

Sponsor Interview

Principal expands global access for clients with acquisition of Internos

Principal Real Estate Investors recently acquired European real estate investment firm Internos Global Investors.

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This is the first acquisition in your history of 6+ decades. Why now?

Todd: We were intentional in our search for the right partner, prioritizing the alignment of company culture, investment philosophy, and the approach to client fiduciary responsibilities. We feel that people with high integrity, who place clients at the center of everything they do, are the most important assets a real estate investment manager can have. There's no substitute for this level of integrity and experience, and, while there may be 6,800 kilometers of flights between our offices, we feel as though Internos has been across the street for years.

Jay: Many of our clients are looking for global investment solutions, while simultaneously aiming to reduce the number of managers with whom they work. Outside of our global REIT team, we were one of very few large real estate investment managers who didn't have a local presence in Europe doing direct investments. Many of our clients have expressed a desire to access opportunities outside of the United States, and Internos will absolutely help us provide global solutions.

Todd: There's no single cycle for real estate. The additional diversification of the economies and markets in which we operate going forward is highly appealing and will enhance our value proposition.

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From the perspective of Internos, why did the acquisition make sense? What can clients expect from both sides?

Andrew: The criteria Todd mentioned were mirrored on our side. When we started Internos, we sought to create a high-quality European real estate investment management platform that could raise capital and offer solutions to cli-

ents within the markets in which we operated. What we were missing was the ability to do this outside of a European context. In some ways, it was a bit early to sell the business. We've continued to build our platform, launch funds, raise capital, and deliver performance. But when such an opportunity presents itself, the timing may not get to be perfect. What you've got to do is get the culture right and the strategy right, as well as establish a joint mission. From everything we've seen and everyone we've met, Principal is absolutely the right partner for us.

Jos: We're confident that, together, we can continue to grow organically and sensibly. We had several key criteria; first among them was the impact on our clients and staff. There's no overlap of people, and our capabilities are entirely complementary. From our clients' perspective, they understand the logic of the acquisition, they see how it works, and they have been completely supportive. Principal has a terrific reputation as a high-quality fiduciary that precedes them. As a result of the acquisition, we'll be able to continue to provide local service to clients—but now with expanded access to global investment solutions.



Contributors

From left: **Jos Short**, Executive Chairman, Principal Real Estate Europe, **Todd Everett**, Senior Managing Director, Commercial Real Estate, **Michelle B. Fang**, Managing Director, Real Estate, **Andrew Thornton**, Chief Executive Officer, Principal Real Estate Europe

Not pictured: **Jay B. Davis**, Senior Managing Director, Principal Real Estate Europe
Indraneel Karlekar, Ph.D., Senior Managing Director, Global Research & Strategy

Michelle: Our global client base has long been asking us how we can help them in other regions in the same way we've been working with them in the United States. They've expressed just as much excitement as we have for our newly expanded capabilities, particularly given the fit from cultural and skills perspectives.

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What will Internos be known as going forward?

Jos: If you're going to bring people together, it must be as one business, and therefore, one name. The Internos brand has served us well and is something of which we're very proud; however, we're delighted to become Principal Real Estate Europe together with our new colleagues.

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What are Internos' primary capabilities, and how will you look to integrate them into Principal Real Estate Investors' platform?

Andrew: Internos has primarily worked with European institutional investors to invest directly via private equity funds and separate accounts. In terms of Principal Real Estate Investors' four-quadrant real estate platform, I like to think of Internos as an additional dimension, adding greater depth and geographic scope to what has already been accomplished in the United States.

Jay: Internos has had success in areas of European private equity real estate that Principal Real Estate Investors hasn't really ventured into yet. They have a robust assisted living program in Europe, as well as hotel investment capabilities that serve as a real value creation platform. The team has done extremely well across its funds and has also built a substantial separate account business. We plan to share our expertise in areas like private debt, but at the right time and for the right reasons. Another potential area for opportunity is in property development. Our development capabilities and expertise, along with the joint venture relationships we've established over decades, have helped us source and manage a high volume of projects on behalf of our clients. We plan to "export" these in-house capabilities to Europe.

How will your research capabilities grow as a result of the acquisition?

Indy: Principal Real Estate Investors has a deep top-down, bottom-up research-driven process in place that is embedded within the investment process. We will combine this with Internos' successful bottom-up analysis and the strategic perspective shared in their Decisive Eye publication. Integrated with our new colleagues, we will exchange ideas in terms of markets and outlooks, ultimately providing a holistic view for clients looking for a cross-border solution.

Andrew: As a combined team, the huge benefit to us will be the global macroeconomic perspective that Principal Real Estate Investors offers. We'll gain access to high-quality economists, researchers, and strategists that are all in-house. This will allow us to get a real flavor of how global capital is thinking and integrate this with what is genuinely happening on the ground in the European markets, therefore showing us relative value around the world.

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What are some compelling opportunities across regions that you see for investors?

Indy: Looking ahead to the next few years, we believe there are interesting opportunities in Europe. From a cyclical perspective, Europe has lagged the U.S. in its recovery but is showing signs of real momentum. Monetary policy is still accommodative, and the European Central Bank has promised to keep rates low, which is positive for a capital-sensitive asset class like real estate. Consumption spending is also on the rise.

Structurally, we see several themes unfolding that fit well with some of Internos' offerings, namely demographics. Europe is getting older, so healthcare, senior housing, and medical offices may be viable opportunities. Infrastructure spending is another key theme evolving in Europe. There's a lot of capital pouring into infrastructure projects in major cities, which we think could create good long-term opportunities for investors. I would also point out industries that see growth led by innovation. This is a long-term secular play that is going to be very beneficial for investing in Europe. Finally, globalization, and the trade flows that go with it, will be central for Europe. Given Germany's role as a manufacturing powerhouse, we think this is another long-term theme that's quite interesting.

Andrew: Whenever there's change, there are clearly winners and losers. I think it's very important to have a strategic outlook like Indy has identified, in addition to having people on the ground who are experts on local dynamics. I believe combining the strategic, macroeconomic perspective with the local presence will unearth some viable opportunities for our clients.

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Do investors look at things differently based on the region in which they are based?

Todd: At a high level, the appeal of commercial real estate as a portfolio solution is generally common among investors. Most are seeking current income, a hedge against inflation, lower volatility, enhanced diversification, and overall improvement of risk-adjusted returns in a lower global interest rate environment. Themes, such as aging demographics and the transition from defined benefit to defined contribution, have prompted interest from wealth management and financial advisors. I think there is some degree of emerging investor interest from different sectors and geographic locations. Asia, Europe, and the United States are all well positioned to fulfill these requirements. An advisor's value is certainly enhanced if they have a greater global diversification perspective and options available.

Jos: When it comes down to it, individual investors have different objectives. As a manager, it's important to understand those objectives and make sure the investment solutions we offer are suitable. It's also our job to have capital that's competitive and that we're able to invest throughout the cycle, so our clients can take advantage of market opportunities. The benefit we now have as a global business is to look at where we see the best relative value, whether in direct property, or public equity and debt markets.

Michelle: Investors and consultants are looking at Europe given the fact that the continent is lagging the U.S. in its recovery. In the latest IREI and Kingsley survey, U.S. investors were asked how likely they were to allocate to Europe. The number increased from 3 percent last year to 9 percent this

year. Among our clients, we're also seeing a small but growing base of interest in Europe.

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What about the capital markets and lending environment in Europe?

Jos: We're fortunate to have the ability to borrow from German banks for our funds run by the KVGs at very attractive all-in rates, allowing us to utilize German banking debt throughout Europe for our various programs. Access to German debt is a distinct offering that we can provide our clients.

In the U.K., interest rates are beginning to climb, and margins are wider than they are from traditional German lenders in those markets. Debt is a little harder to obtain and more expensive in the U.K., but there are clearly opportunities for preferred debt, mezzanine debt, and preferred equity.

Andrew: If you have lower interest rates, which we do in continental Europe, there's a pick-up in hedging not only for U.K. investors looking at the continent, but also for U.S. investors looking at Europe. So that further tilts the playing field in favor of the European market at this stage in the cycle.

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Are you looking to continue expanding your platform globally?

Todd: The Internos acquisition is a major step in establishing a European footprint within our private equity real estate capabilities. We anticipate future opportunities to expand our European strategies, possibly within the private debt quadrant. Our global REIT team is already active in Europe and Asia, and we'll remain open to opportunities for additional expansion in both regions. The need for high-quality commercial real estate in emerging markets will grow at a pace greater than most developed economies over the next several decades. We'll continue to look for the right opportunities to grow our platform; however, we'll exercise a great deal of patience and selectivity in how we evolve and will do so in a way that's beneficial to our clients.



Corporate overview

Local presence, global access.

Principal Real Estate Investors is a top 10 manager of real estate¹ with more than US\$75.9 billion in assets under management, proudly serving over 375 institutional clients worldwide.² We have teams of experienced investment professionals located in:

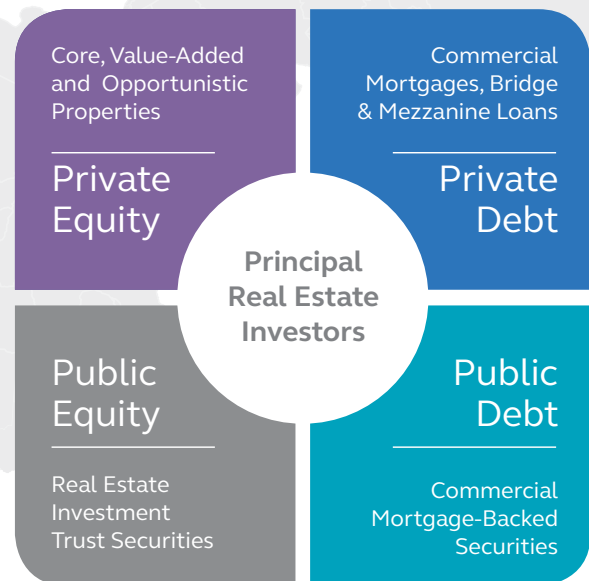
Australia | France | Germany | Italy | Luxembourg | Netherlands
Portugal | Singapore | Spain | United Kingdom | United States

Our specialized market knowledge, dedicated and experienced teams, and extensive connections within and across all four quadrants of the market allow us to maximize opportunities and find the best relative value on behalf of our clients.

¹Managers ranked by total worldwide assets (net of leverage), as of 30 June 2017. "Largest Real Estate Managers," *Pensions & Investments*, 3 October 2017.
²As of 31 December 2017.

Four quadrants. Your choice. Your portfolio.

We invest in all four quadrants of commercial real estate, offering a wide range of capabilities that maximize our distinct perspective on real estate space and capital markets. Our holistic understanding of the market allows us to tailor a portfolio to meet your unique risk and return objectives. So, whatever commercial real estate strategy or combination of strategies you believe is right for your objectives — **we can help.**



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