The outlook for Asia Pacific Real Estate Securities

Etsuro Akiyama is interviewed by Takahiro Ueno about his strategy and the prospects for exploiting the region's real estate potential

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Etsuro Akiyama is the lead portfolio manager for SMDAM's Asia Pacific real estate securities strategy. Etsuro has been responsible for the strategy since February 2007, managing real estate securities since 2000 and investing in property since 1991. Etsuro works in a team with another portfolio manager and five property analysts located in Tokyo, Shanghai and Singapore. Each team member has their own specialism, however they all take a regional perspective contributing to security analysis, selection and portfolio management. The team manages US$2.1bn in real estate securities (July 2020).

In your experience what's the best way to invest in Asia Pacific real estate securities?

Asia Pacific real estate combines diverse opportunities for capital growth with an environment suited to active management. We follow a 'growth at a reasonable yield' approach investing in high quality growth firms that provide superior capital appreciation as well as an attractive yield.

This approach provides a total return that combines an annual yield of around 4% and capital appreciation over the medium to long term. We've been using this approach since 2013 and I'm pleased to report we have consistently added value compared to regional indices.

As one of the best resourced investment teams in the region we're in a great position to perform multi-faceted research examining REITs and the environment in which they operate. Researching the few hundred real estate securities in this region entails quite different techniques and disciplines from equity analysts covering the many thousand companies in the region.

Can you provide examples of REITs you favour to illustrate your approach?

We seek out firms that grow by issuing capital to acquire new properties, as the process of raising funds and acquiring new properties leverages a lower cost of capital creating a premium. For example, in June 2020 GLP-JREIT, which has logistics facilities in Tokyo and Osaka, acquired a new portfolio of high quality properties financed through a share issue. Investors responded well to their expansion pushing the share price higher.

We also favour firms that add value to their portfolios through hands on management such as Charter Hall Group, an Australian firm with a portfolio of offices, retail, industrial and social infrastructure properties. The group continued to actively develop its portfolio throughout 2020 despite COVID-19 by enhancing existing assets, acquiring properties of strategic value and disposing of non-core assets, an approach that has been well received by investors.

We don't favour firms with mature portfolios, as they can't benefit from these lower capital costs, nor do we like low quality growth and high yield businesses.

How has COVID-19 transformed investment opportunities?

COVID-19 has accelerated a number of important trends which we already favoured - ecommerce logistics facilities, data centres and firms with high ESG standards.

Mapletree Logistics Trust is a logistics facility provider with 145 properties in eight countries across the region. They've grown through acquisitions that adds scale and by developing existing properties have increased usage and efficiency levels.

Datacentres have seen huge growth due to cloud computing, big data and more recently mass home working, while the introduction of the 'internet of things' enabled through 5G promises to increase demand further. In 2017 the portfolio invested in Keppel DC REIT, a pure play data centre provider with 18 facilities in Singapore that's now, in response to regulatory requirements for in-country data centres, expanding into Japan in partnership with local firms.

The pandemic has heightened awareness of low probability high impact risks along with businesses' sense of social responsibility. We believe strong ESG standards have always been essential for effective business management, risk mitigation and value creation, so our research and investment process integrates ESG assessments using internal and external measures to form part of our overall investment evaluation. We regard Link, the region's largest REIT that owns retail, car parks and offices in Hong Kong and mainland China, as having high ESG standards. Link has a strong track record in acquiring attractive land for development while their high ESG compliance enables them to access lower cost sustainability linked loans.

How have other areas been affected by COVID-19?

We have been underweight the major retail and office sectors which have been hit hard as the viability of retail companies was put into question by stay at home policies and travel restrictions, and as the office sector suffered from concerns over tenants' ability to meet their rent obligations.

Obligatory work from home policies have transformed attitudes to telecommuting, introducing the real but presently unquantifiable risk that companies' space requirements may significantly reduce in future. We anticipate fundamental adjustments in the office sector, best illustrated by changes at Fujitsu, which employs 80,000 staff in Japan, which announced in July 2020 that most staff would in future work remotely thereby halving its office space requirements.

What are the long term prospects for Asia Pacific REITs?

COVID-19 has polarised outcomes by country, sector and individual REIT illustrating how active management can add value through flexible asset allocation and selective stock picking.

While the events of the year have been unprecedented and shocking, to long-standing investors in the region the reappraisal of many REITs' capital values appears out of line with their long-term fundamentals, as was the case during the Global Financial Crisis which was followed by a period of strong returns.

Given the region's high growth prospects remain intact, supported by factors including higher population density, emerging middle classes and ongoing urbanisation, I believe the events of this year represent an opportunity for long term investors to acquire these growth investments at an attractive discount.

Which parts of the market do you favour going into 2021?

Fortunes will continue to be dominated by the pandemic with a key determinant being individual countries' effectiveness controlling the disease. Already we have seen the higher success rates in Singapore and Japan attracting new global real estate capital.

China's economy appears to have bounced back enabling businesses to plan for future growth. We like CapitaLand Retail China Trust that operates a portfolio of retail malls in Beijing, Shanghai and other major cities in mainland China that has recently announced growth plans diversifying into office and industrial space.

Despite the current unprecedented environment, I am optimistic about the region's growth potential. The region's real estate market has some distinctive features which creates unique opportunities for investors at this point in time. It's heterogeneity with its mix of nascent and established markets and its evolving regulatory structure affords opportunities for local managers to generate alpha from this dynamic sector.