WHAT IS NEW ECONOMY REAL ESTATE AND WHY IS IT IMPORTANT?

CenterSquare – CenterSquare
09 May 2023

New economy real estate can simply be described as the real estate within which other ‘megatrend’ technologies and innovations occur. These are the physical buildings that house the internet; that house bio-life science technology; the communication towers that transmit data; and the buildings involved in logistics (specifically e-commerce).

It also focuses on the markets and cities where you have high concentrations of innovation and technology; for example, the golden triangle between London, Cambridge, and Oxford, which house the universities that are encouraging a lot of biotech, life science, and medical innovation. Another example is South San Francisco where you have the combination of computer science, artificial intelligence (AI) technology, and life science technology. You might also think of Boston, the Shibuya district of Tokyo, or Geneva in Switzerland. These markets all have high concentrations of technology industries in their overall economic makeup.

These cities, or areas, in the sub-markets house the property types that have the most growth behind them. They are highly specialised, mission critical properties and there’s a small supply of these types of buildings. Therefore, if you own these buildings, in these locations, you have the potential to charge better than average rental growth. As such, ‘new economy’ real estate is the ‘best of the best’, the ‘tip of the spear’ of the real estate market.

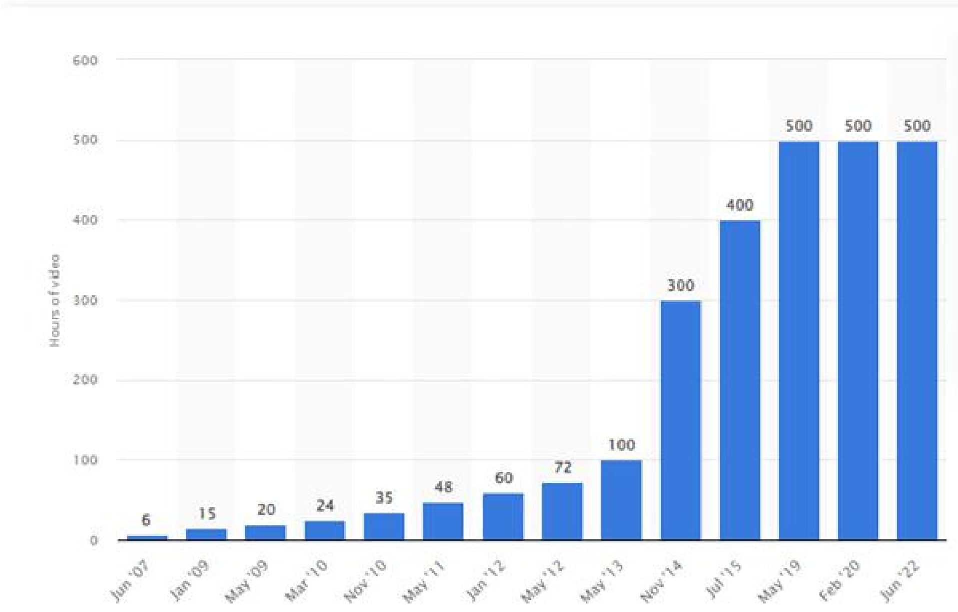
It's worth mentioning that this is not old economy real estate; it doesn’t include much residential or any obsolete office space and it avoids entirely retail assets (that are quickly being replaced by the transition to internet purchases). We have identified the key areas for new economy real estate as:

- Data centres
- Cell phone towers
- Logistics
- Biotechnology
- Technology

The growing need for data centres

We are consuming huge amounts of data and this is increasing every day. Take YouTube for example; every minute over 500 hours of video is uploaded to the video platform[1].

Figure 1: Hours of video uploaded to YouTube every minute (as of February 2023)



Source: Statista, February 2023.

Historical performance is not an indication of future performance and any investments may go down in value.

Over the course of a year, this equates to thousands of years' worth of content. And the same thing is happening on platforms like TikTok – if you were to sit down and try and watch all of the video content on the internet, from beginning to end, it would take you back to the dinosaurs. That's how much there is. Global consumption of data has been accelerating at a 30% compound, average annual growth rate for the last decade, and is expected to continue to accelerate at a 30% average annual growth rate[2].

This is a huge amount of data and it needs to be processed and stored somewhere – data centres – and so data centre demand is also accelerating, fuelled by trends like 5G, the internet of things, and artificial intelligence. With the emergence of new AI technologies, like Chat GPT, this is only going to grow further.

Greater connectivity = more cell phone towers

We're all using our cell phones more and we're transmitting more data. The big story from a macro perspective focuses on the transition to 5G. This 'upgrade' is going to require a lot more antennas and more points of service. We're currently in the process of building out 5G and, over the next three years, US carriers (and global carriers) are expected to spend a record amount of money building out their networks. That level of investment will directly benefit the owners of telecommunication towers; every time a company puts another antenna on top of an existing antenna, it generates a payment to the owner of that underlying tower. So, we can see there is strong, fundamental demand, driven by this macro trend of us all using our phones more.

Modernising the global supply chain

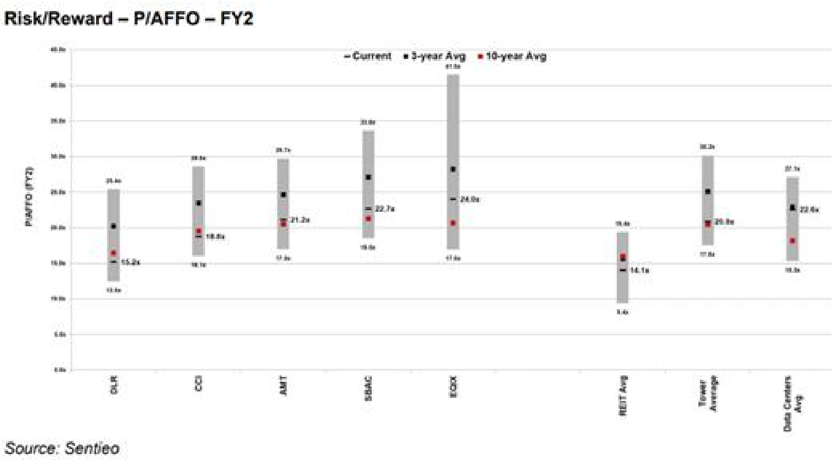
E-commerce has grown exponentially, further fuelled by the COVID-19 pandemic which has accelerated the monumental shift from bricks and mortar retail to online shopping. This increase in e-commerce demand is driving demand for logistics, to store, process, and distribute consumer products. The facilities or warehouses associated with e-commerce need to be big. To give some perspective, an e-commerce supply chain typically requires three times the amount of warehouse and logistics space as a traditional brick and mortar supply chain[3]. Not only that, but you need the building to be close to consumers – when people place an order on their phone, they expect that product to arrive within a matter of hours, not weeks. But, as we know, there’s not often huge amounts of free space close to cities that house large populations of ‘purchase-loving’ consumers. So we start to see a very limited supply which, as per the basic economic law of supply and demand, leads to increase demand and allows those who own those assets to charge higher prices.

Furthermore, the actual machines within these buildings that facilitate quick processing of packages are very unique and relatively scarce. So if you are the owner of these assets you can, to an extent, charge whatever you want. E-commerce companies don’t have much of a choice but to use these valuable facilities. In fact, in many markets, there is no asking rental rate for that type of asset. They literally put the potential tenants in a room and ask them to bid on the space. This is a pretty unique dynamic and one that we don’t see much of in the traditional real estate space.

Why now for new economy real estate?

The above examples make clear the high level of demand for this type of real estate. But what about supply and, importantly valuation? Well, by virtue of the recent changes in interest rates and that immediate impact on the public markets and their repricing of all real estate, we have a potentially unique opportunity where the valuations have come down, and come down materially.

Figure 2



Source: Keybank Capital Markets, Jan 2023.

Historical performance is not an indication of future performance and any investments may go down in value.

Figure 2 highlights how these multiples have changed over the last decade: what was the high, what was the low, what was the average over the prior three years? Looking at where the multiples sit today you can see that, in every case, the multiples are at the bottom end of their historical range and well below the average of the last three years. So, from a repricing standpoint, now is potentially a good time to get into these sectors in the public markets, because it’s already been repriced.

Sources

[1] Source: Statista, February 2023 https://www.statista.com/statistics/259477/hours-of-video-uploaded-to-youtube-every-minute/

[2] Source: Global Data Consumption Chart, Statista January 2023. https://www.statista.com/statistics/871513/worldwide-data-created/

[3] Source: CBRE, E-Commerce's Impact on Industrial Real Estate Demand https://www.cbre.com/insights/briefs/ecommerces-impact-on-industrial-real-estate-demand

Related blogs

+ Look to new economy real estate in 2023

Related products

+ WisdomTree New Economy Real Estate UCITS ETF - USD Acc (WTRE)

View the online version of this article here.

<u>Important Information</u>

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.