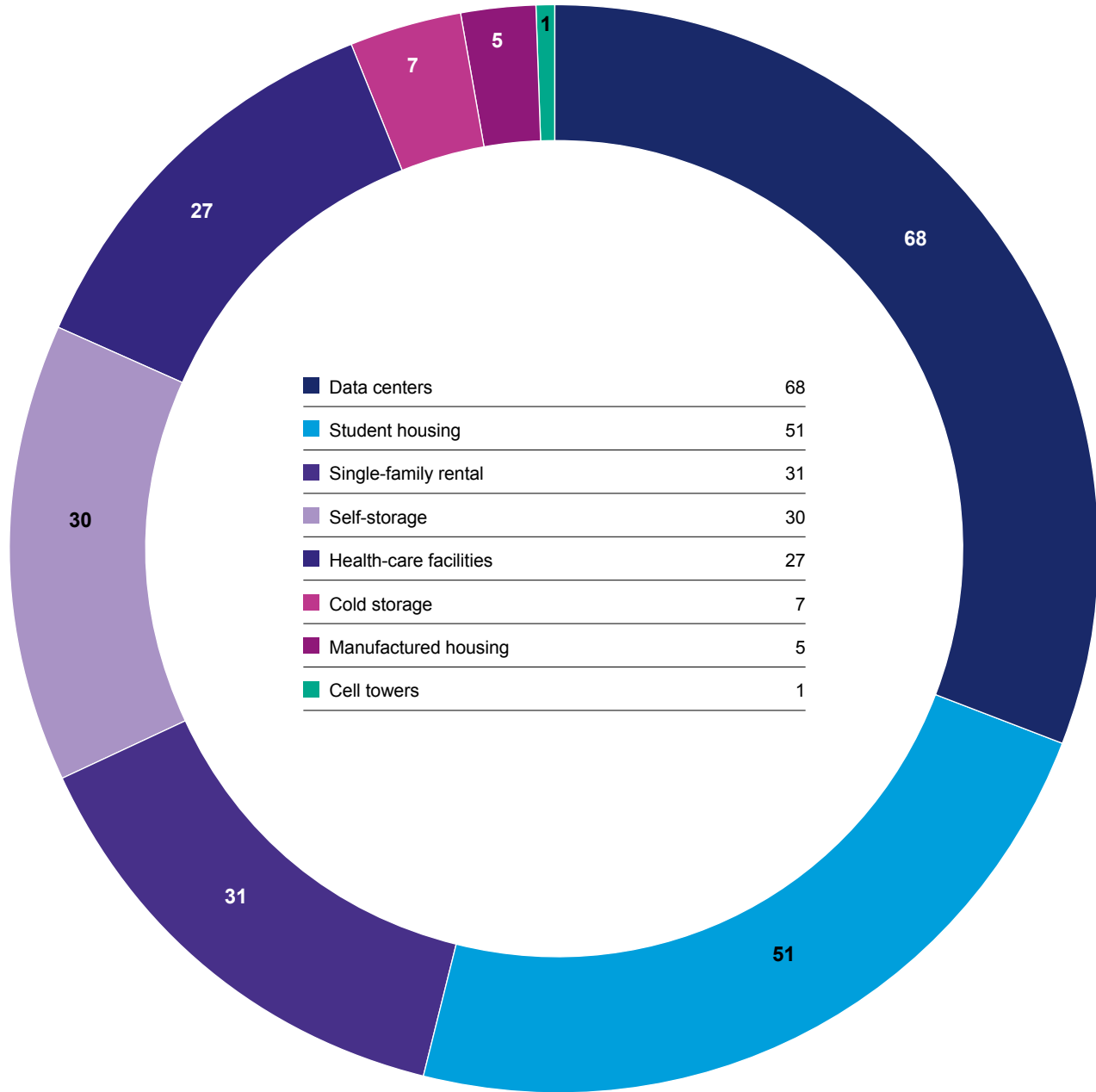


Split by company type



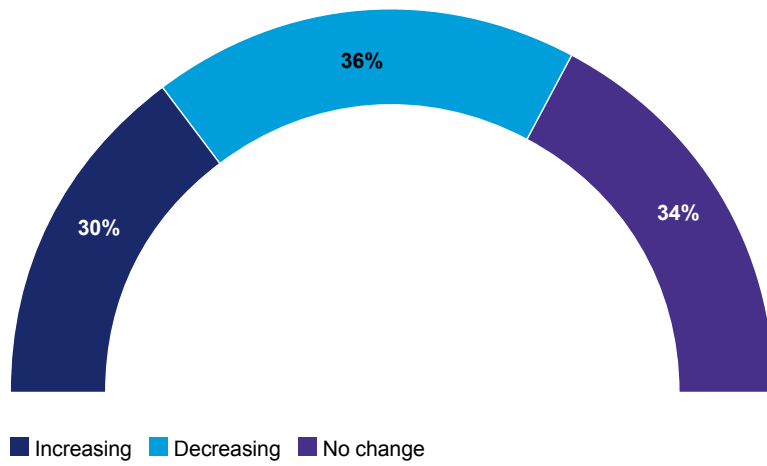
Which of the following specialty real estate sectors do you invest in?

(Figures represent number of respondents. Respondents could select more than one category)



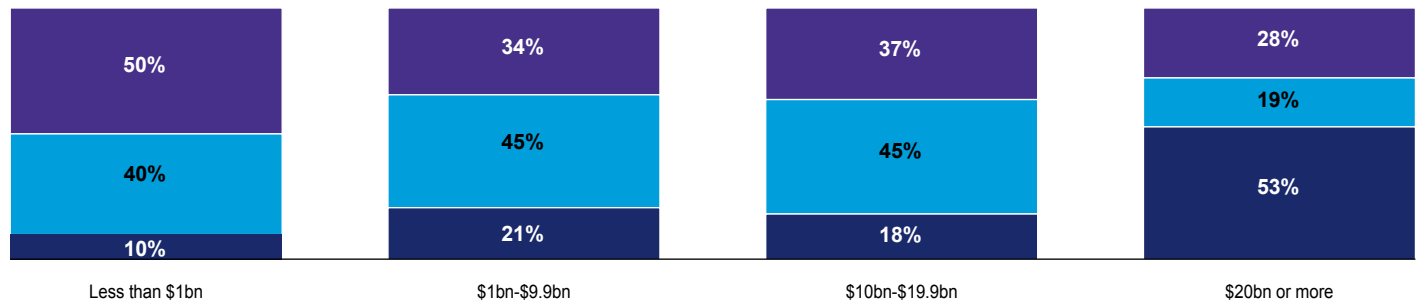
The majority of CIOs surveyed focus their real estate investments in specialty sectors, including hospitality/hotels, medical complexes, cold storage and manufacturing, among others. Data centers and student housing were among the favored properties, with self-storage units and single-family rentals also popular investments.

How is your organization’s office footprint changing in relation to COVID-19?

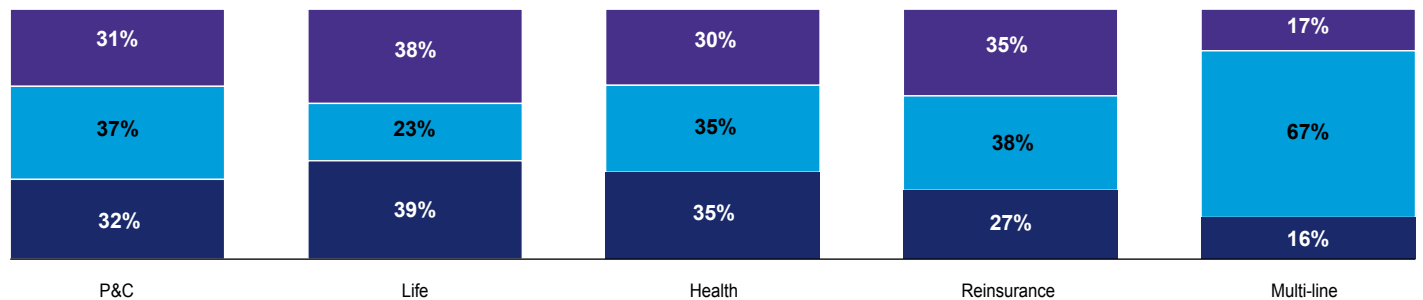


There was a split response among CIOs surveyed on how their own organization’s office footprint is changing; savings achieved by a smaller commercial space are not insignificant, and will be a factor as some leases expire and landlords gain a clearer picture of which tenants will return and which will seek a smaller or more inexpensive spaces elsewhere. One respondent said, “Our company is taking a fresh look at how much and where space is required and how to encourage the development of desired outcomes for collaboration, productivity, culture, and the work experience.”

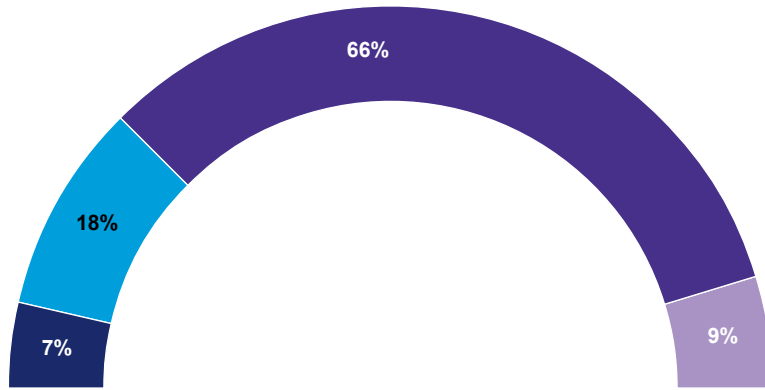
Split by size of company



Split by company type



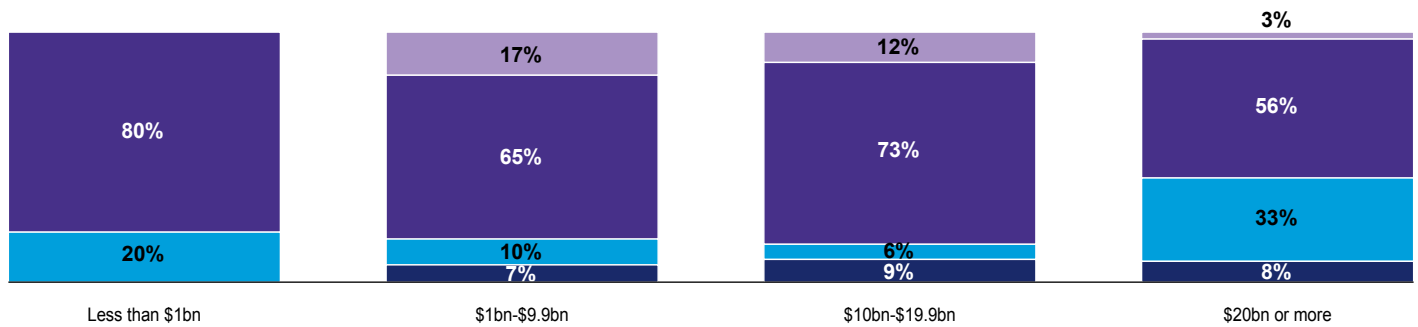
How likely do you believe real estate markets will experience further volatility and uncertainty through 2021?



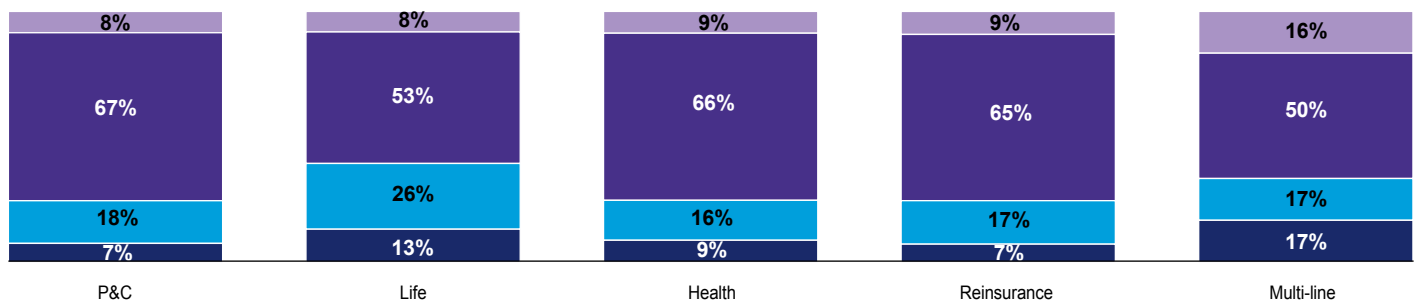
Highly unlikely (0%) ■ Unlikely ■ Not sure ■ Likely ■ Highly Likely

Most CIOs believe that volatility will continue across the entire commercial real estate sector/asset class itself, as too many wild cards remain in play as to when organizations will return to their office spaces. Some metro areas, they say, will see a higher return to workspaces than others. "There is a lot of investment capital waiting, and real estate will have an attractive risk-return profile for the coming years," one survey respondent stated.

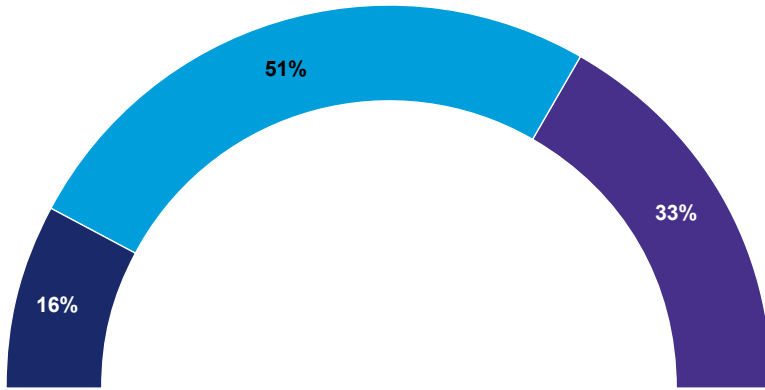
Split by size of company



Split by company type



How important is ESG within your real estate investment strategy and manager/fund selection process?



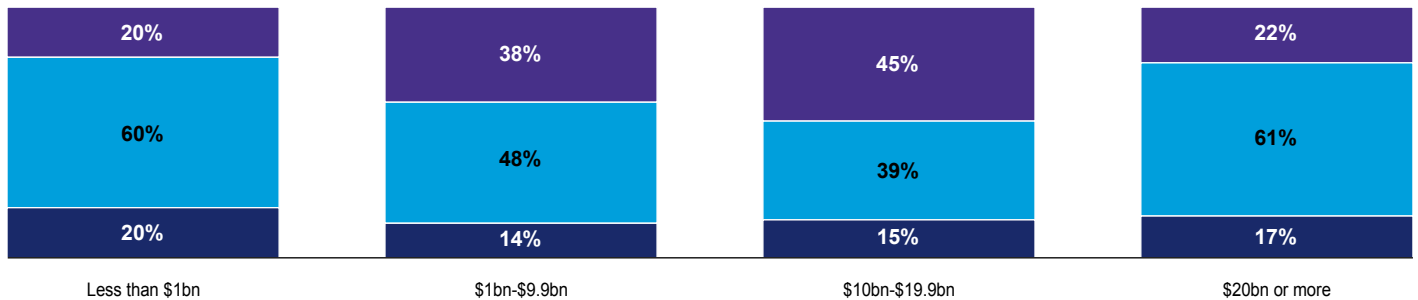
Not important (0%) • Slightly important (0%)

■ Moderately important ■ Important ■ Very important

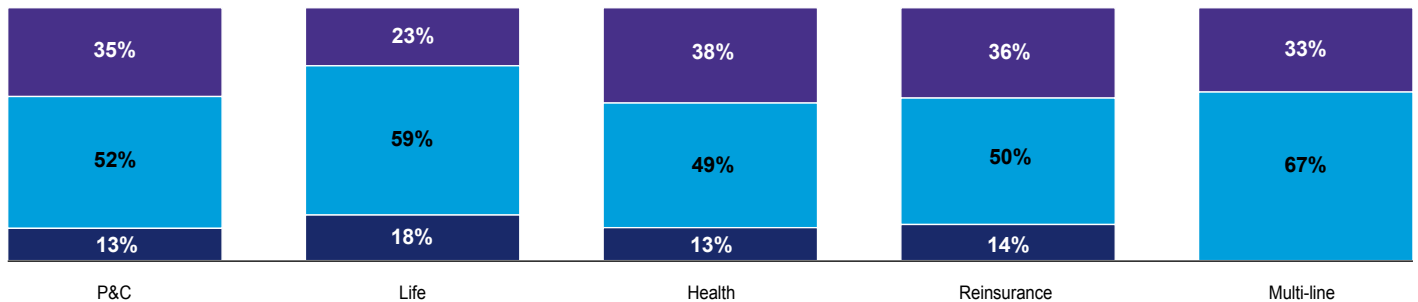
Environmental, Social and Governance factors were cited among survey respondents as critical to consider when investing in commercial real estate. Questions abound over how “green” the buildings truly are, raising queries about true sustainability and precisely how properties are being managed – particularly from an environmental standpoint.

CIOs said that ESG considerations are critical in investment analysis and portfolio construction, and may offer investors potential long-term performance advantages. One respondent stated, “ESG is more frequently being used as a risk management tool with additional upfront costs, but provides an opportunity to make large operational savings during the life of an investment.”

Split by size of company

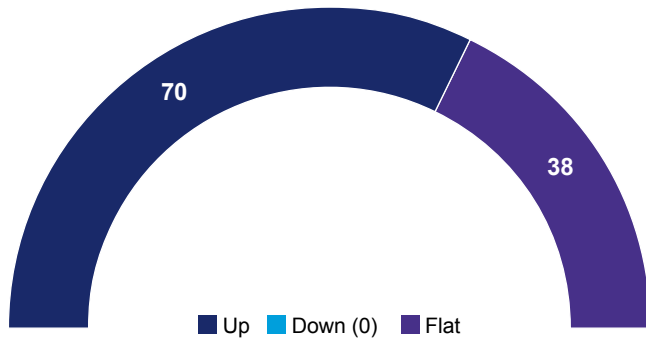


Split by company type

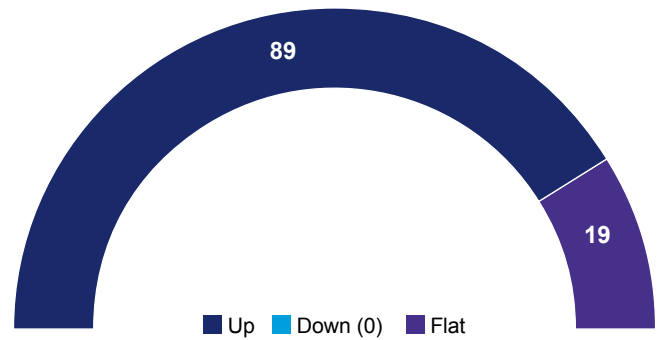


What is your expected real estate allocation over the next three years for the following: *(Figures given by amount of respondents.)*

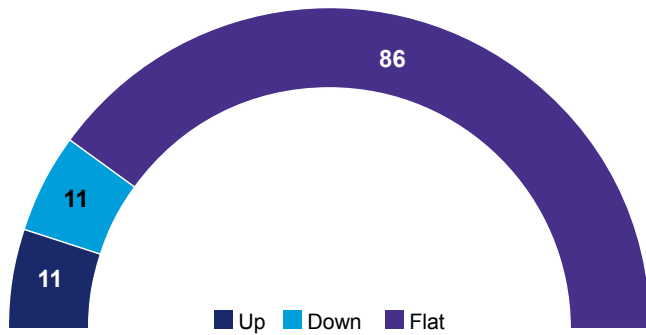
Public real estate equity



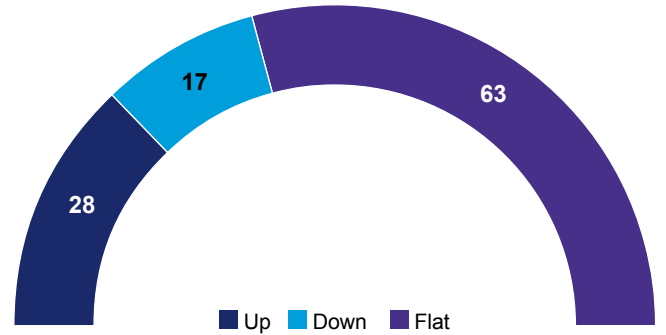
Private real estate equity



Direct commercial mortgage loans



Other private real estate debt



Public and private real estate equity allocations are expected to increase overall, whether they be investment trusts purchased through publicly available offerings or private commingled vehicles or direct transactions. "Once the pandemic is over there will be a boom in the real estate market," one CIO survey respondent commented.

Finally, we asked our survey respondents, “What is one thing you wish existed in the real estate investment market that is not currently available?”



Several key themes emerged in their responses:

- Artificial intelligence-powered data and analytics
- Automation of systems & accelerated digitalization of processes
- Improved data security
- Decreased tax risk & increased tax benefits
- More accessible and transparent real estate portfolio data

Selected quotes:

“Data & analytics are among the best digital tools available, allowing companies to dig into masses of information and extract required data. However, real estate is lacking in that type of information. Once more substantial data becomes widely used in this sector, it will help in making investment decisions.”

“The ability to build automation systems. Not just for reducing costs, but also in the context of tremendously improving everyday life by enhancing the security and safety of assets, cutting down on operating costs and energy use, and facilitating unique customized solutions.”

“Big data and data analysis will help price a property by real-time regional price analysis and forecasted future price fluctuations.”

“Every company should build their automation systems, which will help to connect them to the customers.”

“Cultivating a proper database and implementing marketing automation will help to target messages more effectively to the right market segments.”

“With the help of artificial intelligence (AI) and precise mathematical modeling, we would be able to estimate prices more accurately.”

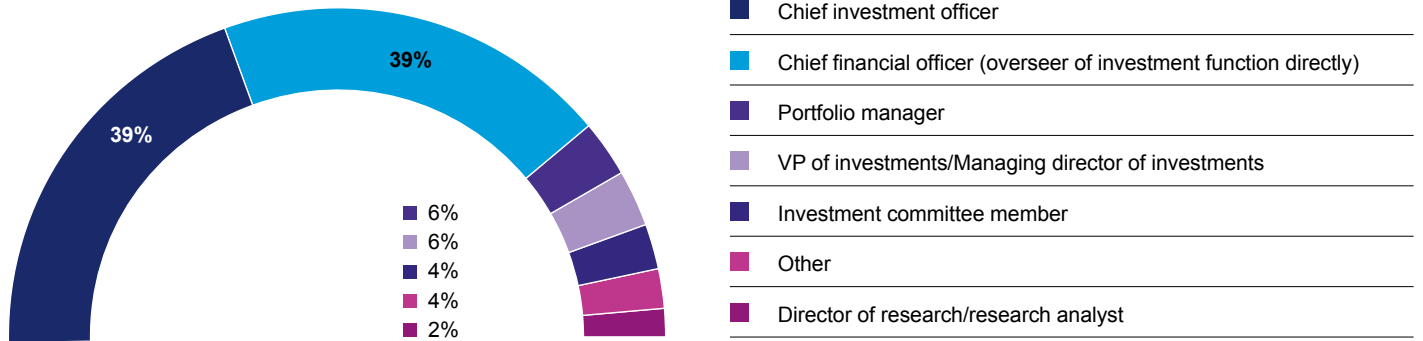
“The Internet of Things will be a game-changer in real estate investment. Through IOT we can imagine a world of ‘smart properties’ that seamlessly integrates the physical and virtual worlds with the help of virtual and augmented reality.”

“The adoption of new technology platforms generates new and more easily accessible market data, which is key for overall real estate transparency.”

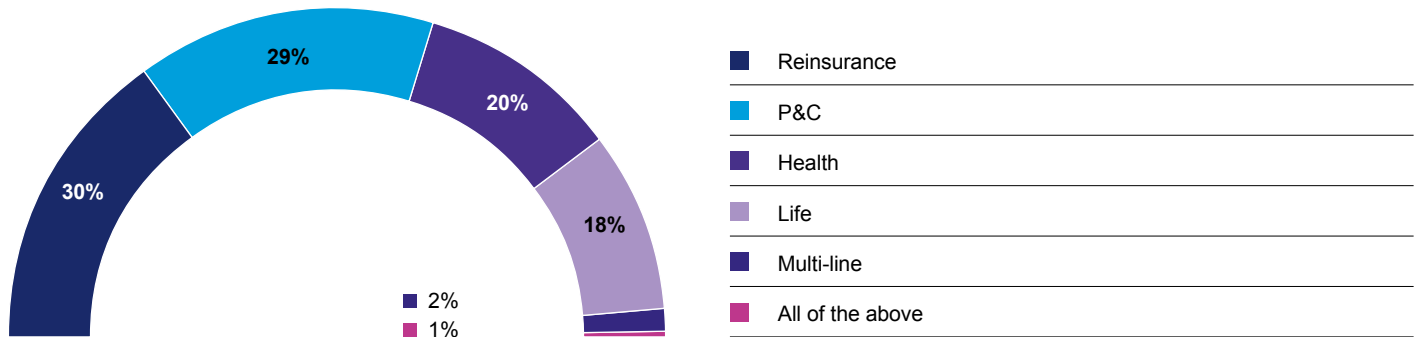
Respondent profiles

The survey results were captured in November and December 2020. Chief Investment Officers and Chief Financial Officers represented the lion's share of respondents to our survey (at 39.34% and 38.52%, of the total, respectively). Titles of additional respondents included vice president of investments/managing director of investments (5.74%), portfolio manager (5.74%), investment committee member (4.10%), director of research/research analyst (2.46%), and others.

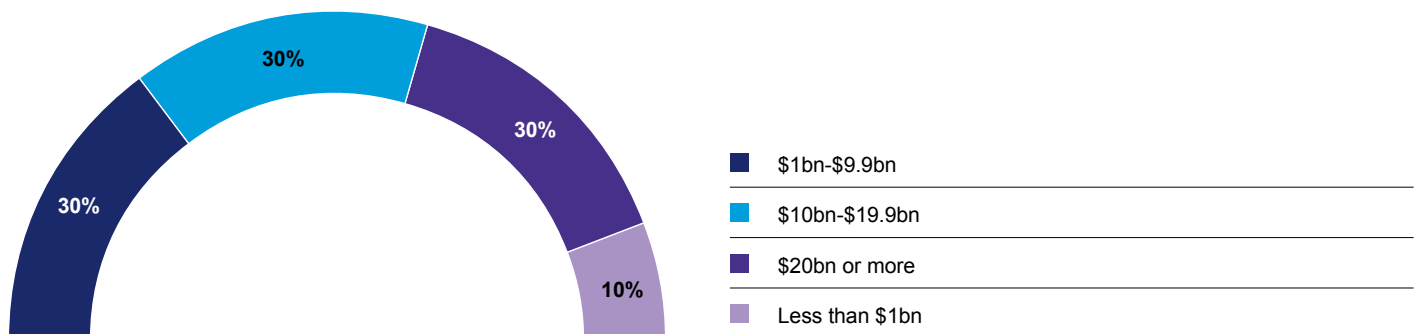
Job title



What lines of insurance does your company operate in?



Approximately, what was your company's general account assets as of year-end 2020?



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