Q&A - Harrison Street: Marrying infrastructure and ESG

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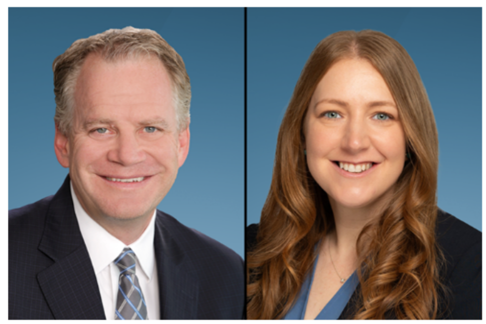
Multisectors Q&A Financing Esg

The public private partnership model maybe on life support in the UK with the government ever so eager to pull the plug, but our friends across the pond are not so quick to write off the old template in favour of a new one.

Admittedly, there is a small pipeline of PPP projects in the UK student accommodation sector, but deal flow has greatly suffered in the wake of the Covid-19 pandemic and the emergence of remote learning. Universities in the US, however, appear to have shirked this trend.



American specialist investment manager, Harrison Street, has not only found a use for the P3 model within the student accommodation sector but also proven that, with enough will on both sides, it can be used to meet modern-day needs.

inspiratia sat down with Harrison Street's Senior Managing Director and Head of Utilities, Carolyn Arida (CA - right), and Senior Managing Director and Head of PPP Business Development, Jim Hennessy (JH - left), to discuss their growing pipeline of P3 projects and how the company has adapted to incorporate sustainability metrics to the delivery of traditional infrastructure assets.

What benefits does a PPP model have in the deployment of clean infrastructure?

CA – The Public Private Partnership (PPP or the P3) model is quite common in the United States, especially in the student accommodation and utilities space. The shift lately has been the push to decarbonise operations.

We take a project-by-project approach and try to build a model that works best for any given partner. The primary challenge for many municipalities, universities, schools and hospitals now is decarbonising energy and the associated heating and cooling infrastructure. To address these needs, we consider a range of technologies.

Universities, in particular, benefit from private intervention to help them source the best possible technology and model to meet their individual targets.

In the US small towns tend to pop up around universities. These campus towns include everything from accommodation to leisure facilities and all else under the sun to make that facility self-sufficient.

It can be difficult for a university to manage and deploy arrange of infrastructure with varying complexities and needs and that's where we come in.

JH – Even in the US, the PPP landscape has changed quite a bit over the last decade. Five years ago, the general sentiment was that only state schools would opt for PPP, and the private institutions, which tend to have substantial endowment funds, would do it themselves.

This attitude had almost flipped over the past few years.

The US is not exempt from questions about PPPs relative to government-led programs in the UK and other countries. But with a growing need across institutions to decarbonise and modernise as well as the emergence of ESG targets, particularly in the social infrastructure space, institutions realise the fact that they may not have the necessary knowledge needed to keep up with the ever-evolving technology and that a partnership model can be beneficial. So, a PPP becomes the correct choice to achieve an institution's objectives and the higher CapEx costs almost become secondary when they factor in the O&M services and technology expertise a private partner provides.

CA – We aim to be a one stop shop for these universities and we have gradually built up the capabilities to assist with all their needs from traditional infrastructure such as student accommodation to ESG compliant facilities such as onsite energy generation and emission free heating and cooling.

The Inflation Reduction Act (IRA) has also prompted universities to become more proactive with their net zero targets.

> ***Has your infrastructure investment strategy changed over the last 5 years?***

CA – Harrison Street was founded in 2005 and from the very start the company focused on specialist investments that are demographics driven. Our view has always been that those types of assets are more resilient during economic downturns, and we've stayed very core to that mission.

JH – Going back to 2005, we were one of the few companies to start investing in social infrastructure alongside a broader set of alternative real assets and in 2018 we launched our infrastructure strategy. Our mandate has always stayed the same, what continues to evolve is how we go about delivering it.

The majority of our assets are secured via limited auction or bilateral process, so the industry relationships are very important to us.

> ***How do you integrate renewable technologies into your projects?***

CA – This is primarily done through "closer to end user" projects. We have integrated microgrids and onsite solar projects to help mitigate transmission constraints, which are prevalent across the board these days. Take a district heating network at a university; the current trend with that piece of infrastructure is to convert all fossil fuel steam boilers to geo-exchange. Resiliency concerns have also prompted the growth of onsite generation at our developments, and that, coupled with tax incentives, leaves very few reasons not to make this shift.

This is also helped by the fact that the contracts we have with universities are flexible and allow for revisions and improvements over the 30–50-year concession period. We need this to be able to upgrade technology as the sector matures or implement a new, different technologies to make the systems run efficiently.

> ***Are there any asset classes in the sustainable infra space within which you hope to gain a foothold?***

CA – We are technology agnostic. We are continually assessing the risk profiles of newer technologies and we hope to identify and implement the optimal solution for each development. Also, universities are not a singular entity, each have their own risk appetites and needs so there is no one solution we would propose across the board or one that we would avoid at all costs.

Geo exchange is becoming very popular and so is wastewater heat recovery where, for example, we implement a system which extracts heat from water used from showers and reuse that heat. If we find a better way to increase efficiency and sustainability, we will consider it.

Having said that, it is not always as straightforward. There are several stakeholders, even within universities, and we need to ensure that everyone is aligned with whatever solution we propose.

> ***How has the US sustainable infra space changed with the introduction of the IRA?***

CA – I wouldn't say there was a drastic change; the will for infrastructure advancements was always there. How it helped was that it increased the momentum of the transition. For example, the IRA broadened the variety of technologies that are eligible for tax credits. Coming back to geo exchange, pre-IRA, it was eligible for a 10% base tax credit and now the number is at 30%.

The IRA also made tax credits more liquid. There is the ability to transfer them and monetise incentives which is attractive to not-for-profit organisations such as universities.

Are there any immediate plans to expand beyond the current mandate or diversify operations to protect against unexpected shifts such as Covid-19?

CA – We're proud of the infrastructure platform we've built over the last five years and believe the needs across our sectors of focus will allow for continued growth through the same strategy. The way things are now, we don't see an immediate need to diversify our operations. We have a healthy pipeline of projects from our existing relationships, and we are actively expanding our reach across the country.

JH – We have a business model and investment focus that is resilient to unexpected macroeconomic shifts. We only saw a slight dip in 2020 when Covid-19 lockdowns first came into effect, but demand recovered very quickly, and we were back to business as usual. This is also a result of the unique university culture we have in the US where these institutions are a lot more than a place for higher education. They are seen as a crucial experience, and the in-person interaction is a major part of it. Remote learning was never a serious consideration, so the downturn didn't faze our sectors to the same degree it did others.