



Photo: Richard Koek

Leading KKR's push into real assets

After building up KKR's infrastructure, **Raj Agrawal** was given the nod to head a combined real assets team. He explains all to Christopher Walker

A year ago, KKR decided to bring its real estate and infrastructure teams together into a unified real assets arm. Raj Agrawal was tasked with overseeing the merged entity. Before then, he had been responsible for building up the New York private equity giant's infrastructure business.

He joined in 2006, when KKR had yet to invest in infrastructure. But there soon came an opportunity to change that. He says: "In the GFC [global financial crisis], a lot of things suffered. We saw private equity suffer, we saw credit suffer, we saw the public equity market suffer. But we also saw some infrastructure managers that took leverage at the GP level go belly up as well, or face really hard times. We thought, what a great time for us to go in and do infrastructure differently. As a firm, we determined that this was a really interesting entry point. The idea of investing in infrastructure, an asset class that should be stable even during a crisis, was a very interesting idea. It just had been poorly executed."

With a strong background in energy investing, Agrawal was tapped to run the new business. "The single biggest sector of opportunity for infrastructure investing in the US was energy infrastructure at the time, so I was a very natural person to help lead the effort. From my perspective, I could see that in the GFC everything was going to hell in a handbasket, and the smartest move was to find solid ground in your career. And I certainly was on solid ground. All credit to [KKR co-founders] Henry Kravis

and George Roberts, who had the vision of what infrastructure could become."

That vision has proved true, especially in the past six years when KKR's infrastructure assets under management (AUM) have gone from \$13bn (€11bn) to \$100bn, thanks to Agrawal's determination "to do two things right". Number one was "to protect capital at all costs and at all times", he says. "When you engineer downside protection, it doesn't come for free. Oftentimes, you have to trade off some

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upside. But that is our DNA, so there's an inordinate focus on protecting capital."

Number two was "to do what KKR does best, which is to add value in everything that we do through sourcing, structuring, financing, stakeholder relations, partnerships and well-executed exits across all sectors", he says. "We have an unmatched set of resources. I would say that we're

Raj Agrawal is global head of real assets, overseeing KKR's real estate, infrastructure and energy businesses. He was previously global head of infrastructure and built up the infrastructure business after joining KKR in 2006. Agrawal is also a member of KKR's global inclusion and diversity council. Prior to joining KKR, he was a vice-president at Warburg Pincus, where he was involved in investments in energy and infrastructure. He also worked for Thayer Capital Partners and McKinsey & Company.

probably unmatched in the combination of the quality of the tools, plus the culture and the collaboration to actually use them. When we show up as a deal team, we're not showing up as three people, we're showing up as 30."

Agrawal adds another key factor to the success: that the infrastructure business sits alongside its private equity counterpart. "We don't have to force-fit commercial opportunities into this pool of capital," Agrawal says. "If we like a deal, we can do that out of our private equity pool of capital. It gives us a real discipline."

Now the infrastructure team has an even closer proximity to another area of the business, with real estate and infrastructure being combined under the leadership of Agrawal, who became global head of real assets. Ralph Rosenberg, global head of real estate, became chairman of real assets.

Agrawal admits that such a move could have been made sooner. "We saw an opportunity that, frankly, if we're honest, we probably should have seen a few years ago," he says. But the merger was really precipitated by KKR's take-private acquisition

The latter is a case in point. "We did a very novel first-of-its-kind, asset-based financing for this data-centre business. The infrastructure team left to its own devices probably would have done a term loan, which would have been far less efficient than the asset-based financing that the real estate team led. With this experience, Ralph Rosenberg came into my office one day and said: 'Hey, should we just put these businesses together?'"

By doing that, Agrawal argues, "we can be much more efficient". He says: "At the time of CyrusOne, we created an independent shadow team – we basically had two deal teams – whereas today we could accomplish it with one deal team."

Looking back, he sees the driving force behind the creation of a single real assets team as multi-pronged. "First and foremost, it was our clients. Most of our clients have real assets groups and real assets leadership. But we would never really talk to our clients as a real assets team. We would talk to them as an energy group, or an infrastructure group, or a real estate group. In many situations, we find the clients want to have a higher-level conversation – maybe even make a higher-level kind of relationship or commitment. I can do that now."

A second driver was that it "makes us better on the deal front for sourcing, financing and value-add", he says. "There are some sectors that are overlapping, where there are elements that are real estate and others that are infrastructure. Data centres is one for sure. Industrial logistics, student housing are others. We have expertise in these sectors that, by putting the businesses together under one leadership, we don't have to be so concerned as to where that expertise sits."

The final driver is KKR-specific. "Frankly, it was succession planning," Agrawal admits. "The historical head of real estate, Ralph Rosenberg, is some 10 years my senior. He's still chairman of the business and very actively involved, but under his leadership, I get to come up the ramp and really learn the real estate business."

Where next for the new real assets team? "Our vision is: independent teams that collaborate seamlessly together," says Agrawal. "I say independent teams, because the two businesses are very different. There are some areas of overlap, but largely they're very different. We're not going to see the real estate team invest in power generation. We're not going to see the infrastructure team invest in senior housing. And, by the way, in the infrastructure business, it tends to be a small number of very large transactions; in the real estate business, it tends to be a large number of very small transactions – building by building, unit by unit. These require different competencies from the sector → understanding, and from a process and execution understanding."

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of data-centre platform CyrusOne in 2022. "From the get-go, it was a collaboration between infrastructure and real estate," he says. "I'd say this was probably the first meaningful experience in understanding the synergy enabling us to do deals better if we have the two working together. Our data-centre expertise largely sat within the infrastructure team historically, so that was a deal that the team originated and was executing. But we realised that data centres are an area that institutional investors in both infrastructure and real estate like to put in their funds. So we invited our real estate team to shadow us early on in this deal and we worked on the due diligence together."

He says: "The infrastructure team really excelled in things like understanding the customer, the operations, delivering to the customer, a lot of the operating nuts and bolts – what's the backlog with the hyperscalers, how much more business do we think we can originate? And the real estate team unsurprisingly excelled in things like understanding the dirt, the alternative uses of the property, building costs, construction costs, financing."

Agrawal believes public-private partnerships are “a really big area of emerging opportunity that could be one of the next big things”



Photo: Richard Koek

Balancing opportunity with capital protection

At the intersection of real assets, data centres are a clear theme for KKR. “It’s clearly one of the most substantial investment needs and investment opportunities that we’ve seen,” says Agrawal. But here his emphasis on capital protection emerges again. “Large does not always mean attractive. The demand is real, the outlook for growth is real – at least in the next two-to-four-year period [during which] we have a lot of conviction and visibility as to the growth from the key hyperscale customers.”

He also observes that “demand has been a step function different to what you had in the prior three to four years”. He explains: “If you’re able to meet that demand with everything that’s required in good time – the power, the connectivity, the land – there’s a meaningful reward, because you’re meeting a need which is so difficult to get for the hyperscaler. That has tremendous value today.”

But Agrawal confesses that “there are also challenges”. He says: “First among them is valuation – because we’re not the only ones that see tremendous growth in the sector. If you want to go out and buy a data-centre platform or an independent power producer, valuations reflect the expectations of tremendous growth. I’m not saying that the valuation is inappropriate. What I will say is that if you go in and pay 35 times EBITDA for a data-centre platform, and if the growth doesn’t show up as you expect it to, now you have introduced the possibility of impairing capital. You paid too much for the platform. And that’s not something that we are willing to do.”

The second challenge is “providing all the different moving parts necessary for data centre creation in a

crowded environment”. He says: “You might have a single project on which 50 different parties are working. This adds a lot of time, a lot of complexity, a lot of delays to the process and more cost.”

While the largest opportunities in infrastructure today are in the areas of digital and energy transition, Agrawal thinks that an “emerging third major” could be “industrial infrastructure”. He explains: “Look at the global Fortune 500 or the Fortune 1000 – especially industrial companies, healthcare companies, manufacturing companies – and think about all the embedded activities that are critical but not necessarily the highest value-add. Those critical but not highest value-add assets are an opportunity that is largely untapped for infrastructure investors to go in and shake loose. I think an opportunity for real estate as well.”

Another area of interest he sees is in partnering with government. “Increasingly, we have seen the US government – but also governments around the world – with industrial-oriented objectives, such as reshoring security of supply. At the same time, national budgets are stretched, deficits are large and national debt burdens are enormous.”

Agrawal thinks that governments “will increasingly look to private capital to help achieve objectives”. He says: “The opportunities are multi-faceted, driven by national strategic objectives – it could be a mission in trying to accelerate AI, it could be a public-private partnership to provision power for data centres, or to onshore manufacturing.” Agrawal predicts: “I think that’s a really big area of emerging opportunity that could be one of the next big things.” ●