

Family Office Insights

Opportunities in the Global Revolution Into Renewable Energy Market for Family Office Investors

Investment in renewable energy is increasingly popular amongst family offices and other ultra-high-net-worth investors, with enormous advancements in technology and opportunities to invest across a wide range of renewable assets, at different stages of development cycle, making this a rewarding asset class for both direct and indirect investment in many parts of the globe. In Europe alone, a staggering US\$58 billion was invested in 2017 in renewable energy projects. It is a revolution set to continue, as renewable energy technologies develop to a cost base, which is parity with fossil fuel-generating assets.

For most family offices, capital preservation ranks first among the primary objectives in investment decisions, but also with the low-interest environment today, it is often desirable to take higher risks to achieve decent returns. We are seeing a big increase in family office and high-net-worth individuals investing in renewable energy projects as part of a secure but dynamic diverse asset allocation.

We are also seeing an increasing desire to co-invest, often alongside other family offices and high-net-worth individuals. Such investors often prefer to work together, either eliminating or significantly reducing the need for control over the assets to be given one way or another to a lending bank or financial initiative/ PE Fund.

Direct investment should, however, have an eye for future exit, as such investments do not always have the necessary liquidity at least initially. There are no shortages of buyers for completed projects – for example, large renewable energy companies that constantly need to add to their portfolios, or funds specialising in renewable energy looking for investors with completed projects.

The renewable energy market is changing rapidly, which provides ever more opportunity for family office/high-net-worth individuals to invest directly in projects and companies in this sector. Such investors have a big advantage over other sources of capital chasing such investment – a larger degree of flexibility over investment structures, and a faster decision making process.

In addition, we are seeing investors target a wide range of technologies: solar (including rooftop), onshore wind, biomass, waste to energy, anaerobic digestion plants and wood pellets for power generation. Even major projects such as 4th generation nuclear and large tidal projects begin their project lives with capital from this community.

There really are opportunities to invest across the full food chain – from start-ups with fintech, requiring small amounts of capital to take forward already proven technology to manufacturing levels, which achieve reductions in cost per unit, to 4th generation nuclear, requiring capital to advance the opportunity to prototype.

Solar has made incredible strides in terms of both cost reductions and efficiency, so much so that many countries no longer have subsidiaries for solar – solar power has reached a cost that is “grid parity” with other forms of generation, and is displacing traditional forms of energy, even gas. For example, our client Esparity Solar is developing 1 GW of solar in Spain – a country that until a few years ago needed tariff subsidiaries for solar plants. The investors in Esparity are high-net-worth individuals who have already developed nearly 1 GW of solar in Australia and are looking to dispose of these assets now they are generating electricity.

Many of these renewable energy projects can be deployed locally, avoiding the high costs of transmitting energy down long distance transmission lines.

There is a global revolution going on in energy. As the world has moved away from polluting power plants like coal (UK emission from power stations are now at historic low level pre 1890s). Now the focus is moving to tackle head on the pollution caused by cars in our cities. Electric vehicle charging points are springing up all over the world. Recently, the UK saw Pivot Power announce ambitious plans to build 2 GWs of battery storage connected to the transmission network – the aim being to balance the grid and simultaneously charge entire car parks of electric vehicles within minutes. Starting small, with a £25 million project, they are aiming at £1.6 billion of investment.

The UK government has announced that petrol and diesel car sales will be phased out by 2040, a policy widely criticised as not being sufficiently stretching; perhaps the automobile industry will drive change rapidly. Nissan announced in March its aim of selling 1 million electric vehicles by 2022.

As we move from oil to electricity, where will the electricity come from? There is no advantage in burning high sulphur fuels to generate electricity for cars, etc., so it only makes sense for electricity to drive cars to come from renewable energy. We are seeing huge interest and investment in this asset class because it is here to stay, and technological development means a wide choice of proven technology.

We share with our partners the opportunities for investment in this existing sector, via our award-winning Marketplace platform – a tool to connect market investment opportunities to clients, targets and business intermediaries.

Given the importance of this sector for our clients, we will be following this further in future bulletins, looking in more detail at certain geographical areas attracting most interest, as well as the technologies being deployed.

Family offices with an interest in investing in renewable energy are welcome to speak with the members of our renewable energy team (and should in the first instance contact henry.davey@squirepb.com).

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