Infrastructure Investor

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PUBLISHED: 6 January 2023

NEWS & ANALYSIS

Lotus Infrastructure eyes new era of decarbonisation with spinout from Starwood

The real estate manager will remain a minority shareholder of the new unit, which could look to launch a new line of funds in the credit and core spaces.

Water does not stick to the lotus flower, making it self-cleaning and symbolic of environmental purity. When Himanshu Saxena, CEO of Lotus Infrastructure Partners, was naming the firm that was to be spun out of the energy unit at Starwood Capital Group, the symbol was on his mind. "The lotus flower is a symbol of purity, prosperity and perseverance," he told Infrastructure Investor. "Lotus flowers are capable of withstanding the test of time and thriving even in difficult situations – as will we."

A nice sentiment, but with the "difficult situations" in question ranging from climate collapse to bearish and sometimes brutal macroeconomic headwinds, it's natural to ask how Lotus plans to flourish.

"Even if we had stayed as Starwood Energy, honestly, we would have followed the same track. Lotus Infrastructure's launch is not about strategy shift," Saxena clarified. "It's really about where the market needs managers like us to go – towards decarbonisation. And that pressure is both top-down and bottom-up."

Perhaps the throughline here is that it's hard to pinpoint where a market shift ends and a major strategy shift begins. In terms of the big picture, Lotus doesn't see much changing in terms of company personnel, structure or strategy. Similarly, it plans to continue to make mid-market-sized investments (though Saxena is ambivalent towards the "mid-market" label) ranging from $100 million to $400 million.

Nevertheless, the firm is leaving room for long-term shifts. "When we grow, we may create a new line of funds, such as debt funds or core funds. But it is too early to really think about that yet, so for now we will continue to raise the same series of flagship funds as we have done in the past," said Saxena.

Its last fund under the Starwood brand – Starwood Energy Infrastructure Fund III – closed on $1.2 billion in June 2018, focusing on acquiring and developing power generation, transmission and other energy infrastructure projects in energy-constrained markets throughout North America. Across its funds, it has raised over $3 billion since its debut fund in 2008, executing on transactions worth over $8 billion.

Business as (un)usual?

As for the types of investments it will target in the future, Saxena holds that the firm will not be a "one trick pony", stating: "The ammonia project that we are developing in Texas right now, that brings a lot of different industries together… gas companies, infrastructure investors, companies in the agricultural space and the energy space. Fifteen years ago, all people were doing in our space was building a power plant so that you could then rent it to a utility, but now the sector has gotten much more complex."

While Starwood Energy has been no stranger to investing in coal and gas-fired power plants, Lotus plans to approach such investments with repurposing and decarbonisation in mind, following from its recent decommissioning of two coal-fired power plants in New Jersey.

"So, out of Lotus, would we go and buy a coal plant and then re-use the land and the interconnection rights, shut the coal plant down as soon as we can and then turn it into a renewable asset or large battery storage? Absolutely. That's something we want to do," Saxena explained.

He continued: "For us, either owning or buying a gas plant means we need to be thinking about how we cannot just shut it down, necessarily, but rather decarbonise it. All we have done and are looking to do – carbon capture, hydrogen, ammonia, renewables – is materially supported by the provisions of the IRA."

Saxena added that Lotus's development to install a large carbon capture project on the tailpipe of a gas-fired power plant has progressed well. It will be able to produce dispatchable baseload, carbon-free electricity using natural gas.

"Each such project would range from probably $500 million to $1 billion for the front-end system. The midstream investment will be additional. That's the kind of thing that the IRA has enabled us to do, as it provides long-term stability for the investment," he said.

Saxena also stressed the importance of co-investment for the group, which he maintained is plentiful.

"We actually have more demand for that co-investment than we can supply," he said. "So we have never been short of capital for any opportunity."

Leaving the nest

The soft break between Starwood and Lotus comes after 15 years of ownership. According to Saxena, the reasons behind the split comes down to asset class. "Real estate and infrastructure are very different sectors. Real estate is more cyclical. Real estate is more about existing assets," he explained.

Saxena went on to provide a hopeful vision for the future: "As we have grown to a certain scale, we see that we have the right size and team to be independent. It's a natural growth cycle. Our hope is to grow Lotus to be one of the largest infrastructure players in the business. We have the team; we have the right set of investors. And Starwood Capital has said that it will cheer us on as we grow and scale in this business." ■