

European Transformation: solutions to drive change

Johannes Mueller explains how private markets could strengthen the continent

The foundations of Europe's prosperity and security, built over the past 70 years, are no longer fit for the future. Europe must transform. This need for transformation has become urgent, due to heightened geopolitical risk, the continent's import dependency on commodities critical to the climate transition, weak industrial competitiveness, and adverse demographics. Our work is therefore focused not just on the opportunities offered by certain sectors and asset classes to help this transformation, but also the role managers can play in financing it.

The long-term nature of transformative investments means that some of the most appropriate are in private markets where investors can take the long-term view. Specifically, we see opportunities in energy efficiency and retrofitting in commercial and residential real estate, European infrastructure such as electric vehicle (EV) charging points, and alternative transportation fuels. Such investments can help deliver significant benefits.

For example, buildings account for 40% of Europe's energy use and create around 36% of Europe's greenhouse gas emissions.¹ Accelerating energy efficiency measures to make existing European buildings greener will reduce fossil fuel demand, enhance energy security, lower greenhouse gas emissions, as well as increase asset valuations and reduce mortgage default financial risks.²

Transportation is the only sector that has seen a rise in carbon emissions over the past three decades.³ Electrifying road transportation has therefore become a priority. Fortunately, Europe has established itself as an important hub for EV production and the expansion of charging point infrastructure, accounting for a third of the global EV car fleet and a fifth of all charging stations.⁴



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To safeguard this leadership, Europe must embark on a radical program of infrastructure investment, spread across three key areas: charging infrastructure, power distribution systems for e-mobility purposes, and renewable power generating capacity.

However, transformation requires significant capital deployment, but high debt levels in Europe are limiting what governments can do. As a result, private capital will need to fill the investment gap. This will be met by a variety of sources, including project financing energy efficiency funds in real estate and liquid investment funds in infrastructure. Perhaps most exciting of all will be financing the transformation of Europe's small- and medium-sized enterprises which form the backbone of the European economy, accounting for half of the continent's GDP and employing two out of three people. However, only 10% of their external financing currently comes from capital markets. Therefore, we see an opportunity for direct lending to step in to help finance Europe's technology sector, to drive digitalization, reengineer supply chains to boost resilience, and adapt the healthcare sector to address an aging population. This will go some way toward safeguarding the European economy in the years ahead.

1 <https://www.europarl.europa.eu/news/en/press-room/20230206IPR72112/energy-performance-of-buildings-climate-neutrality-by-2050> 3

2 <https://www.cbre.co.uk/insights/reports/is-sustainability-certification-in-real-estate-worth-it> CBRE, 2022s

3 <https://www.weforum.org/agenda/2022/09/eu-greenhouse-gas-emissions-transport/#:~:text=The%20EU%20has%20cut%20greenhouse,butt%20transport%20%7C%20World%20Economic%20Forum> 2

4 IEA (May 2022), Global electric car stock; IEA (October 2022), Trends in charging infrastructure

Johannes Mueller is the Global Head of Research at **DWS Group (DWS)**. DWS aspires to be one of the world's leading asset managers with €859bn of assets under management (as of 30 June 2023). Building on more than 60 years of experience, it has a reputation for excellence in Germany, Europe, the Americas, and Asia, offering diverse expertise in alternatives, and active and passive asset management.

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