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BlackRock®
2021 global real assets outlook
Coming off double mute

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Coming off double mute

Real assets in 2021

ALTM0121U/S-1474571-2/20

The coming year should be one of recovery. At the same time, 2021 will be a transition period for the economy, for public health and for broader society adapting to a 'new normal. Real assets investors are now 'coming off double mute' to articulate their plans for 2021 and beyond. We see three key themes to steer by:

1 Allocate into acceleration

The ways people will work, live, shop, travel and play are being altered. What we thought would happen with e-commerce, technology, data storage and ESG over the next five to 10 years is now likely to hit us in two to three years. Real assets investors need to have conviction on "one-way runs" to take advantage of trend momentum which will likely last for years to come. Allocation to the right sectors and markets will enhance resiliency. We generally favor industrial and logistics real estate, data centers, fiber and renewable energy infrastructure such as solar and wind.

2 Active asset management

In addition to strategic allocation, the pandemic has placed greater emphasis on health and safety for tenants, counterparties are being more closely analyzed, and climate risk is becoming a defining investment theme long-term. Underwriting needs to evolve to include these risks, and for private equity real assets, owners should look to mitigate risks through asset improvements. For public equity investors, stock selection should incorporate these risks and the dispersion across and within property types provides for ample alpha opportunities. Investors will need to be proactive with asset business plans, anticipating challenges before they occur, mitigating risks and downside and charting clear value-add opportunities to unlock asset value. Tenant communication is key, and more nimble asset owners will perform better.

3 Positioning for recovery

Outperformance in 2021 will be a blend of aligning with structural themes for long-term positioning, while maintaining tactical optionality to take advantage of price dislocations in lower conviction and more cyclical sectors. It also means using the full portfolio toolkit, i.e. investing in debt and equity, public and private, and a variety of risk strategies. Investors need to reevaluate their risks, but not avoid risks. Ultimately, pricing underlying risks should be central to guiding acquisitions, dispositions and asset management.

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Setting the scene

Global real asset markets will be navigating a recovery as the world moves past the challenges of 2020. This will have multiple implications for investors and portfolios.

Vaccine catalyst
The BlackRock Investment Institute 2021 Global Outlook: A new investment order sees vaccine delivery as a key driver of the global recovery, particularly in the U.S. and Europe, where poor virus containment has challenged economic activity.

Policy revolution
Central banks and governments have provided historic policy support over the last year. We believe this is the prime reason why the economy and capital markets are set to recover; they are dependent on monetary policy and fiscal stimulus remaining supportive.

Geopolitical risk evolving
Geopolitics are dynamic. BlackRock Investment Institute highlights several areas of focus in 2021, including an incoming U.S. administration with different trade and policy priorities, implementation of post-Brexit arrangements in Europe and continuing social unrest across many parts of the world.

Interest rates low, but less so
Many factors are anchoring interest rates in a lower range, but a growth recovery and growing global focus on improving the labor market is likely to take interest rates to the higher end of its 'low' range and could induce higher inflation.

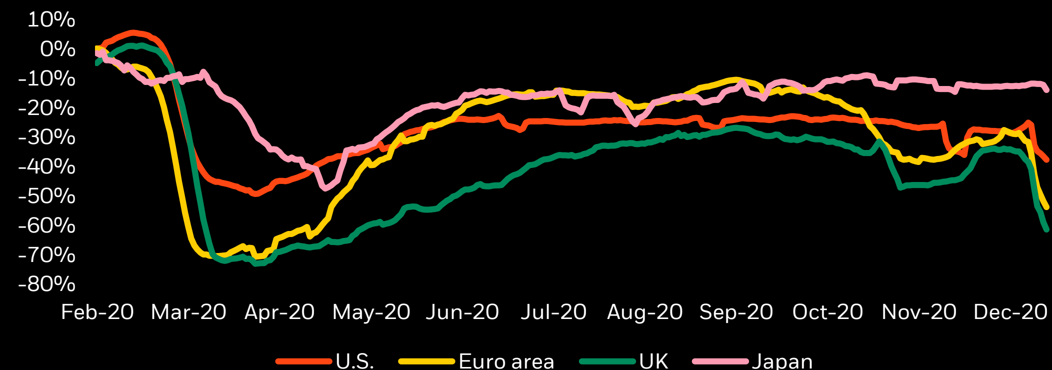
ESG: a tsunami of interest
A tectonic shift toward sustainability (ESG) is underway: investment flows are set to affect returns across the board and efforts to mitigate the damage from climate change should boost economic growth. BlackRock has built ESG into its capital market assumptions and investment diligence and sees attention to carbon emissions intensity as a clear differentiator for investors.

Capital flows positive
In 2020, capital flows fought the uncertainty of the virus. Investors identified the relative value of real assets and sought to increase exposure to selective structural themes. Closed-end real estate and Infrastructure funds experienced inflows of US$160bn. Infrastructure fundraising reached US$65bn, as of December 2020, which remained robust by historical standards while closed-end real estate funds raised US$96bn.

BlackRock's 2020 Global Rebalancing Survey indicated that approximately 55% of investors surveyed intend to increase their Real Assets allocations in 2020, moving out of equities and cash and into alternatives. Investor capital flows to real assets appears to remain on a strong trajectory heading into 2021.

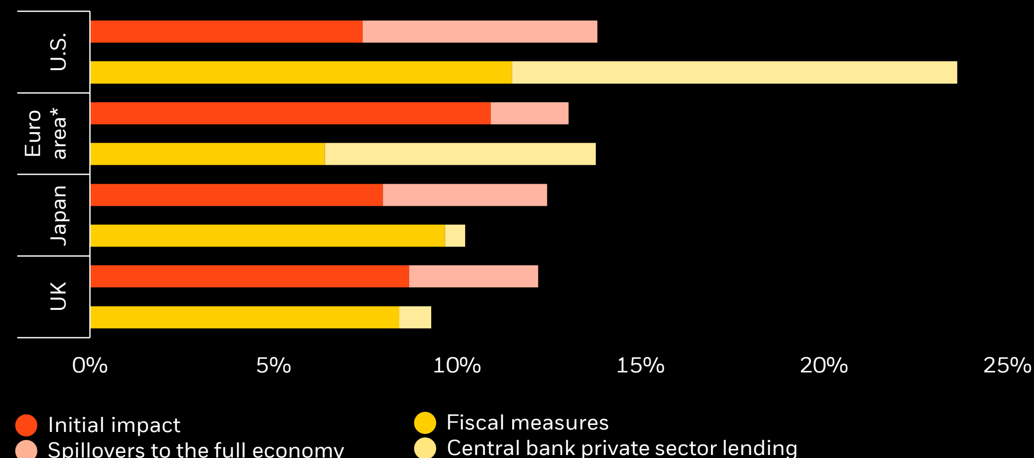
Deployment to broaden
Real assets investors will continue to navigate a challenging deployment environment. Capital deployment was concentrated in 2020, with investors clearly favoring assets benefiting from tailwinds in e-commerce, sustainability and digitization, while sectors more reliant on mobility and traditional energy experienced a more discerning investor appetite.

World is moving again, albeit unevenly
Tracking mobility



Sources: BlackRock Investment Institute, with data from Google.
Notes: Google location data based on the average of the retail and recreation, workplace and transit categories, 7 -day rolling average. Euro area based on average of Germany, France and Italy.

Unprecedented policy support in 2020
Impact on GDP



*The euro area is represented by averages of Germany, France, Italy and Spain. Sources: BlackRock Investment Institute, with data from the Federal Reserve, ECB, BOJ, BOE and Haver Analytics, June 2020. Notes: The chart shows the magnitude of the negative shock (orange) and the associated positive policy response (yellow) as percentages of GDP. We use estimated 2020 targets for the U.S. and euro area central bank purchases and lending programs. The euro area includes the ECB's Targeted Longer-Term Refinancing Operations. The UK includes central bank support for the Term Funding Scheme.

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Global private transaction volumes contracted in 2020 compared with the five-year average.

This year, investors will be challenged with navigating the early recovery of more cyclical, economically sensitive sectors, while maintaining focus on allocating to accelerating structural themes.

This will require discipline, as investors navigate new behavioral trends and shifted fundamentals across sectors and markets. Investors need to distinguish between assets that are poised to cyclically recover and those that are more permanently disrupted.

Dry powder still rising
According to Preqin, dry powder globally hit US$540bn in 2020, a new record high. Real estate decreased by -10% in 2019, whereas infrastructure dry powder decreased -6%. Dry powder is high, targeting real assets' higher cash flow relative to the low interest rate environment.

In infrastructure, ESG and digitization take hold while transport lags
In 2020, infrastructure deal flows rose +8% from 2019 levels, and exhibited a clear bifurcation between economically sensitive and contracted revenues as the golden standard.

Renewable energy remained the most active sector for investment activity, according to IJGlobal, accounting for more than 50% of total transactions. This underscores the intense investor appetite for portfolio allocations to sustainability, as well as the appeal of long-term contracted revenues.

Essential infrastructure assets embedded in high value supply chains, such as pipeline and storage, were a target for investors as corporates were more active in selling infrastructure assets to raise cash and improve balance sheets.

Deal activity has been robust for digital assets. Connectivity has proved essential for a distributed working and learning environment. This has benefited data centers, cell towers, fiber and telecom. Continued migration towards 5G further fueled transactions.

Sectors that experienced a decline in deal activity were clearly the economically sensitive sectors. Transport has experienced significant fundamental challenges, and while activity is recovering for toll roads, the airport recovery is disparate, with regional airports faring better than international, which remains a long flight away from recovery. Meanwhile, energy assets are navigating challenged commodity demand, weakened counterparties and emergent regulatory risks.

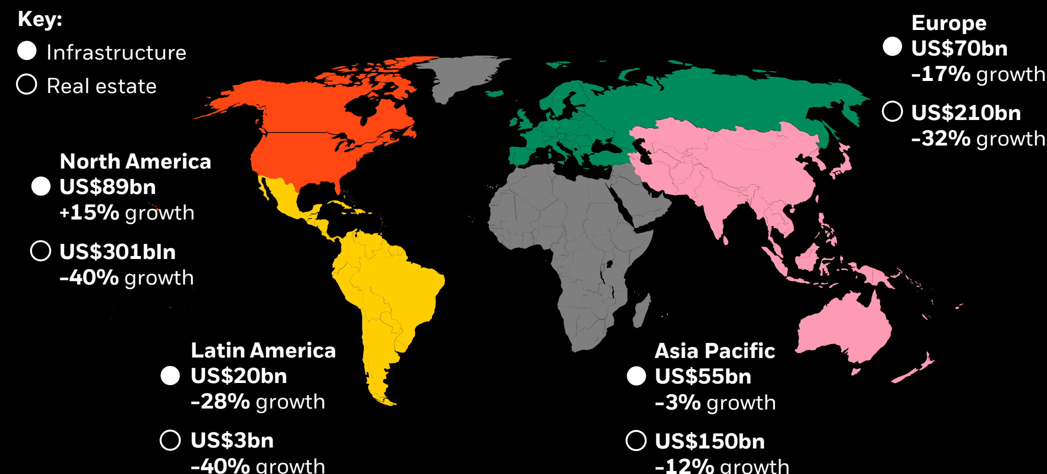
Real estate – consensus on winning and losing sectors
Global real estate volumes declined from 2019 levels, with a wide range across regions and sectors. Real estate transaction activity reflected both pandemic beneficiaries and victims.

Regionally, the U.S. saw the greatest decline, with deal activity lower by -40% as the region fought to control virus spread. Meanwhile, both APAC and Europe fared a bit better, declining -19% and -17% respectively. While Asia appears to be leading the global economic recovery, each region has experienced its share of false starts and reopening challenges.

Within regions, more dense and urban gateway cities have generally experienced greater declines in transaction activity, while secondary and less dense cities have held up better.

Global transactions navigate challenging year

Transaction volume in 2020 (US$bln) and % change vs. previous five-year average



Source: Real Capital Analytics, IJGlobal, BlackRock (December 2020). RCA global real estate transaction volume data for income-producing properties excludes land development. IJGlobal global infrastructure transaction volume data reflects project finance equity and debt, and excludes sectors outside BlackRock's definition of infrastructure, such as metals and mining, oil and gas exploration and petrochemicals. All data is presented in USD, and percentage changes may be affected by non-USD currency fluctuation versus the USD. * Real estate data incorporate estimates from RCA produced in December 2020 for full year 2020, and infrastructure data refers to 12-month transaction volume as of November 2020.

The evolution of market conditions

	Fundamentals	2018	2019	2020	2021
Macro	Interest rates	▼	▲	▲	▲
	Geopolitics	▼	▼	▼	▼
	Capital markets	▼	▲	▼	▲
Real assets	Demand	▲	▲	▼	▼
	Capital formation	▲	▲	▲	▲
	Capital deployment	▼	▼	▼	▼

▲ Constructive ▼ Challenging

1 BlackRock Investment Institute: Blackrock geopolitical risk dashboard, December 2019. **2** Preqin 9th December 2019, global fund raising and dry powder, closed-ended funds. **3** Preqin 9th December 2019, global fund raising and dry powder, closed-ended funds.

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Among sectors, the divergence has been stark. Industrial deal activity was off just 10% yoy as e-commerce accelerated and more investors allocated to a sector that proved a clear winner of 2020's disruption.

Mobility driven sectors, such as lodging and retail, experienced significant declines in sales volume, lower by -39% and -62% yoy, respectively (data as of latest Q3 release).

Meanwhile, uncertainty on the future of work held back office transactions (-36% yoy) for all but the most core properties. Multifamily, which experienced varied levels of tenant disruption, saw deals transact for higher quality assets, but has only transacted at 2/3rds of last year's levels (-29% yoy).

Demand fundamentals are in early recovery
Amid cyclical disruption, capital raced to winners, with losing sectors and markets contending with weaker fundamentals, falling valuations and limited liquidity.

As a result, the performance of real assets was bifurcated in 2020, with performance overall more challenged than the previous year. This cycle differed from previous cycles, not just in the pace and scale of economic contraction, but also the pace of recovery.

With more clarity around a virus solution, and lower for longer interest rates, cyclically sensitive assets should recover in 2021. The public markets have already reacted to positive vaccine news with the more cyclically sensitive property types rallying off of post-COVID troughs but still substantially below pre-COVID peaks.

Shifts in behavior are key
The pace and ultimate level of recovery will also depend on new behaviors, not just economics. 2020 was a virus induced downturn, very different from the financial induced downturn of the Great Financial Crisis.

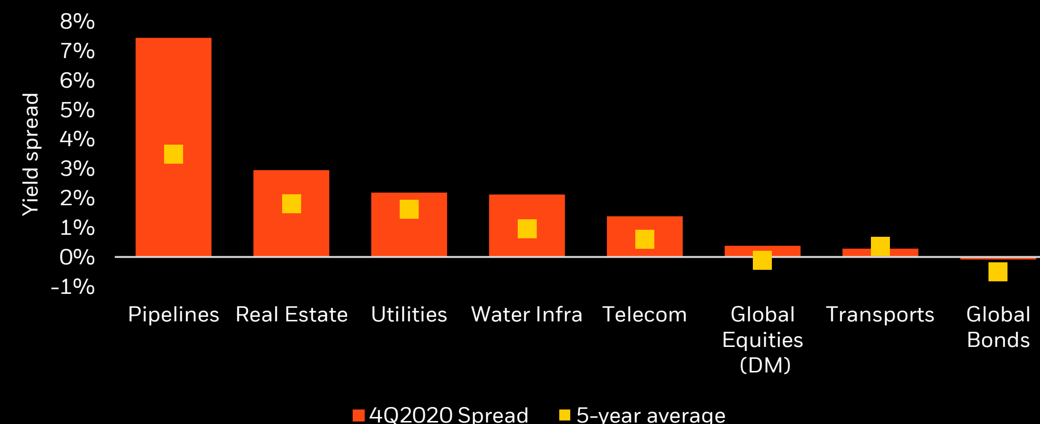
Policy support has been greater this time around, and capital markets have been quicker to adjust and recover than previous downturns, but shifts in behavior will ultimately have the largest impact on returns for many sectors and markets.

Two-speed recovery
Within real assets, investors are navigating an uneven recovery. The cyclical upturn will be uneven and more differentiated relative to previous market recoveries.

Several structural trends have meaningfully accelerated, achieving years of change in the course of months. Whether it is e-commerce fueling logistics real estate or climate awareness and technology advances accelerating renewable adoption, structural trends should remain a core pillar for investor portfolios. However, investors should be monitoring the recovery and positioning tactically for cyclical moves.

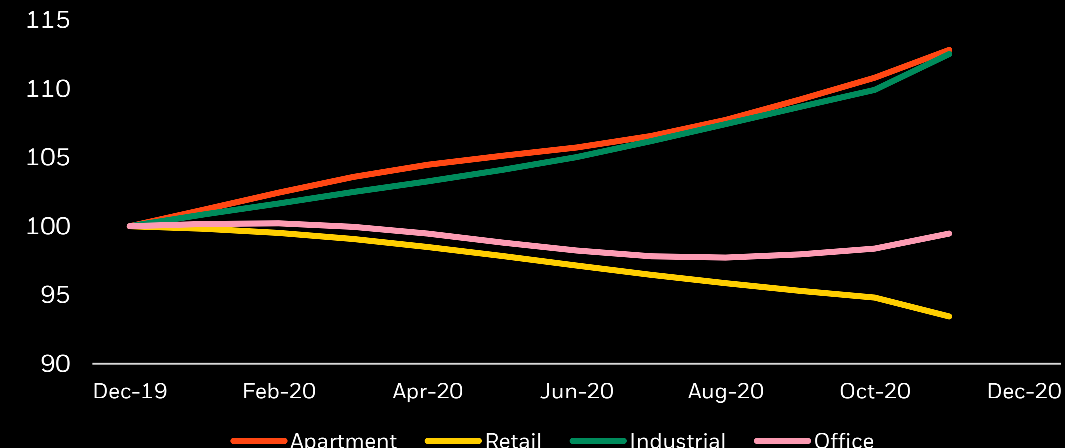
Variation across markets
Across markets, there have been varying degrees of capital market activity. Listed equity real estate and infrastructure assets, for instance, have experienced more meaningful price movement for certain sectors than what has been observed in the private market. This relationship is historically consistent with previous periods of uncertainty. Meanwhile, within real assets debt, relative values and periods of low liquidity have provided windows for investors to allocate to high quality debt exposure at attractive risk adjusted pricing.

Yield spreads are high across real assets sectors
Listed dividend yields – spreads to 10-yr U.S. treasuries



Sources: Bloomberg, BlackRock. Data as of December 2020.

Dispersion in performance will likely persist in 2021
RCA U.S. Commercial Property Index



Sources: BlackRock, Bloomberg. RCA CPPI indexed to November 2020. Figures shown relate to past performance and is not a reliable indicator of current or future results.

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Theme 1

Allocate into acceleration

Theme 1

Allocate into acceleration

The future is already here...
The crisis has likely caused permanent changes to tenant behavior. The ways people work, live, shop, travel and play are being altered. However, much of what has happened since the pandemic started is an acceleration of pre-existing trends. What we thought would happen with e-commerce, technology, data storage and ESG over the next five to 10 years, will now likely hit us in the next two to three years. In fact, the expected five-year e-commerce growth has happened in five months during the pandemic.

...it's just not evenly distributed
Trends are creating tailwinds for some sectors while acting as headwinds for others. These trends are structural in nature; therefore, investors need to pay close attention to near-term volatility (tactical opportunities) and uncertainty, but should also have conviction around these long-term, and sticky, trends (strategic positioning) such as technology integration into real assets and e-commerce.

The trend is your friend
Investors need to identify sectors and assets that benefit from "one-way runs" rather than an "ebb-and-flow." If investors have insights and conviction in the direction and speed of these trends then they will create alpha, i.e. the trend is your friend. This is critical for long-term holds and assets with high transaction costs such as private equity.

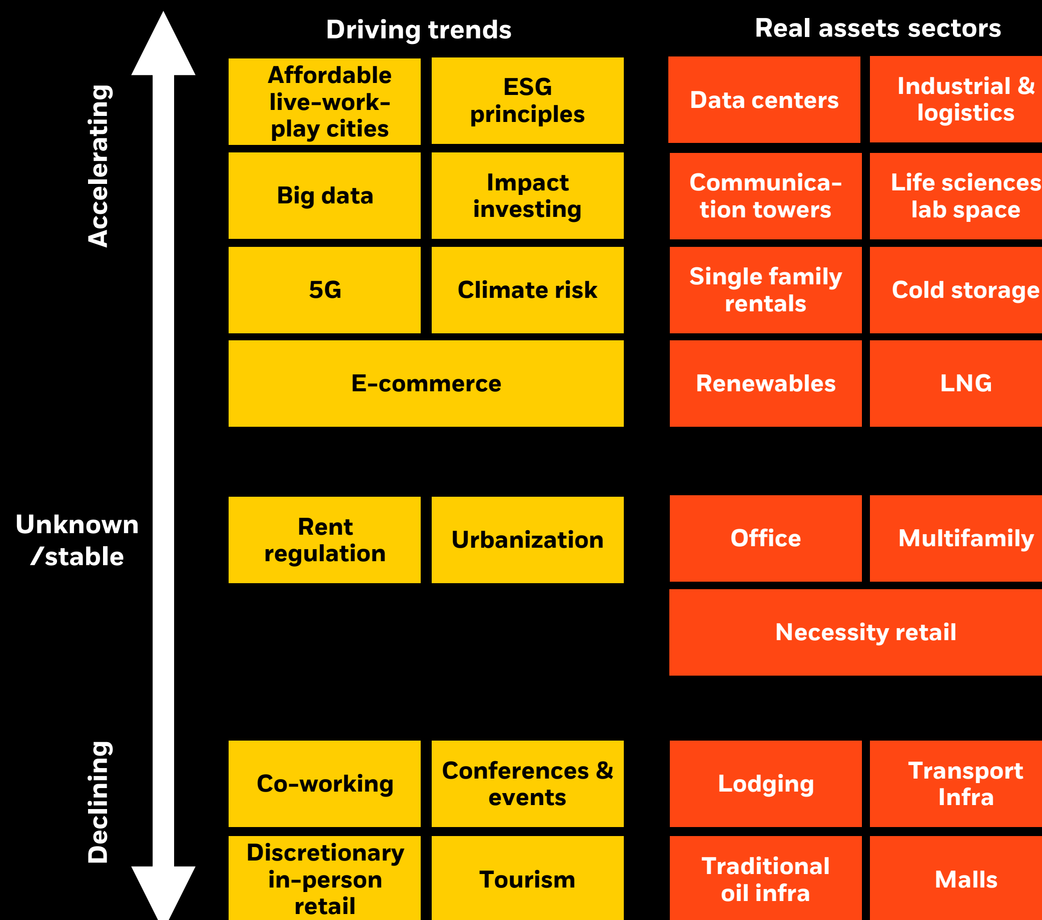
Technology-driven sectors will do well
The drivers of tenant demand, both cyclically and structurally, are beneficial for logistics, data centers, communication towers, life sciences office and lab space, cold storage and renewable power.

And people will gather again
People are social beings. We will go out to shop, dine, and attend concerts again. In our view, the office is still the pre-eminent workspace. It is the prime forum to promote culture, collaboration, energy, apprenticeship, and innovation. We have proven we can "maintain" while working remotely. We haven't shown we can grow and innovate.

Be careful of the D's
While some trends are beneficial, others are more of a headwind, or at the very least, disruptive. Real assets investors need to be aware of Deglobalization, Digitization, Decarbonization, Divisions, Deficits, and Dispersion. The negative impact on lodging, retail spaces, and oil infrastructure assets has accelerated this year.

Allocation decisions matter for resiliency
Sector and market allocation matters for stable cash flows and valuations in the long term. More than ever, real assets investors need to have conviction on "one-way runs" such as digitization and the shift to renewables to take advantage of trend momentum which will likely last for years to come.

The trend is your friend



Source: BlackRock.

Real assets investors need to have conviction on "one-way runs" to take advantage of trend momentum which will likely last for years to come.

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Theme 2

Active asset management

Theme 2

Active asset management

Everyone is an asset manager during a crisis
Resiliency of real assets portfolios was tested in 2020. Contractual leases were at risk as the balance sheets of businesses and consumers were simultaneously stressed. Adroit asset managers found that communication was key throughout the crisis, as were services to improve safety and health.

Separating the wheat from the chaff
Management of real assets requires a multidisciplined team, and a deep bench is a critical advantage during a crisis. Real assets investors equipped with a full-stack team have been able to hold the line and even identify opportunities for excess return.

Preparing for the next 100-year flu...
After the pandemic is over, safety and health protocols will remain important for the users of real assets. Investors need to reevaluate operating (opex) and capital expenses (capex), as well as protocol and design. In the short term, health protocols are necessary, but costly long-term capex projects need to be scrutinized.

...and the next 100-year storm
While there will be added emphasis to health when evaluating ESG, the concern over climate change will be a growing concern during the next few years. More severe weather – hurricanes, typhoons, and wildfires – means spending more time on insurance and taxes and less for opex and capex. Underwriting this risk appropriately is necessary to prevent unexpected surprises years from now.

Sustainability will not be optional
We are quickly moving from a world where we are incorporating ESG data into investment analysis to one where portfolios must have exposures to positive ESG characteristics, aligning capital with changes in the marketplace. This could be regarding climate change (physical or transitional), health or other ESG-related risks. Private investors can manufacture this exposure by improving assets (e.g. upgrading to LED lighting and optimizing building controls to reduce energy consumption).

Shifting consumer and business needs
Amid shifts driven by the pandemic, sustainability and changes in human behavior, asset owners will need to stay close to markets. For example, driving foot traffic, for shopping centers in particular, will be a team effort between landlords and tenants. To the extent that marketing support can be provided, asset managers should review options to help. A boost in property popularity will result in significantly more attention from prospective tenants over the near term. Changing sector focus may be prudent. Energy infrastructure investors will spend more effort looking at natural gas and solar investments rather than coal or oil.

Forward vision for business plans
Asset owners will need to be proactive with asset business plans. Anticipating challenges before they occur, mitigating risks and downside and charting clear value add opportunities all unlock asset value. Further, rapidly changing trends mean historical views are not sufficient to underwriting in this new world.

Asset managers need to work with sustainability in mind

The pandemic has heightened emphasis on health and safety for real assets during construction and use, with climate risk taking on increasing importance long term. Underwriting needs to evolve accordingly. For private equity real assets, owners should look to mitigate risks through asset improvements.

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Theme 3
Positioning for recovery
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Theme 3

Positioning for recovery

Amid this environment, lingering uncertainty and quickening technological change, there are a lot of positive, useful strategies today for preparing for the next cyclical upswing tomorrow.

An opening window
Even in the face of unfolding pricing corrections and multiple cross currents, 2021 is shaping up to be a once-in-a-cycle window of opportunity for capital deployment. Core capital may gain from forthcoming turning points in cash flows and prices, while value-add capital is urgently needed to reconfigure struggling business models, reposition assets and improve occupancy and incomes.

An intriguing profile
Aggressive fiscal and monetary stimulus makes for an intriguing recovery profile over the year ahead. Specifically, lower funding costs will increase available capital and eventually reduce asset yields, but investor confidence and fundamental improvement will be necessary for a cyclical recovery.

Be the solution
In every cycle, distressed opportunities often lag the economic cycle and initial disruption, and we expect more signs of asset-level distress to surface in 2021. There is likely to be deeper value on offer in off-market deals, poor structures, struggling sectors or orphaned assets, waiting to be unlocked. It is important to be on-the-ground talking to these sources and be seen as a reliable and discreet provider of liquidity.

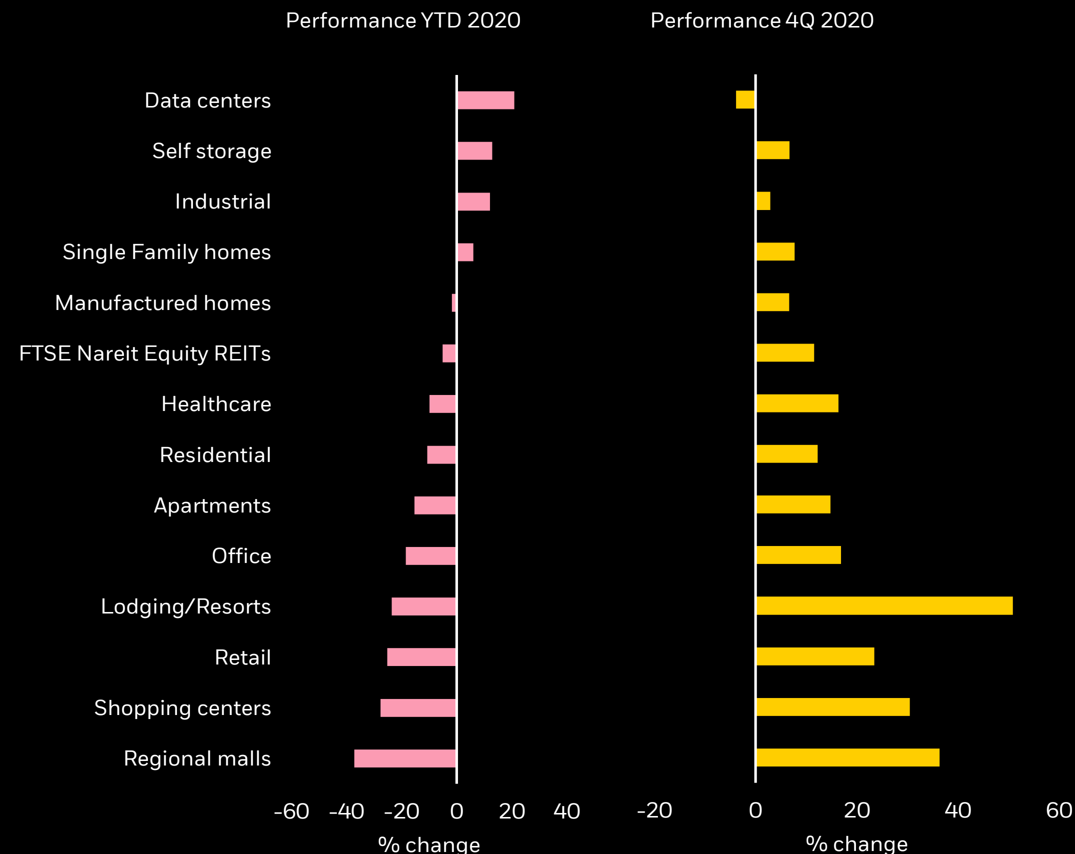
It still comes down to price
While we have clear fundamental preferences for each region and sector, some of these may already be well reflected in relative prices. In this context, winning sectors may become fully priced while challenged sectors may begin to offer compelling pricing. Investors should have a sense of fundamental value and be aware of the evolving risk-return balance in pricing.

More scope for genuine alpha
Divergent regional and sectoral trends will likely drive wider gaps in performance over a long timeframe. This pattern strongly increases the gains from active market, sector and stock selection. At the same time, it reinforces the importance of local insight in deal selection and decision making.

Diversification is still the only free lunch
A widely staggered economic and market recovery over the coming years keenly reinforces the basic tenets of diversification. Namely, broad regional portfolios may see substantial benefits from diversification, particularly by remixing risk -return exposures. One important aspect of diversification: evenly deploy capital across vintages to avoid vintage concentration risks.

Building a portfolio over time
Constructing a well-diversified portfolio will take some time. This may require timely and tactical switches between hot and cold sectors (subject to price), listed and unlisted (subject to relative value) and equity and debt (subject to risk appetite).

Recovery of listed industry sectors since vaccine announcement



Sources: BlackRock, Bloomberg. Notes: Sectors as defined by FTSE NAREIT equity REITs. , YTD performance as of December 31, 2020. Diversification and asset allocation may not fully protect you from market risk. Pas performance is not a reliable indicator of future results.

Despite lingering uncertainty and quickening technological change, there are a lot of positive, useful strategies today for preparing for the next cyclical upswing tomorrow.

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FOR PROFESSIONAL,
Regional
outlooks
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Regional outlook

Americas

Still in the woods
The U.S. economy is in the early stages of recovery. The labor market has improved meaningfully, but there are still 9.3 million fewer jobs than prior to the pandemic. Effective vaccine delivery will be necessary to achieve further economic recovery. Policy is also in focus. Both monetary and fiscal policy are projected to remain supportive for the U.S. economy. With control of both the White House and Congress, it is more likely for greater policy action and fiscal stimulus.

We expect the White House to take a new approach to energy and climate policy. Green energy policy and infrastructure investment is a particularly impactful area for infrastructure investors. Further, greater fiscal aid for municipalities and possible changes to tax policy could have implications for real estate investors.

Real Estate: Tale of two cities
U.S. real estate remains attractive, but there is significant bifurcation between sectors and markets. It is a tale of two cities whereby the industrial sector is sharply benefitting from the rapid and lasting shift in consumer behavior towards e-commerce, whereas retail, notably malls and power centers, continues to struggle. We expect industrial to outperform other property types. Apartments should see value preservation, while office will likely face a more uncertain recovery.

Within the office sector, large (esp. tech) tenants are benefiting and even expanding, while smaller tenants are more likely to reduce space upon renewal. We are more positive on low beta office markets and see a prolonged recovery for gateway markets, given additional challenges with density and public transit.

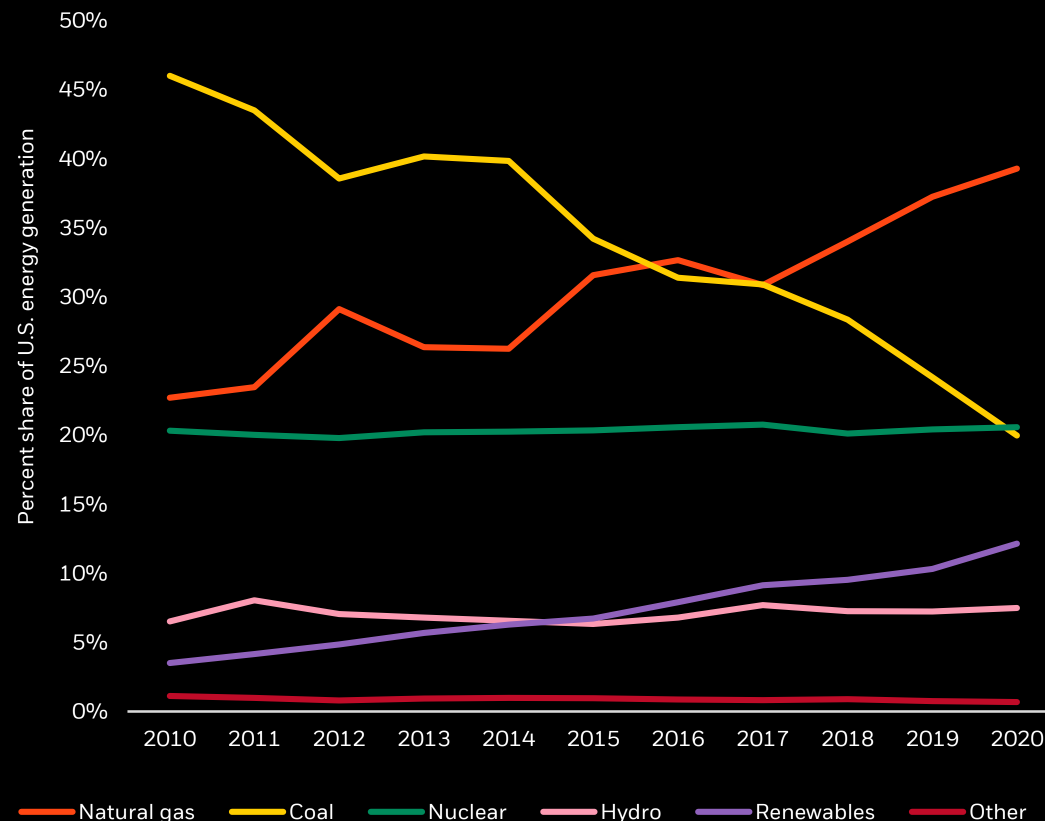
The Covid-19 crisis has resulted in some migration to less dense and more affordable metro areas.

Renew & recharge
Infrastructure is benefitting from the "D" trends: Digitization & Decarbonization. The pandemic has accelerated growth of demand for data centers, fiber and cell towers. Meanwhile, renewables are coming into greater focus, particularly as U.S. energy policy becomes more focused on climate change. That said, natural gas remains a clear bridge to a new regime of energy mix led by renewables and an economic recovery should result in higher U.S. production demand for natural gas and oil next year.

An important sentiment shift by regulated utility stakeholders for renewable capital investment is accelerating. Further, solar and wind's levelized cost of energy (LCOE) has declined, enabling the sector to move from just 3% of U.S. generation to 12% in just 10 years. Battery storage technology continues to improve which will further fuel growth in renewables.

Latin America
Mexico plans additional infrastructure investments and investors are still navigating the Obrador administration, while Brazil's economy is recovering from a sharp contraction last year.

The rise of renewables and natural gas resulting in declining coal



Source: EIA, BlackRock. As of December 2020.

Strong structural trends are being driven by societal shifts more so than marginal economic growth. Strategies, sectors, markets and assets that benefit from these structural trends, such as industrial and logistics real estate, will be more resilient.

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Regional outlook

Europe

Uneven economic recovery
European economies have started to reopen, but virus dynamics continue to drive the activity restart.

Balancing the health response relative to the economic impact in controlling the virus remains key and an effective vaccine delivery will be necessary in maintaining the economic recovery.

The recovery is uneven across European countries, owing to diverging virus dynamics, varied government responses and different economic structures.

Continued fiscal and monetary support remains important, especially for the labour markets. The low rise in unemployment in Europe reflects the success of short time working schemes in protecting jobs. Maintaining policy and fiscal support going forward remains crucial in avoiding permanent economic scarring.

The end of convergence
European real estate remains attractive, but we see increasing market dispersion.

As in much of the world, a widening gap between sectors is emerging as long-running structural trends are being markedly accelerated by current events impacting real estate demand.

Logistics and industrials show robust occupier dynamics and top investors preferences with pricing holding up. Retail continues its downward trajectory. The residential sector remains attractive with evidence of capital rotating towards it. The office sector remains muted, with the exception of prime office space. Underwriting risk here continues to be difficult as occupiers reassess their spatial needs and restructure or rationalise over a full leasing cycle.

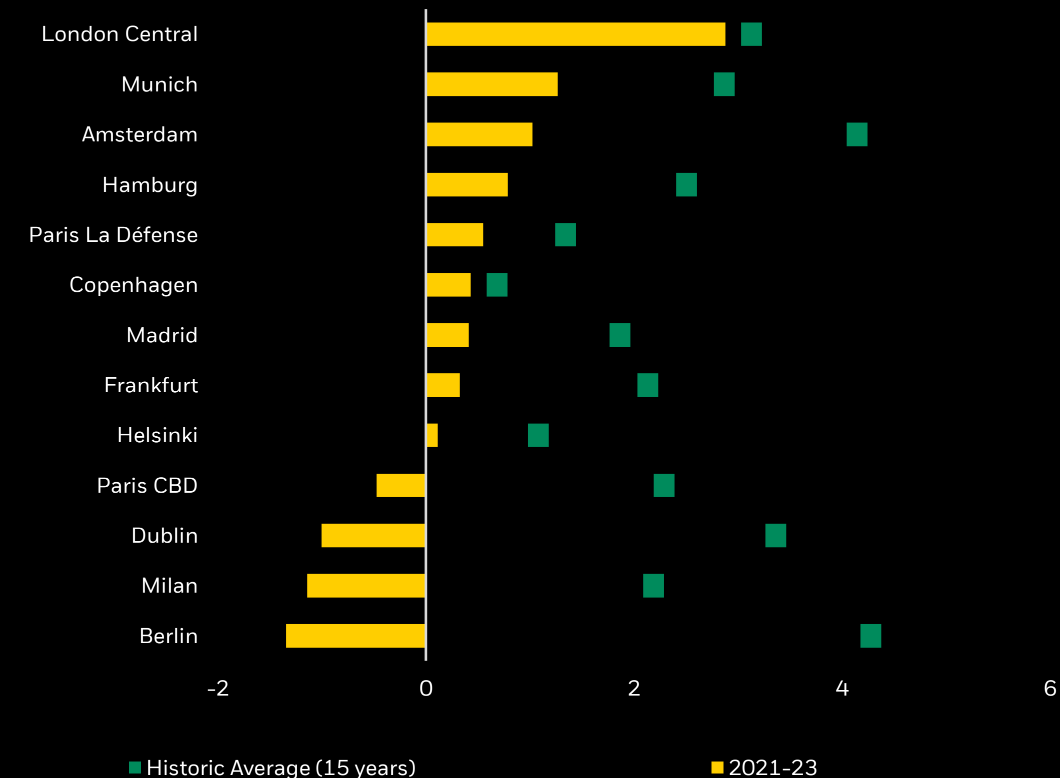
Market selection becomes even more important given our expectations of a staggered recovery across regions and sectors.

Competition for renewables
In Europe, digitization was a trend already underway. This year the virus disruption has accelerated demand for digital infrastructure from businesses, schools and remote working.

Deglobalization was also already in motion given the ongoing U.S. and China trade tensions, and the risk of European fragmentation in the context of Brexit. In 2021 we expect to see more businesses seeking to increase supply chain resilience, potentially reshoring critical services, and new restrictions in the ownership of critical domestic infrastructure.

Renewable energy will likely continue to be the fastest growing new source of electricity generation going into the grid. In Europe, competition for renewables assets is very high, especially in the more developed European countries. Offshore wind presents a scalable opportunity with growth particularly focussed in France, Iberia and the Nordics.

Market dispersion will be a feature of the rebound
Prime office rental growth expectations 2021-23 (% p.a.)



Source: PMA, BlackRock, October 2020. Note: Any opinions, forecasts represent an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation. Forecasts may not come to pass.

As a window of opportunity emerges we expect increasing market dispersion. Market selection becomes even more important given our expectations of a staggered recovery across regions and sectors.

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Regional outlook

Asia Pacific

Economy shifts up a gear
The diverse economies of this region are showing more sustained signs of uplift, as different parts of the economy reboot and recover. In this cycle, APAC is at the front edge of the rebound, as the manufacturing, construction, business services and even the domestic hospitality sectors all return to work.

While Covid-19 cases are tracking lower in more mature APAC, there are still periodic outbreaks warranting localised testing, tracing and containment responses.

Overall, the cyclical upswing looks to be intact and well-poised for a long rebuilding phase, albeit to a very different landscape, given many upturned business models and lingering barriers to international travel.

Altogether, this presents a stronger investment thesis for the region, given more attractive asset pricing, lower funding costs and diminished competition for assets, as some landlords contend with legacy distressed assets.

Diverging fortunes
Regional real estate markets are diverging – mostly across sector lines – in terms of demand, rents and pricing.

Industrial and logistics top the list in terms of robust demand growth, while still commanding a positive yield premium. Multifamily in Japan retains its defensive credentials, in both occupancy and rents. Office faces mixed drivers, as work-from-home reduces demand for now, but smaller homes, cultural preferences support the eventual return to the office.

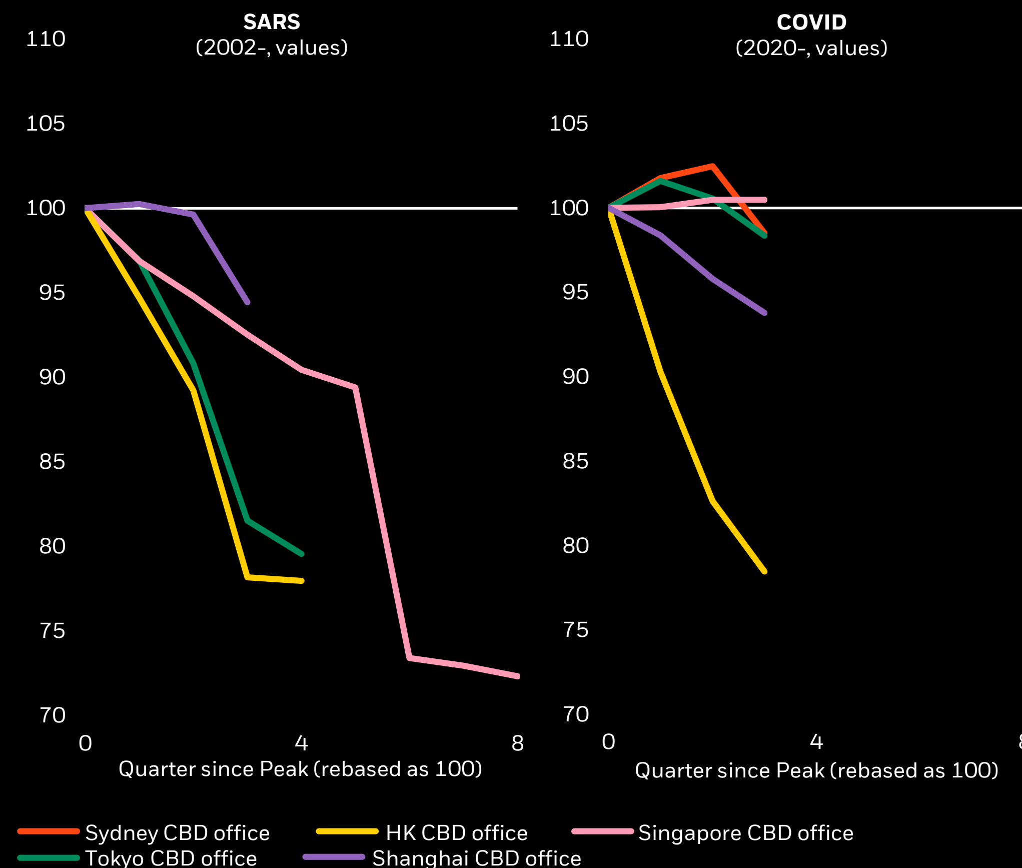
Retail is still impeded by stay-at-home guidelines, but specific segments like groceries and home office equipment are booming. Hospitality sector has a tough road ahead, even as lifting travel restrictions in China, Japan and Australia drive a partial rebound in occupancy and revenues.

A strengthening tailwind
The fundamental demand for infrastructure remains undiminished by the cyclical disruption, driven by robust growth prospects and increasingly by consumer choice.

Under lockdown, there is a more vocal appreciation of clean air and clear skies, which is slowing feeding into demands for less pollutive industry and greener energy. Moreover, local energy policies across the region are keening pushing away from fossil fuels and nuclear and towards renewables.

Transport and tourism infrastructure remain deeply stressed, given sub-par traffic volumes, notwithstanding and despite a return to domestic travel. Contracted revenues remain the gold standard for debt providers, retaining its income resilience despite big swings in underlying activity.

Price adjustments of APAC office under SARS and COVID



Source: Jones Lang LaSalle Real Estate Intelligence Service, BlackRock (December 2020). Diversification and asset allocation may not fully protect you from market risk. **The figures relate to past performance. Past performance is not a reliable indicator of current or future results**. Reliance upon information in this material is at the sole discretion of the reader.

The recovery's trajectory will be shaped by how long the pandemic lasts – but at the end of the day, all strategies will work at the right price.

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Implications for investors

1 Allocate into acceleration

Be bold. Allocation decisions matter for portfolio resiliency. More than ever, real assets investors need to have conviction on "one-way runs" such as digitization and the shift to renewables to take advantage of trend momentum which will likely last for years to come.

Resiliency under any outcome. Strong structural trends are being driven by societal shifts more so than marginal economic growth. Strategies, sectors, markets and assets that benefit from these structural trends will be more resilient, such as industrial or logistics real estate, data centers and fiber. Follow the trend, as the trend is your *resilient* friend.

Strong foundations withstand storms. Building core allocations to structural themes provides portfolios with ballast to manage market uncertainty and volatility. This provides a level of security that is necessary to enable investors to allocate more tactically in other segments of broader portfolios.

2 Active asset management

Be active. Asset owners need to be more proactive, anticipating challenges before they occur, to mitigate risks and protect downside. Tenant or counterparty communication is key. Active managers will be better able to chart clear value-add opportunities to unlock value and position assets for success in new environments. The liquidity of the public markets can be an avenue to quickly gain exposure and capture alpha. Further, rapidly changing trends mean historical views are not sufficient for underwriting assets.

ESG is not a choice but necessity. Assets that have positive ESG characteristics should outperform assets that lack it. In the private markets, active asset management and repositioning around ESG will be more common. Physical and transition risks are elevated and investors need to position assets to mange them well before actual risk events, as capital markets are increasingly forward pricing these risks. Climate risk is now investment risk.

Value-add capital. The level of disruption and change in real assets is more elevated and accelerating as it enters 2021. This is going to require repositioning and repurposing of assets across a wide range of real estate and infrastructure categories. Opportunities are elevated for investors with capital and capability to execute on value-add business plans.

3 Positioning for recovery

Be nimble. As vaccine deployment enables a broader set of economic activity to resume, there are likely to be cyclical recovery opportunities. Investors need to be nimble and tactical to benefit from a cyclical recovery. Consider combining public and private investment to take advantage of valuation discrepancies.

Room for contrarians. Going against the grain can work, if underwritten well. Every asset is attractive at a given price. Investors looking at retail or traditional energy need to underwrite carefully, but can benefit from the dislocations occurring from market uncertainty. Motivated sellers and corporate asset sale/leasebacks are two areas of opportunity.

Utilize full portfolio toolkit. Investors need to consider how to position their portfolios and where to take on additional risk. Utilizing the public listed equity market, which benefits from greater liquidity, an ability to scale quickly and periods of heightened equity beta, can provide investors an attractive option to express tactical positions. Further, private debt can provide greater protection for investors positioning in more challenged sectors and markets.

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