

Playing at the nexus of infrastructure and real estate

Jorge Fernandez, Institutional Real Estate, Inc.'s managing director, infrastructure, recently spoke with **Jeff DeBlock**, managing director for CBRE Investment Management's Private Infrastructure, about opportunities generated by the growth in the electrification and digitization trends. Following is an excerpt of that conversation.

The world is experiencing a surge in electricity demand. What is driving this demand?

Many developed countries have had a flat electricity demand profile for the past couple of decades. Recently, electricity demand has increased. This demand is being driven by several trends including population growth, increased electrification, and digitization. Increased electrification has come as a result of electric vehicles (EVs) now representing nearly 10 percent of all new vehicle sales. Much of the electricity demand from a digital perspective has been fueled by data center growth. This growth has come from enterprise and cloud usage with AI set to drive the next phase of growth.

What attracted you to the EV charging sector and are there specific opportunities you prefer?

As CBRE Investment Management (CBRE IM), we make investments that leverage our strengths as a manager – we are advantaged by playing at the nexus of infrastructure and real estate. One of the interesting segments we uncovered is the electrification of the drayage trucking space. This segment focuses on the short-distance trucking of containerized cargo. As an investor, we were able to overcome the common issue of battery technology and range concerns. These shorter trucking routes allow electrified trucks with current technology to complete their daily requirement of making a few portside-to-customer trips per day. The service offered by our platform company, Forum Mobility, provides drivers with an easy fixed-priced solution that is complaint and cost competitive. In return, our investors receive a long-term fixed-price cash-flow stream for an essential service.

How does CBRE IM add value as an investor?

The management team at Forum Mobility has mapped out an impressive growth plan to build EV charging stations for drayage trucking in multiple markets across the U.S. CBRE IM has been able to assist with sourcing locations from within its approximately \$150 billion real asset platform and make introductions to commercial real estate brokers and related professionals within the vast CBRE network to find new locations for the company.

Another area of focus for CBRE IM is the digital sector; how do you plan to capture the growth within the digital environment?

Within the digital environment we mapped out the sector and looked for opportunities that exhibit key infrastructure characteristics – high barriers to entry, delivery of an essential service, stable and predictable revenue profiles and high margins. We saw the growth of digitization as a secular trend driven by the growth of digital information and its collection, transportation, computation and storage. For the implementation of this, we focused on build-out of platforms in the fiber, tower and data center space. We have found several investments that display the key infrastructure characteristics while providing an attractive growth profile.

Can you please discuss the value creation that can come from a platform?

The build-out of a platform can be very accretive for investors on a risk-adjusted basis. It allows for a platform to be setup with a modest initial investment and deliver growth capex at its cost instead of having to pay a premium via a competitive auction. One example of this is our investment in CitySwitch. The company can build mobile towers along the vast Norfolk Southern land portfolio it has proprietary access to. In addition, CitySwitch sites towers in bespoke locations requested by its customers. With our CitySwitch platform we accomplished a modest initial investment and developed a near-term pipeline that is a multiple of the initial asset base. The cost of building new towers compared to tucking in small portfolios of operating towers is being done at a fraction of the price.

CBRE IM was an early adapter of data centers as an infrastructure sector. Why did you like the space, and does it remain attractive?

We did our initial work on data centers nearly a decade ago and made platform investments in 2016 and 2017. We were drawn to the sector because it fit within the definition of infrastructure – high barriers to entry, delivery of an essential service, stable and predictable revenue profiles and high margins. We see the sector as attractive and being led by continued growth of enterprise and cloud computing. New-build economics for data centers remain robust and releasing rates are very resilient in nearly all markets across North America. Shortages of electricity or delays for new sites are becoming more common, therefore increasing the demand for existing locations.

How are you positioned to take advantage of AI?

Many of our platforms within our digital sector will benefit from AI but are not dependent on AI to achieve our base case returns. With our data center investments, enterprise and cloud growth has been and will continue to be a very attractive theme. Cloud computing continues to be a very large business – it remains the largest profit center of Microsoft and is still growing at a more than 25 percent rate for the foreseeable future. We welcome the growth potential of AI and its ability to be transformative but do not require it to be. As an infrastructure investor we will continue to seek out quality “blue-chip” customers for our data centers.

CONTRIBUTOR



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CORPORATE OVERVIEW

CBRE Investment Management is a leading global real assets investment management firm with \$146.2 billion in assets under management as of Dec. 31, 2024, operating in 20 countries around the world. Through its investor-operator culture, the firm seeks to deliver sustainable investment solutions across real assets categories, geographies, risk profiles and execution formats so that its clients, people and communities thrive.

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