

## InstarAGF Asset Management

# How can investors engage with communities to build cities of the future?



**Gregory Smith** is president and CEO of InstarAGF, where he brings more than 20 years of experience in the investment, operation, acquisition and financing of private equity investments, including public and private infrastructure, real estate, power and utility businesses. Smith was previously managing partner and head of Brookfield Financial's Global Infrastructure Advisory Group. He also previously served as the president of Macquarie Capital Funds Canada Ltd., where he was responsible for the establishment, growth and operations of Macquarie's unlisted and listed funds business in Canada, along with the active management of Macquarie's Canadian assets owned by offshore funds.

**Jonathan A. Schein**, senior vice president, managing director of global business development, for Institutional Real Estate, Inc., recently spoke with **Gregory Smith**, president and CEO of InstarAGF Asset Management, about community engagement in the infrastructure sector. An excerpt of that conversation follows.

*Communities have a powerful voice in defining progress and how it is going to be accomplished at the local level. How does this play out in the infrastructure space?*

Community engagement is an in-depth way of working with the communities and stakeholders that are critically important to the success of infrastructure projects. A number of decades ago, governments working on large-scale mega projects, including power plants, transmission lines and highways, were able to expropriate land, building what they wanted when they wanted to. Since then, the science and numbers supporting community consultation have really impacted the industry and shifted the emphasis to actually engaging with local stakeholders in a meaningful way.

*How have you seen local engagement evolve?*

Traditionally, designing and planning infrastructure took place first, with "community engagement" mostly aimed at trying to pacify or mitigate any local concerns after the fact. But genuine engagement takes the dialogue one step further. It actually brings infrastructure into neighborhoods and communities, allowing stakeholders to be directly involved in planning, design, needs analysis, construction and operations. Successful engagement is about becoming part of a local community and is a critical success factor for infrastructure. An infrastructure project may be technically or financially successful, but it won't be deemed successful by the public unless they have been engaged to ensure it meets their needs and own community objectives.

*When you talk about stakeholders, do you mean local governments or community groups?*

For us, community engagement means both. We are talking about essential infrastructure that touches people's lives every day, meaning both residents and local government officials will have a big stake in how the project comes together. This interest is often connected from a development perspective, as public support can

be created through good corporate social responsibility and good community engagement, often leading to broader government support. That can then lead to proper regulation and policy for future developments, supporting quality infrastructure projects. Community engagement should not be about hiring lobbyists and then having discussions with municipal, provincial or federal elected and unelected leaders. It is really about engaging the community first and designing projects with them in mind.

*Has technology had any impact on these community relationships?*

Modern infrastructure development is becoming much more participatory in nature, with new technology enabling citizens to directly express their views and play a vital role in planning and management. This is bringing infrastructure to life in new ways, affecting how it is developed, used and customized for local needs. The use of technology to bring community opinions to the table means that utilities, regulators and policy makers — as well as developers — now need to rethink how they are dealing with local relationships.

Within energy distribution and generation, for example, we see a trend in localized approaches and communities acting as "prosumers." They are directly involved in the energy marketing, leading to opportunities in district energy and micro grids. We are seeing much of the future of energy development being in that renewable, small scale, community-based, and controlled locally rather than a large, centralized traditional way of going about energy development. Systems are being deployed in these urban settings, in these neighborhoods, that are "greening" the buildings and campuses as a result.

*With rapidly increasing population growth, globalization and an international exchange of knowledge, where does localization fit in?*

As the population takes ownership of its neighborhoods, citizens are demanding more control over the types of infrastructure developed. For example, we have seen transportation planning traditionally being more of a top-down exercise, whereas now it is increasingly becoming a regional conversation. While you still require comprehensive planning, urban mobility today is just as much focused around the citizens who use transportation infrastructure. Technology and innovation make the systems more flexible, more environmentally friendly and more responsive to those user needs and preferences.

Developers now can look at real-time data, ride-sharing, or multi-modal transportation applications. Take, for example, Los Angeles' GoLA app, which combines the different modes of different transportation along with quicker, cheaper and greater options that can customize travel planning for the users. It is about engaging, and seeing where technology and innovation is allowing that comprehensive planning to be completed in a much different way.

*What has been the most important factor to realizing these local opportunities?*

I think it is important to remember that, when we are thinking about the areas being designed and developed, thinking locally



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does not necessarily mean thinking smaller. It means thinking smarter about how you are doing it.

Looking at our investment in Billy Bishop Airport, for example, we have a transportation hub located extremely close to the downtown core of Toronto and tailored to the specific needs of the surrounding area. Around 40 percent of its users either walk, ride their bike or take public transit to the airport — the highest number of any airport in North America. That is strong interconnectivity and sustainability for an airport setting. It is a great example of thinking locally, not smaller.

Infrastructure is a story of evolution, and we are seeing different emerging needs and shifting patterns in the way people use infrastructure. We are seeing different technologies and changes in the densification of our cities. Neighborhoods are taking ownership of what is being developed in their own backyards. This is the opposite of NIMBY (not in my backyard); they actually are asking for more control about what is in their community and how they engage with that infrastructure.

#### *Are you seeing opportunities for investors at this community level?*

There is a critical demand for the trillions of dollars needed globally for infrastructure that is not unabated just because you are going local. We are seeing opportunities in transportation with light rail transit and airports, as well as the types of intermodal and urban mobility avenues that are happening. We are seeing it in district energy, as we look at local micro grids providing low-carbon and reliability-based systems for consumers. There is also significant underinvestment in water infrastructure. Although water systems have historically relied on big central systems, they are now increasingly reliant on localized distribution and treatment approaches to deliver the economical and flexible solutions that are required.

#### *Why are infrastructure investors beginning to prioritize ESG initiatives?*

While we look to create value for our investors, we know that infrastructure serves an important social purpose. It enables better quality of life and greater economic opportunity. It creates more vibrant and integrated communities, and actually lowers inequality. The infrastructure plans in North America announced by the Trudeau government and the Trump administration both have bipartisan support, largely because of infrastructure's ability to lessen inequality, support the middle class and promote economic activity. Historically, ESG as part of infrastructure was primarily considered in the context of acquisition, due diligence and identifying liabilities. Today, more

emphasis is being placed on the business opportunity that emerges from effective management and engagement. There is a great correlation between making ESG a core principle and delivering outsized returns for investors — actually using it as a value driver rather than a cost center. We think about ESG as a fundamental component of ensuring investment quality and future-proofing our infrastructure developments.

#### *What role can the private sector play in long-term urban resiliency?*

Investors are an important part of the ecosystem. We believe successful infrastructure projects are the result of collaboration between all stakeholders, bringing together the private sector and governments as well as communities, customers and passengers. There needs to be an integrated approach to resource and land use, energy and transportation planning, and fostering social inclusiveness. How well stakeholder interests are aligned during infrastructure development will play a large role in determining how effectively we can build a better city of the future. The private sector can provide industry expertise and capital, but we need a strategic approach emphasizing collaboration and innovative partnerships to address the billion-dollar infrastructure deficit and foster community growth, while meeting technological and sustainability needs.

#### *How does successful infrastructure foster community growth?*

Cities are more than just the sum of their infrastructure. But quality infrastructure, construction and renewal can set the stage for how, and whether, a community continues to grow and prosper.

Social infrastructure underpins the civic and moral conditions of our community, making the state of repair of infrastructure central to our quality of life, economic productivity and overall competitiveness. It is about being smarter in how we develop essential services and structures, creating strong returns and vibrant communities. Investing in social infrastructure directly increases employment and is key to attracting and fostering the human capital and talent required to generate and sustain long-term growth. With every 1 percent increase in infrastructure spending in North America estimated to have an economic multiplier effect of up to 1.7 times, we see a direct correlation to productivity and growth. Over time, these inflows lead to economic diversification, which can help communities more effectively withstand and navigate economic shifts.

Securing quality infrastructure for our cities inherently demands a form of cooperation and collaboration, drawing on ideas and talent across governments, investors, developers and communities to build environments that are more innovative, sustainable, inclusive and poised for economic growth.

#### **CORPORATE OVERVIEW**

InstarAGF is building a North American investment platform focused on infrastructure, real assets and private equity investments in the middle market. Our team's significant depth of sector and investment expertise, relationships, and global reach empower InstarAGF to help investors meet their investment goals.

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