

Renewable Energy Investments Instead of Real Estate

Düsseldorf, October 27th 2020 – The risk/return gap between investments in renewable energies and real estate is widening. "Both asset classes are an alternative to each other especially for institutional investors", says Markus W. Voigt, CEO of aream Group. "While both expect approximately the same net yield, the risk with real estate rises steeply at present."

About four percent yield can be expected, both for real estate investments and for renewable energy plants. "These are in each case conservatively calculated core investments", says Voigt. The risk-bearing capacity can be derived from this target return. "For institutional investors in particular, it is crucial that the desired return is achieved over the term of the investment", says Voigt. And this is where the risk measures run in different directions: While the risks in renewable energies remain stable or decrease, the risks in real estate investments increase strongly.

This can be seen impressively in the measures taken in the pandemic: While renewable energies managed to satisfy more than half of Germany's total energy demand without causing networks to collapse or capacity problems, real estate became a political pawn. "Rental deferrals were quickly agreed upon, and that in a market that is already being burdened by a rent brake," says Voigt. So, while politics is the biggest risk in residential real estate, commercial real estate is directly affected by the consequences of the pandemic.

"The market for commercial real estate will change dramatically", says Voigt. "The trend towards the home office just like the boom in online trade will cause rents to fall. On the other hand, there will be higher costs if the properties have to be adapted to the new conditions. "Retail will undergo a transformation into a temple of experience - but this will only happen after the pandemic has subsided and will cost a lot of money", says Voigt. "Offices will also have to be furnished and converted to be pandemic-proof, from individual elevators to more space between buildings." In addition, less space will be needed if people work more from their home office. All these factors increase the risks of real estate investments.

The situation is different for renewable energies: "The past few years have shown that yields are very stable - even and especially in times of extreme fluctuations on the stock markets", says Voigt. "While politicians tend to take a negative view of property owners, renewable energies enjoy cross-party support from politicians." In addition, electricity consumption will increase in the coming decades. Electromobility alone will generate a huge increase in demand, and digital business models will also contribute to this.

"Even if we conservatively assume that the expected returns on real estate will not fall and those from renewables will not rise, the increase in risks in real estate is shifting the attractiveness curve", says Voigt. "This is already noticeable in increased inflows to renewable energies." And this trend will accelerate strongly in the coming years.

More Information: www.arem.de.



About aream

The aream group is a fully integrated investment and asset manager for institutional investors with a focus on renewable energies. With a transaction volume of EUR 1.5 billion and a managed investment of EUR 1 billion, aream has been providing the entire spectrum of asset management services for 15 years, thus ensuring the commercial and technical optimisation of assets. Comprehensive services enable investments to be implemented from the planning and construction phase through to operation in line with investors' specifications. Furthermore, aream offers access to private equity opportunities in the field of clean energy and energy efficiency. As a signatory to the UN Principles for Responsible Investment (UN PRI), aream actively includes ESG issues in its investment analysis.

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