SC Capital Partners

'Good old, boring, investment discipline'

Maintaining value proposition in any environment with investments that are anything but boring

Recently, **Reno Sio,** Institutional Real Estate, Inc's managing director, Asia Pacific, for *Institutional Real Estate Asia Pacific*, spoke with **Suchad Chiaranussati,** founder and managing director of SC Capital Partners, based in Singapore. Following is an excerpt of that conversation.

SC Capital Partners has been investing in real estate in Asia Pacific over the past 17 years. What is your investment philosophy?

There are three characteristics of our firm. First, we respect the risks and do expect to face market volatility. As such, we tend to keep our leverage at a reasonable level. For the last 17 years, for example, our overall loan-to-value across the opportunistic portfolio has generally ranged between 45 to 50 percent. That has provided a safeguard in times of crisis, such as the global financial crisis or the current pandemic. We make sure that our investors' capital is protected.

Another characteristic is that we tend to be something of a "control freak". We like to have a majority stake in our investments, and in fact have full ownership of around 90 percent of our assets. We take a very proactive approach to the management of our assets and know everything that goes on with our assets. Consequently, we can react very quickly to the situation on the ground.

Finally, due to our discipline in maintaining low leverage and reserving dry powder, we are able to act in a countercyclical manner and pick up the best assets when the market is in a tough situation.

What countries are you in?

The firm's headquarters are in Singapore, and we have presence in Japan, South Korea, Thailand, Hong Kong and China. In countries such as Australia, where we do not yet have permanent establishment, we have cultivated very strong relationships with local partners through senior investment members from Australia in our team, who have many years of experience in those markets. We want to be known as a local sharpshooter with deep knowledge and strong connections in all our key markets.

Real Estate Capital Asia Partners (RECAP) is now in its fifth fund. How has the opportunistic fund series evolved since inception?

Our strategy has evolved based on market cycles and conditions. For example, when the global financial crisis happened in 2007–2008, we were investing our Fund II. At that time, we focused on mature, core markets, such as Singapore, Hong Kong and Japan. But over time, as valuations in the mature markets became increasingly challenging, we started to deploy more capital in Fund III and IV into emerging markets in Asia, such as Thailand, Indonesia and Vietnam, to pick up some growth and to generate additional returns. In the current pandemic, our focus is back on developed Asia, particularly Australia, Japan, China and South Korea. Our experience in Asia allows us to adapt accordingly and pick up opportunistic assets throughout the market cycle.

Over the years, we have implemented thematic strategies that have served us well. There are three key themes in our current RECAP portfolio: education, senior living and logistics. These are underpinned by long-term macro trends, such as the high value placed on education, especially in Asian cultures; ageing demographic; and the rise of ecommerce. We access these opportunities through building bilingual schools in China's Yangtze River Delta region, independent-living homes in Australia's Gold Coast, and local logistics assets in China, Japan and South Korea. We continue to look for opportunities that are aligned with these themes throughout Asia Pacific for Fund V, as well as the upcoming Fund VI.

What about the core-plus fund? Has the strategy changed over time?

SCORE+ has three key themes: urbanisation and growth corridors, technology, and education, which were put in place at inception in 2016 and have not changed over time. The seed portfolio of 15 assets is well diversified across six countries, 11 cities and four sectors. Despite COVID-19, the Fund's strategy remains highly relevant and, in fact, the long-term trends underpinning the key themes have accelerated as a result of the pandemic.

One interesting feature of SCORE+ is its exposure to student accommodation in the likes of Japan and New Zealand. While the closure of universities and international borders significantly impacted occupancy levels in most markets globally, our three assets in Japan and one asset in New Zealand continue to perform well, with occupancy around mid-90 percent, due to the large domestic demand. In addition, four out of the five student-accommodation assets, including our asset in Sydney, are on long-term master leases to leading operators/universities with strong covenants, providing downside protection.

Who are your investors?

Fifteen years ago, almost 80 percent of institutional investors in our funds were from the United States. Over time, we have seen a shift in the demographic of our investor base.

Today, the firm has a diverse pool of around 60 institutional investors based in Europe, North America, the Middle East and Asia Pacific across our discretionary funds. Interestingly, we have seen an increase in interest from Asian institutions, and we expect the trend to continue.

What is the difference between the investor risk appetite and return expectation among investors from different regions?

In general, North American investors tend to have a higher risk appetite and return expectations for investments in Asia, and are mainly interested in value-add/opportunistic strategies. In contrast, we see a lot more interest in core/core-plus strategies from the European investors.

Traditionally, Asian institutional investors have been allocating the majority of their capital outside of APAC, but more recently they have started to increase their focus on opportunities in this region due to the way that the APAC real estate markets have held up during the pandemic (both on an absolute basis and relative to other regions), and the bullish outlook on the growth of the regional economies.

Post-COVID-19, what is your long-term view of the market? Do you see any opportunity for mispricing now? And where do you see the greatest opportunities post-pandemic?

One major difference in the current COVID-19 crisis is the willingness of the banks to provide forbearance.

In the 1997 Asian crisis, there was significant distress in the market as the banks panicked and forced the sale of assets. The key macro policy then was to raise interest rates to 18 percent to 24 percent to defend the currency, causing economic pain. In the global financial crisis in 2007–2008, the central banks were more friendly, cutting interest rates down to near zero and making it easier for people to hold on to assets. This time around, central banks have made it a policy to tell lenders to go easy on borrowers. In some countries, such as Thailand, the banks have cut interest rates in half or allowed residual interest payment to be back-ended and repaid upon loan maturity. The encouragement by the authorities for the banking system to provide forbearance is quite significant. Not surprisingly, we do not see many distressed sales right now. However, we know the problem has not gone away. All this loss from subpar capital flow — someone has to pay for it. There will be a time of reckoning. We are watching the market like a hawk, and when the right opportunities come, we will take them.

We believe it is important to stay true to our value proposition, no matter how tough the environment we are in, and not overextend ourselves by over leveraging. We are very proud to say, having invested over 17 years, we have not lost any of our investors' principal.

The hospitality and retail sectors have been hit the hardest. In APAC, the largest hospitality markets relative to the economies are Thailand, Japan and, to some extent, Australia, so we may see some opportunities in these markets. We do not expect any distress in logistics or data centres.

You manage one of the largest hospitality REITs in Asia Pacific. How do you hold your assets and keep your head cool while waiting for the market to come back?

The REIT that we manage is listed on the Tokyo stock exchange and currently holds 42 hotels in Japan. There are three reasons we are able to keep our heads cool during these unprecedented times.

For one, our leverage is very low, about 30 percent loan-to-value. Second, given the low interest rate in Japan, we were able to issue a 10-year fixed-rate bond at 0.8 percent before the pandemic, and our overall portfolio debt servicing cost is about 1 percent. Third, and more importantly, out of 42 hotels in the REIT, many of them are master leased. The strong-credit master lessors continue to pay rent. That said, it is a tough market, and several of the hotels are temporarily closed, but our prudent management and measures put in place during good times have protected us.

At the end of the day, people still love to travel both domestically and abroad for work and for leisure. Once we get over the shock of COVID-19 — that could take one, two or three years — the hospitality market will recover. Meanwhile, the supply of new assets in these markets will be coming down, which provides a very good environment for market recovery.

What message would you like to give to investors in this region or in the US about what really sets you apart?

We are a 100 percent Asian investment manager with deep knowledge and connections in this region. Our track record and reputation give rise to strong deal flow and sourcing capabilities through off-market opportunities. We actively manage each of our assets and are not mere asset allocators.

We believe it is important to stay true to our value proposition, no matter how tough the environment we are in, and not overextend ourselves by over leveraging. We are very proud to say, having invested over 17 years, we have not lost any of our investors' principal. And we will continue to maintain that track record through good old, boring, investment discipline!

Finally, the team and organisation culture is very important. The partners' doors are always open, we speak very freely, and there is a strong knowledge-sharing culture. Our senior management is stable and very supportive of the younger members of the team. I am proud of the great team and culture we have built.

CONTRIBUTOR

Suchad Chiaranussati
Chairman and Founder

Suchad Chiaranussati founded the SC Capital Partners Group (SCCP) in 2004. He has successfully led the RECAP fund series and SCORE+ in its investments and provided key leadership and direction since its inception. He leads SCCP's team of 48 on the private real estate investment business, and serves as chairman of the investment committee, participating in acquisition, value enhancement and realisation activities. Before forming SCCP, Chiaranussati spent six years with Westbrook Real Estate Partners. He started its Asia office in Singapore in March 1999 and served as a managing director. Before Westbrook, Chiaranussati spent seven years at J.P. Morgan in the Proprietary Investment and Investment Banking Groups, focusing on real estate and financial institutions. Prior to that, he worked with Temasek Holdings and the Central Bank of Thailand.

CORPORATE OVERVIEW

SC Capital Partners (https://www.sccpasia.com/) was established in 2004 and is a privately owned Asia Pacific real estate firm headquartered in Singapore, with US$7.4 billion of assets under management. It 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 a presence in Singapore, Hong Kong, Bangkok, Tokyo, Shanghai and Seoul.

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