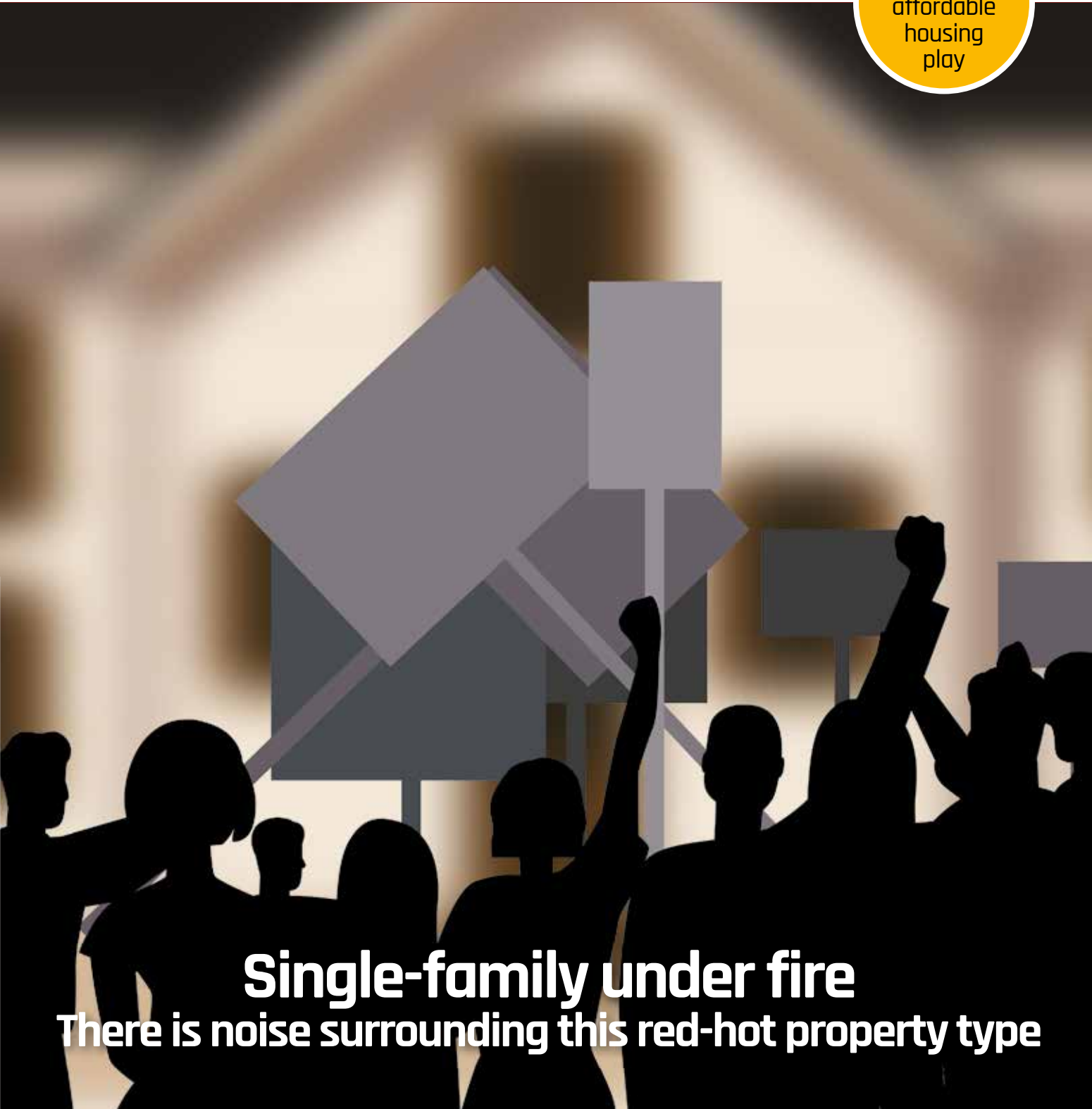


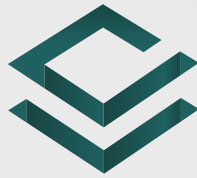
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INSIDE
Blackstone's
affordable
housing
play



Single-family under fire
There is noise surrounding this red-hot property type



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Insight

Development Private real estate struggles with construction hurdles



As global markets start to reopen and covid restrictions begin to ease, fluid pricing and supply chains have created negative repercussions within the private real estate market, **writes Jessica Nangle.**

Construction demand has been frustrated during the coronavirus pandemic, as supply chains have been impacted by health concerns, bottlenecks, labor challenges and material shortages, according to the *Commodity Volatility - Impacts on CRE & Construction* report by Chicago-based real estate services firm Cushman & Wakefield. At the same time, construction demand

has soared, with total private construction activity during Q1 2021 up 7.5 percent year-on-year and expected to reach 20 percent-plus for the rest of the year, according to the report.

One new source of anticipated construction demand is the Biden administration's proposed \$2 trillion infrastructure plan, of which \$213 billion is set to be invested in housing. Emergency monetary policy has "distorted the natural supply/demand dynamics in the economy, and this is affecting both real estate prices and construction costs," says Steve Cornet, head of US research and strategy for BlackRock Real Assets, the real assets arm of the New

York-based asset manager. Actions taken by central banks to lower interest rates have resulted in lower mortgage rates, Cornet adds, which have increased homebuying activity and consequently heightened demand for construction materials.

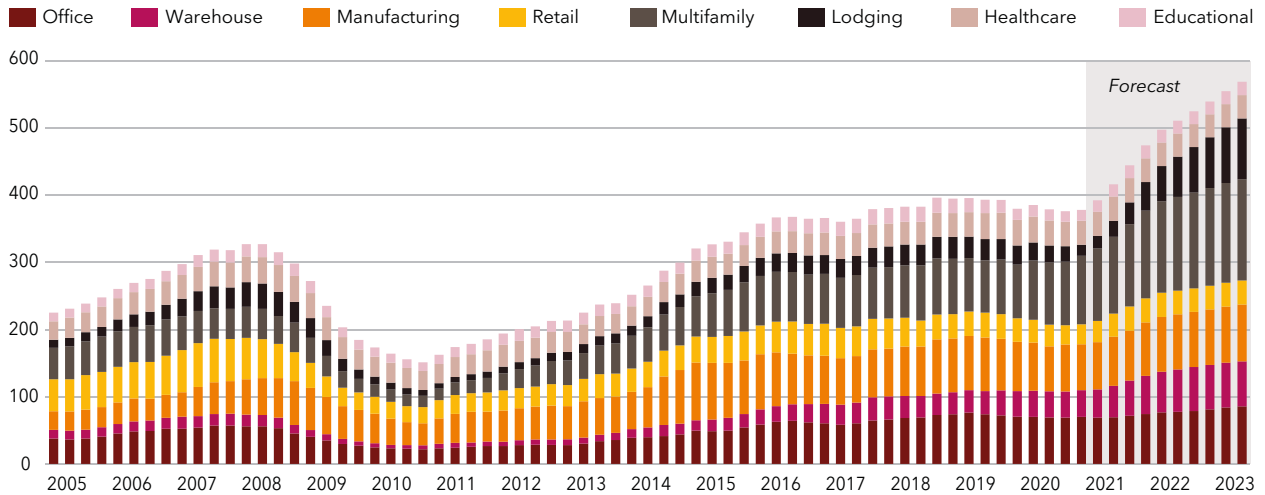
"Home prices have risen higher partially because of demand, but also due to commodity prices, which have been pushed significantly higher," he says. "The cost of building a new single-family home has risen by \$36,000 due to lumber prices since April 2020. We are seeing a similar situation in the commercial real estate markets."

Build versus buy

Lumber, along with copper and steel, have seen substantial price increases in the past year. Production has ramped up at existing mills to keep up with an increase in single-family and multifamily construction starts during the pandemic. Lumber producer prices are expected to grow by 28 percent in 2021 and 7 percent in 2022, before levelling out in the middle of the decade, according to the Cushman & Wakefield report.

Commodity price increases previously were "absorbed" by general contractors because of the dearth of projects during the pandemic, the report says. Now

Total value of private construction was up 20% year-on-year in Q2 2021 (\$bn)



Figures are SAAR; data is quarterly starting in Q2 2005
 Source: US Census Bureau (BOC); Moody's Analytics Forecasted; Cushman & Wakefield Research

that the economy is reopening and more construction work is available, contractors are passing along these cost increases directly to clients, which is impacting both occupiers and investors.

These supply challenges and rising commodity costs in a competitive market have affected decision making around building versus buying assets.

"The residential sector held up well in the downturn, which means pricing has become increasingly competitive to buy ready-built good quality stock, and you are bidding in a very crowded playing field," says Sabina Kalyan, global chief economist and global head of real assets research at Los Angeles-based real estate investment manager CBRE Global Investors. "About a year ago, we would have said if you have high conviction around a particular market or a sector, it might be better value to build it rather than buy it."

The uncertainty surrounding construction costs, however, has caused many to consider whether this build-it-yourself approach is, in fact, economically beneficial,

particularly in January and February of this year, when prices were rising sometimes by as much as 30 percent in a week, Kalyan explains. Whether to build or buy differs regionally as covid continues to have varying impacts across the world, she adds: "We are not seeing a synchronous situation this year. Countries are opening up at different points and there are differing approaches to flexibility, which is really hampering supply chains."

The impact of rising costs

Nonetheless, pricing spikes in commodities have already affected the feasibility of certain real estate investments.

"Many of those development projects that were once on the market might not happen now, particularly where land prices were high and returns were already squeezed," says José Luis Pellicer, head of investment strategy and research at M&G Real Estate, the property arm of the London-based investment manager. "Once construction costs increase, this eats into returns and makes certain projects unviable. Higher costs could have implications for

some value-add strategies with heavy capex programs, although less so for core strategies or capex-light value-add strategies."

Pellicer says logistics is a sector where projects could be in jeopardy due to these higher costs: "Very low development yields coupled with higher construction costs can put a new project at risk unless the developer assumes further yield compression or more rental growth or even decides to incorporate additional floorspace, if feasible and permitted by planning regulations."

These higher costs could help to prevent oversupply, however, according to Pellicer. "Development in certain sectors is increasing sharply, and a rise in construction costs might help to keep some of this development in check over the next couple of years."

As global real estate markets begin to slowly reopen, the build versus buy dilemma will continue to unfold. Real estate managers and investors will be compelled to look at the use of alternative materials and other means to ensure their investments remain viable amid a costlier building environment. ■

People Advisory start-up eyes \$50bn market

The private real estate secondaries market could be worth as much as \$50 billion in the next cycle, say two former CBRE Capital Advisors executives who plan to take advantage of it, *writes Evelyn Lee.*

ACRE, which stands for 'alternative capital replacement,' will specialize in providing liquidity options for limited partners in open-end and closed-end funds, joint ventures and co-investments, as well as asset-level partial and minority interests. Ex-CBRE executive Phil Barker will be chief executive and managing partner, while colleague Sam Khatib will be senior director of the new firm.

The firm will initially focus on the US for deals but also expects to execute transactions in Europe and Asia through its client relationships in those regions. Barker was previously senior managing director in charge of the real estate secondaries vertical at CBRE Capital Advisors from 2015 to 2021. Khatib was formerly vice-president at CBRE Capital Advisors, where he was involved in both debt and equity capital raising and advisory work.

Barker estimates approximately \$50 billion dollars of real estate private equity secondary capital has been raised for the next real estate cycle, generally for opportunistic investments targeting net teen returns, where buyers can acquire assets at a discount in a falling market.

"There is a lot of uncertainty that is taking place that we really had not seen until last year," he notes. "Last year was the first time we saw the real estate market in extremis since the [global financial crisis]."

Backing the firm as minority investors are Silverpeak, a New York-based alternative investment manager co-founded by ex-Lehman Brothers private equity real estate bosses Brett Bossung and Mark Walsh; and New York-based private equity real estate firm Capstone Equities. The firm also has a broker-dealer relationship with CenterCap Group, a Connecticut-based



“The really powerful part here is that the origination of limited partnership or partial interest in direct asset is very hard to find”

Phil Barker
ACRE

boutique real estate investment bank.

ACRE Solutions will differentiate itself from other real estate secondaries advisers in two ways,

Barker says. One is by specializing in open-end funds rather than just closed-end funds, which has been a greater focus for the institutional real estate industry since the global financial crisis. "We will continue to look at the institutionally held limited partnership interests as being the sort of mainstay of the larger action that we see."

Providing an exit

Barker notes that the US open-ended sector is a large market, and there is approximately 5 percent of turnover in any one year for NCREIF's Open End Diversified Core Equity index, which had \$212 billion in net assets as of Q1 2021. "There is always an investor that wants to get in or out of these open-end vehicles faster than the funds will allow, due to either exit or entry queues," he says.

But "the really powerful part here is that the origination of limited partnership or partial interest in a direct asset is very hard to find," Barker remarks. "If you only own 20 percent of a building or a small portfolio, invariably you are not going to be able to go to a traditional real estate broker to try and get you out of that position, because a real estate broker does not generally do that, it is a security that requires a broker-dealer license."

The uncertainty in the real estate market, particularly for CBD office and for retail, makes it difficult for existing investors to find liquidity but creates opportunity for new investors, he adds.

To date, ACRE Solutions has closed on two transactions totalling \$75 million, both of which involved limited partners - which included an overseas pension fund, a US pension fund and consultants - seeking to exit their positions in ODCE funds. ■



“Our tenants and investment partners play a vital role in making our buildings sustainable”

Michiel de Bruine, Director Dutch Residential Investments, Bouwinvest

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Funds **CSI** hires former **Macquarie** exec for debut fund

In an effort to target value-add opportunities in the Asia-Pacific region, CSI Properties has launched its debut private equity real estate fund, **writes Christie Ou.**

With a fundraising target of \$800 million, CSI Partners Real Estate Fund will target value-add opportunities in Hong Kong, Shanghai, Beijing, Shenzhen and Guangzhou. *PERE* revealed this summer that the Hong Kong-listed real estate developer will hold its first close for the fund on around \$300 million and the vehicle is expected to generate a gross internal rate of return of 15 percent or above.

To boost capital raising capability, CSI Properties hired Andrew Taylor, former senior managing director at Macquarie Infrastructure and Real Assets, to become the chief executive officer for CSI Asset Management. Taylor left Macquarie in June to join CSI after having been with the former for 17 years.

Founded by real estate veteran and Hong Kong tycoon Richard Li's colleague Mico Chung in 2004, the real estate firm focuses on repositioning and value enhancement of commercial properties. CSI has exited 25 investments and generated a median IRR of more than 40 percent since 2004, according to an investor document seen by *PERE*.

Notable investment projects include the refurbishment of Hong Kong's Golden Centre in 2012 and J-Plus Hotel in 2011. The firm's total assets grew from HK\$300 million in 2004 to more than HK\$25.6 billion (\$3.2 billion; €2.7 billion) in 2018. ■



"We believe demographic shifts, technological advances and evolving consumer preferences, combined with disruptions caused by the pandemic, are unlocking opportunities for new sources of capital to support real estate sponsors and owners/operators"

Roman Braslavsky, the new partner and head of Pantheon Real Estate



"It was a bad deal. It was a horrible deal. I take responsibility for taking my eye off the ball"

Tom Barrack recounted the Colony Capital and NorthStar merger in 2016 during an interview with Bloomberg's Erik Schatzker a week before his arrest



The big numbers

Blackstone's Home Partners of America purchase, and debut funds from both EQT Exeter and GI Partners made headlines last month

\$6bn

Value of the deal confirmed by Blackstone in their acquisition of Home Partners of America, which owns more than 17,000 houses throughout the US

\$500m

Amount closed to date by GI Partners for its debut commingled real estate fund, GI Real Estate Essential Tech + Science fund

50%

Interest in CityCenter held by Infinity World that was purchased by MGM Resorts For \$2.125bn in July

2

European real estate funds KKR has closed so far, with the Real Estate Partners Europe II Fund closing at \$2.2bn in July and the first closing in June 2016

\$1.2bn

Amount CPP Investments and Greystar allocated in equity to develop life sciences offices and lab buildings across major US life sciences markets

22

Years that Peter Weidman, co-head of Goldman Sachs' global real estate credit business, spent at the firm before announcing his departure in July

\$200m

Fundraising target for the EQT Exeter China Logistics Fund, EQT Exeter's first real estate fund in Asia

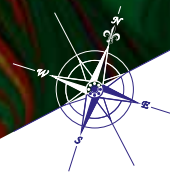


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Fundraising KKR's Larson: 'We are now a clear top-five' opportunistic real estate manager

KKR's real estate assets under management have reached \$32 billion, significantly up from \$11 billion 12 months ago, on the back of several fundraising feats, writes *Arshiya Khullar*.

According to the firm's second-quarter earnings call in August, it raised fresh capital across its regional vehicles. KKR's Real Estate Partners Europe II fund, a 2019-vintage opportunistic fund, was closed on \$2.1 billion. The fund is three times the size of the 2015-vintage REPE I that had attracted \$715 million when it closed in 2019.

In addition, the firm's latest US-focused fund - Real Estate Partners Americas III, which started fundraising in December - has attracted \$2.95 billion, making it already 50 percent bigger than its predecessor vehicle REPA II, which closed on \$1.9 billion.

Craig Larson, head of investor relations at KKR, said during the call that the fundraises put the firm in rarefied air. "With these closes, we are now a clear top-five

opportunistic real estate manager when you aggregate our three regional funds," he said.

A strong quarter

In 2021's PERE 100 ranking, which counts capital raised for both opportunistic and value-add strategies, the top five managers were Blackstone, Brookfield Asset Management, Starwood Capital Group, AEW and BentallGreenOak.

KKR ranked 11, having collected \$9.7 billion over the trailing five years.

In total, the firm has 10 strategies focused on real estate equity

and credit spanning the globe. These include a variety of different fund structures that target both institutional and retail capital, Larson says.

KKR's strong fundraising quarter extended to strategies beyond real estate closed-end vehicles. The firm highlighted its perpetual capital fundraising across real estate, infrastructure and credit sectors. For example, it raised an incremental \$5 billion for its open-ended core infrastructure strategy. It also launched KKR Real Estate Select Trust in May, an innovatively structured non-traded REIT vehicle within a 1940 Act wrapper as a way of increasing its appeal to retail investors.

“We're at the very beginning of KREST evolution, which is exciting for us”

Craig Larson
KKR

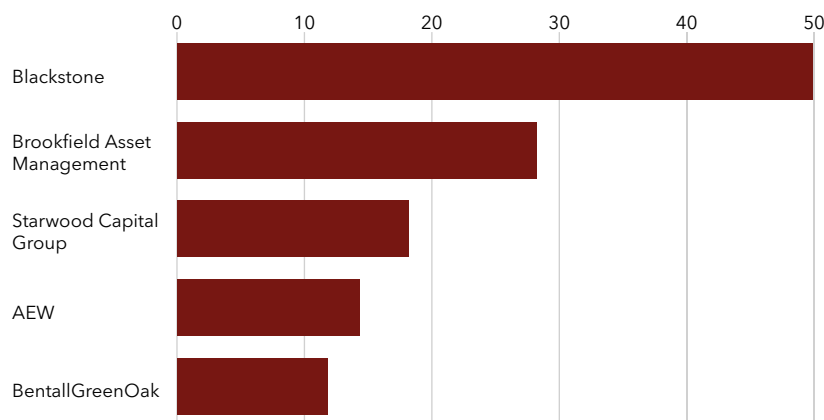
Reaching a high KREST

In response to a question on the contributions and distribution status for KREST, which is understood to be approaching \$700 million in assets under management, Larson said: "We're at the very beginning of KREST evolution, which is exciting for us. We began raising capital on two platforms only in June and over time we do expect to see an expansion across many platforms globally."

KKR's overall assets under management touched \$429 billion in the second quarter, a 17 percent increase from the previous quarter. There was \$59 billion of new capital raised during this period, compared with \$44 billion for the full-year 2020.

In terms of investments, 31 percent of the firm's total holdings are in private equity, 9 percent in real estate, 4 percent in infrastructure and 6 percent in leverage credit, among others. ■

The top five managers in the PERE 100, which counts opportunistic and value-add capital, had five-year fundraising totals upwards of \$11bn, while KKR ranked 11 with a five-year total of \$9.7bn (\$bn)



Source: PERE



Berkshire Closes

\$1.85B

Berkshire Multifamily Debt Fund III

A Strategy Focused on U.S. Multifamily Debt Investments



Berkshire

Residential Investments

www.berkshireresi.com

Housing Real estate's 'ugly stepchild' takes center stage in Blackstone, AIG deal

With an aim of being part of the effort to resolve the growing housing affordability gap, Blackstone fulfilled its target by becoming one of the biggest owners of US subsidized housing following its acquisition of the American International Group, *writes Kyle Campbell.*

The New York-based firm agreed to an all-cash deal that will add 700 communities consisting of 83,000 apartments to its open-end BREIT platform. The transaction also nets it partnerships with more than 100 affordable housing sponsors and operators throughout the country.

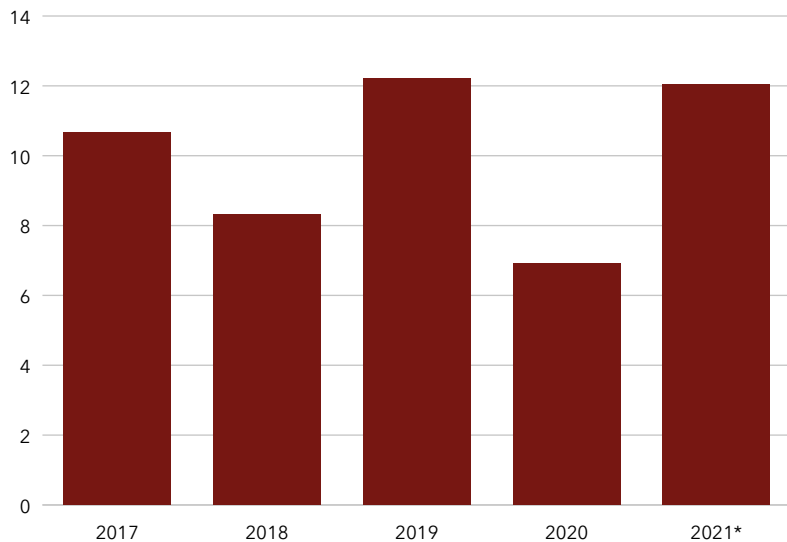
"We're hopeful that by coming into this transaction with such a large network of partners, we'll be able to find ways to support building more affordable housing," Blackstone's co-head of real estate Kathleen McCarthy tells *PERE.*

In a statement, AIG chief executive Peter Zaffino said the assets in the portfolio remained attractive but were "no longer core to AIG's long-term investing strategy." The firm did not comment further.

McCarthy says Blackstone emerged victorious after a long, competitive bidding process for the portfolio, which spans more than 40 states, with high concentrations in California, Texas, Northern Virginia and Washington, DC.

All the properties in the AIG portfolio were financed through the low-income housing tax credit, a federal program that gives credits to groups that develop or renovate affordable homes. Sponsors can

Blackstone's core-plus platform is on track for a record year (annual total returns, %)



*YTD through June
Source: Blackstone

then syndicate those credits to investors in exchange for equity for their projects, thus bringing down upfront costs and enabling owners to offer lower rents.

Typically, developers agree to rent only to individuals who make less than 60 percent of the area median income and charge rents that are no more than 18 percent of AMI, according to the US Department of Housing and Urban Development. This level of affordability must be maintained for at least 30 years.

“Affordable housing is a very stable, very solid asset class to diversify in”

Heidi Burkhart
Dane Global

The assets within the AIG portfolio are within their compliance periods, McCarthy says, adding that Blackstone intends to keep them affordable even once these provisions expire.

"Our intention as owners is to maintain affordability for these communities," she says. "We do not intend to convert any of them to market rate; we want to keep them affordable."

A system that works

Unlike other schemes, LIHTC - also known as Section 42, a reference to its classification in the US tax code - does not rely on government funding. Rather, it is a discount provided to investors.

Still, the program accounts for more than \$10 billion of activity annually and is considered one of the most effective affordable housing programs in the US, McCarthy says, having facilitated the

creation of more than 3 million low-cost units.

Because the program dictates rents and requires owners to maintain their properties to a high standard, returns for LIHTC-backed properties are typically less than market rate multifamily, which delivered a total return of 7 percent over the past year, according to the NCREIF Property Index.

Nevertheless, McCarthy says the fact that rent increases are tied to inflation makes the sector attractive as an inflationary hedge, and the national shortage of affordable housing means occupancy rates tend to hover around 100 percent. As a result, she says, returns are enough to satisfy the core-plus expectations of BREIT. Most months, the vehicle achieves a total return of less than 1 percent for its Class I shares, according to its online disclosure, though it registered a 12 percent return through the first half of 2021.

Heidi Burkhart, president and

owner of Dane Global, a New York-based affordable housing consultant and brokerage, says the transaction between Blackstone and AIG stands out in a market in which anything more than \$100 million is noteworthy.

The next closest transaction, she notes, was Boston Financial Investment Management's acquisition of Boston Capital's LIHTC portfolio last year. The terms of the deal were not disclosed, but the firms said the transaction roughly doubled Boston Financial's \$7.7 billion portfolio. Also last fall, Starwood Capital Group acquired a pair of affordable portfolios comprised of 4,618 units located in 32 communities, bringing its holdings to 34,000 homes nationwide.

Burkhart says Blackstone's large commitment to affordable housing brings positive attention to a sector that is often overlooked or misunderstood. "We're always considered the ugly stepchild, we're never looked at like the Cinderella

“ Our intention as owners is to maintain affordability for these communities ”

Kathleen McCarthy
Blackstone

of the ball, even though we are. Affordable housing is a very stable, very solid asset class to diversify in.”

Blackstone's last major investment in the affordable housing sector came in 2015, when it partnered with the Canadian pension investor Ivanhoe Cambridge to acquire the 11,200 apartments in Manhattan's Stuyvesant Town and Peter Cooper Village for \$5.3 billion.

Unlike the AIG portfolio, perpetual affordability was not part of Blackstone's plan for Stuy Town. The firm agreed to keep 5,000 units affordable for 20 years and gradually raise rents elsewhere in the complex. But in the years since, the property has been a hotbed for controversy. Last year, tenants sued Blackstone in anticipation of rent hikes. But the underlying program used to secure affordability of the project was the city's J-51 tax break, which has been rife with conflict between renters and owners as their provisions expire.

More recently, Blackstone has invested in non-subsidized affordable housing. Earlier this year, it paid \$1 billion to acquire 5,800 apartments in San Diego from a local foundation. The firm agreed to preserve affordability at the market rate properties by partnering with local non-profits.

Multifamily - including market rate apartments, student housing and manufactured homes - comprises 41 percent of BREIT's \$50 billion of assets under management. Its transaction with AIG is expected to close during the fourth quarter. ■

Rental homes without the risk

The acquisition of American International Group follows Blackstone paying a hefty price to buy back into the single-family rental space when the mega manager paid \$6 billion for Home Partners of America in June.

Blackstone was a pioneer in the institutionalization of the rental home business after the global financial crisis, acquiring roughly 30,000 foreclosed homes and spinning them out into Invitation Homes, the largest SFR company in the world. Unlike Invitation Homes, which seeks to continually own and manage its rental properties, Chicago-based HPA pursues a rent-to-own model.

“One of the things that attracted us to this business is its unique sourcing model, where it partners with individuals that want to have a home and gives them annual options to purchase it,” Blackstone Real Estate senior managing director Jacob Werner tells *PERE*.

Another point of distinction between Blackstone's latest investment in SFR and its first is the capital behind it, Werner says. The firm drew on closed-end, opportunistic funds to build Invitation Homes and has tapped BREIT, its open-end core-plus vehicle, for HPA, which it expects to be a long-term hold investment.

The acquisition of ARA Asset Management by Hong Kong-based logistics platform ESR will create Asia-Pacific's latest real assets fund management platform following the \$5.2 billion acquisition. **Christie Ou details** five things you may not know about the transaction.

1 A new name has yet to be confirmed for the \$129 billion manager

The new combined entity will become Asia-Pacific's largest real assets fund management platform with \$129 billion assets under management, according to an ESR presentation. Excluding ARA's associate companies, the group will have over 50 percent, or \$50 billion of its AUM, in new economy sectors, with ARA contributing \$17 billion from its logistics subsidiary LOGOS Property Group. However, ESR has yet to confirm a new name for the integrated platform, which is currently being referred to as the "Enlarged ESR Group."

2 ARA will acquire minority interests in LOGOS

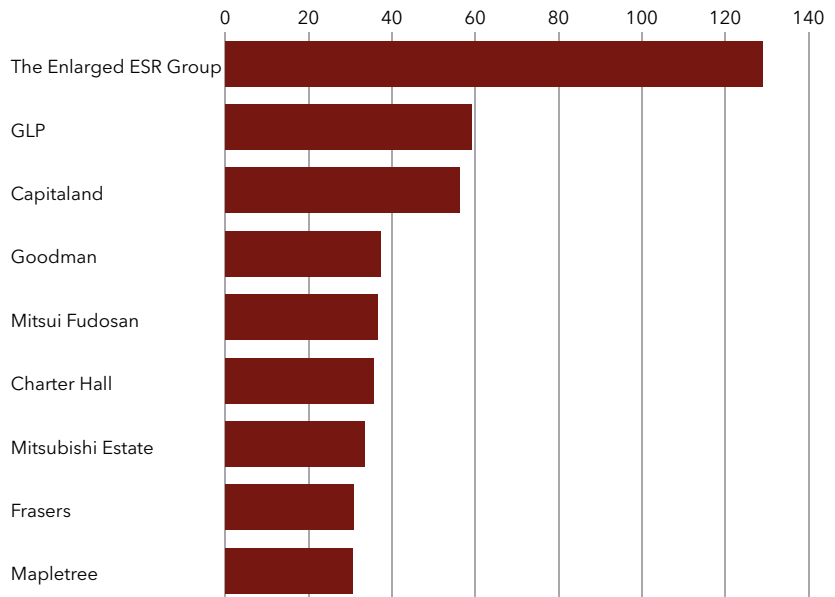
ARA will buy out the minority shareholders of LOGOS before the completion of the transaction. After that, the Enlarged ESR Group will hold 84.6 percent of LOGOS. Last year, ARA was understood to have acquired 52 percent of shares from LOGOS's three original shareholders, the Canadian institutional investor Ivanhoé Cambridge, Australian banking group Macquarie and the firm's own management.

3 ESR and LOGOS will run in parallel in the short term

A full integration plan between LOGOS and ESR has not yet been decided. Following the transaction,

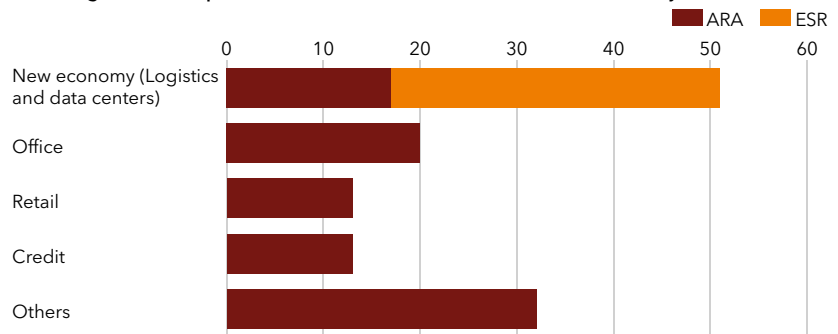
Deals Five things to know about ESR's acquisition of ARA

The Enlarged ESR Group is more than twice as big as the next largest manager in the region (\$bn)



Source: ESR presentation

The Enlarged ESR Group will have 50% of its AUM outside of the new economy sectors (%)



Source: ESR and ARA Asset Management

\$129bn Assets under management for the new combined entity

\$5.2bn Amount ESR paid to acquire ARA Asset Management

Warburg Pincus is back at ESR with a 12.3% stake following the acquisition

ESR existing shareholders	Percentage
Oxford Properties/OMERS	10.4
Redwood (ESR founders)	10
Laurels (ESR founders)	7.3
JD Logistics	4.9
Other ESR shareholders	37.4
Total ESR existing shareholders	70
New shareholders	Percentage
Warburg Pincus	12.3
Straits Trading	4.5
Lim Hwee Chiang (John Lim, co-founder of ARA)	4.2
SMBC	4.5
CK Asset Holdings	1.7
New Horizon	0.1
ARA Senior Management	0.7
Ivanhoe Cambridge	1.8
LOGOS Founders	0.2
Total new ESR shareholders	29.99

ESR's key existing shareholders	Percentage of shares before the merger	Percentage of shares on completion
Oxford Properties/OMERS	14.9	10.4
Redwood (ESR Founders)	14.2	10
Laurels (ESR Founders)	10.4	7.3
JD Logistics	7	4.9

Source: ESR

\$78bn
Value of other real assets holdings ARA brings to the new platform, including traditional real estate, real estate credit and infrastructure

86.4%
Share of LOGOS Property Group to be held by the new entity

12.3%
Private equity firm Warburg Pincus's share in the new entity

the Enlarged ESR Group will own 86.4 percent of LOGOS and the latter will bring 14 new institutional investors into the platform. The firm said that a full integration is being "planned for the longer term" as the platforms will focus on today's "land grab" phase of data center and logistics sectors. For now, the co-founders of LOGOS will continue to lead its business on a day-to-day basis.

4 Non-core assets will be divested

Aside from its new economy assets, ARA will bring \$78 billion of other real assets holdings including traditional real estate, real estate credit and infrastructure into the new platform. The senior management of the Enlarged ESR Group is currently evaluating "all aspects of ARA's businesses" and identifying the key parts of the business that are "most relevant to ESR's vision and strategy." At the same time, the Enlarged ESR Group is also "seeking to divest any non-core/non-long-term value enhancing aspects" of the combined firm.

5 Warburg Pincus will return as a shareholder

Private equity firm Warburg Pincus, a shareholder in ARA and formerly in ESR, will be back as a shareholder at the Enlarged ESR Group. Following the transaction, the firm, which currently holds a 46 percent interest in ARA, will own a 12.3 percent stake of the new entity. Warburg Pincus co-founded Chinese logistics platform E-Shang in 2011, which merged with Singapore-headquartered firm Redwood to become ESR in 2016. The private equity firm held approximately a 38 percent stake in ESR in 2019 and fully exited the business in 2020. ■

Investment Carlyle Group's Lee: 'We are focused on scale and thinking bigger'

After revealing its hard-cap target of \$8 billion by fall, The Carlyle Group has surpassed the target for its latest US opportunistic real estate fund, **writes Kyle Campbell.**

During Carlyle Group's second-quarter earnings call in July, chief executive Kewsong Lee said the Washington, DC-based private equity group has raised nearly \$7 billion for Carlyle Realty Partners IX, which launched in January with a target of \$6 billion. Carlyle raised \$5.9 billion for real estate strategies during Q2, according to its latest financial report, with the bulk of that going to the first close of CRP IX during the quarter.

The firm has secured commitments of \$300 million and \$200 million, respectively, from the Minnesota State Board of Retirement and the Pennsylvania Public Schools Employees' Retirement System, according to *PERE* data. The Connecticut Treasury, Texas County and District Retirement System, Kentucky Teachers' Retirement System, Tennessee Consolidated Retirement System and New Mexico State Investment Council additionally each committed \$100 million or more to CRP IX.

If Carlyle hits the hard-cap for CRP IX, the fund will be 45 percent larger than its predecessor, Carlyle Realty Partners VIII, which closed on \$5.5 billion in September 2018. During July's call, Lee said the firm has scaled the size of its opportunistic real estate fund "organically," and expects a similar level of growth across various strategies now that the firm has pared down its offering to

only its top-performing platforms.

"We've... reduced or discontinued smaller, less profitable strategies that historically distracted our firm," Lee said. "As a result, our investment organization is operating and connecting more effectively than ever with an ability to pursue buyout, growth and core strategies utilizing a common platform."

Fundraising pivot

Lee also credited the Carlyle real estate team for pivoting its fundraising apparatus toward digital channels to continue operating through the pandemic. "We moved quickly to adapt to virtual

LP meetings, diligence sessions and road shows," he said. "We now interact with our LPs more regularly, strengthening already deep client relationships. Not only are we able to move faster, but we are focused on scale and thinking bigger."

Lee added: "The strong first close in our new opportunistic real estate fund is a great example of what we expect across our platform as we close larger successor funds."

Just as the anticipated size for CRP IX will be significantly larger than the prior fund in the series, the firm's recently closed vehicles for its secondaries and co-investment strategies and investment solutions were each approximately 40 percent to 50 percent larger than their predecessors, he noted.

Carlyle's opportunistic platform allows for investment across the US and in all property types, but CRP IX will be focused on the Mid-Atlantic, Southeast and Southwest regions, according to a February 2021 investment memo to the Pennsylvania Public Schools Employees' Retirement System by its consultant Hamilton Lane. The fund will prioritize various residential property types - including multifamily, single-family rentals and active adult housing - as well as life sciences office and logistics warehouses.

Carlyle will look to make between 200 and 300 investments with the fund, most ranging from \$10 million to \$40 million in equity, according to the PSERS document. It will also use the allocator model, meaning it will invest in specialist operating companies rather than real estate directly, though it will take on some development risk alongside its partners.

Including CRP IX, Carlyle has raised more than \$24 billion for its flagship US opportunistic fund series as well \$5.7 billion for its open-end Carlyle Property Investors vehicle. ■

“Our investment organization is operating and connecting more effectively than ever”

Kewsong Lee
Carlyle



London-headquartered asset manager Pantheon believes the real estate secondaries market presents a \$10 billion annual investing opportunity. With that market's growth in mind, the firm has chosen secondaries as its initial focus area for its entry into real estate investing, **writes Arshiya Khullar.**

The firm, which has \$65.9 billion in assets under management across different alternative sectors, has announced its expansion into the real estate asset class. The new strategy, as the firm pointed out in a press release, will be developed as an extension of its global infrastructure and real assets platform that manages \$15.8 billion in assets.

It has brought on board two senior executives, Roman Braslavsky and David Elliott, to establish the New York-based platform. Braslavsky has been appointed partner and head of Pantheon Real Estate, while Elliott will be a managing director. Both previously worked at GI Partners, a San Francisco-based mid-market investment firm.

"We believe this strategy will benefit from a strong and growing opportunity set, as well as compelling synergies with Pantheon's infrastructure and real assets platform and our broader experience in secondaries," says Kathryn Leaf, partner in the firm's global infrastructure and real assets team and chair of its investment committee.

In the spotlight

The secondaries market has been rapidly growing in prominence over the past few years, with at least 70 dedicated private equity secondaries funds in the market targeting an aggregate \$84 billion currently, according to affiliate title *Secondaries Investor*. The majority of



Managers Pantheon joins a growing list of asset managers entering real estate

these vehicles, however, are focused on private equity secondaries, and only two have a real estate mandate, including the 2019-vintage \$2 billion Partners Group Real Estate Opportunities 2019 fund.

Pantheon has been an active investor in GP-led deals across private equity, infrastructure and real assets, with \$7.6 billion committed to such secondaries transactions as of June 2021. Braslavsky said in the announcement that there is "growing demand to provide strategic capital solutions on GP-led transactions and to investors seeking

to monetize or restructure select investment positions" within real estate, because of demographic shifts, technological advances and the disruptions caused by the pandemic.

The broader real estate sector has indeed been under the spotlight since the outbreak of the pandemic, with a growing number of managers announcing forays into the asset class - through M&As and take-private transactions - to capitalize on the opportunities created from the market dislocation as well as the low interest rate environment.

In October 2020, for example, global manager PineBridge Investments agreed to acquire UK-based private equity real estate fund manager Benson Elliot Capital Management. The acquisition gave PineBridge control over \$3.5 billion of equity across a portfolio comprising of retail, hotel, office and residential assets in Europe. More recently, Bridgepoint, owner of *PERE* publisher PEI Media, also revealed its interest in investing in real estate, including real estate debt, on the back of its decision to go public on the London Stock Exchange. ■

\$65.9bn

Pantheon's assets under management across different alternative sectors

\$7.6bn

Amount Pantheon has committed to certain secondaries transactions as of June 2021

Investors **APG's Kanters: 'Offices are aging very fast'**

Although APG Asset Management's real assets boss Patrick Kanters says he does not discriminate against any particular sector in real estate, he considers offices – which make up just 8 percent of the Dutch pension fund manager's portfolio – to be currently the most challenging, *writes Christie Ou.*

One main challenge with offices is the hybrid working experiment. "We'll have to see how that will affect and influence, of course, the overall demand for offices," Kanters remarks in a PERE Global Passport interview.

"Then the other main challenge, I think, is offices are aging very fast." The sector is in the midst of greening its assets in order to meet net-zero targets. "If you're not early enough in greening your assets, you will be hit by regulation that actually will require you to do so."

Kanters notes that such regulations are already in effect in countries such as the Netherlands, the UK and the US.

"If you cannot provide for A, B or C energy certificates, you will not be able to lease out your building, so you will have to green your assets simply to lease them out. I think we should be very much forward leaning and anticipate that."

He believes an increasing proportion of office users will be willing to pay for more sustainable buildings and that those higher



“If you're not early enough in greening your assets, you will be hit by regulation that actually will require you to do so”

Patrick Kanters
APG

prices will eventually be reflected in valuations. A failure to make office buildings more sustainable, however, "will eventually hit valuations, if you are not taking care of it properly."

Despite these two main challenges facing the sector, APG is still looking to expand its exposure in offices. Kanters still sees good opportunities in Asian markets, where the work-from-home phenomenon has had less of an impact on metropolitan areas such as Hong Kong, Singapore or Tokyo.

He also believes grade A, sustainable and quality offices will remain attractive to tenants due to the lack of supply in some locations.

In many cases, however, he believes real estate investors will have to develop these assets.

Finding a retail niche

Kanters says APG is actively looking at niche opportunities in retail. He explains that certain sub-sectors still provide interesting opportunities for real estate investors.

APG has increased its exposure in retail outlet centers in Europe. Last year, it paid €301 million to UK real estate firm Hammerson to acquire full ownership of shopping outlet operator VIA Outlets, despite the disruption caused by the pandemic. VIA Outlets owns 11 retail outlet centers in Europe. Before the transaction, APG had already held a 50 percent stake in the firm and it is understood that the transaction was taken at a price "below market value."

"[Retail outlets] provide really something extra for the consumer, and also for retailers wanting to sell off their excess branded goods in a protected environment that would really support the rent value." Nevertheless, Kanters also views this as a rather "niche" strategy within the retail sector, one that is "very much being dominated by a few players in the European market."

Apart from shopping outlets, the investor has focused on selling down its retail properties in recent years. Kanters believes that retail pricing is still "elevated" and APG is adopting a wait-and-see attitude until there is greater clarity on the future role of physical retail.

"The market is getting nearer to what might be some sort of ceiling towards e-commerce expenditure," he says. Such a threshold could lead some investors to begin investing in retail again. ■

€301m

Amount APG paid to acquire European retail outlet operator VIA Outlets from Hammerson

Appointments The hires and promotions that mattered in the private real estate market in the last month

■ CBRE Global Investors

Helen Gurfel has been named the firm's head of global sustainability and innovation, and Nick Ito its managing director, origination. Gurfel joins from Lennar Corporation's venture group LENX, where she was a managing director. In her new role, Gurfel will lead the firm's sustainability vision and work closely with teams across the global business on sustainability and innovation-related matters. Ito joins the firm after spending 15 years at MetLife, where he was most recently the head of commercial mortgage in Los Angeles and head of West Coast debt fund originations. He will now lead CBRE GI's credit division in the Americas and focus on capital deployment.

■ PATRIZIA

Katsumi Nakamoto has been appointed president and representative director of PATRIZIA Japan to accelerate the firm's expansion with the goal of reaching an AUM of ¥300 billion (\$2.7 billion; €2.3 billion). Prior to PATRIZIA, he was most recently president and chief executive officer of Diamond Realty Management, the investment subsidiary of Mitsubishi Corporation. Before that, he held various senior roles at Mitsubishi Corporation, including head of the ASEAN/China real estate development department and head of acquisition at Mitsubishi Corp-UBS Realty.

■ Cromwell Property Group

Eeva Saravuo has been named fund manager of the firm's new pan-European wooden building property fund that is being

Gaw Capital Partners

Kok-Chye Ong has been hired as managing director - head of IDC Platform, Asia (ex-China) to lead the firm's expansion of internet data center platform investments outside of China. Prior to joining Gaw, Ong spent 10 years at Singapore's conglomerate Keppel Group where he held a number of senior roles in data center development. He was most recently the head of strategy and global investments at Keppel Data Centers, a regional data center owner and operator which has more than 25 data centers across Asia-Pacific and Europe.

Ong's appointment comes as the firm is rapidly growing



its data center footprint in Asia. Shortly after Ong's hire, Gaw also announced the establishment of a new data joint venture operating company, Data Center First. Headquartered in Singapore, Data Center First marks Gaw's first investment attempt to venture outside of China for data center investment.

established in partnership with Finland-based sustainable real asset manager Dasos Capital. With a target portfolio value of more than €1 billion, Saravuo will manage the new fund on behalf of both entities. Prior to joining Cromwell, Saravuo spent 20 years at Aberdeen Standard Investment, where she managed the firm's Finnish and Nordic funds as well as an open-ended vehicle in continental Europe.

■ JLL

Bessie Lee has been appointed the firm's Greater China chief executive officer, succeeding her predecessor KK Fung, who is moving to become the firm's chairman in Greater China. She will set strategic direction for the firm's China business with a focus on

growing relationships with domestic clients and increasing the company's technology products. With 30 years' experience in the marketing industry, Lee has previously held senior roles at multinational advertising firm WPP Group and was the CEO of WPP China from 2013 to 2017.

■ Barings

Kristina Arsenievich has been hired as director, European real estate ESG, to lead and enhance the firm's environmental, social and governance program. Based in London, Arsenievich will launch carbon neutral and climate resilience policies on the back of Barings' Net Zero Carbon ambition. She will report to James Salmon, head of European real estate asset management. ■

Editor's letter

Single family housing splits institutional opinion



Jessica Nangle

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The pandemic has caused a shift in the mindset of urban renters. Those who once prioritized location and convenience began to re-think what they wanted from their homes. Covid-19 has been the catalyst for many millennials to move on from city living, particularly as health and safety have become a top priority.

This shift has had a direct impact on the single-family rentals market in more ways than one. It has created buying opportunities, as smaller landlords have exited the space due to declining revenue. However, it has also shone a spotlight on tenant evictions by SFR owners during the pandemic, as many renters have faced unemployment and uncertain prospects.

The rental home industry divides opinion, and this divide may only worsen as covid restrictions slowly begin to ease. As the US faces a widening wealth gap, the spotlight on SFRs is set to continue. And with select SFR platforms under investigation by Washington, it is a sector that will be forced to defend itself against criticism from Congress and the media.

Key figures in the SFR space suggest education is key to setting the record straight. Whether this will go far enough to counter the risk to the sector's reputation remains to be seen.

Enjoy the issue,

Jessica Nangle

“ Covid-19 has been the catalyst for many millennials to move on from city living, particularly as health and safety have become a top priority ”



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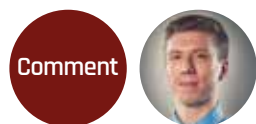
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Deals Why 2021 is on track to be a record year for real estate M&A



Expert analysis by **Kyle Campbell**

The private real estate industry is on track for a record year of mergers and acquisitions. With 16 transactions closed, M&A activity was up 45 percent year-on-year and poised to surpass 2018's record of 26 deals, according to a mid-year market report compiled by the New York-based advisory Hodes Weill & Associates.

A flurry of activity

The report attributes this deluge to pent-up demand coming out of lockdown-hampered 2020, rising valuations, the long-running trend toward consolidation and even concerns about changes to the US tax code.

"We feel pretty confident that this is going to be the most active year that we have seen across the board," Hodes Weill managing partner Doug Weill tells *PERE*.

Notable deals include Ares Management buying Black Creek Group; EQT's purchase of Exeter Property; Oxford's acquisition of M7 Real Estate; The Carlyle Group's sale of Metropolitan Real Estate to BentallGreenOak; and USAA Real Estate securing the last remaining interests of Square Mile Capital. Some of these have been in the works since last year or earlier, Weill says, and were delayed by world events, but he attributed most of the activity to current market dynamics.

Through two quarters of 2021, closed-end funds accounted for \$62 billion of closings across 107 funds, according to *PERE* data, putting the market on track for its worst year in a decade. But Weill says robust fundraising for open-end vehicles and separately managed accounts has continued to drive growth in the sector.

Growth by acquisition

For large, diversified managers looking to add exposure to in-demand sectors and geographies, mergers and acquisitions have proven to be more effective strategies than building platforms from scratch. EQT and Ares both did this by purchasing logistics specialists Exeter and Black Creek, respectively.

Blackstone bought back into the single-family rental space by acquiring Home Partners of America and Brookfield nabbed a land banking platform with its acquisition of Newland.

"For managers that have a footprint in real estate, this type of M&A accelerates their growth and fills in gaps in their platforms," Weill says.

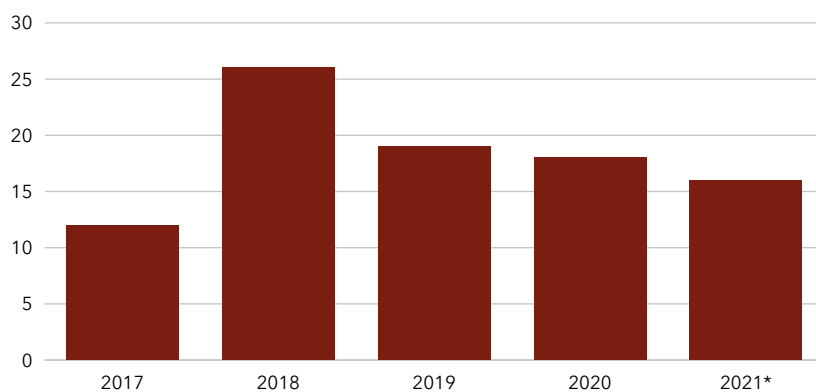
Half the deals in 2021 thus far have been 100 percent sales, according to the report, up from 17 percent in 2020. Meanwhile, minority stake sales accounted for 38 percent of the market, down from 56 percent last year.

Tax considerations

Another factor that has driven M&A activity in 2021 is the concern that the Biden administration will usher in changes to the US tax code that will render future deals less favorable for sellers. Specifically, the threat of a higher capital gains tax rate has caused owners to accelerate their exits to avoid a higher future tax rate.

Groups started factoring a potential tax hike during the second quarter of 2020, Hodes Weill managing partner David Hodes says adding that it could drive M&A during the second half of the year. "Many managers are thinking that their after-tax proceeds could be better in 2021. This could create quite a bit of activity between now and year-end." ■

Hodes Weill & Associates expects the industry's M&A transaction momentum to carry through to the end of the year (number of transactions)



*Through first half of the year
Source: Hodes Weill & Associates



Gulf in expectations: the Qatar Investment Authority has recorded just one direct investment since January 2020, according to RCA

Dhabi Investment Authority, Kuwait Investment Authority and the State Oil Fund of Azerbaijan were all net sellers.

Invesco predicts that a resumption in demand for these commodities as economies rebound will precipitate a new trajectory. But what will these investors buy in the bifurcated market they return to, one now characterized by demographic, social and technology changes that have accelerated?

Predictably, Invesco sees them joining the throngs currently stampeding into sectors such as logistics, residential and digital real estate and any properties displaying resilient ESG credentials. Similarly predictable, wholesale investing in pre-covid darlings like offices and hotels is over. Fellow trade publication *Pensions and Investments* reported in June that ADIA, for example, was reviewing its office holdings, alongside its retail properties, which had suffered from the effects of the pandemic.

In a market still replete with capital – joint research by associations INREV, ANREV and PREA counted \$239 billion in fund dry powder alone at the start of 2020 – effective deployment is not the same equation it was when the sovereigns were at their dominant last-cycle zenith. For one, the competition from other types of institution is unequivocally fiercer today.

To that point, here is a spoiler alert: *PERE* has just finished compiling the data for the next Global Investor 100 ranking, to be published in October. Where once sovereign money reigned supreme, it has now been replaced by insurer and pension capital that has continued to actively deploy throughout the crisis. It is hard to see how, after a couple of years of muted activity, these investors will be able to get back on top. ■

Investors Does it matter that sovereign money wants back in?



Expert analysis by **Jonathan Brasse**

The word on the street is that sovereign wealth funds are returning to private real estate. One capital markets professional told *PERE* in July they would be “back in force.”

Invesco agrees. After a period in which sovereign investment was subdued as these institutions supported their governments’ efforts to stabilize their countries, the Atlanta-based manager predicts a significant change in their approach to the asset class in the near term.

In its ninth annual *Global Sovereign Asset Management Study*, published on July 12, the manager said 72 percent of the 82 sovereign funds and 59 central banks included in the research saw covid’s impact on markets as now offering a “strong opportunity to invest” in real estate.

Among the most prolific investor types after the global financial crisis, sovereign wealth funds will undoubtedly grab the attention of managers worldwide with their return to the sector. This was, after all, a cohort responsible for \$51

billion of direct investment in 2015, the first of the plateau-at-the-top-of-the-cycle years before the ‘black swan event’ of the coronavirus. That number, from real estate transactions research house Real Capital Analytics, was followed by another \$30 billion in 2016 and \$32 billion in 2017.

It fell to just \$13 billion last year, the period in which Invesco’s study said 58 percent of investment sovereigns registered withdrawal demands from their governments. Subsequently, sovereign allocations to real estate fell to 8.3 percent in 2021, down from 9 percent in 2020 and 8.7 percent in 2019.

Commodities and covid

Those state funds with capital supplies dependent on the prices of commodities have been notably withdrawn from the market. Among those dependent on demand for hydrocarbons, RCA saw just one direct investment by Qatar Investment Authority since January 2020, while the Abu

Fund strategy Starwood's pivot on distress should not concern investors


 Comment


Expert analysis by **Evelyn Lee**

The last time Starwood Capital Group was in the market with a distressed real estate fund was nearly 10 years ago. The vehicle in question was Starwood Distressed Opportunity Fund IX Global, which was launched in 2011 in the aftermath of the global financial crisis and went on to attract \$4.2 billion at its final close in 2013.

Almost a decade later, Starwood is nearing the final close for its latest opportunistic real estate fund, Starwood Distressed Opportunity Fund XII Global, for which the firm has already smashed its \$7.5 billion target. The Miami Beach-based manager is on track to hit its \$10 billion hard-cap later this year.

Fund XII, in contrast to its two predecessors, is the first vehicle since Fund IX to have 'distressed' in its name. Starwood declined to comment. However, *PERE* understands that when the firm launched the fund during Q2 2020, it expected the opportunity set post-covid to be similar to what emerged coming out of the GFC.

To be sure, Starwood has deployed or committed about 20 percent of Fund XII's capital and has already allocated more capital to distressed investments than it did with Fund XI. That vehicle only had exposure to distress through some of its tail-end deals, including providing rescue capital to TPG's mortgage REIT in May 2020.

Fund XII's investments, meanwhile,

included examples of classic distress – namely, buying non-performing loans – as well as acquiring properties from distressed sellers, such as a hotel in Copenhagen from a high-net-worth investor who needed liquidity after some of his businesses were severely impacted by the pandemic. Other investments have been opportunistic plays rather than traditional distress, such as buying non-strategic assets from publicly traded companies keen to generate liquidity.

“A year after the vehicle's launch, the distressed opportunity set for Fund XII has been less robust than anticipated”

Less distressed expected

However, a year after the vehicle's launch, the distressed opportunity set for Fund XII has been less robust than anticipated. This is not surprising, considering some of the most compelling distressed opportunities post-GFC emerged one year to two-and-a-half years after Lehman Brothers' collapse. It is conceivable that some banks

may begin selling off troubled loans within a similar timeframe post-covid. However, that sell-off has not happened at scale yet. And it is looking increasingly unlikely to reach the scale seen post-GFC, given the unprecedented amount of government stimulus that has allowed banks to forebear and not offload their NPLs.

Fund XII has sizable target allocations – 20-30 percent each – to hospitality and offices, two sectors where distress has been widely expected to emerge. But those targets are not significantly different from those of Fund XI. Instead, the new fund will be more heavily weighted to industrial, a sector in which Starwood did not invest with Fund XI. Industrial, along with data centers and single-family rentals, is a sector where Starwood anticipates not only outsized growth, but steady cash yields. Other high-octane opportunistic plays include investing in specific geographies with outlooks for strong job, population and rental growth and cap rate compression.

Starwood is not the only private real estate manager not to have seen as much distress as originally predicted. But investors in its opportunistic fund series will care more about their capital being allocated to high-returning investments overall, not whether those investments are classic distress plays. A large percentage of Starwood's opportunistic fund investors are return investors that have committed to the fund series regardless of whether a particular vintage has a distress focus.

Starwood's performance track record has earned it strategic flexibility. It shows it has consistently met its 14-16 percent net return targets. That is what matters most to investors, even if its latest fund may not live up to its name. ■

A market that brings bad press



Cover story

Single-family rental homes are fast becoming a favorite property type for institutional capital. But investing in the space requires enduring negative media, Kyle Campbell reports

It has been a year of highs and lows for Pretium Partners. The New York-based manager closed the single-family rental sector's biggest privatization, launched a \$700 million joint venture with Canada's biggest public pension and became the second biggest owner of US rental homes. Since 2017, it has more than tripled its holdings to 66,000 homes.

Despite its accomplishments – or, perhaps because of them – Pretium has been a magnet for bad press. Reuters, Bloomberg, National Public Radio and other outlets have carried stories this year about its portfolio companies, calling their eviction and property management practices into question.

Pretium and its partner, the Los Angeles-based manager Ares Management, say the charges are wrong. But the coverage that dogs them has

become standard fare for today's rental home industry. A surge of institutional capital has brought greater scrutiny to the market, beyond the typical disputes between tenants and landlords.

Corporate owners of single-family rentals, or SFR, have been blamed for running up home prices, elbowing out first-time buyers and employing draconian tactics to secure payments from renters at a time of immense hardship for many. Accurate or not, such headline risk is enough to turn off some investors.

"We looked at it and just in general we couldn't get comfortable with it as a good investment space for a number of reasons," a chief investment officer of a US public pension tells *PERE*. The official requested anonymity to discuss investment strategy. "Part of it was, if you have to foreclose and kick people

out of a house, what kind of press does that generate? It's probably not good for us."

Covid-19 has been a catalyst for the institutionalization of SFR, accelerating trends that fueled the prior decade of slow but steady growth. Chief among them is the imbalance between the supply of new housing and the demand for it. At the same time, the pandemic has added pressure to the strategy and allowed it to fall into the crosshairs of political snipers on both sides of the partisan divide.

"You need to bring a high-touch operating mantra to this asset class," says Blackstone senior managing director Jacob Werner. "These are people's homes and it gets extra scrutiny so we're very focused on it. Our investments in this space get a lot of senior-level attention to make sure we're managing

News



them at an extraordinary level for our residents.”

Now, as SFR faces a reclassification from niche alternative to real estate portfolio staple, institutional investors must decide if the sector's outsized returns are worth the risks that come with them.

Growing up

The SFR sector is bolstered by a US population migrating from city centers to suburbs. That shift began years ago and has been accelerated by the pandemic. The population growth rate for urban centers in US metro areas

with one million or more people was -0.15 percent between 2019 and 2020, according to research from the Washington, DC think-tank, the Brookings Institute. Meanwhile, suburban parts of those same metros grew 1.03 percent. This represented the biggest divergence between the two population groups in more than a decade, but since 2011-12, suburban growth has been more than 1 percent annually, while city-center growth peaked at 0.99 percent and has fallen every year.

As a result of this movement, listed SFR companies have outperformed apartment REITs in four of the past

five years, according to the trade group Nareit. Last year, the sector delivered a total return of 6 percent: lofty compared with -15 percent returns for apartments and -5 percent registered by the overall REIT market.

Rental homes also tended to have higher retention rates than apartments, *PERE* understands, and SFR owners have continued to grow rents during the pandemic, while the multifamily sector has had to slash prices. By the end of 2020, SFR groups were increasing annualized rent rates by 6 percent for new tenants and 4.1 percent for renewals, according to data compiled by the New York-based lending group Arbor Realty Trust. Meanwhile, rents in the apartment sector fell by 2.7 percent on the year.

Driving these trends, industry participants and observers say, is the maturation of the millennial generation. As more members of the cohort get married and have children, their demand for space increases and inevitably leads them to the suburbs. While many in this population are able to buy and others rent by choice, a significant segment simply cannot afford a home in their ideal zip code.

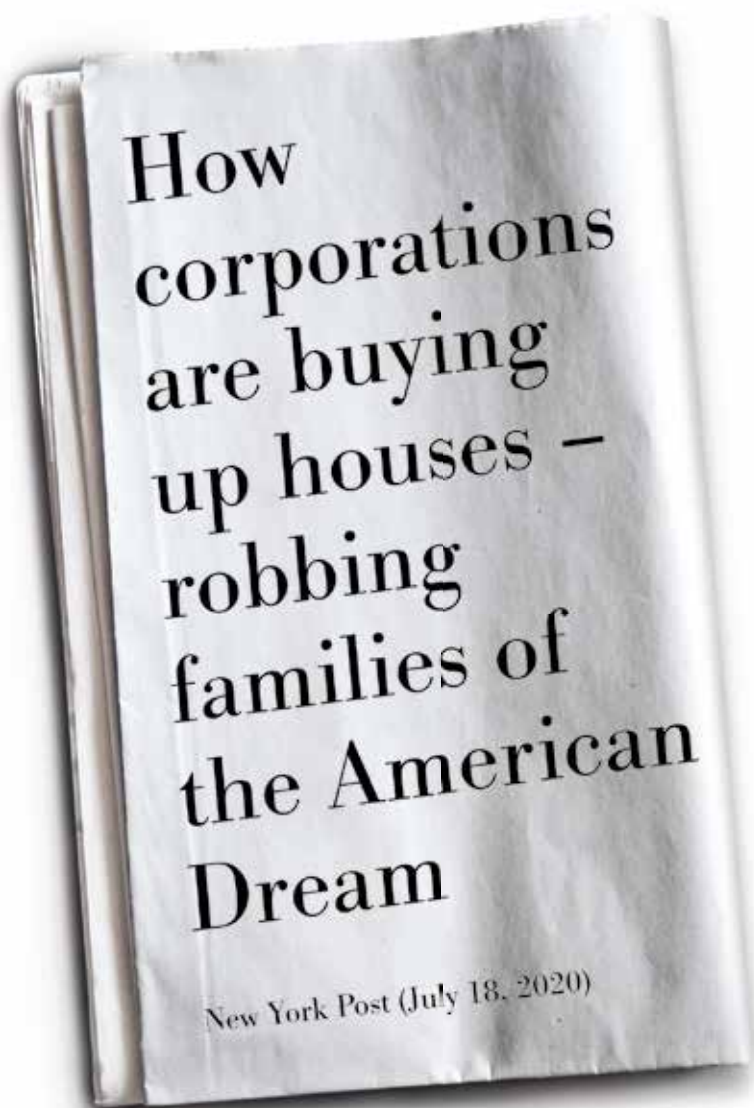
Pretium is one of the managers positioning themselves as a bridge between where people want to live and what they can afford to pay. Dana Hamilton, the firm's senior managing director and head of real estate, said this approach has resonated with institutional capital.

“Investors like to invest into durable trends, and I don't think anything is quite as durable as a shift in population,” Hamilton says. “We know this is happening. The millennial population is aging, they will form households, they need a place to live.”

SFR gold rush

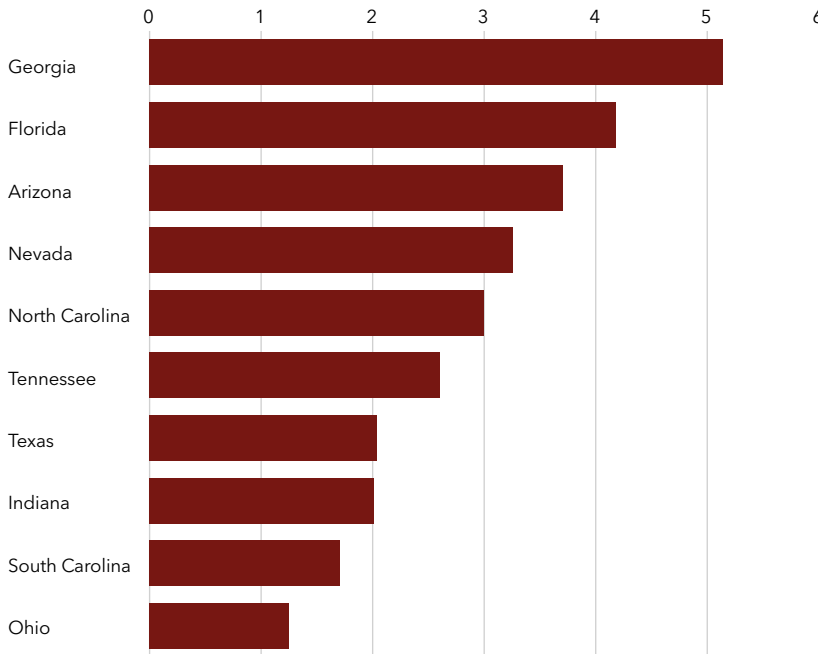
Like stocks, collectables, cryptocurrencies and all other types of investable assets during the pandemic era, values of US homes have skyrocketed as yield-starved investors pour into the market.

During the second quarter of 2021,



The top markets for large SFR companies are concentrated in the Southeast and Southwest

% of single-family rentals owned by SFR companies



Source: National Rental Home Council

“These are people’s homes, and it gets extra scrutiny so we’re very focused on it. Our investments in this space get a lot of senior-level attention to make sure we’re managing them at an extraordinary level for our residents”

JACOB WERNER
Blackstone

investors bought a record \$48.5 billion of single-family homes in the top 50 US metros, according to the brokerage Redfin, bringing the year-to-date total to \$87.4 billion. The group defines an investor as any institution or business that purchases a home instead of an individual.

Investors accounted for nearly 68,000 home purchases, or 16 percent of sales in the top markets, during the second quarter. These groups are largely paying cash and buying at the low-end of the market, Redfin finds. And they do not mind paying a premium to do so. While the median home-sale price in the US was a record \$338,225 during the quarter, the average investment property sold for \$439,600.

It is unclear how many of those homes were acquired by large SFR companies, those that own 1,000 properties or more. But the surge in property investment has coincided with significant capital outlays by private equity’s

largest real estate managers, including Blackstone, Brookfield, KKR, Rockpoint Group and Ares Management.

In one noteworthy venture state-side, a single joint venture between Toronto-based sector specialist Tricon Residential, the Teachers Retirement System of Texas, Pacific Life Insurance Company and another unnamed investor committed to deploying \$5 billion of debt and equity to purchase 18,000 rental homes over the next three years.

John Burns Real Estate Consulting, which tracks the space closely, has tallied at least \$21.5 billion of institutional transactions and publicly announced commitments to SFR since March 2020.

While some groups continue to stalk multiple listing services to add homes one at a time, much of the large institutional activity seen in the past 18 months has focused on portfolio and platform acquisitions. Notably, Preitium and Ares closed on a \$2.4 billion

deal to take Georgia-based Front Yard Residential Corporation private in January, and in June, Blackstone agreed to acquire Chicago-based Home Partners of America in a deal that valued the platform at \$6 billion.

How big is too big?

The confluence of these large capital commitments with a rash of stories about would-be homeowners being outbid by cash-wielding corporations has cultivated a narrative that such firms are cornering the market.

As a result, populist politicians on the left and right have taken shots at the role of institutional capital in the US housing market. Frequent industry critic Senator Elizabeth Warren, a Democrat from Massachusetts, calls it “another massive private equity real estate grab that wreaks havoc on families and communities.” Venture capitalist turned Senate candidate JD Vance says groups like BlackRock are turning the

American middle class into a “permanent renter class.” BlackRock sold its only direct exposure to SFR, a minority stake in Home Partners of America, to Blackstone in June.

David Howard, executive director of the National Rental Home Council, an industry group representing SFR owners, says the numbers simply do not bear this out.

By the NRHC’s count, large SFR companies own just 1.16 percent of the 23 million-unit US single-family rental home market. The group also reports that, even in the states where SFR investment is heaviest – Georgia, Florida, Arizona, Nevada and North Carolina – rental homes companies only owned between 3 and 5 percent of SFR homes. In Georgia, where institutionalization runs deepest, such firms own less than 1 percent of the total housing stock.

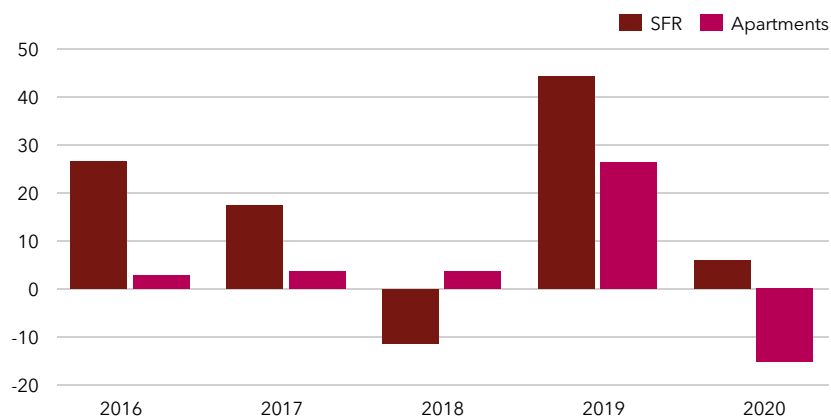
The rental home sector still skews heavily toward smaller landlords, with nearly 60 percent of owners having just one or two homes and more than 80 percent having fewer than 10. Howard and others in the space say the main driver of institutional growth has been the overtaking of smaller operators rather than outbidding individual buyers.

“When you look at the numbers and peel back the data, you get a better sense for what’s really happening,” Howard says. “And that’s a lot of smaller owners getting out of the business and demand for rental housing starting to surge.”

Tim Savage, an economist and professor at New York University’s Schack Institute of Real Estate, says institutional capital is not driving the dynamics of the single-family market so much as it is responding to them. And he believes the engagement of large investors will improve the space in the long run. “The institutional trend is a positive trend because it tends to make markets more transparent,” Savage says. “We’ve seen that generally in finance for 50 years, and it tends to be a good thing.”

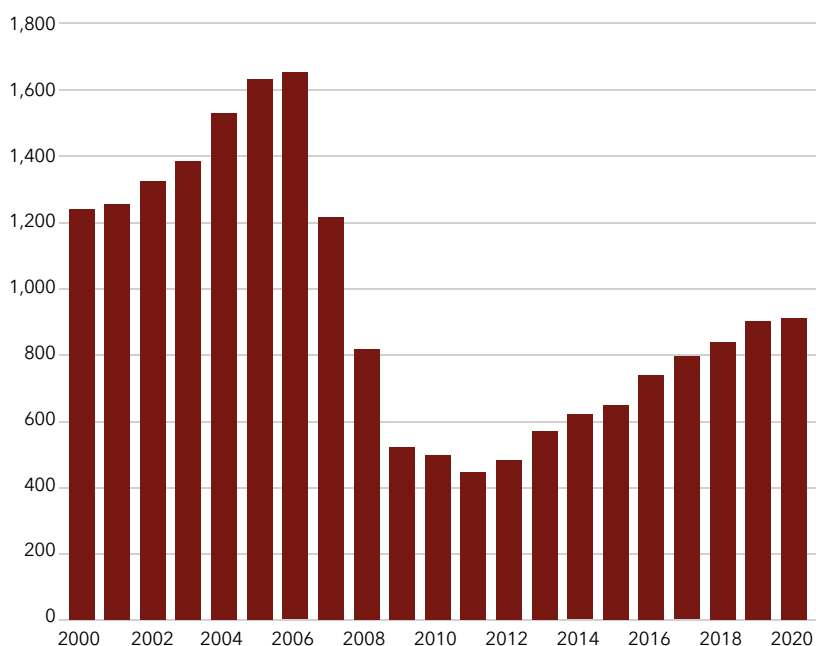
On the other hand, given their

Rental home REITs outperformed apartments in four of the last five years (%)



Source: Nareit

US homebuilding still has not returned to pre-GFC levels (thousands of homes completed)



Source: US Census Bureau

concentration in certain geographies and home types, corporate landlords are influencing market dynamics in at least some metros, Stijn Van Nieuwerburgh, a professor of real estate finance at Columbia University, tells *PERE*. The problem is quantifying it.

Private equity groups are focusing on markets that are already on the rise because of their proximity to jobs, schools and other amenities. Add in record low interest rates, demographic

trends and a seismic shift in working from home, and it becomes difficult to discern the singular impact of institutional capital, Van Nieuwerburgh says.

“It’s a hard question to conclusively answer, it seems plausible that it could be impacting some houses and some neighborhoods,” he says. “But it is very hard to separate out the private equity role from all these other fundamentals that are changing.”

Covid conundrums

The pandemic has impacted the SFR space on several fronts, some more beneficial than others.

Primarily, it has accelerated the movement of urban renters seeking out more spacious accommodations. “When the pandemic hit, a lot of millennials said to themselves, ‘Maybe living in a city or apartment isn’t such a great idea; maybe now is the time to think about moving on and evolving,’”

Gary Berman, chief executive of Tricon, tells *PERE*. “On top of that, you had a lot of people who became obsessed with space and safety, and if you want more safety and you’re concerned about health, being in a suburban, single-family home is the place to be.”

It has also created buying opportunities. Smaller landlords, unable to tolerate the revenue lost due to the various covid-19 related eviction moratoria, have exited the space, selling their portfolios up the food chain. But the moratoria have cut both ways, putting many SFR platforms in the spotlight for how they deal with tenants.

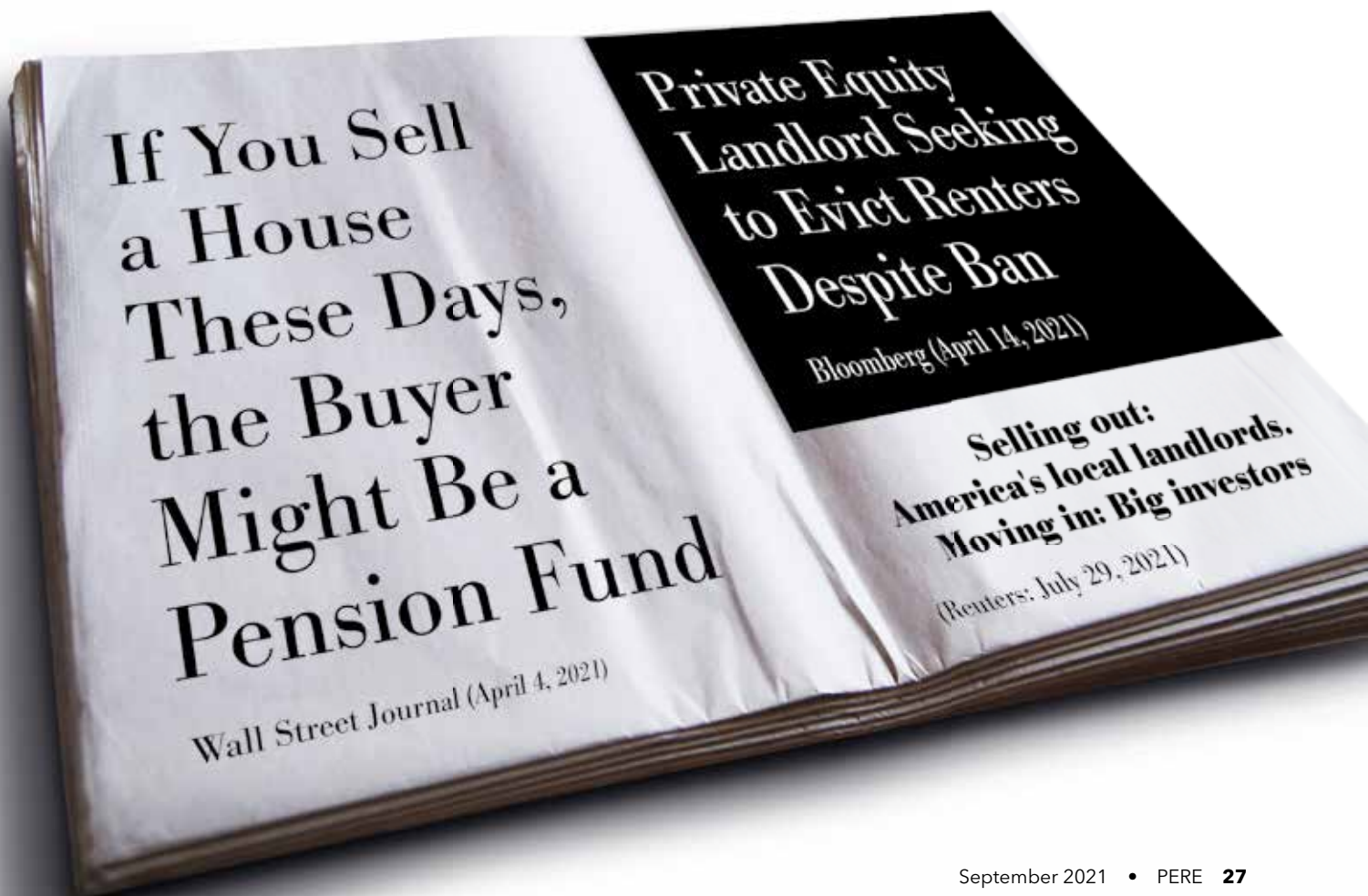
Industry watchdog group the Private Equity Stakeholder Project has chided Pretium and other groups for filing eviction notices during the pandemic. Citing county records, PESP says Pretium and its portfolio companies, Progress Residential and Front Yard Residential, made 1,300 filings during the

first half of 2021, up from 400 filed in the last four months of 2020 and nearly as much as the next two biggest filers, Florida-based Ventron Management at 820 and the British Columbia-based multifamily specialist Western Wealth Capital at 744, combined.

Jim Baker, PESP’s executive director, says this activity is troubling given the US Centers for Disease Control and Prevention’s nationwide eviction moratorium and the federal government’s distribution of \$46 billion of rental assistance directly to property owners.

“It raises dramatic concern that the single-family rental landlords have been so quick to evict tenants in the middle of a pandemic,” Baker tells *PERE*. “And it raises substantial questions about how companies are acting in that space.”

Pretium’s Hamilton says the filings were made against residents who



ignored repeated outreach attempts as an effort to illicit a response. She also notes that most filings do not result in the removal of a tenant from their home and the company did not file against tenants with formal CDC declarations of hardship, a key component of the federal moratorium.

Like other large SFR owners, Pretium has gone to great lengths to assist residents impacted by the pandemic, Hamilton says. It has offered rent forgiveness and repayment plans, provided relocation assistance and voluntarily extended its own eviction moratorium for tenants with a formal hardship declaration beyond the July 31 expiration. The group also added more than 20 staff members to assist with hardship cases. Overall, she says, institutional owners have been able to do more to

help renters than smaller landlords.

“We have tremendous ability to do good,” she says. “We do amazing things in hurricanes and other situations, and I truly believe we’re doing extraordinary things in this situation as well.”

Those efforts have not kept Washington at bay. In July, a US Congressional committee launched an investigation into the pandemic eviction practices of Pretium, Invitation Homes, Ventron and Las Vegas-based Seigel Group. In letters to the four firms, the committee’s chair, Congressman James Clyburn of South Carolina, cited PESP’s findings about eviction filings.

Different kind of crisis

Institutional investment in SFR began in earnest after the global financial crisis, with private equity groups buying

homes one by one at foreclosure auctions, often renting back to the former owners who had defaulted on their mortgages.

Blackstone amassed a portfolio that it took public as Invitation Homes, which remains the largest player in the space, with roughly 80,000 properties. Wayne Hughes, founder of the self-storage REIT Public Storage, dove into the space too, eventually securing a \$600 million commitment from the Alaska Permanent Fund; that platform became American Homes 4 Rent, which owns nearly 54,000 homes today.

The groups played a critical role in bolstering housing markets after the collapse of the subprime lending industry, Van Nieuwerburgh tells *PERE*. The consensus among research done on that period, he says, is that early entrants into the space served as market makers – buying low, selling high and providing liquidity. “If they hadn’t shown up at these foreclosure auctions to the extent that they did, the prices of these homes might have fallen even further than they did,” he says. “That might have had all kinds of ripple effects like pushing households deeper under water, making the mortgage crisis deeper.”

The more recent wave of investment into this space, which began five or six years ago, has not been widely researched, Van Nieuwerburgh adds, so its net impact remains to be seen.

What is clear, however, is the difference between the current crisis and the one that preceded it. From 2005 to 2007, 4.8 million new single-family homes were delivered in the US, the biggest three-year stretch on record, according to the US Census Bureau. Since then, the market has yet to see one million new homes added to the market in a single year.

Investors undecided

Such a dearth of new homes being built has made eviction practices by the companies owning existing stock a more sensitive issue. In June, Alyssa

The man behind the headlines

Ryan Dezember has tracked the institutionalization of single-family markets since the start

“The first couple years, at least, it was a curiosity,” Ryan Dezember tells *PERE*. But that changed with the merger of Starwood Waypoint Residential Trust and Colony American Homes in 2015. “They were consolidating, and it became clear they were going to run this thing as a business.”

The *Wall Street Journal* reporter has covered private equity for the past decade. Last year, he wrote a book, *Under Water: How Our American Dream of Homeownership Became a Nightmare*, chronicling the institutionalization of the housing market and his own ill-fated stint as an Alabama homeowner.

The book’s findings led to viral articles like the *New York Post*’s July 2020 offering: “How corporations are buying up houses — robbing families of the American Dream,” which still pops up social media.

One of Dezember’s pieces, “If you sell a house these days, the buyer might be a pension fund,” struck a similar nerve, sparking debates about the impact of growing rentership on the country’s wealth divide.

“That’s the big question,” Dezember says, pointing to research showing home ownership as the bedrock for middle class wealth creation in an era of wage stagnation. “We’re not earning a lot of money relative to inflation, so how do we make up the difference [if more people rent than own]?”

As for charges that SFR landlords treat tenants poorly, Dezember says: “The executives of these companies are very in-tune with their customer service reputations. They definitely don’t want to be bad guys.”



Giachino, a PESP representative, used the public comment section of the California Public Employees' Retirement System's investment committee meeting to flag the eviction practices by SFR companies Progress Residential and Pretium and Ares-owned Front Yard.

"Ares Management's failure to address or even respond to questions about its company eviction practices represents a significant management failure on Ares' part, one that CalPERS should be concerned about given its recent investment of \$1.3 billion," she said.

CalPERS does not invest in Ares' real estate funds, though it has a substantial partnership with the firm's private equity platform. Still, Giachino's comments were enough to get Theresa Taylor, chair of the system's investment

committee, to request the pension's private equity team follow up with Ares. CalPERS declined to comment on what came from that conversation.

Canada's Public Sector Pension Investment Board has not been deterred by the negative press around the SFR space. The \$160 billion pension investor inked a \$700 million joint venture with Pretium this year.

"In a time when the price of homes continues to increase across the United States, the single-family rental industry provides people, most notably millennials or young couples starting a family, the option of a home, a yard and a standard of living that is now attainable," a PSP Investments spokesperson told *PERE*.

Others are less sanguine about SFR. The Oregon Treasury, for one, has

reservations about attaching its name to a venture in the space. Anthony Breault, senior real estate investment officer for the state's pension plans, says his team was exploring a programmatic approach to the strategy in 2019, but the pandemic changed the context of the market.

"With the sheer volume of capital forming in the space in 2020 and interest from so many other participants, as well as the social dynamic of housing affordability and scarcity across much of the country, we decided to postpone a dedicated structure until such time as we can better assess the long-term risk and operating profiles that will best complement our portfolio," Breault tells *PERE*. The state still has exposure through diversified funds and it remains open to a designated commitment in the future.

Ben Maslan, managing director of the consultancy RCLCO, points out that investing in SFR has gotten easier as participation in it has increased. "For risk-averse investors, the space has now become less risky because more peers are doing it," he says. "You're not walking out on the ledge as a first mover."

The rental home industry is rife with contradictions. Some claim it as an affordability play, offering access to homes and neighborhoods that would otherwise be out of reach. Others say it is further exacerbating the shortage of entry level homes for sale, thus worsening America's yawning wealth gap. Both can be correct.

As the space becomes more institutional in nature and continues to find itself in the spotlight, Hamilton says it is important to use those opportunities to educate the public on the nuances of the industry.

"Media cuts two ways," she says. "The media about SFR creates more knowledge about SFR. People understand that this is mainstream. I don't love that the press is negative. I would rather it be positive press. But it does give us the opportunity to set the record straight." ■

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A market awaiting a strong return

The pandemic has not put foreign investors off Australian real estate, say participants at PERE's Australian roundtable. They imagine its potential growth once it is over, writes Mark Cooper

The covid-19 pandemic derailed a generation's economic progress by sending the Australian economy into a technical recession in 2020. A renewed lockdown in New South Wales this year may produce another quarter of falling GDP. However, the panelists at PERE's Australia roundtable are confident that growth will bounce back strongly as the pandemic eases, especially as the nation's closed borders have not kept out the foreign capital which continues to seek Australian real estate.

Rob Percy, chief investment officer at listed manager Cromwell Property Group, says: "I think the outlook is pretty positive over the medium term. There will still be some sectors that will struggle from the slow vaccine roll-out and borders being closed. But the amount of capital from diverse sources that still see Australia as a really attractive destination is not going to change any time soon."

While the panel admitted that

Australia's vaccination program had been slow compared with other developed markets, the consensus was that a post-lockdown recovery would be swift, as it was after the first lockdowns in 2020.

Louise Kavanagh, chief investment officer and head of fund management in the Asia-Pacific region at manager Nuveen Real Estate, says: "Prior to the latest lockdown, the Australian economy had rebounded despite the effect of border restrictions on the education sector – the third-largest services industry – and tourism. So, once the border restrictions ease and education is booming again, tourism returning, it bodes well for Australia."

The pandemic effect knocked back Australian real estate deal volumes, data by analytics firm Real Capital Analytics shows. Rolling four-quarter transaction volumes fell from A\$63.95 billion (\$46.95 billion; €40.06 billion) in the final quarter of 2019 to A\$40.96 billion in the final quarter of 2020. However, they began to recover in the first

quarter of 2021 and improved in the second.

Deborah Coakley, executive general manager, funds management at Australian listed manager Dexus, says: "Our investors, which have either Asia-Pacific mandates, or are investing purely in Australia, still see the relevance of most asset classes for their portfolios, and covid-19 does not seem to have abated any of that interest. Given the low interest rates and high employment rate, aside from the current cycle of lockdowns, Australia continues to be viewed very positively by investors."

There has been particularly strong interest from domestic private investors, the roundtable participants agreed, as the low-interest-rate environment and concern about global stock markets pushed capital into yield-bearing real estate.

Australian managers, which typically syndicate private capital, have been doing strong business says Greg Lapham, head of Australia at manager Savills Investment Management. "There seems



Deborah Coakley

Executive general manager,
funds management, Dexus

Coakley has been leading Dexus' A\$20 billion funds management platform, one of the key businesses for the Australian listed real estate investor, since 2017. She has had a varied career with roles in property management, human resources and consulting for companies including Qantas and Deloitte. She is a non-executive director of the Property Council of Australia.



Tjarko Edzes

Director, Asia-Pacific,
Bouwinvest Real Estate Investors

Edzes has been running Bouwinvest's Asia-Pacific real estate business since 2014 and has a target to grow its investments in the region to around A\$3 billion within two years, out of a global total of \$20 billion for the Netherlands-based group. Edzes is based in Sydney. Prior to Bouwinvest, he worked for CBRE Global Investors and Unibail-Rodamco.

Louise Kavanagh

Chief investment officer and head
of fund management, Asia-Pacific,
Nuveen Real Estate

Hong Kong-based Kavanagh joined Nuveen from Invesco Real Estate in 2017 and became CIO and head of APAC fund management at the \$134 billion manager Nuveen this year. Prior to Invesco, she worked for Deutsche Bank and is also a global governing trustee of the Urban Land Institute.



Rob Percy

Chief investment officer,
Cromwell Property Group

Percy has been with listed Australian real estate group Cromwell for nearly a decade and in his current role with the A\$12 billion manager since 2018. Cromwell has operations in Europe as well as Australia and New Zealand, as well as a Singapore business. Percy previously worked for Investec Bank Australia.

Greg Lapham

Head of Australia,
Savills Investment Management

Lapham took up his current role with Savills Investment Management in March 2020, after 10 years with Blackrock's Asia-Pacific real estate team and its precursor company, MGPA. For his new role, Lapham has returned to Australia, where he began his career in real estate and finance, working for companies including National Australia Bank and PwC.



Analysis

to be plenty of capital, particularly with domestic high-net-worth individuals and private investors. The smaller transactions within the real estate market are challenging to take down as there are so many privates active in the sub-A\$50 million market and keen to put money to work. The syndicators have all stepped up their transaction sizes as there is a lot of money that people don't want to just leave in the bank at zero return."

Percy agrees, adding: "The amount of retail and high-net-worth capital looking for a home in Australia at the moment is huge and has been growing significantly over the past 12 to 18 months."

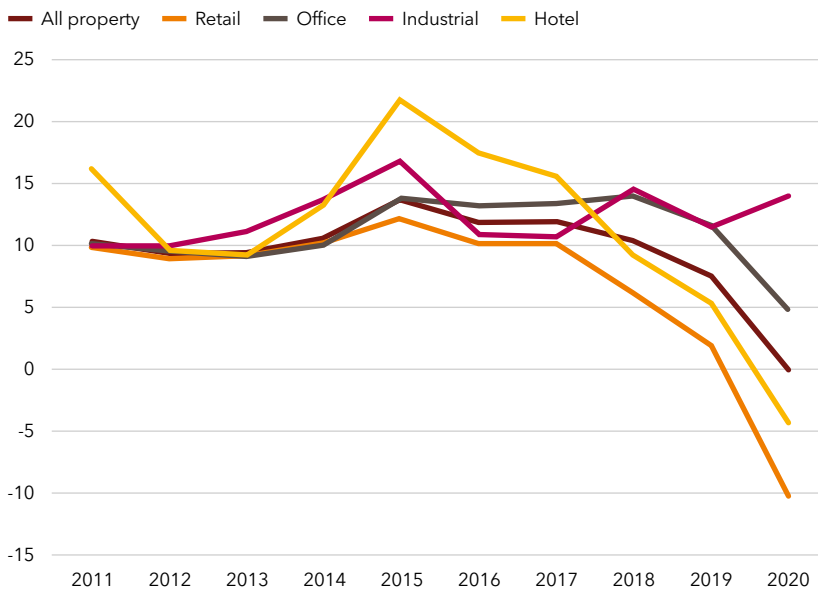
Lapham, meanwhile, suggests overseas investors have been more cautious. "Offshore capital tends to be looking to put money to work with managers they've worked with before, as they can't physically get together with new managers, so track record and established relationships are important."

However, participants agreed that overseas players already established and with teams in Australia were still keen to invest and able to execute.

"Some offshore investors are expanding their investments in Australia much more than they were prior to the pandemic"

DEBORAH COAKLEY
Dexus

Australia all sector annual returns (%)



Source: PCA/MSCI

Bouwinvest Real Estate Investors is one of these, says Tjarko Edzes, Sydney-based director, Asia-Pacific at the Dutch pension manager. "We have been quite active in Australia over the past year, partially because our Asia-Pacific office is here," he says. "It has been very good to be based here during the pandemic. And we see more groups indeed opening an office here either for their regional office or just for Australia."

Small but important part

Australia is one of the world's most transparent markets and, as Edzes points out, one of the largest core markets in Asia-Pacific, despite its relatively small size. "Australia is actually a small part of the investible universe; the real estate market is 8 percent of the Asia-Pacific region. However, if

“We expected to see more caution due to the pandemic. But people are taking the opportunity to buy quality and expand their footprint in the prime office sector”

TJARKO EDZES
Bouwinvest Real Estate Investors

you look at the ANREV benchmark, it's almost 70 percent because many large open-ended funds participate in that benchmark. Core investors have a higher weighting to Australia relative to where it sits within the universe, perhaps one-third of the regional allocation and that's where we sit as well.”

Nuveen's Kavanagh says: “Australia is probably the first port of call for much of the foreign capital coming into Asia-Pacific, and that is because the legal, tax and commercial real estate framework is very similar to countries like the US and UK. Over the past 12 months, we know that 40 percent of the transactions were carried out by foreign buyers. In the past, this was mainly North American and Asian capital. But now we've seen a shift to Europeans being at the forefront.”

European capital backed one of the deals of the year so far: the sale of a 50 percent stake in 200 George Street, Sydney. AMP Capital sold its share of the building to Australian listed group Mirvac and the UK's M&G Real Estate, the investment management arm of insurer Prudential, for A\$575 million, the deal reflecting an initial yield of 4.1 percent. Australian media reported that overseas investors including Allianz Real Estate, Blackstone Group, Hong Kong's Link REIT and Nuveen Real Estate also made bids for the asset.

Coakley says: “Most of the public market processes, whether for single assets or portfolio sales, have shown that offshore investors are active in the Australian market. Some offshore investors are expanding their investments in Australia much more than they were

prior to the pandemic. Recently, we have seen some US and European investors more active in investigating and researching the market than they were 18 months ago.”

Edzes agrees: “We expected to see more caution due to the pandemic. But people are taking the opportunity to buy quality and expand their footprint in the prime office sector.”

The Australian office sector, which performed relatively well in the pandemic, is still showing positive total returns for 2020. Sydney in particular has benefited from stock being withdrawn from the office market to allow for construction of new transport infrastructure. The works have been a double advantage to investors, restricting supply in the short term and boosting the city's productivity in the longer term.

Kavanagh says: “We are seeing a lot of offshore capital which is quite optimistic about Australian offices, particularly east coast offices, where there is still a significant spread between property yields and the 10-year bond rate. We are keen on Sydney offices. It is one of the most diversified economies in Australia. Obviously it's cosmopolitan, it's got the tourism market and quality of life and it's the first port of call for immigrants.

“So, I think it has a lot of underlying strengths that will carry it through the recovery cycle post-pandemic. We are seeing leasing momentum as well coming back into Sydney. Pricing is tight and may tighten further, but the yield remains attractive for core office in Sydney.”

Re-thinking offices

In both the UK and US, the rise of homeworking has caused several observers to claim that city centers in general and the office sector are likely to perform worse in the long run. However, the participants poured cold water on this view, suggesting Australian workers were eager to get back in the office when able, and that investors still had confidence in the sector. “I think

“We’re seeing a lot of non-bank lenders growing and broadening their offering in the debt space”

LOUISE KAVANAGH
Nuveen Real Estate

Industrial domination

The Australian industrial and logistics sector saw total returns rise in the upheaval of 2020 and investors are still bidding en masse for the best assets

The industrial and logistics sector has been on a significant growth trajectory across the world. Australia has not been exempted. The country has just seen a landmark deal, where sector specialist ESR teamed up with Singapore sovereign fund GIC to acquire the A\$3.8 billion (\$2.8 billion; €2.4 billion) Milestone portfolio from Blackstone Group.

The deal saw “logistics yields entering office territory and staying there,” says Louise Kavanagh, chief investment officer and head of fund management, Asia-Pacific at Nuveen. Indeed, ESR said the acquisition price reflected a yield of 4.5 percent, only 40 basis points above another landmark deal, the sale of a stake in 200 George Street, Sydney, a prime office asset.

Even more significant was the amount of capital which lined up for the deal says Greg Lapham, head of Australia at Savills Investment Management. “This deal



ESR PHOTO

was all that people in real estate talked about for a while and there were still something like five bidders in at the very end.”

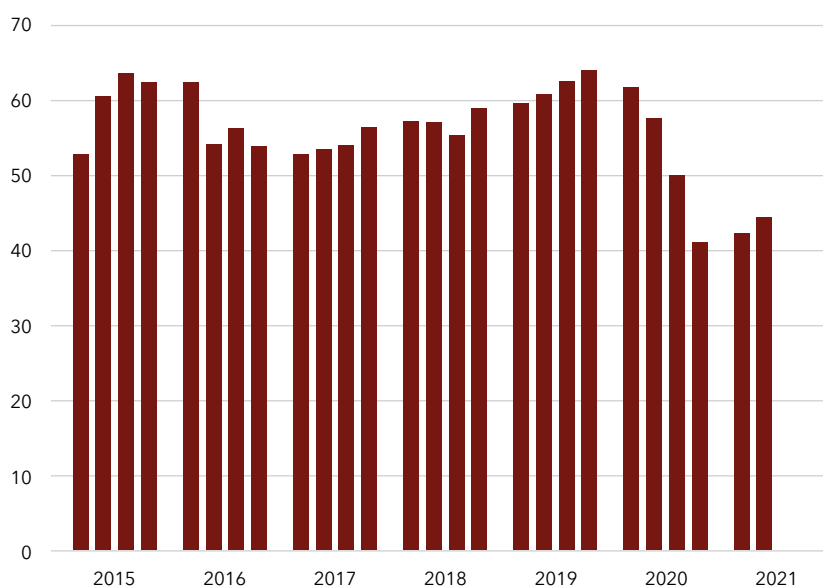
The amount of capital lined up for Milestone suggests the logistics market has further to run in Australia. More than 50 parties are understood to have requested data room access for the Milestone portfolio. Interest continues despite the nation not suffering the same land constraints as Asia-Pacific markets such as Japan or China.

Kavanagh recalls: “I used to run some industrial portfolios in Australia 15-18 years ago and to look at where yields are at the moment makes my mind boggle.”

“If there are distressed vendors, there could be a buying opportunity, especially where there is potential for a change of use. However, I have not seen any signs of distress yet and we have even seen hotel portfolios trading at a premium to book value”

GREG LAPHAM
Savills Investment Management

Australian quarterly rolling four-quarter investment volumes 2011-21 (\$Abn)



Source: Real Capital Analytics

people are keen to get back to the office; it remains a place to build culture, foster learning and development, and be creative and collaborative,” says Percy.

“That need is definitely not disappearing. How people use their space might change, and landlords that can adapt to meet these needs will be valued. Flexibility is also important, especially for smaller tenants. Most companies have been embracing agile working for some time now and what we’ve been through in the past 12 to 18 months has demonstrated that it can work. Long lease office is still very much in demand and that is definitely not going to change.”

Coakley also stresses that embracing agile working did not equate to abandoning the office. “Flexible working should not be confused with the location of work; homeworking is just a

“The amount of capital from diverse sources that still see Australia as a really attractive destination is not going to change any time soon”

ROB PERCY
Cromwell Property Group

part of the picture,” she says. “For some people, homeworking creates problems and is not actually the flexibility they need.”

Nonetheless, she says occupiers are rethinking how they use office space, which will lead to changes in the future. However, the “new normal” is by no means set in stone. “Demand for flexibility is changing office design, alongside demand for sustainability, and now, wellness and safety. As new office space is designed and fitted out, we will see how new ways of working, with more collaboration space, less density and more flexible working, pan out. However, all our research suggests rather than the office footprint dramatically changing, it will be how that space is used that will be the evolution.”

Retail property has seen difficulties in Australia due to the rise of online shopping. Retail total returns fell to 6 percent in 2018, from 10 percent a

year earlier, PCA/MSCI data shows. In 2019, retail total returns fell to less than 2 percent and the pandemic drove a negative return of 10.37 percent. However, the panel expressed optimism about the sector’s future, particularly for non-discretionary retail, while recognizing the sector faces challenges.

Coakley is positive about retail landlords’ ability to adapt to the challenges of online shopping. “I think most mall owners have been remixing their malls for a very long time now,” she says. “Quality retail space will remain relevant because of its geographical prominence within a community for other uses like healthcare, gyms, medical offices and government service provision. However, the big issue for a number of the malls is going to be what happens with the larger retailers who occupy big parts of the overall footprint.”

Edzes adds: “Retail, especially neighborhood retail, looks more attractive

today. But I think the big question for retail is: what is a sustainable rent in the longer term?”

His question is particularly apt for larger malls that rely on discretionary spending, such as fashion, says Lapham. “If you replace discretionary tenants from your retail mix, you’re dropping rents significantly. You need some level of discretionary retailers because they pay over A\$1,000 per square meter, whereas medical providers, for example, might pay A\$450. There is an offset to the lower rent as with a stickier, longer lease from a medical provider; you’ll probably get some adjustment through an improvement on the cap rate.”

On the future of retail real estate, Kavanagh notes: “People are looking for experience: they want food and entertainment for the family. So the mall of the future needs to cater to that demand for social interaction and community.”

However, the rise of online shopping and demand for home delivery may also come to the aid of moribund retail space. “In other Asia-Pacific markets, such as China, South Korea and Japan, retail space has been successfully repurposed as last-mile logistics space,” she says.

Hospitality’s mixed fortunes

Hospitality also saw returns slump into negative territory in 2020, as Australia closed its borders. The picture is not all bad, however, says Lapham. “There is a split between the five-star business hotels, which have experienced the biggest impact from the virus, and locations which cater to the domestic market, which have done very well, such as Byron Bay,” he explains.

“It will be interesting to see how the sector develops as people start going overseas again. While the CBD business hotels are unlikely to immediately witness the same traffic as previously because a lot of business can be done via Teams or Zoom now, we would expect footfall to rise when international travel resumes, and domestically

businesspeople have a lot of relationships to catch up on.”

The amount of capital in the market generally seems to be staving off distress and none of the participants report evidence of fire sales. However, hospitality may offer opportunities in this regard, says Lapham. “If there are distressed vendors, there could be a buying opportunity, especially where there is potential for a change of use. However, I have not seen any signs of distress yet and we have even seen hotel portfolios trading at a premium to book value.”

A number of the participants are investing in niche sectors, often those with an operating element, in an effort to boost yields and to tap into future growth. The most often cited is data centers, while healthcare and linked sectors are also attractive: Australia has the most developed senior housing market in Asia-Pacific.

Edzes says: “We are looking at a data center investment; data center development is attractive today because the spread between yield on cost to expected stabilized yield is quite good. However, it is a very different sector – arguably infrastructure, not real estate – so you really need to partner with a specialized operator.”

An area that has been of growing interest to managers has been debt. For some years, Australia’s ‘big four’ banks have been pulling back from the sector and focusing mainly on plain vanilla lending, creating opportunities for non-bank lenders. Some of these have been specialist private credit firms. However, real estate firms, including Dexus, have become more and more involved.

Nuveen’s Kavanagh says: “Optimism across the real estate sectors and record low interest rates is driving capital into debt markets. We’re seeing a lot of non-bank lenders growing and broadening their offering in the debt space, such as pension funds and insurance companies which are seeking diversification and defensive returns via debt. Non-bank lenders are less regulated, which broadens the scope for longer tenors and

Niche notions

There are a host of newer real estate sectors with an operating aspect these days. But all have capital chasing them, pushing certain investors to take a contrary look at less-loved sectors

Greg Lapham: “I think a lot of people ran away from retail, due to the threat of e-commerce. However, what’s being shown during Covid is that everyday convenience neighborhood retail is extremely attractive.”

Deborah Coakley: “We have seen heightened interest from investors in healthcare property and it’s a sector we are very active in. Many of the healthcare providers are looking for new state-of-the-art infrastructure, and this demand for newer assets, in turn, provides development opportunities for investors.”

Tjarko Edzes: “We have invested in the disability housing sector. We are longstanding investors in the residential sector in its various forms and particularly like the positive societal and environmental contribution we are delivering through this investment, which we will look to expand in the next few years.”

Rob Percy: “We have some exposure to retirement living. There is a wave of fully funded retirees who are demanding more in terms of lifestyle and also end of life care. It’s a difficult sector to crack, but if you can get a good product, this is another sector that will only show more demand.”

Louise Kavanagh: “We like Sydney as one of the data center key locations in Asia-Pacific, along with Hong Kong, Singapore, Tokyo and tier-one Chinese cities. The challenge is being aligned with operators who have access to power, which requires regional government support.”

higher loan-to-value ratios. However, the weight of capital has compressed returns, which might push some investors back into equity strategies.”

The tight market has also led to several players seeking to grow through mergers and acquisitions. For example, Dexus is merging its Dexus Wholesale Property Fund with AMP Capital’s Diversified Property Fund to create a A\$15 billion fund and is also in the process of acquiring APN Property Group, a smaller listed real estate company.

Cromwell’s Percy says: “It has been interesting to see a number of M&A deals in the market. I think it’s a sign of the times that people are starting

to grow through M&A, reflecting the volume of direct real estate dealflow in the current environment, and desire to build funds under management.”

The mood in Australia is upbeat, albeit with a tinge of frustration as players are keen for the market to really get going once more. Nonetheless, even though the country’s property markets have faltered, there is a sense their place in the investment universe has proved justified. Edzes says: “Australia also compares relatively well to other Asia-Pacific markets in terms of transparency and, even though it’s expensive today, yields are still a little bit higher than other parts of the region.” ■

Appetite is returning to a different landscape



Expert analysis by **James Jacobs**, head of real estate for Lazard's private capital advisory group

As covid-19 restrictions ease, investors are becoming more active. But the assets they want are changing

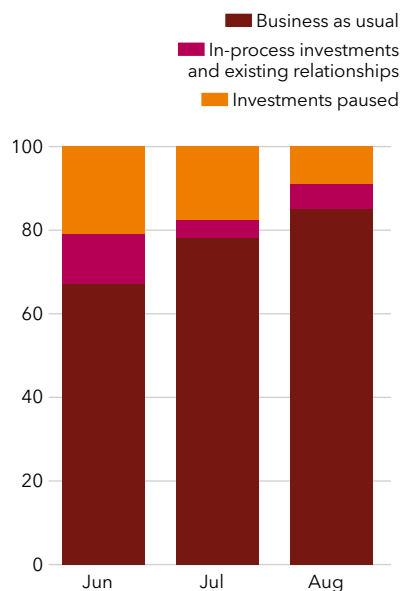
As we move into the second half of 2021, institutional investors' appetite to deploy capital into real estate strategies is gradually returning to pre-pandemic levels. The vaccine rollout in many jurisdictions has led to an easing of restrictions and employees are returning to offices, albeit while embracing hybrid working models.

International travel is beginning to open up, too, aided by the introduction of vaccine certificates, and economic growth is exceeding expectations of many forecasts. As a result, there appears to be growing confidence among investors to deploy capital.

As institutional appetite gradually returns, investors remain cautiously optimistic about the future. In an environment where interest rates remain low, we continue to observe a rotation from fixed income investments into yielding assets. This should benefit the demand for real estate exposure as capital continues to flow into the sector.

A more significant driver of capital flows has been the reallocation within institutions' real estate portfolios. Sectors that have traditionally been

Investor sentiment (%): The number of investments paused has been decreasing since June



Source: Lazard

overweight, such as retail and office investments, have fallen out of favor. Instead, the focus has been on assets that showed better resilience during the pandemic, such as industrial and residential. It is these sectors where

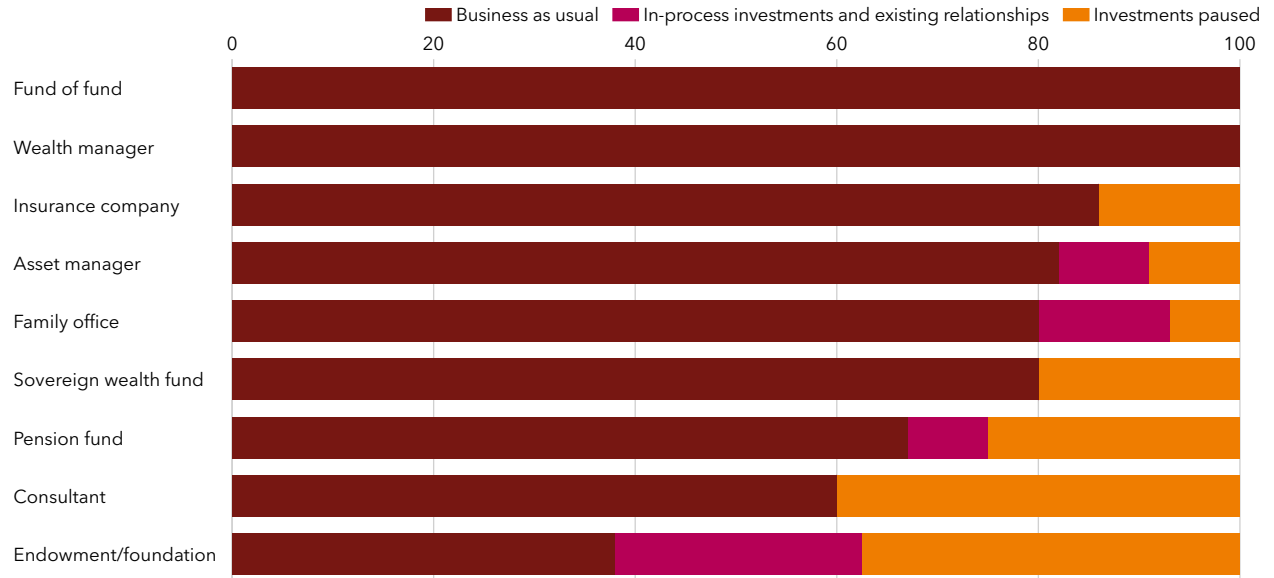
many investors are currently underexposed and where they may now seek to deploy capital.

Over the summer, as the economy and life began to adopt to a new normal, the way in which investors are deploying capital has shifted slightly. There has been an uptick in investor appetite for certain sectors that were less popular at the onset of the pandemic. For example, the office market now looks to be attracting more interest from investors than this time last year.

This trend is likely to continue if we return, as is currently anticipated, to the office in a more concerted way after the summer. Notwithstanding a return to the workplace, demand for office strategies will also likely be driven by the way tenants use space in the new world, as well as ESG considerations which are increasingly an important topic.

The pandemic has changed investor preferences and accelerated trends already prevalent prior to covid-19. However, as markets normalize, investor demand looks set to return for certain sectors previously out of favor, provided the real estate continues to serve a purpose. ■

Investor sentiment by type (%): Some investors have returned to business as usual. However, consultants are still seeing high levels of paused investments



“We are actively looking to invest in real estate managers after a reorganization of our portfolio”

NORTH AMERICAN ENDOWMENT

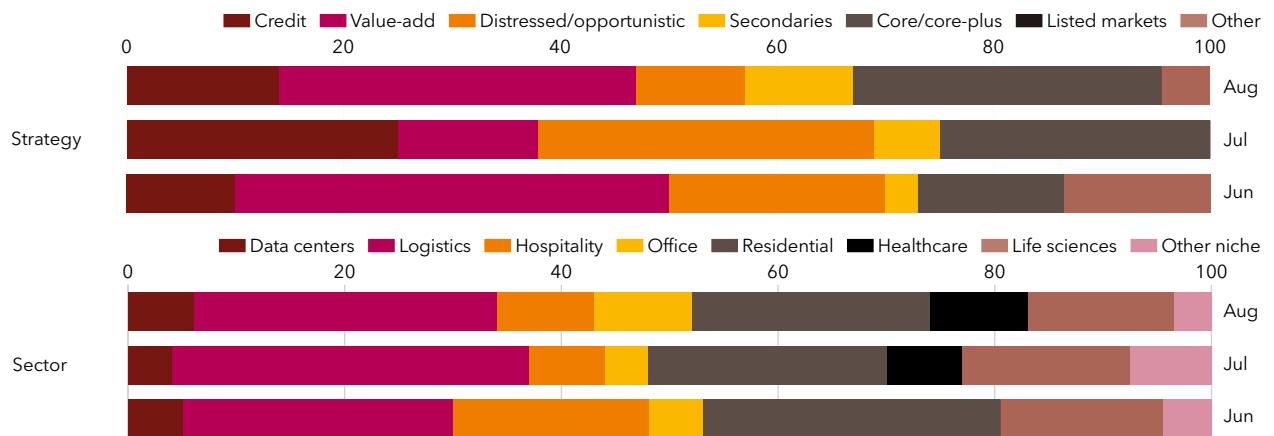
“After taking an 18 month pause on new real estate investments we are now ramping up our efforts again”

NORTH AMERICAN PENSION FUND

“We are starting to think of contrarian real estate investment strategies and are interested in looking at office opportunities”

NORTH AMERICAN PENSION FUND

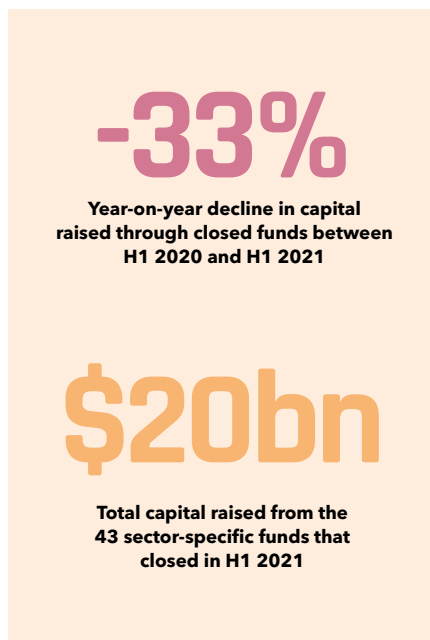
Investor sentiment by strategy and sector (%): Value-add and core/core-plus were the most favored strategies by investors in August



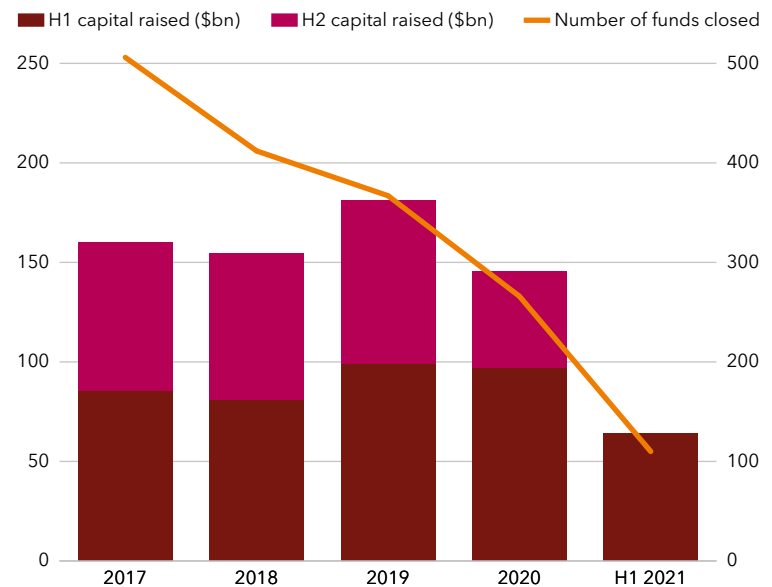
Data and investor sentiment analysis in all charts sourced and compiled solely from Lazard communication with investors

Half-year fundraising hits lowest level since 2012

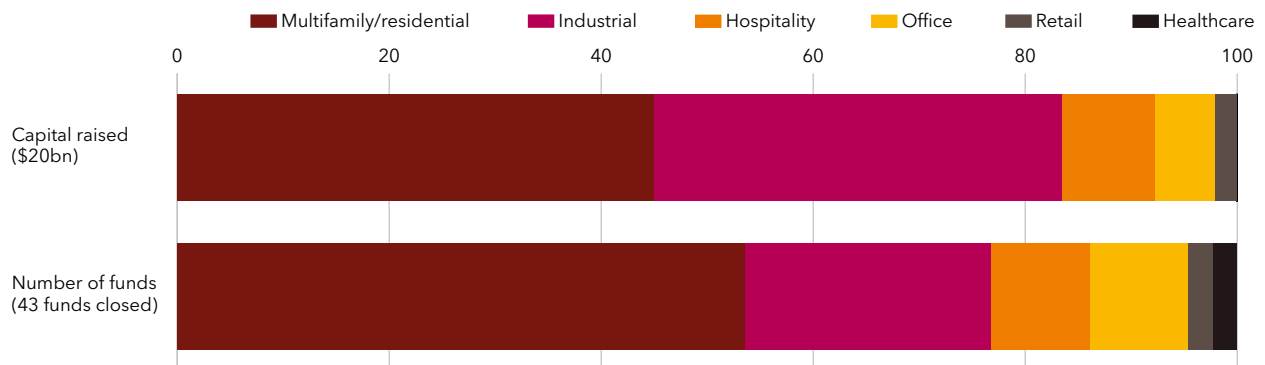
The amount of private real estate capital raised in the first half of the year fell by a third compared with H1 2020



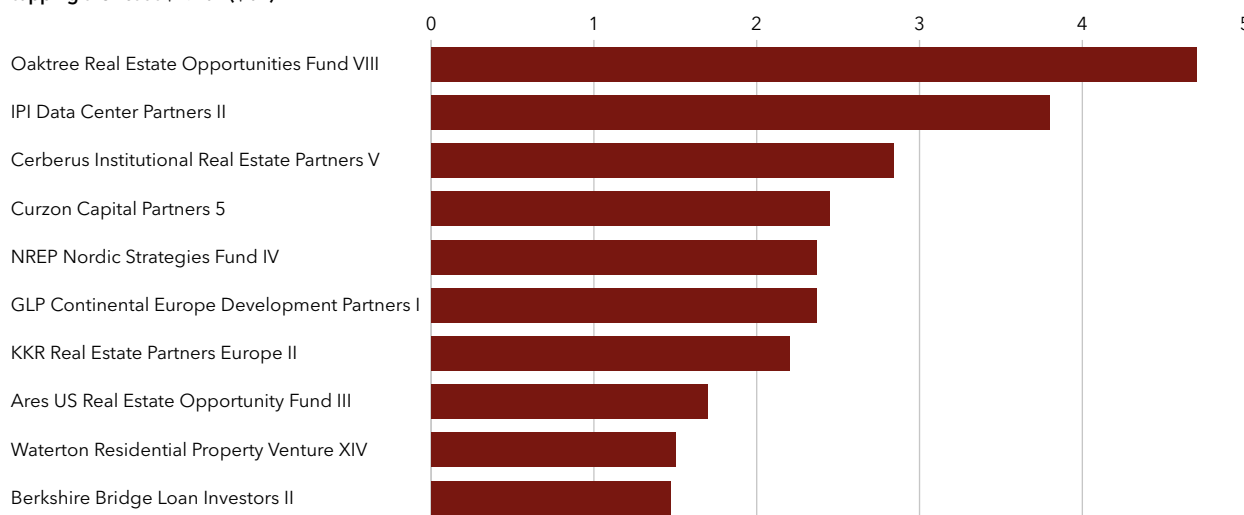
The number of funds closed has been declining year-on-year since 2017, showing that fewer mega-managers are raising the lion's share of capital



The multifamily and residential sector accounted for the greatest number of funds closed and the most capital raised in H1 2021, while office fundraising remained low as a direct result of changed working environments through covid-19 (%)



The 10 largest funds that closed in the first half of 2021 attracted a total of \$25.4bn, with Oaktree Capital's Real Estate Opportunities Fund VIII topping the list at \$4.7bn (\$bn)



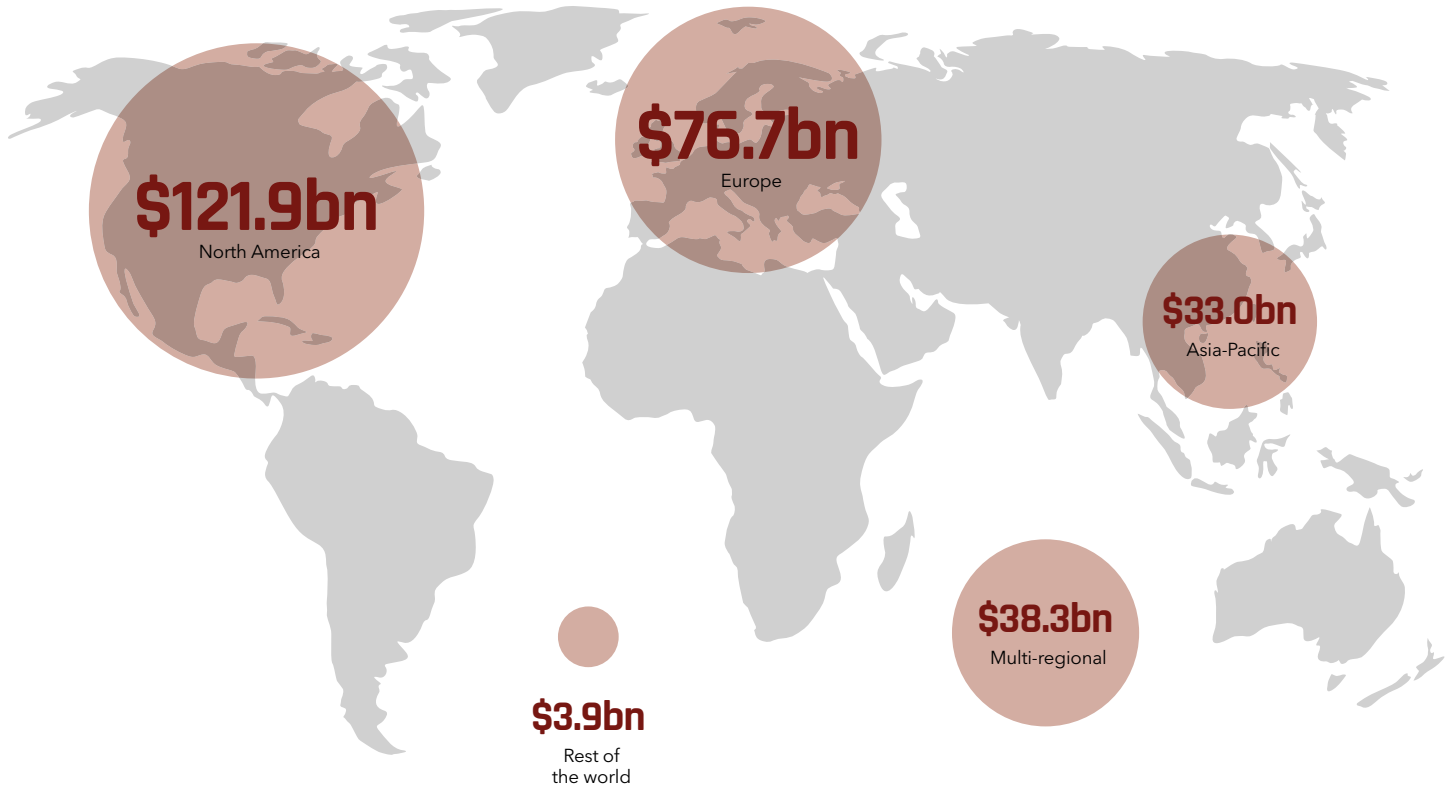
The top fund in the market by target size, Brookfield Strategic Real Estate Partners IV, is pursuing an opportunistic strategy, which is also favored by most of the top 20 funds in the market as of July 2021

Fund	Manager	Target (\$bn)	Strategy	Regions
Brookfield Strategic Real Estate Partners IV	Brookfield Asset Management	17.00	Opportunistic	Multi-regional
Starwood Distressed Opportunity Fund XII Global	Starwood Capital Group	7.50	Opportunistic	Multi-regional
Carlyle Realty Fund IX	The Carlyle Group	6.00	Opportunistic	North America
Prologis China Logistics Venture I & II	Prologis	3.50	Opportunistic	Asia-Pacific
KKR Real Estate Partners Americas III	KKR	3.00	Opportunistic	North America
PIMCO Corporate Opportunities Fund III	Pacific Investment Management Co	3.00	Debt	North America
Oaktree Real Estate Debt Fund III	Oaktree Capital Management	2.75	Debt	Multi-regional
Henderson Park Real Estate Fund II	Henderson Park Capital Partners	2.50	Opportunistic	Europe
PAG Loan Fund V	PAG	2.50	Debt	Asia-Pacific
AIG US Real Estate Fund III	AIG Global Real Estate	2.00	Value-add	North America
AllianceBernstein Commercial Real Estate Debt Fund IV	AllianceBernstein	2.00	Debt	North America
Bridge Debt Strategies Fund IV	Bridge Investment Group	2.00	Debt	North America
CBRE Strategic Partners US Value 9	CBRE Global Investors	2.00	Value-add	North America
GLP Capital Partners IV	GLP Capital Partners	2.00	Value-add	North America
Kayne Anderson Real Estate Partners VI	Kayne Anderson Capital Advisors	2.00	Opportunistic	North America
Kildare European Partners III	Kildare Partners	2.00	Opportunistic	Multi-regional
Partners Group Real Estate Opportunities 2019	Partners Group	2.00	Secondaries	Multi-regional
AMPÈRE Gestion Residential Fund	CDC Habitat	1.78	Core	Europe
ICG Real Estate's Real Estate Debt Fund VI	ICG-Longbow	1.78	Debt	Europe
Crestline Opportunity Fund IV	Crestline Investors	1.75	Debt	North America

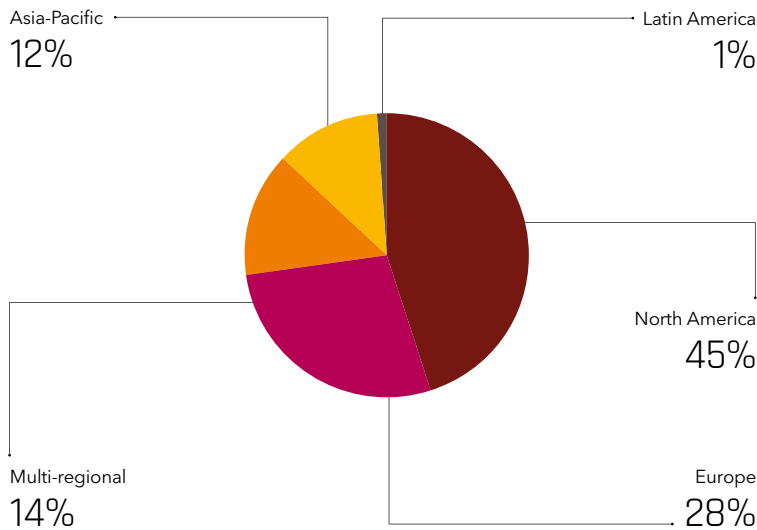
Source for all data: PERE

Analysis

Europe accounts for a quarter of all capital sought by funds in market as of July 1, 2021. North America is the regional focus of the majority of the 950 funds seeking capital from investors in H2



North American private real estate funds accounted for almost half of the capital sought at the start of July, with Europe and multi-regional funds taking the next highest proportions in the market



Source for all data: PERE

\$273.6bn

Total capital sought by funds in market as of July 1, 2021

950

Total number of funds in market

\$17bn

Target for Brookfield Strategic Real Estate Partners IV, the largest for funds in market

PERE

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The Springs ByteDance's arrival realizes Tishman's vision

In 2023, the walls of The Springs in Shanghai will be brimming with ideas for social media applications, like the world famous TikTok. That will be a far cry from the whirring of airplane propellers once heard nearby, **writes Jessica Nangle.**

Slated to be the regional headquarters for parent conglomerate ByteDance, the development will provide the tech

giant with some 2.5 million square feet of office and retail space. Some it is renting; most it is buying.

In July, the development's manager, Tishman Speyer, announced it sold to ByteDance 2.1 million square feet of space and leased it another 457,000 square feet in what it called its biggest deal to a single customer yet. ByteDance will occupy four buildings designed

by some of the world's best-known architects and inspired by Chinese art and natural living. The acquisition values the buildings at approximately \$1.25 billion.

A signature plaza

On the corner of Minfu Road and New Jiangwan Road, in Shanghai's Yangpu District, The Springs is identified by its large urban plaza, featuring landscape art in the form of a tree. Aligning with the ecological values of the developer, its branches act as pathways and its leaves are emulated through flora and verdure.

The Springs has been a long time coming. Tishman Speyer commenced development in 2011. But when it concludes, it is expected to feature 9.8 million square feet of offices, residences and hotels replete in traditional Chinese styles.

Accordingly, The Springs was designed to complement the adjacent New Jiangwan Town Ecological Park and is being developed to reduce noise pollution and improve air quality in a city that historically has struggled with seasonal smog.

This would-be ecological sanctuary is a far cry from the land's former use as a military airfield. The Shanghai Jiangwan Airport was used by the United States Army Air Force until it left in 1947. It was then a Chinese military airport under the People's Liberation Army from 1949 until it was closed in 1994. It has since been redeveloped into the New Jiangwan City neighborhood where The Springs is based today.

Tishman Speyer always had creative industries in mind throughout its construction process, with an aim of creating 'future-thinking' workspaces for innovative businesses, the firm has said. With the arrival of ByteDance, it is able to realize this vision. ■



BYTEDANCE'S NEW OFFICES PHOTO

- 1949** ● The area accommodates the Shanghai Jiangwan Airport for China's People's Liberation Army
- 1996** ● The area becomes New Jiangwan Town
- 1997** ● The area begins its transformation into a residential area
- 2011** ● Tishman Speyer launches The Springs development
- 2021** ● Tishman Speyer completes a \$1.25bn sale and lease to ByteDance

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