Collin Lau
Founder, Bei Capital Partners (HK) Ltd, and former head of global real estate, China Investment Corp

A conversation with Collin Lau

with Alex Eidlin

Prior to founding his own firm, Hong Kong–based Bei Capital Partners (HK) Ltd, in 2012, **Collin Lau** *was head of global real estate with the US$575 billion China Investment Corp, a sovereign wealth fund established in 2007. With 27 years of experience in the industry, Lau recently spoke with* **Alex Eidlin,** *associate publisher of* The Letter – Asia Pacific, *about the challenges and opportunities he and his team experienced at CIC, as well as about current market conditions for investors.*

Bei Capital Partners

Headquarters: Hong Kong

Firm established: 2012

What were your main challenges while at CIC?

There were three main challenges: The first was building a consensus internally — on investment strategy and also every investment opportunity — because CIC is a very consensus building–oriented organisation. And, second, CIC is a relatively new organisation, which means it is new to the market. So it was a challenge to establish sources of intelligence, and external networks had to be built up from scratch. We were essentially forming our own asset allocation and investment strategy. We also only had a team of five people to run CIC's global real estate programme — five dedicated staff to take care of a global mandate. It became a major challenge to overcome that limitation and overcome it successfully. In retrospect, I think we did it well and with a very unique approach. We were also uniquely positioned within the institutional investing circle around the world, which in retrospect helped the CIC to make a lot of very good deals.

How did you cope with the challenges of having only five people?

With five people, there is no question we needed to build up support with a strong network of very good partnerships. With partnerships, there were situations where we could go direct, but also situations where we could get managers or investors to co-invest with us. One of the things we felt was most important was to build up our deal-sourcing network as quickly as possible to have plenty of different investment opportunities. We could compare these from time to time to make sure we were getting people from different managers or other peer groups to work together on evaluating and underwriting investments.

And one good thing about our approach was that we were good "statisticians". We always compared notes and called in a lot of good statistics and intelligence to analyse, so we could focus on a few investment opportunities. Having a five-person team didn't mean it was just five people working on our real estate investments; it meant five people who may be managing about 50 relationships, and those 50 relationships were pretty strong. We never saw ourselves as working alone, and we were very active in co-investments.

What investment strategies did you employ at CIC?

Our philosophy was that we should always invest in platforms. CIC invests in a number of platforms, meaning real estate companies as well as developers, owners and operators. Investing in a leading platform will give you very significant influence in the marketplace. As a sovereign fund filling its positions over time, CIC has been able to become not just the single largest shareholder but sometimes quite a dominant shareholder. It isn't accurate to think that investing in real estate companies is a public stock investment and not a real estate investment. When you only have a few people and you are aware of your internal constraints, then it's important to invest in platforms. True, effective platforms run with great operations, own a diversified portfolio and save us from overstretching ourselves to attend to the nitty-gritty of asset management.

The second thing is that CIC does a lot of co-investments. Co-investment allowed us to cherrypick and assess the best investment opportunities where a lot of the underwriting analysis for the deal had already been done by our partners and we could compare it with different co-investment opportunities. We would typically prefer to take on co-investment opportunities before investing in separate accounts or being an LP in any blind-pool fund.

Separate accounts were a third investment tool we used. We saw during 2009 to 2011 that having separate accounts to deal with different specific strategies made more sense and allowed us to take a more significant position in single-asset portfolios than being one of many LPs in a fund. One of the approaches that we used was to see if we could create what I call a "long-term opportunistic investment". People question how to make opportunistic investments long term, but we'd say we were always opportunistic in that we'd try to make really good deal terms at the entry and then manufacture core with a stabilised status, which gave us the option to hold long term. If you are one of many LPs, it is very hard to buy out others because you have to deal with many different stakeholders, but if you are the only LP in that separate account, then there's always opportunity to hold it for the longer term.

However, in selective cases where investment managers had complementary strategies to ours and did not offer separate accounts, we had no other choice but to become one of many LPs in a fund where the investment managers were primarily only offering returns. In these cases, there were no strategic long-term options that we could hold onto the assets, and we would have to comply with investment managers' decisions to exit at their discretion.

How is your role now similar to your years at CIC and what is different?

The strategy is similar, but the market focus and source of capital are different. At CIC, I was working with Chinese capital going international. I'm now focused on Asia Pacific and working more with foreign capital. We are working with a significant pension fund to invest in Asia Pacific, so we are focusing a lot on direct investment or co-investment. While we would not rule out the opportunity to put a smaller portion of money into an LP position, it would only be with the goal that we could then take on co-investment or other more direct investment opportunities together with the manager or partner.

Given the flood of money that has inundated markets around the world and resulted in elevated prices, how can investors find value?

That is a real challenge right now. Prices for real assets have gone up quite a lot given all of the quantitative easing programmes that have been going on for some time. But I have to emphasise that at all times there is no one single market. Even China alone is not a single real estate market.

When you overgeneralise a market, you cannot see opportunities. If your investment company is run by economists, then it is very hard to make specific investment decisions while you focus on what the economy will be like tomorrow and the day after that.

Markets always have some inefficiencies where real estate and other alternative investment managers can find value. For example, my job is to find maybe two very good investment opportunities in Asia Pacific annually with the opportunity to build them up over time to become significant platforms. So, to me, there's always opportunity to find the most trusted and capable people and take platforms through multiple cycles to actually grow them to a stage that gives us not just the assets, but the opportunity to capitalise on the franchise value of the platforms.

What are the most important things investors should do to manage risk in their investments?

Investors must be able to identify and price risk. If you cannot identify all of the risks, you have not done your job. Once all of the risks have been identified, then the question is, "How do you price the risk?" There are some things you can mitigate by structure, and there are some things that are totally out of your control to change. The most important thing is whether you price risk enough.

This goes back to the idea of statisticians because statisticians are probabilistic people. They work on probability, and accordingly you form a judgement as to how you actually price the probability, then you make a decision. And how you price potential complications is based not just on your own experience but also by judging your deal-sourcing network — the quality and quantity of deals that have been reviewed. You will have many deals at the same time and need a great statistical base to assess them. If you only have one deal at a time and are so afraid that you miss that particular deal and have no other options, then I think you will be cornered.

Given the low yields currently available to investors, do you believe investing in core assets is still a viable strategy at this time?

There's nothing wrong in holding onto core assets. I think it goes back historically to how you accumulate those core assets. And there's nothing wrong in doing some opportunistic or value-added investment, too. But you've got to be very clear about your strategy as to what extent you plan to manufacture core assets. I think it's wrong to have fixed strategy allocations, to say you must be 75 percent core and 25 percent opportunistic, for example. Pre– or post–global financial crisis, it is about how fast you can actually respond to events, make a judgement and not be afraid of losing your job.

Are there particular countries investors should consider for their investments?

I don't believe in a single-country real estate market because within a country there are first- to fourth-tier cities. This is true for the United States, and it is true for China. To me, the emphasis should always be on global mega-cities rather than a whole country. And there is so much liquidity going after assets in the United States right now. If you feel good about the United States now, then you should have invested there about three years ago. That's what we did at CIC; we invested a lot in the United States and Europe.

Is it a good time for investors to move up the risk curve?

This goes back to my point that investors should always be ready to build and manufacture their core portfolio, and then always have their trading portfolio at the periphery. There's nothing to mean that it is time to step up or step down on the risk curve. And it doesn't look like there will be a crisis in the immediate term, so going "overly opportunistic" is not a big concern to me.

I tend to focus more on mega-cities than their countries. To me, it's more important that you ask yourself, "What will be the top 20 mega-cities in the world by 2020?"

Given this, what mega-cities do you like at this time?

The world is quite equal right now. About one-third of the mega-cities I like are each in the Americas, Asia Pacific and Europe. People mostly look at a country's GDP and very seldom at GDP by metropolitan bracket. There's a report from the Brookings Institution on mega-cities around the world. You can break things down and actually look at the infrastructure of those cities, meaning, for example, how long it takes to get somewhere by car or high-speed train. You can look at the aggregate GDP around those regions, and it's not surprising that you'll find very significant economies in greater Tokyo, greater Beijing, greater Shanghai, greater Hong Kong and greater Singapore.

Asia Pacific already has about six or seven greater metropolitan regions. And I don't see why one region is inferior to another, but the one good advantage that China has is that its population size, urbanisation rate and high-speed trains are actually better than its global peers. That's why a lot of cities in this region have government policy to address demand management rather than a need for demand.

Any final thoughts?

With all of this in mind, there are implications for real estate in Asia Pacific because the growth is there. Every day is relatively better than the previous day, and there's a real demand and conversion to consumption- and service-driven economies, etc. Mostly people forget the sheer size of the population in Asia Pacific and the growing importance of real estate to that population. So a lot of Asian investors see alternative investments as a more important asset allocation and strategy than many of the American and European money managers, which start with investments in public markets and then gradually move into more private market products and real estate alternatives. Bear this in mind when you look at the fundamentals of economies — the supply of and demand for real estate, as well as the capital flows within and outside of the region. ❖

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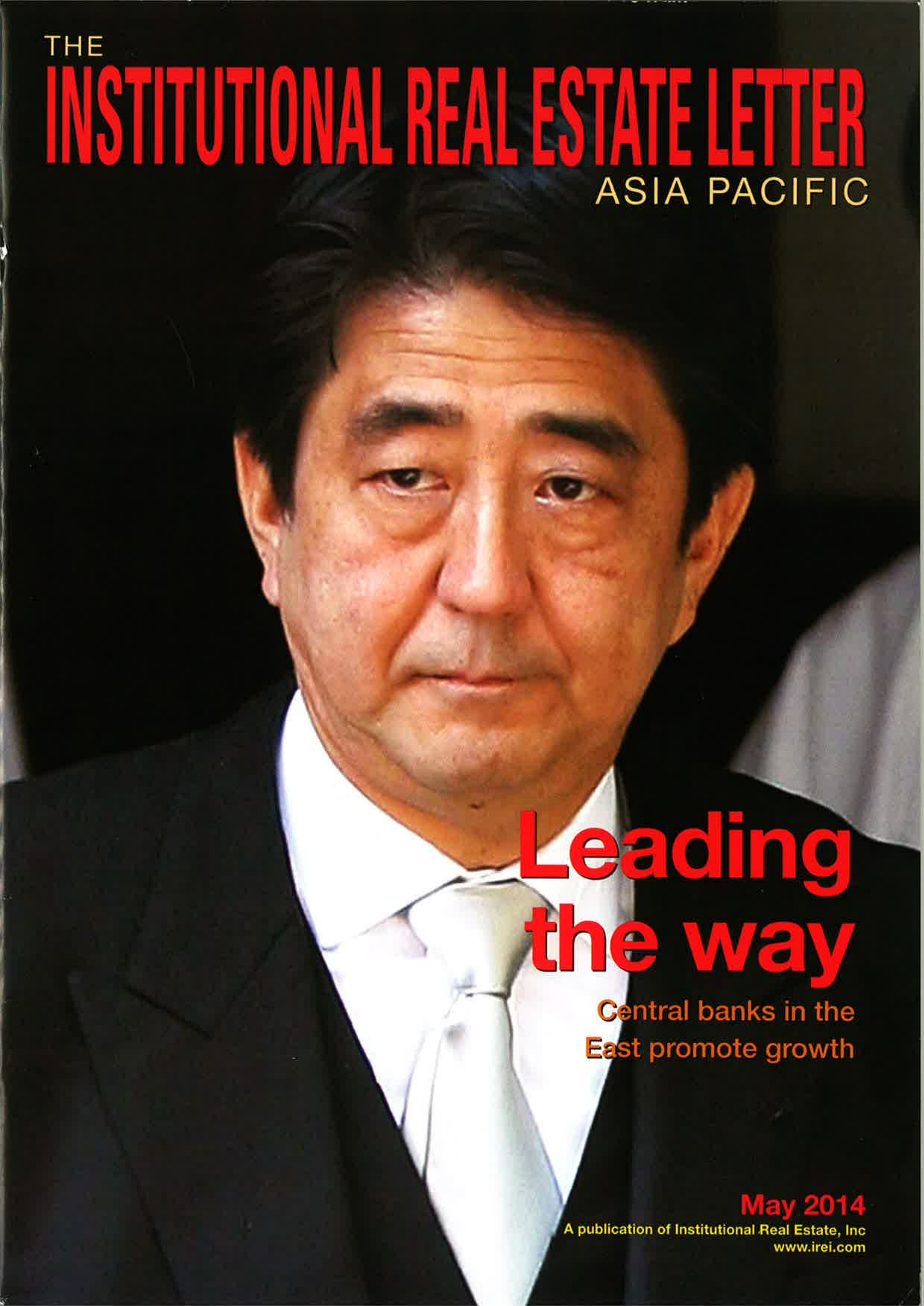

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