Reading 81

REAL ESTATE AND INFRASTRUCTURE

1. (B) **greenfield infrastructure investments.**

Explanation

Greenfield investments are infrastructure assets to be built. Brownfield investments are infrastructure assets that already exist.

(Module 81.2, LOS 81.c)

2. (B) **Public hospitals**

Explanation

Social infrastructure includes health care assets, social housing, correctional facilities, and government/municipal buildings. Economic infrastructure supports economic activities and includes transportation (e.g., railway systems), information and communication technology (e.g., data centers), and utility and energy.

(Module 81.2, LOS 81.c)

3. (B) **increase**

Explanation

During steep market downturns, the correlation between REIT returns and equity returns increases.

(Module 81.1, LOS 81.b)

4. (B) **Greenfield**

Explanation

Greenfield investments are new infrastructure development and have the highest risk and potential return. Secondary stage investments in fully operational facilities have the lowest risk-return profile because they have a record of generating steady cash flows. Brownfield investments are redevelopment of existing infrastructure and have more risk than secondary stage investments but less than greenfield investments.

(Module 81.2, LOS 81.d)

5. (A) **health care facilities.**

Explanation

Health care facilities are categorized as social infrastructure. Waste treatment plants are utility infrastructure. Broadcasting towers are communications infrastructure.

(Module 81.2, LOS 81.c)

6. (B) Default risk.

Explanation

When a development uses leverage, default risk increases because the investment is riskier. However, default risk applies to investments that use leverage; this is not unique to real estate development. Regulatory issues, including environmental regulations and zoning permits, can prevent a real estate development project from moving forward. Construction delays can change the economics of the investment due to changing market conditions and the impact of the time value of money on the IRR.

(Module 80.1, LOS 81.b)

7. (B) opportunistic development.

Explanation

Greenfield assets are new infrastructure assets that provide opportunistic development investment opportunities. Development projects do not have steady cash flow; they have negative cash flows during the development phase. Green investing related to ESG involves allocating capital to assets that mitigate environmental challenges such as climate change, resource inefficiency, and biodiversity loss.

(Module 81.2, LOS 81.c)

8. (A) liquidity risk.

Explanation

Direct investment in real estate involves liquidity risk because large sums may be invested for long periods before a sale of the property can take place. Market risk exists for both traditional portfolio and real estate investments. Counterparty risk applies mainly to derivative contracts that require a payment from a counterparty, such as swaps and forwards.

(Module 81.1, LOS 81.a)