



REBOUNDED ASIA PACIFIC

Conference Takeaways
from the Asia Pacific Real Assets
Leaders' Congress 2023

INTRODUCTION

APREA held the Asia Pacific Real Assets Leaders' Congress in 1 November 2023. Sigrid Zialcita, CEO at APREA kicked off the conference at Suntec Singapore Convention & Exhibition Centre by addressing the complex global landscape we need to navigate and seeking sustainable solutions for the years ahead. This year APREA convened over 650 leaders through country conferences across the region. Looking ahead to 2024 and APREA's 20th anniversary in 2025, Zialcita was of the opinion that despite challenging global headlines, there was reason for optimism which she elaborates on below:

1. The Asia-Pacific region is still experiencing growth, with none of the major economies in recession. Asia is expected to lead the way and create more opportunities in 2024 in both the public and private markets.
2. The economic rise in the region is expanding the middle class with a significant portion coming from Asia. This will drive thematic investments and opportunities.
3. The journey to net zero emissions will not be possible without countries like China and India. The region's commitment to sustainability is a key driver of investment opportunities.



The conference moved on to the keynote address by Michael Syn, President, SGX Group. He opined that this year had been a spectacularly disruptive year for real assets and REITs. 2023 was marked by unprecedented uncertainty and volatility primarily due to disruptions, changes in liquidity, global inflation, policy rates, and market interest rates. He highlighted the complex interplay of economic and political forces that make asset allocation particularly challenging but stressed the essential role of diversified real assets in a balanced portfolio, offering inflation hedging and risk-adjusted returns.

The theme of the conference, **“Rebounding Asia Pacific,”** is fitting, Syn said, given the region's role as a key driver of global growth. Despite challenges, Syn expressed optimism about long-term growth opportunities for real assets in the Asia Pacific region.

Reflecting on Singapore's journey as a global real estate hub, Syn highlighted the remarkable growth of the city-state's real estate market over the past two decades. He credited the government, robust regulations, transparency, and a tax-efficient regime, to making Singapore a preferred listing destination. Syn emphasized the importance of three key ingredients for the continued success of Singapore's real estate market: stability, resilience, and innovation.



PANEL 1

Infrastructure Remaking Asia

Jennifer Tay at PwC moderated a panel discussion on the challenges and opportunities in financing infrastructure in Asia and the need to balance developmental goals in emerging Asian markets with return objectives.



When considering investment constraints in emerging Asia, Pushkar Kulkarni at CPP Investments emphasized a long-term view and good partnerships. **“We focus on governance, quality assets, and are willing to take calculated greenfield risks when working with quality partners,”** he said.

IndoSpace Capital Asia, India's largest player in the industrial logistics sector with over 60 million square feet, assesses risk by understanding the local environment. Key parameters include regulatory changes, sustainability impacts, detailed demand projections, and the local challenges on the ground, said Sharad Gohil, Managing Director at IndoSpace. ESG factors, adherence to global benchmarks and compliance with IFC performance standards are integral to their risk assessment, he said.

The speakers discussed how geopolitical tensions have made it challenging to invest in certain countries. Infrastructure investors, experienced in managing political risk, emphasize the importance of identifying these risks early in the screening process. The discussion also highlighted the challenges and opportunities in deploying capital in the Asia Pacific infrastructure market. While there's a favourable macroeconomic outlook in the region, geopolitical tensions and high price expectations from sellers have presented challenges said Kanishk Bhatia, Head of Infrastructure at ARA Private Funds, part of ESR group, a real assets fund manager in Asia.

In India, financing options have evolved and innovative financial instruments like Infrastructure Investment Trusts (InvITs) and REITs are being used to recycle capital and support the development of infrastructure projects, say Gohil and Kulkarni. Indonesia could adopt similar models as India.



PANEL 2

Traditional vs Alternatives

Joshua Daitch at the ESR Group said that each investor has an individual risk appetite and may evaluate the same exact risk factor differently than other investors. Sanjay Dutt at Tata Realty & Infrastructure Ltd. highlighted the significance of understanding the market, partnering with competent teams and focusing on resilient markets to manage risk.

Alan Lee at Yardi pointed toward the differences in the two types of investments. Traditional assets tend to be more liquid while alternative assets may require longer holding periods. Diversification is also more accessible in traditional assets while alternatives demand a deeper understanding and more research. Additionally, traditional assets offer greater transparency due to publicly available information.

Hans Kang at CBC Group, a Singapore-based healthcare-focused private equity, noted that the aging population is a fundamental driver for investments in healthcare, particularly in China with attractive fundamentals. During the discussion, Kang highlighted healthcare life sciences as a promising alternative sector, emphasizing its scalability, sustainable business opportunities, and potential for attractive returns. Dutt pointed out the potential of data centres and senior living in India.



KEYNOTE SPEECH

Flight to Green

Esther An, Chief Sustainability Officer at City Developments Limited, emphasized the need for a proactive approach to addressing environmental challenges, particularly in the context of urbanization and building construction, which contribute significantly to greenhouse gas emissions. The talk focused on the business case for sustainability, highlighting that cities account for 70% of carbon dioxide emissions with building activities responsible for 40%.

Climate-related risks dominate global economic forums' annual risk surveys. She talked about the Net Zero targets set by various countries, with a call for responsible investment, impact investment, and the integration of ESG factors. An outlined City Developments Limited's sustainability journey, including green building initiatives, energy efficiency, and engagement with the supply chain.

The talk stressed the importance of sustainability reporting and the integration of ESG strategies throughout corporate structures. She emphasized the need for innovation, investment in sustainable technologies, and the role of data in measuring and managing sustainability efforts.



PANEL 3

Reigniting REITs



The discussion focused on the impact of the increase in rates on the REIT market. Valuations have adjusted and are priced in and investors are keenly watching for a peak in rates, said Damon Wang at Heitman. Elena Arabadjieva at Cromwell EREIT Management emphasized the need for active asset management to showcase resilience and deliver value during crises. Building trust through transparent communication and acknowledging the uncontrollable factor of market dynamics is the need of the hour while maintaining consistency in strategy despite increased competition from alternative investments like cash, she said.

Acquisition strategies for REITs include diversifying portfolios with top-quality assets, exploring emerging sectors like cold storage and engaging in redevelopment opportunities, said Yoshiyuki Miura at GLP Japan Advisor. Cromwell is enhancing its portfolio by divesting low-growth office buildings and acquiring warehouses and data centres in Europe.

In Japan, the emphasis lies on sectors like logistics and multi-family benefiting from potential inflation and offering defensive growth, added Wang. Australia offers value opportunities especially in residential and even a contrarian bet on office sectors, he said. Hong Kong is challenging due to the high-risk premium, but potential value exists, contingent on timing and the changing China narrative.

The discussion moved to capital management strategies with GLP's Miura talking about diversifying debt instruments, utilizing short-term and ESG financing and strategic asset disposals. Share buybacks were also discussed as a way to boost shareholder value but the decisions hinge on evaluating various factors, including distribution payouts, cost of debt, and potential investments, the speakers said. Concluding the discussion, the panellists were cautiously optimistic on the REIT market even as Wang said it could potentially be a great vintage year over the next 12 months.



FIRESIDE CHAT

China- It's Still Investable

Sigrid Zialcita hosted a session on China with Hank Hsu, CEO at Forest Logistics Properties where they discussed the challenges and opportunities in the country. China is witnessing a constructive disruption and going into a great reset where over-leveraged developers are deleveraging and the country is heading toward a more sustainable growth model, said Hsu.

The secular trend of urbanization will help economic growth along with the government's realization that it needs to announce more policies to stimulate the economy. It's made moves in that direction with rate cuts and policies to boost consumer confidence, Hsu said. Though foreign investors are concerned about investment exits, the concerns are overblown, he said. Over the next 18 months, China presents a 'once in a lifetime' opportunity for investments. Land costs are cheaper and returns are higher. The new economy sectors will lead China's next economic growth model, said Hsu.

Convention & Exhibition Centre



PANEL 4

The Lending Revolution: APAC Private Debt Markets

The panel discussion on credit markets was helmed by Greg Hyland at CBRE. The speakers emphasized the coexistence of private credit and banks with blended costs impacting margins. Banks play a crucial role in credit formation and collaboration with private credit providers is synergistic, said Arjun Pandit at CapitaLand Investment. Australia presents opportunities in value-add strategies and construction financing focussed on senior mortgages, he said.

S. Srinivasan at Kotak Investment Advisors said asset values in office and retail assets in India are intact and aren't declining. His firm has invested senior secured capital over 15 years at net dollar returns of 12% to 14%. The introduction of real estate regulations and a bankruptcy law in India has positively impacted credit markets, attracting institutional capital, Manish Agarwal at HDFC Capital Advisors added.

Commenting on the direction of interest rates, CapitalLand's Pandit expects a gradual normalization in rates. The transition to higher rates raises concerns on valuation though credit spreads haven't widened much remaining stable for high quality borrowers and real estate in Asia Pacific. While certain sectors face challenges such as the changing office dynamics in the U.S. and the U.K., opportunities are emerging in Australia's office space, said Pandit. In India, stable interest rates, controlled fiscal deficits, and inflation averaging 4-6% creates a relatively stable environment for investors.

The discussion touched on leverage trends with a shift toward lower levels and diversified funding sources. Concerns about potential credit shocks and the need for recapitalization were acknowledged, urging asset managers to combine capitalization and effective asset management.



KEYNOTE SPEECH

Turning Climate Change Risks to your Competitive Advantage

Cedric Lagrange from MSCI discussed climate risks in a comprehensive 15-minute presentation. He covered basic definitions, key drivers, and emerging trends in climate scenario analysis. He emphasized the increasing realization among investors and stakeholders that existing efforts are insufficient to meet targets by 2050. The financial impact of physical and transition risks particularly in real estate was explored.

Lagrange discussed the integration of climate risk analysis into the investment process, emphasizing due diligence, ongoing risk management, and reporting. He touched on the importance of the Task Force on Climate-related Financial Disclosures (TCFD) guidelines and the growing trend of implementing net-zero strategies. He showcased an MSCI platform that enables investors to monitor carbon footprints, conduct scenario analysis, and refine their strategies. Technological solutions, such as satellite imagery, were presented as tools to assess geographic exposure to physical hazards.



PANEL 5

The New REITs and InvITs Regimes

The discussion centred around the REIT and InvIT environment in China and India. In China, the REIT market has a market cap of approximately \$13 billion with 29 listed REITs. The popularity of REITs stems from government encouragement and higher yields compared to the stock market, said Kong Lingyi at SCGC Realty Capital. In India, with a market cap of around 10 billion, the market presents an opportunity given the vast office space available, said Ramesh Nair at Mindspace Business Parks REIT.

The Indian government's focus on infrastructure assets aligns with the growth potential of REITs and InvITs, said Meghana Pandit at IndiGrid. Regulatory changes have improved liquidity and with better corporate governance assets include power transmission, renewable energy, roads, gas pipelines, fibre optic and telecom towers and warehousing are finding favour. The next big boost will come from potential state-asset monetization, said Pandit. Nair concurs that opportunities exist in warehousing, retail and industrial sectors.

In China, the scale of existing real estate assets, estimated at around \$50 trillion, presents a significant opportunity for securitization, said Kong. There is potential for further diversification as private equity investment funds seek inclusion in the REIT market, advocating for expanded eligibility beyond corporations and state-owned enterprises.

Despite the complexity of the sector, the evolving landscape and regulatory support contribute to the increasing popularity and potential of REITs and InvITs in India, said Kranti Mohan, Partner at Cyril Amarchand Mangaldas.



SPONSORED SESSION

Investing Opportunities in Dubai

Sunny Gu from IMC Global made a presentation on the investment opportunities in the United Arab Emirates. The booming economy boasts tax benefits, including zero personal and corporate income taxes in free zone areas. Dubai's company ownership policies are favourable along with 100% foreign ownership allowance. With the introduction of the 'Golden Visa', the real estate market is thriving. IMC Global offers consultancy services in the areas of asset management and real estate investment in Dubai.



PANEL 6

Family Offices: Full Steam Ahead

Christine Li at Knight Frank moderated the discussion on family offices and the evolving economic landscape of the past 18 months. Emphasizing the flexibility of family offices, the speakers said they explore collaborative opportunities and highlighted the performance advantages of private capital over public markets. The conversation underscored the importance of a long-term perspective in real estate investments despite short-term market fluctuations.

Kiri Capital, investing on behalf of a family with a background in maritime and energy transportation, diversifies activities across real estate, private and public markets, and usually considers investments that do not correlate to the activities of the family's operating business, said Matt Cantor at Kiri. The family office's approach varies, balancing generational assets with strict horizon-defined allocations, he said. Their real estate portfolio includes both long-term, irreplaceable assets and shorter-term, rigorously underwritten allocations.



Asia Pacific will become the preferred investment destination over the next 12 to 24 months, said Dennis Chui at Far East Consortium International. He highlighted the geopolitical dynamics driving increased funds into the region, emphasizing potential growth in markets such as Vietnam, Malaysia, Thailand, and Japan. He also noted that Hong Kong residential prices, which have declined 20%, presents an opportunity. Terence Tang, CEO at Atelier Capital Partners, added that the region's growing mid-income population and government investments in infrastructure make it a prime market for real estate.

While the primary focus is on Asia, they remain open to opportunities globally, including distressed commercial properties in the U.K. Family offices approach impact investing and ESG metrics with varying degrees of focus but they all agreed that it's the norm rather than an exception to align with the growing trend of incorporating ESG principles into real estate strategies.

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PANEL 7

Deploying Capital Globally with a Long-Term Horizon



With higher inflation concerns, the discussion helmed by Fi Dinh at MUFG Investor Services, focused on the challenges and opportunities in real estate markets, particularly in Japan and China. In Japan, a shift from a long-term fixed-rate lease approach to adapting to an inflationary economy was emphasized. Despite concerns, there was optimism that inflation could benefit Japan by constraining supply and achieving a healthier market balance, said Hideki Yano at Revolution Co., Ltd.



In China, despite regulatory challenges and negative sentiments, the unique position of a declining interest rate environment amid rising rates globally and increasing domestic investor interest suggests long-term potential, said Joe Gagnon at Hillhouse. The broader challenge for Asia lies in the absence of significant price corrections, making it hard for global allocators to find Asian deals as bargains compared to other regions like the U.S. or Europe, he said.



Despite difficulties, the outlook for Asia-Pacific is optimistic with a focus on new economy sectors like logistics and data centres. India and Indonesia were identified as promising markets. Industrial spaces in Australia and Singapore were favoured, while decentralized office locations pose challenges, said Christopher Chiang at AEW. Sustainable and scalable portfolios gain attention with childcare facilities in Australia presenting investment opportunities, said Andrew Lee at BlackRock. Gagnon emphasizing the lack of distress in the market. noting that the gradual nature of distress resolution was an impediment for buying distressed assets. Emphasizing the unpredictability of interest rates, he advocated focusing on fundamentals and value creation.



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