SC CAPITAL PARTNERS

A thematic approach to investing, providing resilience and growth

Recently, **Reno Sio,** Institutional Real Estate, Inc's managing director, Asia Pacific, spoke with **Jyoti Ramchandani,** managing director and SCORE+ fund manager of SC Capital Partners, based in Singapore. Following is an excerpt of that conversation.

SC Capital Partners has both opportunistic and core-plus real estate strategies. What does a core-plus strategy mean to you?

For us, a core-plus strategy means capitalising on opportunities in growth markets and sectors, as well as creating value through active asset management.

We seek properties in growth corridors that are seeing increasing investment and infrastructure development, population growth, and that provide good amenities and connectivity. This may be outside of typical "core" locations, but yet have strong underlying drivers of growth.

We also invest in both traditional sectors, as well as maturing sectors that are benefitting from strong structural trends. We like maturing sectors that can provide steady income, while providing the potential for significant cap-rate compression as the sector matures and attracts more capital. A "hands on" approach to investments, constantly looking for ways to improve income and value through repositioning and asset enhancements, is particularly important given the evolving tenant and market demand.

In your view, what else is essential to a core-plus strategy?

We are most interested in properties that are connected with education, technology, urbanisation and growth corridors. We believe such real estate is resilient even in challenging times, such as pandemics, because the themes reflect long-term macroeconomic drivers and structural trends. We have seen these trends actually accelerate during the current pandemic.

Examples of investments that we have made following these themes are logistics assets in South Korea (benefitting from the ecommerce boom); student accommodation in Japan, Australia and New Zealand; commercial properties with education tenants located in education clusters or densely populated catchments; and offices in the growth corridors of Australia and Japan.

How does this office exposure tie into today's environment? What is your outlook on the office sector?

We believe that growth corridors will be key beneficiaries of companies looking to establish satellite offices. While employers are providing flexibility to work from home, much of the survey evidence indicates that offices will remain relevant and key in fostering culture, collaboration and innovation.

We remain bullish on offices in this region. Asia is such a huge force within the global economy and is forecast to account for 50 percent of global GDP by 2040. This growth will mean more jobs, and more jobs will translate into office demand. I believe now is an opportune time to take advantage of the temporary demand imbalances caused by the COVID-19 pandemic. For example, in Tokyo, we are seeing vacancy rates at 5 percent or more. We haven't seen that for many years. Similarly, the Sydney CBD, which has traditionally been a very tight market, has recently seen a significant increase in sublease space. Given the strong growth prospects in Asia Pacific, we believe these are short-term imbalances, and the office sector currently provides good countercyclical opportunity. That said, office transactions have seen strong pricing recently, reflecting the confidence in the sector.

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Which sectors have been particularly resilient during the global pandemic, in your view?

A core-plus investment strategy should inherently have defensive features. We look for assets that have long weighted-average lease expiries and a strong tenant profile, including government or quasi-government tenants and tenants that provide essential services or a nondiscretionary offering. In terms of sectors, the logistics sector in Korea has been a standout performer, benefitting from the ecommerce boom. In Korea, ecommerce sales as a percentage of retail sales is amongst the highest in the region and has grown rapidly in recent years. Given the sector performance, it is attracting significant capital and cap rates have compressed in recent years. We believe cap rates are likely to compress further, driven by continued strong capital flows into the logistics sector.

Another resilient sector has been student accommodation in Japan and New Zealand, where occupancy remained high despite global travel restrictions, as these markets cater predominantly to local students. Overall, the student accommodation sector has been incredibly resilient.

Which Asian markets have been most interesting for a core-plus strategy, and do you foresee any changes in the near future?

The six key markets that we source for opportunities in Asia Pacific are Japan, South Korea, Australia, New Zealand, Singapore and Hong Kong. Given the huge pipeline and opportunities that we continue to see in these developed markets, there has been no need to look elsewhere. Some of the current market opportunities arise from: firms that are looking to sell and lease back assets; developers who want to de-risk their position by offloading assets; and closed-end funds that adopted a wait-and-see approach last year or are approaching the end of their fund lives. Despite the market becoming increasingly competitive, there is no shortage of assets that meet a core-plus strategy.

Are there any trends that are particular to Asia?

Asia is a very diverse region and, yes, indeed, there are some features unique to the different markets, particularly in relation to consumer lifestyle and behaviour. For example, retail assets may be struggling in some markets, and many investment strategies are pivoting away from retail. However, in the Singapore market, for instance, neighbourhood malls located in dense residential catchments are often deeply connected to the residents in the area. Such assets often focus on nondiscretionary offerings, such as supermarkets, F&B outlets and education/tuition centres. These assets serve the communities' daily needs and function more like a community hub.

Another trend that is more prominent in Asia is the large amount of spending on education. As a result, investing in assets that cater to the education market presents very interesting opportunities.

Did the pandemic impact buyer appetite for real estate assets?

Buyer appetite has been very strong. We undertook an in-house survey of valuers, brokers, property managers and asset managers focused on our six key markets and found that there has been almost no decline in buyer interest across the developed markets. Most respondents expect cap rates to firm or remain stable across logistics, office, student accommodation and nondiscretionary retail. Clearly, there is more liquidity chasing some sectors relative to others, but overall the outlook is robust for all the sectors I mentioned, and buyers want to participate in Asia's growth story. When you look at the recovery in transaction volumes this year, the numbers really speak for themselves.

Given the competitiveness of the markets, how do you find opportunities that fit your core-plus strategy?

Developing deep connections and networks locally is essential, especially in markets like Korea and Japan, which are very relationship-based. Having an established on-the-ground presence where such relationships have been developed over time is really important. We source the majority of deals on an off-market basis using these local networks and relationships.

Any concluding comments?

Asia continues to have huge growth potential and has also demonstrated resilience during the pandemic. Investing in Asian real estate provides all-important diversification benefits, the opportunity to tap into the robust growth underpinning the region's economies, and offers the potential to generate resilient income and attractive risk-adjusted returns.

CONTRIBUTOR

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Jyoti Ramchandani joined SC Capital Partners in 2019 and has more than 20 years of experience, including 16 years in real estate, primarily focused on fund management in Asia. She is the fund manager of the SCORE+ fund and is responsible for the acquisition, asset management, value enhancement, realisation activities and the operations of the fund.

Ramchandani previously worked at Lendlease Asia from 2011–2018 as the managing director and head of investment management in Asia. Prior to that, Ramchandani was a fund manager with ING Real Estate Select from 2007–2011, where she was responsible for investing and managing third-party capital in real estate funds across a range of investment strategies in the Asia Pacific region.

CORPORATE OVERVIEW

SC Capital Partners (https://www.sccpasia.com/) was established in 2004 and is a privately owned Asia Pacific real estate investment manager headquartered in Singapore, with US$7.6 billion of assets under management. The firm manages the Real Estate Capital Asia Partners (RECAP) series of opportunistic real estate funds, as well as an open-end, core-plus fund, SC Core Fund (SCORE+). The SCCP Group also manages two listed REITs, Japan Hotel REIT (https://www.jhrth.co.jp/en/), the largest hospitality REIT in Asia, and TPrime REIT (http://en.tprimereit.com/), an office REIT in Thailand. SCCP has a 17-year track record across Asia Pacific and has raised approximately US$2.9 billion in equity commitments from a diverse pool of institutional investors. The firm has 48 team members and presence in Singapore, Hong Kong, Bangkok, Tokyo, Shanghai, Seoul, Ho Chi Minh City and Sydney.

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