Interview with Douglas M. Weill

Institutional Real Estate: Asia & Beyond

Interview with Douglas M. Weill, Managing Partner, Hodes Weill & Associates

by TIMOTHY LIN
Writer

Douglas M. Weill is a Managing Partner of Hodes Weill & Associates, a real estate advisory boutique with a focus on the investment and funds management industry. The firm is headquartered in New York and has additional offices in Hong Kong and London. Founded in 2009, Hodes Weill provides institutional capital raising for funds, transactions, co-investments and separate accounts; M&A, strategic and restructuring advisory services; and fairness and valuation analyses. Clients include investment and fund managers, institutional investors, lenders, property owners and other participants in the institutional real estate market.

Prior to Hodes Weill, Mr. Weill was a Managing Director at Credit Suisse, based in New York. Mr. Weill joined Credit Suisse First Boston in November 2000 when the firm merged with Donaldson, Lufkin & Jenrette (DLJ) and co-founded Credit Suisse's Real Estate Private Fund Group (REPFG). From 2000 through February 2009, Mr. Weill co-led the business, with the responsibility for the strategic oversight and management of REPFG. REPFG has received numerous recognitions for its market-leading business, including Global Fund Raising Agent of the Year by Private Equity Real Estate in 2007 and 2008. In early 2008, Mr. Weill assumed the additional responsibility of co-managing Credit Suisse's Real Estate Investments Group (REIG), which includes the firm's real estate investment businesses within the Alternative Investment Group. As of March 2009, REIG had over 250 professionals and approximately $37 billion of assets under management.

Mr. Weill worked previously with Paine Webber Incorporated, Kidder, Peabody & Co., Kenneth Leventhal & Co. and Hospitality Valuation Services. Mr. Weill has a BS from Cornell University.

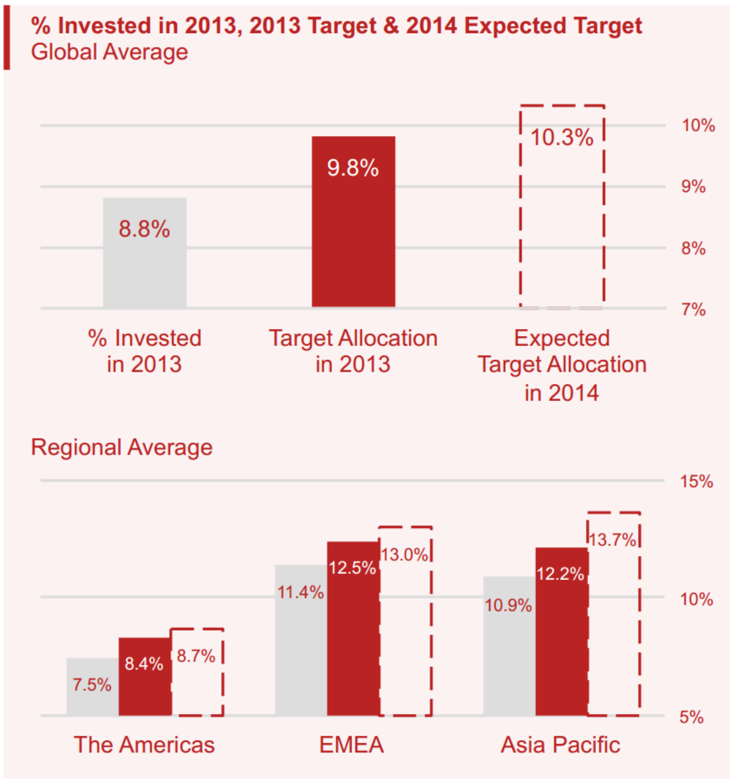
> "INSTITUTIONAL ALLOCATIONS TO REAL ESTATE ARE INCREASING, INDICATING THAT THE PACE OF ANNUAL INVESTMENTS WILL LIKELY CONTINUE TO ACCELERATE WELL BEYOND 2014."

1. Hodes Weill & Associates, in partnership with Cornell University's Baker Program in Real Estate, recently published the results of the inaugural 2013 Institutional Real Estate Allocations Monitor (the "Allocations Monitor"). What were the key findings of the Allocations Monitor and where does Asia stand?

The Allocations Monitor was created to provide the institutional real estate industry with a comprehensive annual assessment of institutions' allocations to, and objectives in, real estate investments by analyzing trends in institutional portfolios and allocations by domicile, type and size of institution. We surveyed 198 institutional investors from 26 countries, representing total assets under management of over US$7 trillion (including over $400 billion invested in real estate). Among other results, we found that:

- Institutions are significantly under-invested in real estate, which is resulting in greater capital flows into the sector. On average, institutional portfolios are 8.8% invested in real estate, which is approximately 100 bps below the average target real estate allocation of 9.8%.

- Institutional allocations to real estate are increasing, indicating that the pace of annual investments will likely continue to accelerate well beyond 2014. Institutions expect to increase their target real estate allocation by an average of 52 bps in 2014. This is particularly pronounced in Asia Pacific, where institutions expect to increase their target allocation by an average of 146 bps.
- Investment objectives are increasingly global, driving cross-border capital flows and investment activity. Institutional interest in international investments is on the rise. Asia Pacific based institutions indicate the highest interest in investing outside their home region, followed by institutions in Europe, Middle East, and Africa ("EMEA") and the Americas.



% Invested in 2013, 2013 Target & 2014 Expected Target

2. How has institutional interest in real estate evolved over the years, around the world and in Asia?

Institutional interest in real estate has been growing for over 20 years, moving from a mainly entrepreneurial endeavor to becoming a long term asset class in the portfolios of institutional investors. After the Global Financial Crisis, we saw a pronounced shift in institutional investors' attitudes towards real estate, consolidating its place as a core asset class in institutional portfolios. Besides its high current yield, risk diversification and inflation hedge properties, institutional investors also found that real estate matched their liability profile (in particular, of pension funds), and achieved their target returns while limiting volatility.

In Asia, real estate in institutional portfolios has evolved from having more of a domestic focus to having more of a regional and/or global focus.

In recent years, Asian institutions have acquired several high-profile assets in developed countries. As local markets continue to become more "institutionalized", we have seen growth in the interest of institutions to invest in the Americas and Europe, and to invest in the growth opportunity in Asia. Ultimately, the pace of growth will depend on the availability of professional investment managers and trusted local partners, as well as the professionalism of the industry as a whole.

> "IN ASIA, REAL ESTATE IN INSTITUTIONAL PORTFOLIOS HAS EVOLVED FROM HAVING MORE OF A DOMESTIC FOCUS TO HAVING MORE OF A REGIONAL AND/OR GLOBAL FOCUS."

3. In terms of Asia as a real estate capital source, what are some of the key themes you are seeing today?

Certainly, there is a lot of cross border capital coming out of Asia today. Real estate capital from Asia has typically been deployed mostly in major gateway markets such as New York, London and San Francisco. The capital is invested across a range of real estate asset types, from core properties to development projects – through fund managers, as well as in direct deals with joint venture partners.

4. What opportunities and challenges do you see for Asia as an investment destination for global real estate funds?

Urbanization remains the predominant growth story of Asia. The great rural-urban migration taking place in China and India has created demand for all types of real estate – residential, retail, office, industrial. Even with sky high prices and potential overbuilding occurring in certain Chinese cities, demand remains robust. In fact, there appears to be an undersupply of certain real estate product types – such as in warehousing and retail.

The main challenge for global funds investing in Asia is access to quality transaction flow. With the real estate and capital markets still maturing, and relative opacity in real estate information flow, unique offerings are often snapped up by local players with privileged knowledge of the market and investment opportunity.
Compared to developed markets such as the U.S., Asia's investment management business is at a relatively early stage, and the challenge for global investors is finding a trusted local partner that can identify and execute investment opportunities, and to ensure that there is an alignment of interests.

5. In 2013, Hodes Weill acted as exclusive global placement agent for Singapore-based Mapletree Investment's Mapletree China Opportunity Fund II, which raised US$1.4 billion and remains the largest China-focused private equity real estate fund raised to date. Tell us more about Hodes Weill's involvement in the process – what were the milestones and challenges?

Besides being the largest China-focused fund raised to date, the Mapletree China Opportunity Fund II was 40% over the original target of US$1 billion. Even so, the fund was about 10-20% oversubscribed and we had to turn away interested investors. There was also global interest in the fund, with investors coming from North America, Europe, the Middle East and Asia, and contributions ranged from $20+ million to over $100 million. The entire offering process took just 10 months, about half the time typically taken for raising a private fund.

Contributing factors to the success of the capital raise include, first and foremost, the quality of the investment manager as well as the offering, and demand from institutions around the globe. Nonetheless, the slowing rate of growth in China was a concern among some investors and we had to convince them that this was not indicative of the general development trends taking place in the country.

6. What do you see are the macro trends impacting global real estate investment going forward? What effects will the pullback in monetary stimulus have on the real estate space?

The low interest rate environment which we have seen in the years following the financial crisis has led to greater liquidity, higher transaction volumes and asset values rebounding in certain markets to pre-crisis levels. Certainly, more capital has been allocated to the real estate asset class over the past few years and the appetite of institutional investors for real estate continues to grow. There is a general sense of cautious optimism as real estate as an asset class is performing well, with stable demand and high occupancy, and rental growth exceeding inflation.
Assuming economic fundamentals remain positive and barring any major economic shock, an inevitable pullback in monetary stimulus and consequent rise in interest rates may be buffered by healthy GDP and demand growth.

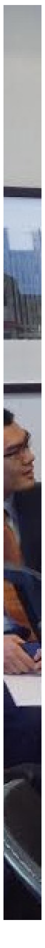
" ASSUMING ECONOMIC FUNDAMENTALS REMAIN POSITIVE AND BARRING ANY MAJOR ECONOMIC SHOCK, AN INEVITABLE PULLBACK IN MONETARY STIMULUS AND CONSEQUENT RISE IN INTEREST RATES MAY BE BUFFERED BY HEALTHY GDP AND DEMAND GROWTH. "

7. What are the factors that may impact the private placement and advisory business over the coming years?

As the real estate business becomes increasingly global, and cross-border allocations increase, the demand for capital raising and advisory intermediaries is expected to become greater. We observe this from the increasingly customized, tailored strategies that institutional investors are seeking, which may be best achieved by having an independent third party intermediary with intimate knowledge of local markets and the ability to connect them with the right partners. On the flipside, the evolving regulatory requirements in certain jurisdictions are creating some uncertainty and challenges for the business.

8. Hodes Weill opened its Asian office in Hong Kong in end 2011. What have been some of the key accomplishments in the period since and what are the firm's future plans in Asia?

The opening of our Asian office and recruitment of a high quality team was our central mission in the initial years. Today, the team in Hong Kong, led by our partner Alfredo Lobo, services key markets in Asia – including Korea, China, Hong Kong, Singapore, Japan and Australia. Besides the Mapletree project which helped significantly raise our profile in the region, the team is also involved in raising capital for a number of U.S. and Europe-focused funds and transactions. We hope to add to the team, as well as to our geographical and product coverage, in the coming years.



9. In 2006, you were named, along with Mr. David Hodes, in the list of 30 most influential people in private equity real estate by Private Equity Real Estate (PERE). Can you share what you think are some of the key factors for your success and any lessons learned in the process?

On an organizational level, the strength of the team and the ability to nurture a collaborative work culture are critical factors that influence the quality and integrity of the work we produce. As trusted advisors, we endeavour to give good advice to our clients, even if it may not earn us a fee in the near term. The key to building strong relationships is to focus on the long-term.

On a personal level, it is important to constantly challenge yourself to learn and to keep abreast of industry developments. It is also important to build and maintain a network of relationships, which start from the colleagues you meet and work with early in your career. These colleagues will rise along with you over time to become decision-makers in the industry. Finally, creating visibility for yourself by getting out of your office to meet people is really important. Don't just rely on emailing and social media for communicating and networking. Always work for people you respect and who have a vested interest in your success, and avoid going for the most expedient opportunity by sacrificing the quality of the people you work with. | BA

Timothy Lin is a final year Master's candidate in the Baker Program in Real Estate. He is Co-President of the Cornell Asia Real Estate Society and has worked in real estate private equity in Asia.

> "ALWAYS WORK FOR PEOPLE YOU RESPECT AND WHO HAVE A VESTED INTEREST IN YOUR SUCCESS, AND AVOID GOING FOR THE MOST EXPEDIENT OPPORTUNITY BY SACRIFICING THE QUALITY OF THE PEOPLE YOU WORK WITH"

Picture: Members of the Cornell Asia Real Estate Society having a discussion with Hodes Weill co-founders Mr. David Hodes and Mr. Douglas Weill during a company visit (March 2014)