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REAL FDI

Where opportunities meet investment

Interview

Jeroen Dijsselbloem, Mayor of Eindhoven

Global FDI hits $727bn

UN body calls for more action

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LEADER
Courtney Fingar

Why FDI cannot ignore housing

Global shortages of adequate housing represent a significant challenge that affects millions of people worldwide. While housing shortages can vary in scale and severity from one region to another, the problem is prevalent and has far-reaching social, economic and environmental consequences. Inflation, alongside undersupply of housing stock, population increases or displacements, stagnant wages and construction bottlenecks, have created housing crises in both advanced and developing economies.

Housing is high on political leaders' agendas as it is an emotive and essential issue. But it also features in corporate site selection decisions, although this link is not always clear to investment promoters. Housing goes beyond providing shelter: it is a critical factor in creating the kind of attractive and prosperous environment that foreign investors seek.

A well-developed housing sector not only enhances the quality of life for residents, it also sends a clear message to the global business community: this is a place where investment thrives, as do its inhabitants.

In short, to establish a location as a home for business, it first has to ensure it has homes for people. There are a number of reasons why adequate supply of suitable housing matters to foreign direct investment (FDI):

1. Quality of life for employees
For multinational corporations considering foreign expansion, providing a high quality of life for their employees is crucial. Adequate and comfortable housing options are integral to ensuring that expatriate workers and their families feel safe and content in their new environment. But this applies equally to local employees. An attractive housing market helps companies recruit and retain top talent, which, in turn, makes a location more appealing for FDI.

2. Infrastructure and urban development
Foreign investors seek regions with well-developed infrastructure and urban amenities. A robust housing sector goes hand-in-hand with these priorities. Investments in housing often spur infrastructure development, such as transportation networks, utilities and public services. The availability of modern, reliable housing can influence investors' perception of a country, region or city's commitment to creating a conducive business environment.

3. Economic stability and market growth
A thriving housing market reflects economic stability and consumer confidence. For FDI, this signals potential market growth. Stable property markets encourage foreign businesses to invest, as they anticipate an increasing customer base, higher consumption rates and long-term profitability.

4. Ancillary services and industries
The housing sector has a far-reaching impact on ancillary industries, such as construction, interior design, real estate agencies, and property management. These sectors provide additional investment opportunities and job creation, enhancing the overall appeal of a destination to foreign investors.

5. Social integration and cultural exchange
A diverse and vibrant housing market is essential to fostering social integration and cultural exchange. Foreign investors value countries that embrace multiculturalism and inclusivity. Housing options that cater to a diverse population help build bridges between expatriates and local communities, making foreign investment more welcome and less isolated.

6. Long-term investment stability
Investing in housing often represents a long-term commitment, as property values tend to appreciate over time. For FDI, this long-term stability is an attractive feature. It signifies that the host country is dedicated to creating an environment where investments can grow and mature.

For all these reasons, the importance of housing in attracting inward investment cannot be understated. As locations continue to compete for FDI, nurturing a robust housing sector should be seen as essential to an area's prosperity and economic growth.

Courtney Fingar is the founding partner of Fingar Direct Investment and a contributing editor to Real Asset INSIGHT. She was editor-in-chief of Investment Monitor and also worked at the Financial Times' fDi Intelligence.

Global FDI hits $727bn in H1 2023, but remains below 2022 levels

Global FDI flows rebounded to $727 billion in the first half of 2023, but remained 30% below the levels recorded in the first half of 2022, according to figures released by the OECD in October 2023.

Much of the increase came in the first quarter of 2023, whereas global FDI flows dropped by 44% in Q2 2023, compared with the previous quarter.

FDI inflows to the OECD area increased to $275 billion, yet they were 42% below their levels recorded in the first half of 2022, and below half-year levels in 2021, largely due to lower equity inflows and reinvested earnings, partly reflecting that new investment activity continues to slow.

Outflows from the OECD area more than doubled to $580 billion, compared with the second half of 2022, although they were below previous half-year levels. Here too, much of the increase took place in Q1, whereas FDI outflows from OECD countries dropped by 56% in Q2.

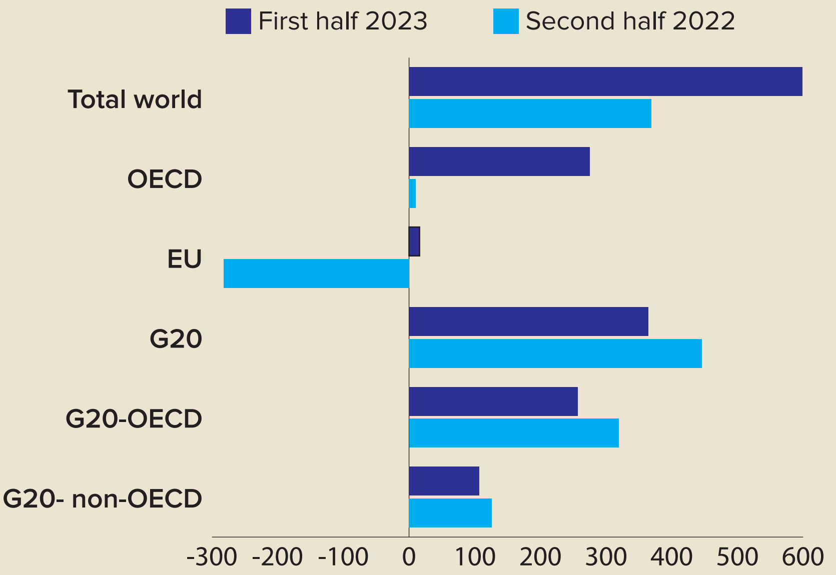
FDI flows into non-OECD G20 economies dropped by 15% in the first half of 2023. They decreased by 13% in Q1 and by a further 27% in Q2.

The US was the leading FDI recipient worldwide, followed by Brazil, Canada and Mexico, both equally ranked as third largest FDI recipient. The US was also the major investor worldwide, followed by China and Japan.

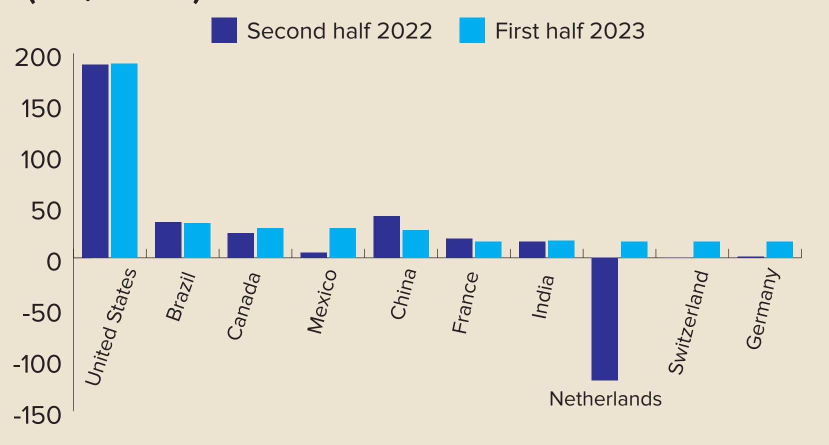
Completed cross-border M&A activity continued on a downward trend in the midst of a weakening economic environment, impacted by high prices, increasing interest rates, and ongoing geopolitical uncertainty. The value of completed deals dropped by 23% in advanced economies and by 49% in emerging markets and developing economies.

Capital expenditures of announced greenfield investment projects remained strong in emerging markets and developing economies, partly driven by a large project in renewable energy announced in Mauritania, but the number of announced projects slowed down.

FDI inflows H1 2023 vs H2 2022 ($bn)



FDI inflows for selected countries, Q3 2022 - Q2 2023 (US$ billion)



Source: OECD International Direct Investment Statistics database

Greater efforts needed to help developing nations hit net zero

The secretary general of the United Nations Conference on Trade and Development (UNCTAD) has called for greater efforts to channel net-zero finance to support the energy transition in developing economies, and highlighted the role international investment can play.

During the World Investment Forum 2023, which took place in Abu Dhabi October 16-20, Rebecca Grynspan said the energy transition requires substantial investment and there is a shortfall in developing economies. “The investment needs are much higher in developing than in developed economies, relative to their existing asset bases,” she said.

FDI will be key to this transition, especially in the renewable energy sector. International project finance constitutes 55% of total project finance values, rising to more than 75% in the least developed countries. However, the high cost of capital, particularly in countries facing debt distress, poses a significant hurdle.

Africa in particular is burdened by interest rates four to eight times higher than developed countries and struggles to attract the necessary investment. Meanwhile, 31 developing countries, including 11 least developed countries, have not registered a single utility-scale power plant-sized international investment project in the energy transition sector since the Paris Agreement in 2015.

Many African countries struggle to attract inward investment

Small island developing states are particularly affected, attracting only 0.6% of global FDI in 2022, concentrated in a handful of countries. Structural impediments, including logistical challenges, modest market size, elevated risk ratings, and vulnerability to natural disasters, contribute to this disparity.

Grynspan underscored the role of international investors in providing more affordable finance to reduce the cost of capital for projects. On average, bringing in international investors lowers the spread on debt finance by 8% in developing countries. Collaboration with multilateral development banks and government stakes in public-private partnerships can further decrease the spread by 40%.

UNCTAD has stressed the need for parliamentarians, policymakers and business leaders to take a nuanced and collaborative approach to address the challenges of the sweeping global economic transformation that a transition to net-zero economies will require.

India to host global investment conference

Investment promoters, government officials, investors and representatives of multilateral institutions are set convene in India in mid-December to discuss the current global challenges and opportunities posed by FDI.

The World Investment Conference (WIC) is the flagship event of the World Association of Investment Promotion Agencies (WAIPA), the main global body representing agencies which are charged with attracting inward investment to their jurisdictions.

WIC 2023 takes place in New Delhi from 11-14 December. It comes at a time of uncertainty for FDI as global crises puts downward pressure on investment flows. The role of investment promotion agencies has become more critical than ever, WAIPA chief executive Ismail Ersahin (right) stressed.

“IPAs – working in concert with private-sector partners – will remain essential facilitators of globalisation. Their role cannot be underestimated,” he said.

By Courtney Fingar

FDI opportunities as sun shines again on global tourism

After the cataclysmic crash during Covid-19, the global tourism industry is rebounding, and with it is providing many investment opportunities in a number of areas.

Travel demand has continued to show remarkable resilience and sustained recovery amid an array of economic and geopolitical challenges, according to the UN World Tourism Organization (UNWTO). International tourist arrivals hit 85% of pre-pandemic levels in Q2 2023 and 90% in July 2023, backed by continued pent-up demand, UNWTO statistics reveal.

An estimated 700 million tourists travelled internationally between January and July 2023, about 43% more than in the same months of 2022, though 16% fewer than in 2019.

By region, the Middle East saw the best results in January-July 2023, with arrivals exceeding pre-pandemic levels by 20%. The strong rebound in the region was led by a number of popular destinations, including 2022 Fifa World Cup host Qatar, where arrivals almost doubled. A significant jump in arrivals was also seen in Saudi Arabia (58%) and Jordan (23%).

Europe, the world's largest destination region, reached 91% of pre-pandemic levels, supported by robust intra-regional demand. Africa recovered to 92% of pre-crisis visitors in the seven-month period and the Americas 87%. In Asia-Pacific, arrivals rose to 61% of pre-pandemic levels.

These results show international tourism remains on track to reach 80-95% of pre-pandemic levels in 2023, as projected by UNWTO in its January 2023 World Tourism Barometer.

Demand for travel remains strong

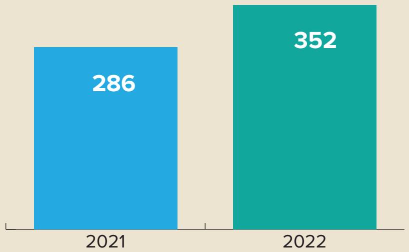
"UNWTO anticipates a strong year for the sector even in the face of diverse challenges including the economic situation and continued geopolitical uncertainty," says secretary general Zurab Pololikashvili. "Economic factors may influence how people travel in 2023 and UNWTO expects demand for domestic and regional travel to remain strong and help drive the sector's wider recovery."

The global recovery in tourist arrivals is also reflected in other industry indicators. In the first six months of 2023, international air capacity and passenger demand both recovered to about 84% of pre-pandemic levels, according to the International Air Transport Association.

Hotel bookings doubled between January and August 2023, compared with the same months of 2022, according to travel marketing platform Sojern. Almost 90% of global hotel markets had experienced growth in revenue per available room so far in 2023, compared with 2019, according to hotel data provider STR.

Investment in the tourism sector is showing a commensurate rebound after the lows of the pandemic. Greenfield foreign direct investment (FDI) project numbers in tourism grew by 23%, from 286 investments in 2021 to 352 in 2022, according to a joint report by the UNWTO and fDi Intelligence. Job creation in tourism FDI also increased by 23% over the same period, to an estimated 36,400 in 2022.

Toursim greenfield FDI project numbers



Source: fDi Intelligence

The leading destination region for tourism FDI projects in 2022 was Western Europe, with 143 announced investments at a combined estimated value of $2.2bn.

The number of announced projects in the Asia-Pacific region increased marginally on 2021 by 2.4% to 42 projects in 2022. The hotel sector accounted for the largest chunk of FDI projects in the tourism industry between 2018 and 2022.

Hotels are attracting investment in a broader sense, not just in greenfield FDI. Despite the macroeconomic volatility that plagued the back half of the year, hotel investment volume in 2022 increased in two of the three global regions – the Americas and Asia-Pacific – according to JLL's 2023 Global Hotel Investment Outlook report.

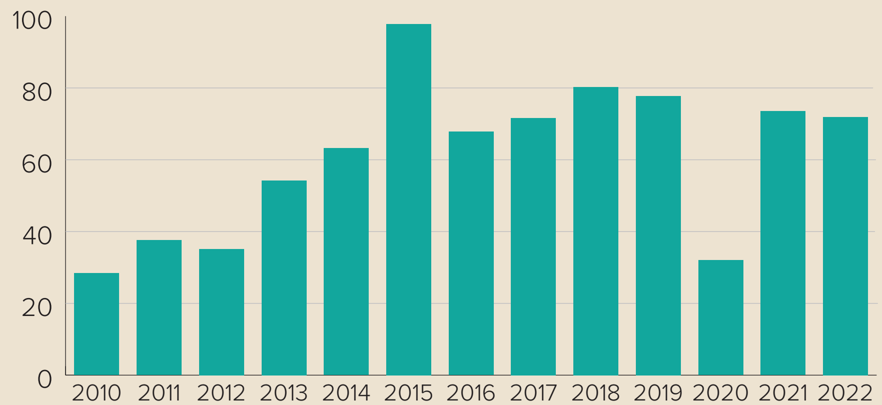
"Luxury assets resorts and hotels situated in safe-haven markets remained the most liquid as investors look to stabilise cashflow and mitigate risk in the aftermath of the pandemic," the report said.

"The lift in global travel demand accelerated the recovery of hotel fundamentals despite the war in Ukraine and rise in geopolitical tensions that exacerbated economic volatility with record-high inflation, labour shortages and supply chain disruption."

At year-end 2022, global hotel

Global hotel investment 2010-2022 (US$bn)

Source: JLL Research



occupancy had recovered by 89% relative to 2019 levels.

While uncertainty looms over the impact of economic headwinds on the global hotel industry outlook in 2023, JLL expects pent-up travel demand to remain resilient and has stressed that hotels' ability to outperform inflation, combined with a slowdown in new supply, should continue to present opportunities to owners and investors.

There are a number of areas in which investors can play a role in the recovery and evolution of the tourism industry, from supporting sustainable initiatives and fostering technological innovations, to tapping into opportunities in emerging markets. They include:

Revamp of hospitality

As highlighted by the statistics cited above, the hospitality sector – including hotels, resorts, and vacation rentals – is poised for a resurgence as travellers seek new experiences and destinations. This renewed interest has sparked investments in renovation and expansion of existing properties and the development of new, innovative accommodation options.

Emerging markets

While established tourism destinations are regaining their footing, emerging markets are becoming increasingly popular. Tourists are exploring off-the-beaten-path locations in search of authentic and alternative experiences. This presents opportunities for investors to support the development of infrastructure, such as transportation, accommodation, and local businesses, in these untapped areas.

Travel technology

Digital transformation in the travel industry is accelerating. From booking platforms and travel apps to contactless check-ins and digital payment solutions, technology is enhancing the experience for travellers. Investors can take advantage of this trend by investing in innovative travel technology startups, as the demand for convenient and safe travel options continues to grow.

Sustainable tourism

As the world becomes more environmentally conscious, there is a growing emphasis on sustainable and responsible tourism. Investments in eco-friendly accommodations, renewable energy solutions, and conservation efforts are on the rise. The potential for financial returns coupled with positive environmental impacts makes sustainable tourism investments attractive.

Experiential tourism

Travellers are seeking more than just a destination: they want unique and immersive experiences. This trend has led to opportunities in adventure tourism, cultural exchanges, and niche travel segments. Investors can explore partnerships and investments in companies that offer one-of-a-kind experiences to meet this demand.

Digital marketing and promotion

The post-pandemic tourism industry heavily relies on digital marketing, content creation, and online promotion to reach potential tourists. Investors can consider backing marketing agencies, content creators, and influencers that specialise in the travel and tourism sector.

Travel insurance and health services

Travellers are increasingly concerned about health and safety when venturing abroad. This has created a need for innovative travel insurance and health service providers. Investors can look at companies that offer tailored solutions to address these concerns.

These and other tourism segments and trends will continue to offer opportunities for investors of various stripes as travellers get back in the air and hit the road.

INTERVIEW
Jeroen Dijsselbloem

'Eindhoven is a really interesting place to invest right now'

Jeroen Dijsselbloem became mayor of the Dutch city of Eindhoven in 2022. He previously served as the Netherlands' minister of finance and president of the Eurogroup, the consultative body of finance ministers of the eurozone countries. In an interview at EXPO Real in October, he described how Eindhoven is experiencing a tech boom that has created big demand for residential development.

Eindhoven has done very well in recent years attracting inward investment and growing tech companies. What's behind this success?

Eindhoven has been a boomtown now for 20 years. After Philips [the multinational conglomerate that was founded in Eindhoven] became a much smaller company, we had to redevelop the economy. We now have more than 6,000 tech companies. Most of our companies are international and this is radically changing the town. So growth figures are very high, but that also creates an enormous demand for investments in real estate, services and amenities. That is the challenge we are facing.

The challenge is to build housing, [especially] affordable housing. That's the key issue and we are redeveloping a large part of the centre of the town to build roughly 20,000 houses between now and 2040.

We are very advanced already in planning procedures and we are very interested in looking for investors – preferably long-term investors committed to staying in our city and who will take on many projects and invest for the long term. And, given the economic development of the city, it is a really interesting place to invest right now.

During one of the panels at EXPO Real you mentioned that companies located in Eindhoven are helping to be part of the solution to the housing shortage. Tell us more about that.

Some of our biggest companies are growing so fast that they have said to the city council 'let us help, we want to help you build, we want to help you create the services and facilities that our people need here in the city'. They've now set up a fund which can help us finance some of the first losses, or give a guarantee on the sale of apartments or a guarantee on the rental contracts so that investors and developers can start building much sooner.

The fund is fully private and they are making it available for us, the local government, to realise big building projects at a much faster pace. That's super interesting for the developers in Eindhoven because they can talk to the private sector and say 'can you give us a guarantee on this project or can you provide us security on the first loss of that project?' This helps us in the current insecurity in the markets and provides additional security so we can keep building.

The discussion at another panel that you participated in during EXPO Real centred around creating liveable cities. How can government and private investors collaborate to make that possible?

We are looking at huge numbers in building residential [property], but from the very start of the projects we also look at amenities, facilities, schools and healthcare. We need to take all of these functions into account from the beginning of our design of the new urban districts.

This doesn't mean that they all have to be in the same building, because for investors sometimes that is complex. But we need to make sure they are built at the same time and taken into account during the design of the new districts.

By definition that requires that we work very closely with public and private partners ... and we've been quite successful in doing so because the cooperation in Eindhoven between public and private is traditionally already very strong.

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> Jeroen Dijsselbloem Mayor of Eindhoven