

Tune out of the noise and into the trends to capitalise on Asia's real estate potential

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With commercial real estate in developed markets facing challenges, investors are increasingly considering other options. By focusing on key investment themes aligned to resilient, secular demand trends and by looking at the real estate landscape market by market investors can possess the tools for success – and this is particularly the case in Asia's vast real estate market.

Future proof market themes

Actis sees four global themes offering strong growth opportunities in real estate: digitalisation; supply-chain transformation; health and wellness; and climate transition. To take just one example of a forecast relevant to the digitalisation theme, the world is set to consume 20 times more data in 2030 than in 2020 according to McKinsey & Company.¹ But these are not just mere themes with growth prospects, they are accentuated by secular demand trends.

These key trends include demographic shifts, deficient real estate supply and demand for yield. The first of these – demographic shifts – relates not only to continued global urbanisation but also the densification of wealth in cities. Next is deficient supply, with existing property stock often lacking the quality and affordability to attract demand. These two trends combined are critical for generating revenue and driving value. The final trend is demand for yield, which delivers exits.

By investing at the intersection of these three trends and the four themes, we are looking to capitalise on the real estate serving the “new economy”. More concretely, this means focusing on data centres, industrial / logistics, life sciences and urban repurposing (redeveloping early-generation properties to meet modern demand). By focusing on the new economy, investors can unlock opportunities globally however nowhere are these opportunities more compelling than in Asia.

The case for Asia

Asia is the largest continent in geography, population and contribution to global growth, and it is made up of diverse markets offering different opportunities. Perhaps as important however is the fact that it is in Asia where the global themes driving the new economy and the secular trends underpinning them are particularly strong.

Another key benefit is that Asian markets are generally dealing with fewer structural changes relating to the “use case” for real estate, with notably less uncertainty around remote working's impact on the future of the office than in developed markets. Post-pandemic working patterns are yet to be truly figured out in many developed markets, and if they do end up changing then the consequences for the property sector will be significant. Asia does not face this challenge.

Additionally, from a financial perspective, the availability of cheap or abundant leverage has not been a significant driver of returns or valuations in Asian growth markets. This results in investment performance that is more defensive through economic cycles.

For all the benefits Asia can offer, perhaps the greatest of all though relates to scale and diversification. For the reasons highlighted above, real estate performance across Asia has been noticeably and positively different from that of many developed markets. This diversification means investors can

find an array of opportunities market to market. To simplify however, Asian growth markets can be divided into two buckets. Markets such as South Korea and China could offer repricing opportunities, due to higher interest rates and reduced liquidity in the former and a multitude of macro-challenges in the latter. The second bucket of countries is made up of the likes of India and Southeast Asian countries like Vietnam, the Philippines and Malaysia, which are in strong growth mode.

Zooming into the opportunity in health and wellness, or life sciences in India to be more concrete, serves as a great example. India is already a life sciences powerhouse, accounting for approximately 60 percent of global vaccine production for example, and this sector is set to only benefit further from the realignment of global supply chains. The result is that the Indian life sciences sector is expected to grow by a compound annual growth rate of 13 percent, to reach \$427 billion, by 2030 – growth that will generate major opportunities for specialist property investors.

Embedding in markets top-down and bottom-up

Asian real estate opportunities are vast but require operational competency and a deep understanding of how different types of real estate are developed, constructed and operated. They require specialisation. This is why Actis has a builder-operator model, squarely aimed at satisfying corporate tenants and ensuring the delivery of assets specifically suited to their needs.

To achieve this, we work from the top-down and the bottom-up to either create fully aligned joint ventures with high-quality operating partners on the ground or build fully integrated businesses with bespoke top-quality management teams. This way of doing business also means we're able to commit to sustainability in everything we do in real estate, which is essential.

Sustainability: reducing risk and driving value

Strong sustainability commitments and operations are key to both reducing risk and enhancing asset value. By conducting asset-specific sustainability reviews covering everything from embedded carbon, procurement, energy management and carbon reduction, as well as obtaining environmental ratings for real assets and focusing on sustainability in the procurement stage, a critical sustainable impact can be made. Add to this a focus on upholding the highest governance best practise, promoting inclusion and diversity, and implementing local skills-training programmes and you will have a resilient asset.

Not only do such actions help developers secure a local licence to operate, they also help unlock necessary approvals and attract target tenants, particularly as most corporates have their own sustainability targets to meet. Developers that ignore sustainability risk being left with stranded assets while those that make it a priority can attract tenants, improve occupancy and maximise buyer interest upon sale. Sustainability is a commercial imperative.

Investors need to block the noise and tune into the realities of each market to realise the opportunities that exist within Asian real estate. By concentrating on specific, future-oriented market themes underscored by secular demand trends, the prospects are very exciting.

FOOTNOTES:

¹ McKinsey & Company, Connected world: an evolution in connectivity beyond the 5G revolution, 20 February 2020

Find out more about Actis' investments in real estate here.



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