Invesco

Introducing CLIC:

Consume • Live • Innovate • Connect

Real estate investment thinking for a disruptive age

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Our CLIC series of white papers

CLIC – Consume, Live, Innovate, Connect – is a framework for investing in real estate. Based on the experience of Invesco Real Estate experts worldwide, it moves away from broad property types and instead focuses on the underlying needs that drive real estate demand and utilisation. It fully recognizes that the world's oldest asset class is – and has always been – central to our everyday lives.

CLIC seeks to better highlight the ever-growing opportunities in a real estate space that has never been more complex, challenging and exciting. In tandem, it attempts to reduce the risk of investing in economically unsustainable assets that are unsuitable for long-term strategies with a focus on environmental, social and governance (ESG) considerations.

This series explores CLIC in five white papers:

1. **Introducing CLIC:** real estate investment thinking for a disruptive age
2. **A closer look at CLIC – part I:** understanding how where we **consume** is reshaping real estate investment thinking
3. **A closer look at CLIC – part II:** understanding how where we **live** is reshaping real estate investment thinking
4. **A closer look at CLIC – part III:** understanding how where we **innovate** is reshaping real estate investment thinking
5. **A closer look at CLIC – part IV:** understanding how where we **connect** is reshaping real estate investment thinking

1

Executive summary

- Real estate may be the world's oldest asset class, but it never goes out of fashion. It houses the economy and has always been closely linked with people's everyday lives.
- Historically, real estate investing has often overlooked the depth and importance of this relationship – instead viewing the market in relatively simplistic, bricks-and-mortar terms.
- This type of framing achieved particular dominance during the 20th century, when dividing property types into four key segments – residential, office, industrial and retail – became a norm.
- Major events during the 21st century to date – the global financial crisis and the COVID-19 pandemic foremost among them – have increasingly exposed this approach's limitations.
- We propose an alternative framework, CLIC (Consume, Live, Innovate, Connect), which aims to take full account of the fundamental and structural drivers of real estate demand and utilization.
- The need to consume, live, innovate and connect has underpinned real estate for hundreds of years. But how we consume, live, innovate and connect is now changing rapidly.
- CLIC recognizes that the purely physical divisions that have largely defined real estate investing for decades may not capture the intersectional dynamics impacting the market today.
- We believe that this framework can help highlight attractive opportunities and avoid economically unsustainable assets that are unsuitable for ESG-aware, long-term investors.
- CLIC is central to Invesco Real Estate's efforts to provide access to institutional-quality, diversified, direct global real estate.

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Introduction

Real estate is the world's oldest asset class. It is rooted in the earliest human settlements and predates currencies, trade and even the Iron Age. As scholars from multiple disciplines have asserted, the desire to possess and control some form of territory stretches back thousands of years[1].

In many ways, of course, how real estate was viewed millennia ago bears scant resemblance to how it is viewed today. A cave-dweller simply wanted a place of safety, whereas a present-day investor may be seeking a hedge against inflation and a source of portfolio diversification. Times change – and so do our considerations.

There are some aspects of real estate thinking, though, that have endured for surprisingly lengthy periods. One is the notion of dividing the market into property types – for example, residential, industrial, office and retail (RIOR), a framework that dominated for much of the 20th century and has remained prevalent throughout the 21st to date.

In this series of white papers, drawing on the expertise and experience of Invesco's global team of almost 600 real estate specialists, we explore why such an approach may now be both outdated and unduly simplistic. We suggest that today – in an era of significant demographic shifts, relentless technological progress and near-constant disruption – a truly holistic analysis must fully recognize real estate's continued centrality to our everyday lives.

The fact is that real estate is always relevant. It never goes out of fashion. It houses the economy and meets the most basic human need for space. This is why we advocate a new framework: CLIC – Consume, Live, Innovate, Connect.

CLIC acknowledges the limitations of long-established, one-dimensional constructs such as RIOR. It instead focuses on the underlying needs that drive real estate demand and utilization. We believe that it sheds valuable light on why this market is becoming bigger, more complex and more exciting than ever before.

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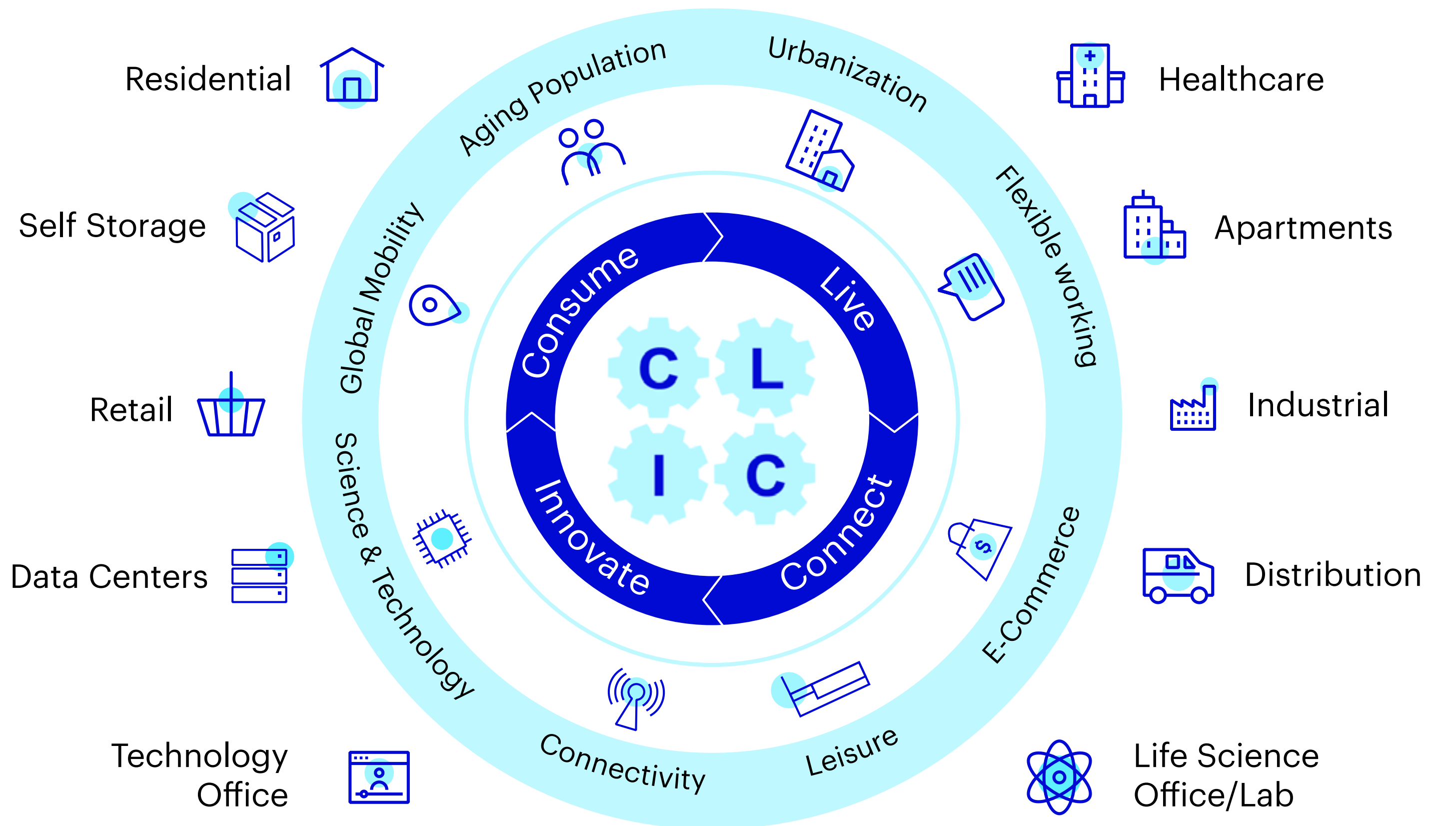
While subsequent papers will concentrate on the concept's specific elements, here we place CLIC as a whole in context. Showing how the lens of RIOR developed through milestones such as the housing crash of 2007-2008 and the asset class's elevation to the S&P 500 just a few years ago, we make the vital point that real estate has invariably been more than the sum of its parts and has always both influenced and been influenced by the world around it.

Extending this argument, we unpack the shortcomings of the purely physical categorizations that have held sway for so long. We discuss why these are becoming anachronisms amid far-reaching events such as the COVID-19 pandemic, the move to working from home and the e-commerce boom. We examine why relying exclusively on taxonomies such as RIOR could increasingly invite the risk of investing in economically unsustainable assets and why CLIC, by contrast, should support a successful long-term strategy.

The need to consume, live, innovate and connect has underpinned real estate for hundreds – if not thousands – of years. The difference today, as we explain in this paper, is that how we consume, live, innovate and connect is changing more rapidly than ever before.

A novel view of the world's oldest asset class

CLIC was created by the Invesco Real Estate team to reflect both the fundamental drivers and the secular trends shaping real estate demand and utilization in an age of demographic transformation, rapid technological advances and near-permanent disruption. It aims to provide a genuinely holistic view of an asset class whose traditional framings are fast losing relevance.



Source: Invesco Real Estate

3

The rise and fall of residential, industrial, office and retail

Why investing in real estate has so frequently been framed as a rather straightforward question of bricks and mortar constitutes an enduring mystery.

3.1. Foundations: property ownership through the ages

Even if we wind back to real estate's most distant past, which some researchers have traced to prehistoric times, we can find instructive parallels with the present. Then, as now, shelter and security were inextricably linked to churn, change, challenges and progress.

In the very loosest sense, the birth of property ownership likely occurred when hunter-gatherers first occupied caves and other places of refuge. They thus laid claim to what they regarded as their own territory, which they were routinely required to defend with no little ferocity.

The move to agricultural systems reinforced the reality that those best able to protect their property would keep it. This fuelled the ascent of tribal leaders, who went on to allocate territory to – and demand payment from – their subjects.

Elites maintained control as farming villages turned into cities, with the principle of providing protection in return for labor ceding to tenancy and taxation. Later, as the merchant class flourished, the purchase, sale and renting of homes and shops became possible among "commoners".

The effects of the Industrial Revolution allowed workers to at last get a foot on the ladder, although even then only a fortunate few succeeded in doing so. Eventually, as global wealth grew, banks began offering mortgages to a much greater proportion of the population.

The journey from primitive caves to a mass market for property took around 30,000 years. This is quite a period to cram into a handful of brief paragraphs, but even the above quick-fire survey underlines that real estate has always been deeply entwined with our day-to-day lives.

The point here is that the intricacy of this space today should not obscure the fact that real estate has been multifaceted from the outset. It has invariably helped shape – and has itself been shaped by – an array of socioeconomic dynamics. In the words of Professor Robert Edelstein, Maurice Mann Chair in Real Estate at the University of California, Berkeley: "The significance of agricultural, residential and commercial real estate assets in mankind's history can scarcely be exaggerated."[2]

In other words, real estate has always been underpinned by the basic human need for space. It has also always been a matter of how we consume, live, innovate and connect.

Why investing in real estate has so frequently been framed as a rather straightforward question of bricks and mortar therefore constitutes an enduring mystery. As we will see next, this tendency has become particularly entrenched over the course of the past century.

Real estate made simple – or too simple?

From an investment perspective, at its broadest, real estate has traditionally been divided into "buckets" such as residential, industrial, office and retail. These have themselves sometimes been further divided, as shown in the examples below. Yet no number of sub-divisions along these lines truly elevates assessment of the market beyond an essentially physical, bricks-and-mortar dimension.

Residential	Industrial	Office	Retail
Garden	Warehouses	Class A (highest-quality buildings)	Shopping centers
Mid-rise	Manufacturing facilities	Class B (average-quality buildings)	Malls
High-rise	Distribution facilities	Class C (lowest-quality buildings)	Entertainment centers

Sources: Invesco Real Estate; Building Owners and Managers Association; Fannie Mae

3.2. Cementing dominance: real estate and RIOR enter the mainstream

In the 1900s, echoing Mark Twain's maxim that history might not repeat but often rhymes, the appetite for real estate spread far beyond the modern-day equivalents of tribal leaders and elites. Like the merchant class of the Middle Ages and the broader beneficiaries of the Industrial Revolution, smaller-scale investors yearned to join the ranks of property owners.

Real Estate Investment Trusts (REITs) sought to answer their wishes. Initiated by the US Congress in 1960, REITs enabled any investor to buy shares in commercial real estate portfolios – a privilege until then available only to wealthy individuals via sizeable financial intermediaries. Other countries duly followed the US's lead[3].

The rise of REITs in many ways embodied real estate's rapid maturation as an asset class, which compressed into four or five decades a process of expansion and democratization that the equity market took more than a hundred years to achieve[4]. The handful of REITs that operated in the US in the early 1960s had grown to 58, with a combined market capitalization of $5.6 billion, by 1991; there were more than 180, with a combined market capitalization of around $2 trillion, by 2021[5].

Institutional investors were also looking for simple ways to gain exposure to real estate as the latter half of the century unfolded. They eventually entered the fray in the 1970s, courtesy of the US's Employment Retirement Income Security Act+, with the RIOR approach beginning to take hold in earnest a decade or so later.

The framework's dominance since has been such that it is easy to forget residential property's initial failure to attract the institutional investor community's attention. In the US, according to the National Council of Real Estate Investment Fiduciaries, residential properties – referred to in this instance under the rubric "Apartments" – accounted for only 2% of institutional real estate investment in mid-1984 but almost 25% by the start of 2017[7].

We remarked earlier that real estate never goes out of fashion. It was unquestionably in high fashion by the turn of the millennium: in 2005, in the pages of his best-selling guide to personal investment, Yale University CIO David Swensen even famously recommended a 20% allocation[8].

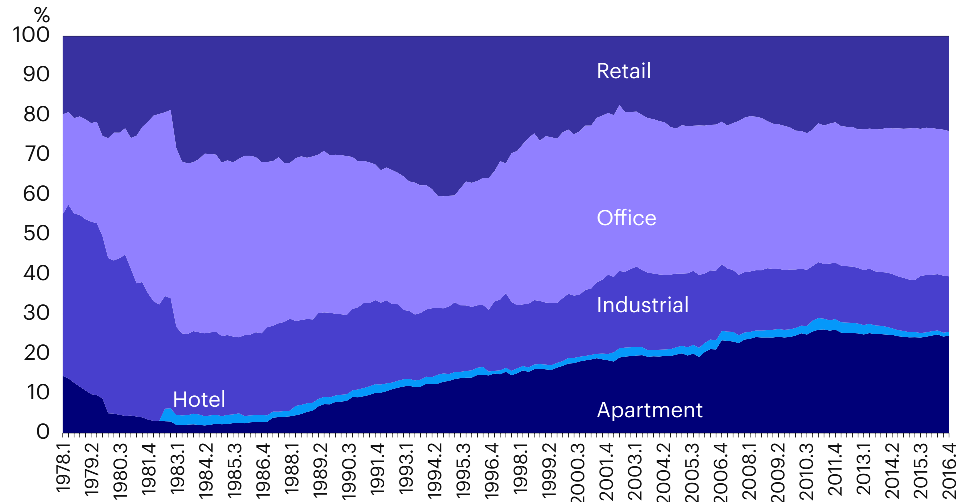
Although the REITs industry occasionally proved less than infallible[9], the continued development of the market as a whole brought suitably diversified portfolios, more open-ended funds, passive products and even derivatives[10]. A second quadrant-based framework also emerged, capturing the various means by which real estate could be accessed: private real estate equity (e.g. investments held as individual assets or in commingled vehicles), private real estate debt (e.g. investments held as directly issued loans or commercial mortgages held in funds or commingled vehicles), public real estate equity (e.g. REITs or Real Estate Operating Companies [REOCs]) and public real estate debt (e.g. commercial mortgage-backed securities [CMBSs])[11].

Yet all these innovations and framings could not get away from the fact that, as had always been the case, real estate was closely linked to the workings of the wider world. As the Journal of Portfolio Management presciently observed in its 2005 Special Real Estate Issue: "None of these new tools or products mean that the risks of investing in real estate have been eliminated or even diminished to a significant degree."[12] This would soon be demonstrated in epochal style.

Real estate compressed into four or five decades a process of expansion and democratization that the equity market took more than a hundred years to achieve.

The entrenchment of RIOR

Since the mid-1980s, when institutional investors began to show an interest in residential property, the concept of RIOR has dominated the framing of real estate. The chart below shows each component's share of the US market between 1978 and 2016, with the National Council of Real Estate Investment Fiduciaries deeming only the hotel sector worthy of intruding on the customary mix.



Source: Clayton, J, Fabozzi, F, Giliberto, S, Gordon, J, Liang, Y, MacKinnon, G, and Mansour, A: The Expansion of Real Estate, 2017; National Council of Real Estate Investment Fiduciaries: NCREIF Property Index, 2016

3.3. A crumbling edifice: disruption dislodges the cornerstones

The global financial crisis of 2007 and 2008 laid bare real estate's perpetual yet frequently overlooked centrality to everyday life. The US sub-prime mortgage market was built on quotidian vulnerabilities; the consequences of its collapse, in turn, were felt almost everywhere.

Institutional investors did not dramatically change tack in the wake of the turmoil. As outlined in research several years later, real estate instead "reinforced its position in institutional portfolios as the 'mainstream alternative' asset class"[13]. Perhaps reasoning that other elements of RIOR held more promise, many smaller-scale and individual investors also doubled down.

Yet there were already signs that fresh perspectives were needed. Even before the crisis, in 2005, the Journal of Portfolio Management posited that "fast-moving developments" were driving real estate investors into "new territory"[14]. By the middle of the following decade, with real estate poised for its own S&P 500 category in anticipation of "substantial inflows"[15], the lines between residential, industrial, office and retail were becoming ever more blurred.

Some investors saw the market principally as a source of growth. Some viewed it more as a source of income. Some regarded it as a safe haven or a means of hedging inflation. Some subsumed it into a bigger "private markets" bucket, alongside private equity and other non-traded assets, while others preferred to align it with other "real assets", such as infrastructure and commodities[16].

Sub-sectors were also being identified, even if only tentatively, as the market's ongoing maturation underscored that the mere act of investing in real estate could no longer be thought of as a differentiator. As the search for alpha gradually intensified – encompassing the likes of student housing, senior living, medical facilities and data centers – the longstanding cornerstones of RIOR started to look shaky for the first time in more than 30 years, not least in the face of evidence that these non-traditional assets could help deliver outperformance[17].

It could be argued that the raft of new normals ushered in by the pandemic finally sealed RIOR's fate as an unsustainable anachronism.

Inspired by the work of figures such as French-Colombian scientist Carlos Moreno, the idea of mixed-use real estate was also gaining ground. In 2016 Moreno first proposed his vision of a "15-minute city", an attempt to "reinvent the idea of urban proximity"[18]. "We know it is better for people to work near to where they live," he said, "and if they can go shopping nearby and have the leisure and services they need around them, too, it allows them to have a more tranquil existence."[19] Paris Mayor Ann Hidalgo duly popularized the "15-minute city" concept in her 2020 re-election campaign[20].

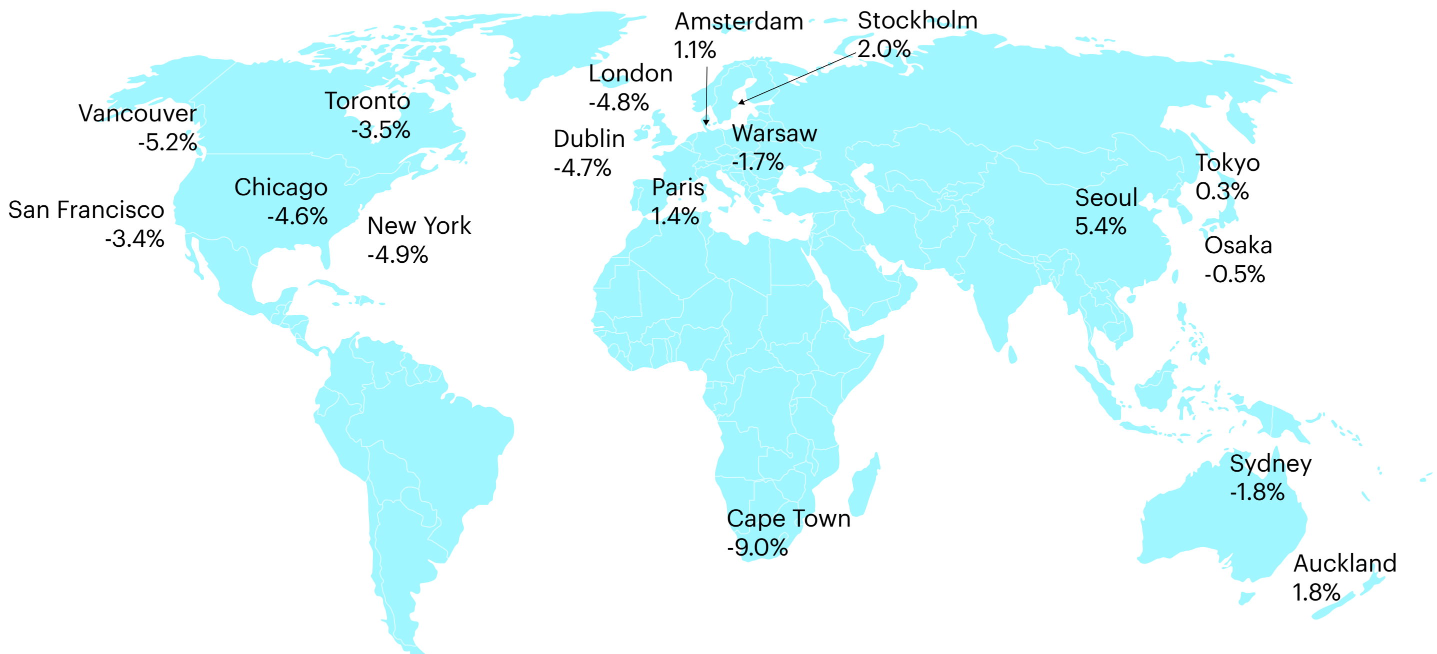
In addition – and maybe above all – real estate could neither ignore nor resist the disruptive forces of technological progress. Academics and practitioners alike highlighted an expansion of "the frontiers of what is possible"[21] and predicted that tech-driven societal and economic changes would very likely "continue to transform the real estate industry as well"[22].

With conventional designations becoming "fuzzy"[23], long-established silos appeared increasingly archaic – and all this before COVID-19. It could be argued that the raft of new normals ushered in by the pandemic finally sealed RIOR's fate as an unsustainable anachronism.

Albert Einstein once suggested that simplicity is the supreme manifestation of intellect, and it is true that much of RIOR's appeal has resided in a lack of complication. But when a chosen form of simplicity no longer reflects the complexities that it aims to distil, as in the case of RIOR and real estate, a new form is required.

COVID-19 and RIOR's last stand?

The COVID-19 crisis had a marked effect on commercial property values in many parts of the world, as shown in the illustration below. Ultimately, however, the new normals that the pandemic helped usher in are likely to have a much greater and longer-term impact on the sphere of real estate – as well as on how investors should view this space.



Source: Clayton, J, Fabozzi, F, Giliberto, S, Gordon, J, Liang, Y, MacKinnon, G, and Mansour, A: Resilient Real Estate, 2021; figures based on capital appreciation figures across all commercial property types, as sourced from MSCI

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Beyond bricks and mortar

4.1. From RIOR to resilience

So far we have seen how real estate has always been intimately interwoven with people's day-to-day existence. As we have noted, this millennia-old relationship stems both from humanity's innate longing to possess and control territory and from the basic need for space.

We have seen, too, how these profound links have often gone relatively unremarked in the context of investing. This has most obviously been the case since the RIOR framework began to dominate several decades ago.

Importantly, we have also seen how real estate's centrality to everyday life has become harder to disregard since the turn of the century. In the wake of the global financial crisis and the COVID-19 pandemic in particular, the challenges confronting investors are heightening the need to identify assets that can be thought of as genuinely resilient.

Many real estate investors with ESG-aware mandates will already be familiar with the notion of resilience. It is most commonly applied when evaluating a building's environmental credentials in relation to climate change[24].

Here we employ the idea more widely. Encapsulated in CLIC, our approach is basically in line with the academic literature's definition of "resilience" as "the ability of a system to prepare for threats, absorb impacts, recover and adapt following persistent stress or a disruptive event"[25].

In 2021, discussing resilience's enhanced relevance in light of COVID-19, researchers emphasised real estate's capacity to "withstand both acute disruptions and long-term threats". They wrote: "Ultimately, a resilient property is one that is able to stay leased, with paying tenants, and profitable in spite of specific unforeseen events or adverse long-term trends."[26]

We would refine this analysis very slightly by pointing out that not all events need be unforeseen and not all trends need be adverse. Many of the dynamics now shaping real estate are neither surprising nor undesirable: they are pervasive and often positive realities that must be taken into account in making sound investment decisions.

To reiterate a crucial point: the need to consume, live, innovate and connect has been central to real estate demand and utilization for centuries – but how we do these things is changing at unprecedented speed today. As investors, we therefore need to fully understand this "how" factor.

With this in mind, CLIC is cognizant of various major structural drivers. These include aging populations, connectivity, e-commerce, flexible working, global mobility, leisure, science/technology and urbanization. Although there are regional variations, each qualifies as a phenomenon with lasting effects and far-ranging implications.

The dynamics now shaping real estate are pervasive and often positive realities that must be taken into account in making sound investment decisions.

Breaking down the structural drivers underpinning CLIC

CLIC aims to move away from viewing the real estate market only through the lens of broad property types and instead seeks to capture the most significant secular trends that influence how we consume, live, innovate and connect. Some of these are shown below, along with simple summaries of their relevance to each component of the framework[27].

Aging populations

- Consume – increasing older cohorts are changing patterns of consumption
- Live – increasing older cohorts are changing patterns of housing demand

Connectivity

- Consume – increased online/mobile consumption
- Live – aging housing stock is struggling to meet modern requirements
- Innovate – innovation firms are increasingly operating internationally
- Connect – growing pressure on high-speed physical and data connections

E-commerce

- Consume – fulfilment of online spending requires investment in distribution facilities
- Connect – demand for rapid fulfilment requires strong infrastructure facilities

Flexible working

- Live – work-from-anywhere culture is changing housing needs
- Connect – work-from-anywhere culture relies on high-speed data connections

Global mobility

- Consume – experiential and leisure demand
- Live – increased preference for flexible accommodation
- Innovate – worldwide battle for talent in science and technology

Leisure

- Consume – well-located facilities are immune from online substitution
- Connect – growth in on-demand streaming services

Science/technology

- Consume – innovation and health are driving increased spending

Urbanization

- Live – continued demand for efficient accommodation to house growing populations in key cities
- Innovate – key cities are attracting concentrations of knowledge and expertise
- Connect – intensifying pressure on transport and data capabilities

Source: Invesco Real Estate

CLIC considers the demand for and utilization of multiple property types by applying the prism of Consume, Live, Innovate and Connect. It serves as a kind of 'soft factor' framework that underpins our thinking.

4.2. The "what" versus the "why"

We observed earlier how other property types have sporadically gained recognition amid RIOR's stranglehold. The extent of this recognition might have been modest, but it has at least hinted at the limitations that have often characterised investing in real estate.

For example, the National Council of Real Estate Investment Fiduciaries has included hotels in its appraisals of the US market since the 1980s, as we saw in section 3.2. Student housing, senior living and medical facilities have recently earned more attention as the search for alpha has widened, as we saw in section 3.3.

CLIC considers the demand for and utilization of multiple property types by applying the prism of Consume, Live, Innovate and Connect. Crucially, in contradiction to RIOR, it is possible for a property type to span more than one of the four themes. The concept serves as a kind of "soft factor" framework that underpins our thinking.

For instance, how we **consume** is reflected in areas such as retail and distribution, where the influence of e-commerce is now enormous. Other ways in which people spend their wealth might include healthcare – where demographic forces and differing degrees of health provision are remolding the landscape – and travel.

How we **live** is another product of demographics, as well as a product of disruption in locational patterns – as caused, for instance, by the more flexible working arrangements that grew out of the COVID-19 crisis. As we said previously, the new normals to which the pandemic gave rise are in many ways fundamental to CLIC.

How we **innovate** incorporates drivers related not just to innovation itself but to collaborative working and the siting of creative and tech-centered industries. The latter includes specialist office space and real estate geared towards the fast-growing life-science sector.

Finally, how we **connect** acknowledges the extraordinary hyperconnectivity that has come to define our world. This might shape our thinking in relation to distribution, infrastructure and data centers – now a critical backbone of professional and personal life, with exponential quantities of information needing to be safely stored yet readily accessible.

To get a simple idea of how a given property type might fit different aspects of CLIC, consider a category such as hotels. A business-focused hotel in a city center may be where people aim to connect, but a hotel at an ocean resort is likely to be where people seek to disconnect and instead consume. This shows the limitations of RIOR-style buckets.

Whereas RIOR is primarily the stuff of bricks and mortar, CLIC seeks to offer a multifaceted approach that attests to the everyday events and experiences of life in the 21st century. To put it another way: RIOR may supply the "what", but CLIC supplies the "why". It is not just about investing in buildings: it is about investing in our daily lives.

Four themes, multiple property types

CLIC's four themes of Consume, Live, Innovate and Connect encompass multiple types of property. Some of these are shown below. The fact that several span more than one theme underscores CLIC's intersectional, driver-led approach to viewing real estate.

Consume	Live	Innovate	Connect
• Distribution • Food/necessity retail • Healthcare • Hotels • Luxury retail • Mass-market retail • Self-storage	• Affordable housing • Apartments • Self-storage • Senior living • Single-family rental • Student housing	• Life science • Premium office • Research and industrial • Technology clusters	• Data centers • Distribution • Hotels • Infrastructure

Source: Invesco Real Estate

CLIC reflects the increasing intersectionality of most individuals' lives and the blurring of the boundaries between how we consume, how we live, how we innovate and how we connect.

4.3. Synergies, not silos

RIOR's cookie-cutter segmentation of residential, industrial, office and retail has long been viewed as convenient and agreeably straightforward. Today it might instead be seen as uncompromising and one-dimensional.

By contrast, as we have seen, a key attraction of CLIC is that its themes are not treated as mutually exclusive. This reflects the increasing intersectionality of most individuals' lives and the blurring of the boundaries between how we consume, how we live, how we innovate and how we connect.

We can further illustrate this by examining the drivers of another property type that spans a number of themes. Let us look, for example, at distribution and how it relates to both Consume and Connect.

Distribution is influenced by the Consume theme because real estate facilitates household consumption of goods and services, which is responsible for around 60% of GDP in developed markets[28]. In addition, the growth of e-commerce is fuelling substantial new tenant demand in this arena.

In tandem, distribution is influenced by the Connect theme because it is essential to efficient, resilient supply chains. These are needed to ensure the effective networking of data, goods and people as levels of connectivity continue to rise.

Again, the point here is the importance of recognizing and investing in long-term, secular, structural drivers of demand and utilization. In this instance, as a result, we might see opportunities in logistics, fulfilment and data centers that serve major populations.

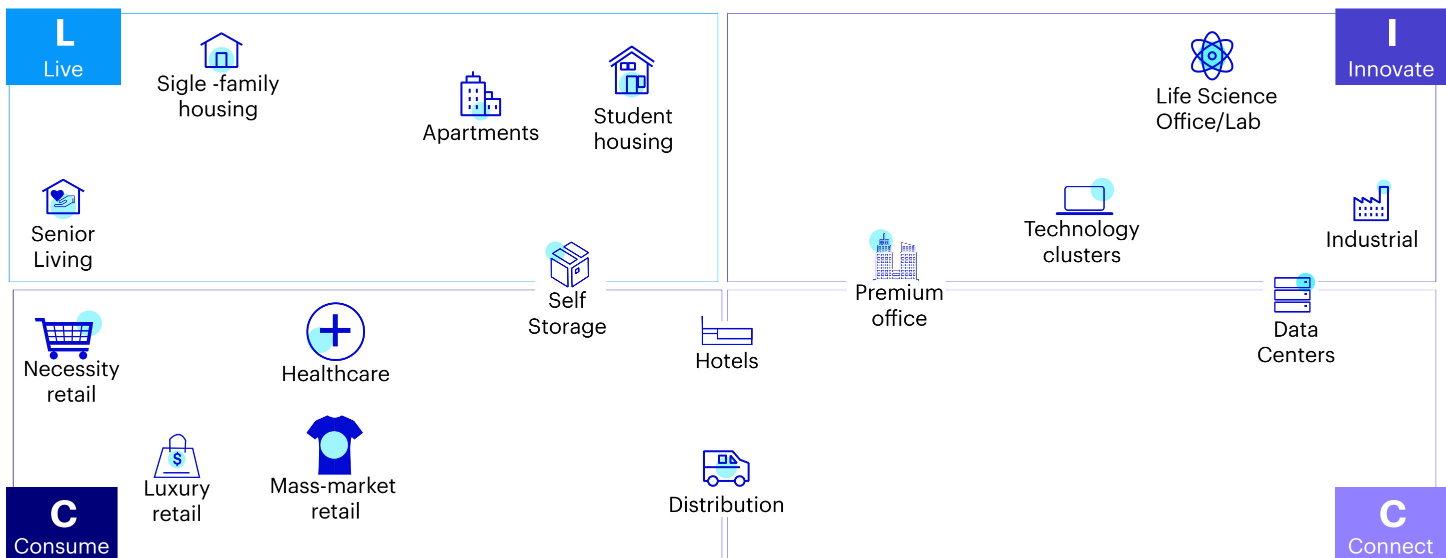
Conversely, we might be wary of bespoke warehouses in non-strategic locations and underpowered data facilities that are at risk of functional obsolescence. The CLIC framework suggests that assets such as these are unlikely to prove resilient over time.

It is vital to stress at this stage that CLIC does not render a RIOR-like lens redundant. That much of the real estate market can still be separated into residential, industrial, office and retail is indisputable.

Yet it is equally undeniable that the limits of these divisions are becoming ever more manifest. We believe that real estate is now a matter of synergies, not silos, and that CLIC can better enable us to identify investments whose attractions can be framed in much more than purely physical distinctions.

An intersectional approach to real estate

Silos are firmly embedded in a RIOR-style framework. By contrast, as the schematic below shows, CLIC recognizes that no property type can be neatly confined to a single bucket or theme – particularly when real estate's centrality to everyday life is rightly taken into account[29].



Source: Invesco Real Estate

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Q&A

Mike Bessell is Invesco Real Estate's European Investment Strategist and Head of Global Strategic Analytics. He leads our in-house real estate investment research team across all European markets.

Maximilian Kufer is Invesco's Head of ESG – Private Markets. He is responsible for the integration of ESG into our real assets and private alternative strategies globally and also leads Invesco Real Estate's Global ESG+R Committee.

Chase Bolding is a Portfolio Manager at Invesco Real Estate. He uses the CLIC framework in his strategy execution in providing access to the direct real estate market.

Here Mike, Maximilian and Chase discuss how CLIC has come to shape Invesco Real Estate's thinking. They also explain how it supports investors' appetite for solutions that emphasize ESG considerations and are underpinned by a long-term outlook.

Is CLIC the result of a moment of inspiration or a longer process?

MB: It's very much the result of the latter. The framework itself and our adoption of it have come about quite organically. We've been aware of the direction of travel for some time, and CLIC represents the crystallisation of our thinking.

It's not the idea of a single person, and it's not a concept that has been unilaterally imposed from above. It's an accumulation of the insights, expertise and experience of almost 600 specialists worldwide and their collective belief that the landscape of real estate today requires us to take a different approach.

It's also born out of a recognition of the structural differences between the REIT sector and the direct real estate market. Only around a third of the total shareholdings in global REITs are dedicated to long-term real-estate investors, with most of the holding periods trading on very short-term patterns[30].

A long-term owner tends to treat assets a little differently from someone who holds assets for, say, a few days. We see real estate as an embodiment of long-term ownership, especially in the age of ESG, and direct real estate can be inherently more suited to that ethos and to the related ideas of resilience and sustainability.

You mentioned ESG. How does it fit into this framework?

MK: Real estate has always been the space where investment management and ESG can come together to best effect. That's because managing real estate entails managing so many things – costs, energy, resource use, tenant wellbeing and so on – that are positive from an ESG perspective.

So we can't just think about real estate as big boxes that we own on the street. We have to think about it in terms of the spaces where we live, where we work and so on. We have to think about the long-term impacts of these places – whether they're going to remain attractive over time and whether people are still going to want to occupy them.

That's why we describe Invesco Real Estate's overall purpose as "greater possibilities together as responsible investors". We see our three key ESG pillars in the real estate market as better buildings, broader insight and future-proofing. This is how we contribute to sustainable cities and communities, for example, which is one of the United Nations Sustainable Development Goals. And CLIC can help us do that.

Remember, too, that ESG is about delivering positive change. For most asset classes this process might involve engaging with companies, reaching out to their CEOs, encouraging superior policies and practices and so on.

The difference with real estate is we can have a direct influence, because we own the building. We know its performance, we know the change we can expect from a particular level of investment, we can monitor and measure improvements, and we can see the impacts our actions have on the property itself, its tenants and the community of which it's a part.

What convinced you that traditional approaches to viewing real estate might no longer be adequate?

MB: It was really a combination of major structural drivers and recent events. Many of the drivers were already in place, but the COVID-19 pandemic accelerated them to such an extent that the need for a novel approach became even more obvious to us.

Demographics and technology are the forces most at play here. They're the principal engines of transformation. In addition, we have to consider the vital question of what investors actually expect from real estate – for example, cashflow, a hedge against inflation, opportunities beyond traditional equity markets or diversification benefits.

Taking all these factors into account, we feel it's not enough to view real estate only in terms of bricks-and-mortar property types. Such a framing still has a role to play, but it can't capture all the complexities of real estate's relationship with day-to-day life.

CB: A simple way of expressing CLIC's appeal is that this is a framework that recognizes the impossibility of decoupling real estate from your everyday life. Even if you want to, you can't do split the two. As we say, real estate houses the economy.

You can buy stocks. You can invest in the credit of publicly traded companies. There are plenty of assets you can own. But the thing about real estate is that it deals in things that are kind of non-negotiable – which is to say we all need housing, we all need healthcare, we all need a supply chain that can deliver what we order online within 48 hours.

So that's the sort of big picture we're taking account of with CLIC. It's not enough to think purely in terms of homes or offices or strip malls. We need to think in terms of what's driving demand and utilization – both now and, crucially, over the long term.

Could you give some examples of conventional frameworks' limitations?

MB: We can take the office space as an obvious first illustration. What does "office" actually mean in an age when tens of millions of people have worked from home for the better part of two years?

Similarly, what does "retail" mean in the age of e-commerce? How can we apply the same old lens when some people now receive so many Amazon deliveries that they don't have enough room in their dustbins for all the boxes?

The point is that the longstanding divisions between one bricks-and-mortar category and another are being shattered all around us. That's why we need to look at the market in multiple dimensions.

Can these extra dimensions be applied globally?

CB: Not in every case, because some of the structural factors and property categories in the CLIC framework aren't universally apparent yet. There are regional variations, depending on the local strength of secular demand drivers and market trends.

For example, in the US we don't have enough affordable housing. So, as investors, we're not just buying high-rise apartments in Manhattan. We're looking at manufactured housing, senior housing, student housing, single-family rentals and so on.

As a country, we're also getting older. Massive amounts are being spent on healthcare, a lot of it outside of hospitals. And this isn't going to change – we're not going to miraculously increase our birth rate or decrease our death rate. So this is another long-term trend we need to invest in – say, by looking at medical offices and senior living facilities.

At the same time, we need to distinguish demographic shifts in developed markets from those in developing markets. We need to consider factors such as the burgeoning consumer class in economies like China. We need to look at where innovative industries are clustered now and where they might be clustered in the future. We need to think about how the balance between novel technologies and legacy systems varies from one country to another.

For example, different regions are at different stages of the e-commerce journey right now. That means we need to understand whether they might all converge eventually or whether significant differences will remain.

But all these differences actually underline how nuanced the market has become – and that's a big reason why we're taking this approach. Thinking only about residential, office, industrial or retail isn't going to involve meaningful analysis of all these issues and how they're often entwined with each other.

The longstanding divisions between one bricks-and-mortar category and another are being shattered all around us. That's why we need to look at the market in multiple dimensions.

That echoes part of the rationale for CLIC, which is that the real estate space has never been more complex, challenging and exciting. Do you think this trajectory will continue?

MK: We believe so. Continued technological advances alone are likely to ensure the market keeps developing and that investment decisions will need to be based on a fully nuanced and richly informed view.

For instance, numerous tech companies are working towards realizing the metaverse. This has been described as an embodied version of the internet – a 3D virtual space in which people, in the form of avatars, can engage both with each other and with various elements of software.

The day the metaverse achieves mass adoption could be the day when a RIOR-like framework truly loses meaning. But CLIC should still be relevant, because it acknowledges the crucial fact that real estate both shapes and is shaped by the world around it – and this will always be the case.

CB: Of course, the fact that the market and the structural drivers that influence it are always evolving means our thinking has to keep evolving as well. The examples of CLIC in action we might give today could be quite different to the examples we give a year or even six months from now.

So we're continuously learning – and that's one of the benefits of having a global team. We work together, absorb all the lessons we learn around the world and try to apply them at scale.

With CLIC in mind, what are the particular attractions of direct real estate?

MB: Direct real estate tends to be more in keeping with a long-term investment philosophy. We might think of such holdings as heterogeneous assets that allow a measure of control.

On the other hand, indirect real estate can be thought of as homogenous. It's more liquid, but you sacrifice that control premium.

Another way of framing it is to think of direct real estate as binary. In other words, because you actually own a building, you're either in or out.

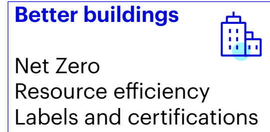
By contrast, the holdings in a listed REIT strategy are sort of almost infinitely divisible. One share is effectively the same as another, and you can sell your shares at any time.

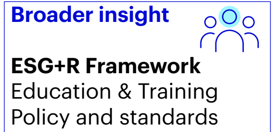
So we feel direct real estate can better lend itself to CLIC – and vice versa – because we're ultimately basing our investment decisions on long-term drivers and structural shifts. We're looking for resilience, sustainability and broader, lasting benefits – not for buy-and-sell patterns that can be compressed into a matter of days.

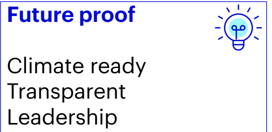
The purpose of responsible real estate investing

CLIC feeds directly into the three pillars of Invesco Real Estate's ESG-aware approach. In turn, these are geared towards achieving a range of ESG-related targets and helping achieve a number of the United Nations Sustainable Development Goals.

Greater possibilities together as responsible investors
our purpose







Our commitment

- Work together with partners to improve **ESG performance**
- **Promote best practice** of ESG solutions in real estate
- Respond to changing market dynamics for **greater levels of engagement and transparency**

Our Targets

Net Zero	Carbon emissions by 2050 with 50% target by 2030
30%	Reduction in energy intensity by 2030
10%	Reduction in water consumption by 2030
10%	Increase in waste diversion rate by 2030

Source: Invesco Real Estate

6

Conclusion

Real estate has to be placed in full context – which means that its centrality to everyday life must be not only acknowledged but effectively factored into investment decisions.

We began this paper by noting that the desire to possess and control territory can be traced to the earliest human settlements. We also remarked that this seemingly hard-wired inclination – the source of real estate's status as the world's oldest asset class – has always been linked with churn, change, challenges and progress.

All this continues to apply today. Our relationship with property is still crucial to our day-to-day lives, and the sphere of real estate is still capable both of shaping myriad social and economic dynamics and of being shaped by them.

Yet real estate investing, as we have seen, has in some ways taken relatively little account of these truths. For a long time – rightly or wrongly – it has instead viewed the market through the lens of physical, bricks-and-mortar categorizations.

This tendency has been especially dominant in recent decades, with the prism of RIOR or similar framings holding sway. There have been occasional signs of a less straitened approach – for example, the addition of sub-categories such as hotels and senior living – but the status quo has remained largely intact.

Today, finally, the edifice is crumbling. Levels of churn, change, challenges and progress are arguably unprecedented, and it is impossible to ignore that real estate has to be placed in full context – which means that its centrality to everyday life must be not only acknowledged but effectively factored into investment decisions.

This is what CLIC aims to achieve. It encapsulates our conviction that the process of finding investment opportunities in this space should recognize the impact of major structural trends and their role in driving demand and utilization. It seeks to capture highly significant, intersectional dynamics that go beyond the constraints of a construct such as RIOR.

Not least given the rise of ESG, we regard CLIC as a means of identifying economically sustainable assets that are appropriate for responsible investors with long-term strategies. Going forward, this ability could prove a differentiator in both the search for alpha and the investment community's wider efforts to benefit as many stakeholders as possible.

It is worth repeating one final time that the need to consume, live, innovate and connect has underpinned real estate for hundreds of years. But how we consume, live, innovate and connect is changing more rapidly today than ever before.

As we have attempted to demonstrate in this paper, we therefore believe that CLIC can be a framework both for the present day and for the future. Real estate might be the world's oldest asset class, but this does not mean that it should wallow in the past.

7

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