

## Infrastructure Investments — The Governmental Asset Class Opportunity

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Investing in community infrastructure — a relatively young phenomenon that began in Australia in the 1990s — moves to the forefront of institutional investing at a time when economic uncertainty leaves investors looking for more stable options. A trend born from strained government budgets has expanded to other countries, including Canada, parts of Europe and the United Kingdom, as well as the United States, seeking privately-funded alternatives to supplying public needs.

### What Is Infrastructure?

Infrastructure is defined by those assets and primary services that are vital to the success and economic development of any community. The infrastructure investment category includes structures and facilities used by public agencies that provide social and economic services. These include transportation, energy and utilities, water and communications systems, as well as public facilities such as schools, hospitals and government buildings.

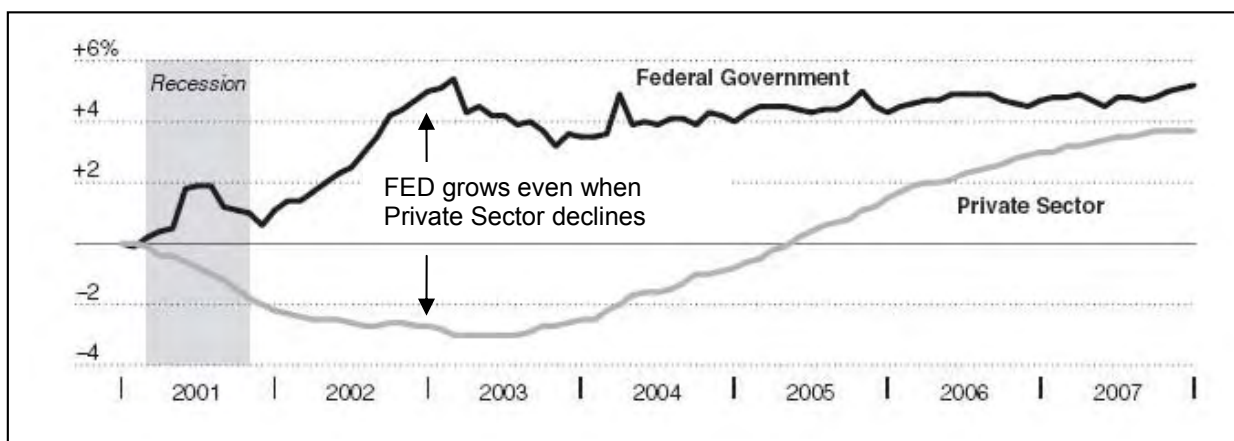
The investment community typically classifies infrastructure as either “economic” or “social.”

Economic infrastructure encompasses essentials like transportation (airports, rail systems and toll roads) and utility services, including water supply, sewage and gas storage, as well as solar and other renewable energy sources. Social infrastructure refers to the development, operation and maintenance of properties including government-occupied assets, such as facilities required for security, justice, energy, immigration, taxation and customs agency functions which fall under the social infrastructure umbrella, in addition to health care and education at federal, state and local levels. The offices of Homeland Security, the Federal Bureau of Investigation and the Department of Defense are examples of social infrastructure at work.

Due to their vital, and to some degree monopolistic characteristics, infrastructure assets offer comparably high yields at low risk, as well as the following:

- portfolio diversification from a low-correlated asset class;
- hedge against inflation;
- predictable demand;

### Federal to Private Sector Job Growth



Source: Bureau of Labor Statistics, via Haver Analytics



- low volatility;
- long revenue duration; and
- stable and secure cash flows.

### The Role of Governmental Assets

Governmental assets are a part of the infrastructure asset class due to essential services provided by federal, state and local governmental agencies and the inelastic demand for these services within a community. The favorable investment characteristics of infrastructure investment correlate significantly with the inherent characteristics

of governmental assets, firstly in that governmental agency leases provide long-term predictable, inflation-linked cash flows.

In the private sector, tenants typically react to current economic conditions. Relocation decisions are often times made at the local or regional level,

which creates a fluid, timely and efficient decision making process. Thus, prudent underwriting would factor a renewal retention rate ranging from 65% to 70%. Conversely, governmental relocation decisions are political, budget- and process-oriented and not driven by economic cycles. Governmental agencies implement strict policies and procedures that create funding and bureaucratic challenges. This can slow, delay or even halt relocations. Plus, standard governmental leases contain extension clauses with advanced notification periods that are often overlooked during an inefficient approval process. Thus, the retention rate for a governmental lease is historically more than 90% and significantly higher for build-to-suit assets and “first generation” leases. The governmental asset class enables investors to benefit from the stable cash flow generated by the long-term nature of the leases.

As the largest US organization with approximately 100 agencies overseeing more than a million employees, the US federal government utilizes some 3.8 billion square feet of space throughout its domain. Geographic diversity is thus also achieved within the governmental asset class of a social infrastructure investment program.

The Government Services Administration (GSA) provides management services for much of the federal government lease space, as well as agency procurement services for space leasing and

modernization. For new construction, the GSA provides a detailed Solicitation for Offer (SFO) to members of the private sector. The process to bid on governmental facilities can become arduous and expensive and, in short, this, coupled with the challenges of funding governmental

projects, creates a significant barrier for new space within the governmental sector and substantiates the high renewal rates within existing governmental facilities.

Governmental buildings are also considered Socially Responsible Investments (SRIs) and compliment Environmental Social and Governance (ESG) policies. The occupants within these properties support agencies responsible for social justice and corporate governance, and may also house agencies with a mission to sustain environmental protection and social assistance programs. The US government, through the General Services Administration, is a leader in attaining LEED (Leadership in Energy and Environmental Design) certified properties, which further exemplifies the socially conscious aspect of governmental building investments.

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