

It's simple - megatrends rely on real estate to develop

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Megatrend investing has exhibited incredible growth and interest in recent years. While performance can ebb and flow, we believe that there is incredible potential here to change the way global society functions. Such opportunity also has the added benefit of satisfying the human drive to connect with stories. Even if we think of the words 'megatrend' and 'thematic' as being more recently coined, what we know of as 'growth' or 'emerging tech' have been around far longer and are very related.

The Infrastructure of Megatrends

If we aren't careful, the powerful ideas of thematics and megatrends can sweep us away. While we may see a lot of excitement around 'Cloud Computing' or 'Artificial Intelligence' (AI), for example, in the current state-of-play it would be tough for these concepts to grow robustly without data centres. It's possible that the specific, purpose-built real estate underpinning data centres could provide a differentiated, yet complimentary return stream to a focus on direct investments in the businesses themselves.

The gradual and inevitable shift

The shift from 3G to 4G mobile technology was very noticeable—many of us stream content on our phones and not pay attention to the size or bandwidth of the files. Developed markets are shifting from 4G to 5G. If an investor isn't careful, they may be overwhelmed by the different ways to gain investment exposure. Maybe the operating system provider, the handset makers, the chip designers, or the network providers. Here, we pose the question—what about the towers themselves? It's possible that investors may not have immediately thought about towers as being investable, and the risk/return profile might look different and be complimentary to their other exposures.

As we write these words, the global Covid-19 pandemic is still impacting how people live and work. It's been roughly two years, and it's the view of many that things like offices will be used differently in the future. Differentiated office spaces that are attuned to the changing preferences of the typical employee could set themselves apart and could potentially provide unique return streams relative to traditional office spaces.

Prior to 2020, you could have lived without hearing the term 'supply chain' outside of a business school classroom. Now, this concept has pervaded the general consciousness. 'Last mile distribution' is a huge topic in 2022, and while people may focus on things like vans that are driven autonomously, robots that can handle the tasks in a distribution centre without human intervention, or drones that can bring certain goods to the final client, none of this happens without specific, purpose-built real estate. We don't know

for sure when vans will drive themselves universally or drones will blanket the skies, but the real estate in many cases is already there and already generating revenues today.

The bottom line

For each thematic topic that garners attention, it's possible that under the hood there is infrastructure—potentially investable—that offers a connection to that same theme at a different valuation, risk and return profile.

Technology, leverage and the benefit of expertise

Now, it's clear that one cannot look at a traditional strategy of broad-based real estate investment trusts (REITs) and assume that it would invest in real estate that touches megatrends in any significant way. It's also important to manage critical risks—like the risk of investing in highly leveraged companies at a time where interest rates may be more likely to rise than to fall in the near future.

One way to look at leverage is through 'debt-to-total market capitalisation.' If it is above 70%, it's possible that the company may be subjected to other stresses and risk factors that could take the connectivity of the return experience away from the technology and move it toward other things, like movements in interest rates.

When thinking about investing in real estate companies that touch megatrends, a question to consider, beyond leverage, is the degree to which there is direct revenue from technology, life science, research & development. Missing that, it's also possible to look favourably at real estate companies focused on the enablement of ecommerce, new economy logistics and sciences.

Conclusion: Repositioning on the Value-Chain of Megatrends

The easy starting point is to find companies that are focused on the topic at hand—let's take AI for example, find companies that generate revenues from selling AI capabilities to customers. However, AI is not simply the software that can be sold or licensed. There is no AI without the right types of semiconductors. It is difficult to run today's versions of AI with zero access to datacentres. We encourage people to think about datacentre-specific real estate—as one example—and how that may offer an interesting return experience somewhat related to the AI megatrend. This approach can be utilised across other themes too, but the investable real estate may be less obvious. For investors looking to incorporate companies that are specifically exposed to megatrend-oriented real estate, there is no substitute for expertise.

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