

strategy&

Part of the PwC network

Time to think differently

Why the trends
connecting infrastructure
and real estate demand
a fresh approach





“

Whether you're planning, investing in, developing, or operating real assets, you will have to take a new approach to succeed.”

What are real assets?

‘Real assets’ refers to the built environment and infrastructure that surrounds us and enables us to live our lives, providing us with communications, energy, transport and places in which to live and work. The term has developed in the investor community to reflect the increasing interplay between real estate and infrastructure.

Recent years have seen the definition of infrastructure extend from utilities, roads and hospitals, to fibre, data centres and energy storage, while real estate has expanded into logistics, flexible space, retirement living and student accommodation.

Real assets are inextricably linked, not only to one another, but to how we live, work, consume and spend our leisure time.



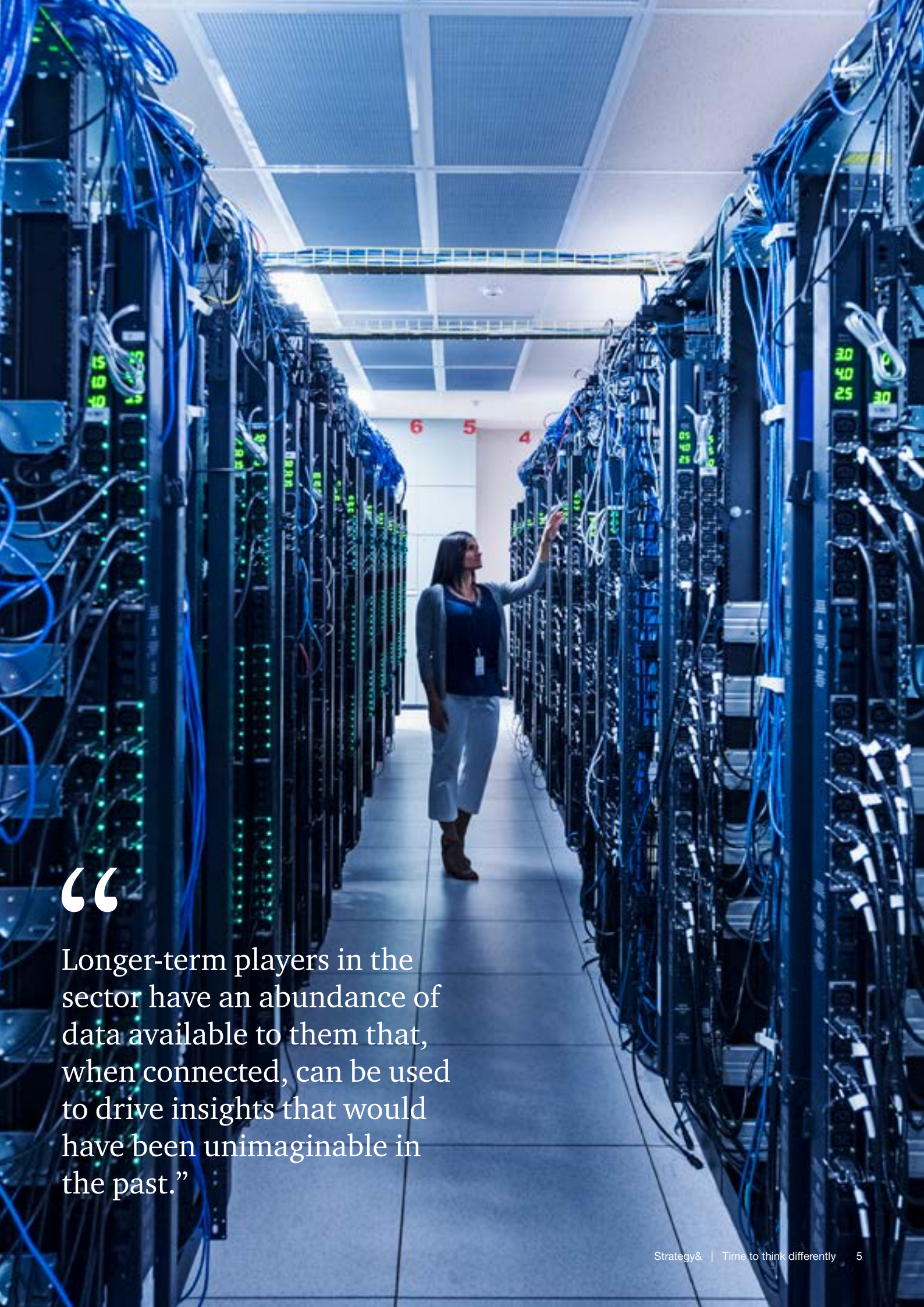
A new approach for changing times

The impact of COVID-19 has given rise to speculation over how we'll live and work and what it means for our demands on infrastructure and the built environment. But none of the trends discussed have been initiated by the virus. Rather COVID-19 has accelerated major trends that were already taking shape: from a reduced need for business travel and a surge in flexible working to the dominance of online shopping and an increased focus on sustainability and net zero targets.

We have certainly seen the fundamentals of the real assets sector rocked, with images of airports, offices and shopping centres sitting empty, and other assets, such as fibre and logistics, emerging to play a critical role in supporting society. And while predicting which shifts will stick, or to what degree, is fraught with risk, we do know the acceleration of such significant trends will have a profound impact on infrastructure and real estate needs.

Whether you're planning, investing in, developing, or operating real assets, you will have to take a new approach to succeed.

- **Think differently.** Consider how you can deliver or repurpose assets quickly, and improve their operational resilience and flexibility. Embracing new skills and technology and the levels of automation and artificial intelligence seen in other sectors can enhance operations.
- **Think relationships.** Tune into the needs of your users and customers. Understanding the connections between societal demand, the built environment and infrastructure will maximise and unlock value.
- **Think better.** Increase focus on doing the right thing for the environment and society with the certainty it is increasingly likely to drive better and more resilient returns.



“

Longer-term players in the sector have an abundance of data available to them that, when connected, can be used to drive insights that would have been unimaginable in the past.”



Think differently

The changing nature of real assets, and the increasing need to meet the requirements of the end user, is also changing the skills required to succeed.

To create real impact, you must now understand developments, assets and operations beyond the top-line financials. For investors, the 'good old days' of buying an asset, putting some debt against it, waiting 10 years and selling it for a profit were on the way out anyway.

The need for flexibility, agility and sustainability in this new environment means organisations, wherever they are in the asset lifecycle, need to make a transition. Move away from lagging performance indicators that lead to reactive management, and move towards forward-looking insight that enables a more proactive and strategic approach.

Longer-term players in the sector have an abundance of data available to them that, when connected, can be used to drive insights that would have been [unimaginable in the past](#).

The opportunity to harness the power of technology at scale, such as industrialised 3D printing, cloud, internet of things, blockchain and drones is enormous for an industry often identified as one of the least digitised.

And this shouldn't stop at the top. Developing new relationships with your suppliers and creating shared economic interest, offers the opportunity to drive and stimulate innovation throughout the value chain.

First mover advantage will be captured by those who can embrace new approaches to deliver assets quicker and cheaper, who can spot an opportunity and rapidly repurpose existing assets to meet new demand, and who can maximise the revenues and efficiencies of operational assets.

Think relationships

Understanding the connections between societal demand, the built environment and infrastructure will maximise and unlock value.

Nearly three-quarters (71%) of respondents to our [Emerging Trends in Real Estate Survey 2020](#), agreed that achieving their target financial returns would require a widening of the definition of traditional real estate to include real assets and related service businesses.

New opportunities in this sector will arise from developing two distinct capabilities: a sophisticated understanding of society's changing behaviours and the ability to rapidly respond to subsequent demand shifts. Whether these apply between rail operators and passengers, landlords and tenants, it's only by thinking about real assets in an integrated, interconnected way that value will be fully understood and realised.

This is highlighted clearly by the current situation. To take just one example, while COVID-19 has accelerated the trend towards more agile working, the fundamental need for space to work hasn't disappeared, but perceptions of the purpose and value of the 'workplace' have shifted.

During lockdown, a survey compiled by PwC Research back in April showed that 56% of those who could work remotely, agreed the home is a suitable place where they can work well. This figure should only rise as organisations become more established in their methods and additional pressures, such as juggling family commitments or getting to grips with new technologies and ways of working, are eased.

This move may mean reconfiguring spaces to a mix of uses to make that trip to the office or study place more compelling, considering tech that can incentivise and manage demand, or examining opportunities that support working from or near home, such as smart mobility, fibre infrastructure, 5G or even smart metering.

While many traditional real asset businesses could consider these types of activities as outside their comfort zone, they may be in the most advantageous position to exploit them.

And if they don't, or won't, directly deliver the outcomes themselves, there is at least a need to consider how their businesses can play a more active and influential role in the value chain.

“

“Nearly three-quarters (71%) of respondents to our Emerging Trends in Real Estate survey 2020, agreed that achieving their target financial returns would require a widening of the definition of traditional real estate to include real assets and related service businesses.”



Think better

'Real impact' is now more than just delivering financial returns. And the need to get your response right has never been greater.

Investment is attracted to businesses that outperform the market on environmental, social and governance standards. Consumers support sustainable businesses and reject those that aren't. New laws demand adherence to low carbon emissions, and both government and businesses are calling for a more inclusive society.

Moreover, lockdown has shown the benefits of an improved living environment to many. Whether that's at the macro level, with the UK achieving over two months without burning coal to produce electricity; or the micro level, where PwC Research showed 28% of those working from home say losing their commute is the greatest benefit of home working. COVID-19 has not only served to emphasise the major, long-term shifts and cultural changes shaping what we build, how we consume and what matters to us, it has also put us in a position to consider what we prioritise as we respond to those changes.

Real assets are central to this. The built environment contributes [around 40% of the UK's total carbon footprint](#) and is fundamental to how we tackle some of the major global challenges, such as ageing populations, reverse urbanisation and wealth asymmetry.

To create real impact, decision makers need to carefully consider every stage of the asset lifecycle in their strategies - from what they own, to what they build, to how they build it, to how it's operated. Existing assets will also need to be substantially replaced, retrofitted or repositioned.

Whether that's motorway service stations building electric-vehicle charging infrastructure with the potential to compensate for the inevitable decline in petrol and diesel fuel sales, or real estate owners investing in smart mobility to decarbonise the travel to or from their buildings.

“

To create real impact, decision makers need to carefully consider every stage of the asset lifecycle in their strategies.”

This is no small task; a moving target that will require significant resources, underpinned by a robust business strategy that also needs to appeal to consumers. As the sector becomes ever more interconnected and these decisions become more complex, with multiple scenarios and changing constraints, stakeholders will need to deploy more agile ways to rapidly assess capital deployment decisions and ensure returns, both social and commercial, are maximised. Indeed, it's likely new assets and businesses without a clear plan in place to achieve net zero by 2050 will need to start recognising an associated liability, which will directly impact the business or asset value.

Doing the right thing is therefore no longer a nice to have, but critical for those developers, owners, investors and operators looking to deliver value, both for themselves and society.



The need for greater collaboration

Thinking differently, focusing on relationships and committing to building back better should also prove the foundations of greater public and private sector integration.

In March, the UK government set out a significant budget for the built environment, with [£640bn allocated](#) to accelerating infrastructure including transport, hospitals and digital connectivity.

The continued importance of infrastructure post COVID-19 was emphasised by the government's commitment to 'build, build, build' to fuel economic recovery across the UK, accelerating £5bn of capital spend, and featuring it again as an area of focus in July's summer statement. Yet UK borrowings in April 2020 were [six times higher than April 2019](#), while HMRC has reported tax receipts were [down 42%](#). With record borrowings and such a dramatic fall in tax income it is difficult to understand where funds will be found to stimulate the [economy with an infrastructure package](#).

At the same time, record funds are available from the private sector with 'dry powder' of [\\$2tr](#) according to Preqin and Dealogic. However, development and demand risks and untested technology mean traditionally risk averse real assets investors are often unable to step in.

Therefore, future policy must support not only integrated thinking across the built environment, but also evolve the relationship between government and the private sector. Social and commercial needs must be met to unlock the necessary deployment of capital.

In order to achieve its net zero, 'levelling up' and trade and investment objectives, the UK government will need to demonstrate the same creativity and agility it has already shown during the COVID-19 crisis to deliver the infrastructure and real estate we need.

“

Social and commercial needs must be met to unlock the necessary deployment of capital.”

That may include considering how the government can act as an enabler, for example the Department for Digital, Culture, Media and Sport (DCMS) announced in June 2020 it was seeking views on increasing fibre companies' access to ducts, masts and other utility networks to help speed up and cut the costs of fibre roll out. Or it may mean building on their position as an anchor investor, as with the [Charging Infrastructure Investment Fund](#), which is investing equal amounts of public and private capital in the rollout of public electric-vehicle charging stations.



“

Those that fail to embrace the interconnectivity of real estate and infrastructure will leave themselves siloed in a sector where isolated thinking and a narrow focus will become ever more limiting.

Time to act

The changes that have been surfacing in the real estate and infrastructure sectors for decades can no longer be ignored.

The COVID-19 pandemic has made it all the more urgent for everyone involved, from planners, developers, operators and investors - and government - to adapt and grow.

Those who don't will miss the opportunities that lie ahead. Those that fail to embrace the interconnectivity of real estate and infrastructure will leave themselves siloed in a sector where isolated thinking and a narrow focus will become ever more limiting.

Become actively involved in your assets and/or take on new opportunities. Pay close attention to your customers and the environment, and be mindful of the evolving relationship between the public and private sectors.

Now is the time to act.

Now is the time to think differently.

Who to talk to

Simon Hampton

Real Assets Leader, Real Estate
Corporate Finance Leader, PwC
+44 (0)7990 506355
simon.hampton@pwc.com

Neil Broadhead

Capital Projects and
Infrastructure Leader, PwC
+44 (0)7740 928045
neil.broadhead@pwc.com

Colin Smith

Transactions Services, Energy,
Utilities Mining & Infrastructure
Leader, PwC
+44 (0)7958 274135
colin.d.smith@pwc.com

Gareth Lewis

Director, Real Estate, PwC
+44 (0)7932 970728
gareth.d.lewis@pwc.com

Matt Alabaster

Partner, Strategy&
+44 (0)7866 727124
matthew.alabaster@pwc.com

James Pincus

Infrastructure M&A Advisory
Leader, PwC
+44 (0)7798 641753
james.pincus@pwc.com

Catriona Brown

Real Assets, PwC
+44 (0)7709 485858
catriona.a.brown@pwc.com



“

Thinking differently,
focusing on relationships
and committing to building
better should also prove the
foundations of greater public
and private sector integration.”

Strategy&

This insight is brought to you using the capability of Strategy&, PwC's global strategy house, alongside our PwC industry experts. Together, we transform organisations by developing actionable strategies that deliver results.

We are uniquely placed to combine strategy with technical, industry and execution expertise. We embed our strategy capabilities with expert teams across our PwC network, to show you where you need to go, the choices you'll need to make to get there, and how to get it right.

The result is an authentic strategy process powerful enough to capture possibility, while pragmatic enough to ensure effective delivery. It's the strategy that turns vision into reality. It's strategy, made real.

www.strategyand.pwc.com

www.pwc.co.uk/real-assets

