



Equity Placement **ViewPoint**

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CAPITAL RAISING INTO EUROPE FROM ASIA

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INTRODUCTION

CBRE has found that Europe has become increasingly dependent on inflows from cross-regional capital, with capital from outside Europe accounting for 19% of all investment since 2007. This has traditionally been dominated by North America, but increasingly Europe is attracting capital from Asia. Since 2008, Asian investors have consistently invested more year-on-year in Europe, and are growing in influence. Asian investment in 2008 was €0.5bn, and with €9.9bn transacted in 2013 against €4.9bn for 2012 (see Figures 1 & 2), this trend has continued unabated.

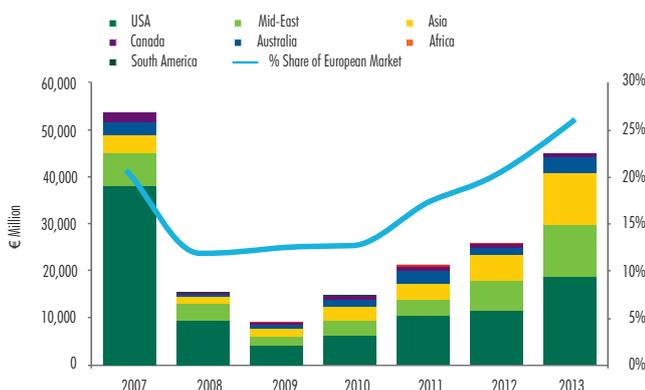
Capital raising for European real estate has now become a truly global business, as capital moves quicker than ever seeking a balanced, well diversified global real estate portfolio. Compared to the Canadians, investment into Europe from Asia is relatively new, and being pioneered by the region's sovereign wealth funds and pension funds with sovereign status, such as China Investment Corporation (CIC) in 2012, and National Pension Service of Korea (NPS) in 2009. It is also likely to be deeper and more

sustainable, as strong push and pull factors are working to now attract institutional investors - life insurers, pension funds (public and corporate) and mutual aid associations – to core real estate opportunities in Europe.

Push	Pull
Recent de-regulation for Asian institutional investors (life insurers and pension funds)	Developed, transparent and familiar markets
Positive demographic and socio-economic pressures	Liquid & large European markets
Limited or no current overseas commercial real estate exposure	Accessible via regulated, institutional and established real estate investment management industry
Small institutionally investible domestic markets	Easy market to access relative to other core global markets

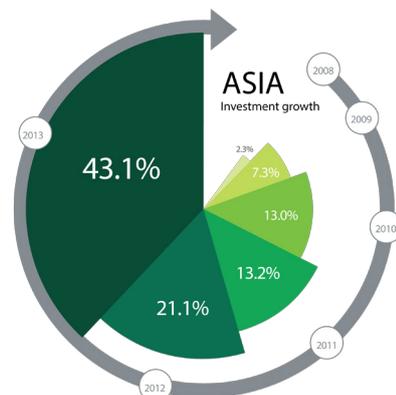
The last 18 months have been dominated by Malaysian and South Korean institutional inflows, with Chinese institutions more recently getting in on the act. This has been focussed

Figure 1 - Annual Transaction Volumes from Cross Regional Sources into Europe 2007 - 2013



Source: CBRE Research

Figure 2 - Per Annum % of €23.0bn Asian Cross-Regional Investment into Europe 2008-2013



Source: CBRE Research

particularly on London, but more recently this focus is being drawn to the UK regions, top 7 German cities and Paris.

Europe's exposure to non-domestic sources of capital is far greater than other global regions. For European fund and asset managers, this presents a great opportunity to diversify their investor base developing clients on more than a Pan European and potentially global scale. However, success is dependent upon an understanding of the manner in which this capital invests, which significantly varies according to the source of the capital.

We look to concentrate upon Asian cross-regional capital, summarise the scale of this investment into Europe to date, review the push and pull factors. We finish by considering in more detail the variations in requirements of this particular source of capital with regards:

- transaction size
- type/structure
- investment strategies
- the differences in key terms
- due diligence requirements and transaction costs

and conclude by asking whether European managers will continue to capture Asian capital.

WHERE IS THE CAPITAL COMING FROM?

Scale, characteristics and sources of cross-regional capital into Europe with a focus on Asia

Since 2007, CBRE has recorded overseas investment into Europe from cross regional sources totalling €166bn. This historic share of roughly 19% of all investment activity, primarily comes from North American, Middle Eastern and Asian sources, however, the characteristics differ according to which continent it has derived from.

US – Opportunity driven across Europe

The most significant proportion (€87bn) of this investment has historically come from the US, and has been led by US real estate opportunity funds but increasingly those private equity houses more traditionally seen in Europe in the leveraged buy-out space or loan workout. They manage collective investment schemes invested by primarily US institutions, but also by other global institutions, often

committed as part of large global/regional fund raises and target opportunistic strategies which typically utilise leverage to enhance returns. They work closely with local asset managers across Europe to target mid to high teens IRR's by proactively executing asset repositioning strategies or taking advantage of local market mispricing. US investors have also shown a strong bias towards Germany compared to other cross-regional investors.

Canadian – Increasingly Europe bound

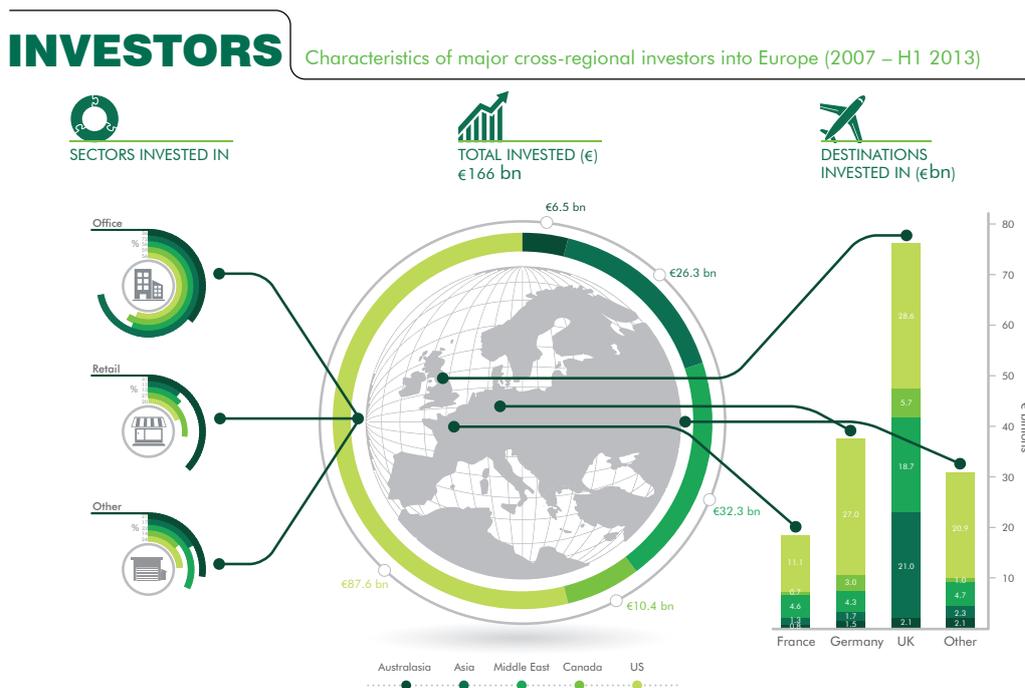
It is not all one-tracked from North America. Some of the large Canadian pension institutions (either direct or through their investment management platforms) have become increasingly more active in Europe, having traditionally made asset led investments with or without partners in the UK. These investors have tended to make significant core to core plus investment in fortress-style assets such as prime super-regional shopping centres or CBD offices, or gain opportunistic exposure via development projects in core markets – Canadians have the largest average lot size (€130m). More recent activity has seen a number of platform led entries into European markets – particularly logistics.

The strategic difference between the two North American capital sources is most likely driven by the relative scales of their domestic markets. US investors dominate their own investment market with a 90% domestic share, particularly reflecting the fact that they are able to obtain a diversified exposure to core/core plus investment within a known single jurisdiction and across multiple US cities/markets and sectors. This appetite within their domestic market also has the effect of blocking inbound investment from overseas into the US. By contrast, taking 10% as an estimate of the required allocation to real estate by the Canadian pension market, this would equate almost exactly to the size of the Canadian invested commercial real estate market (US\$180bn). This results in aggressive targeting of core domestic assets by Canadian capital, but also forces Canadian institutions to look overseas.

Middle East – Prime markets and alternative sectors

Buyers from the Middle East are more diverse in nature, with a variety of institutional (mostly sovereign wealth funds) and private capital making up the total. A disproportionate amount of Middle Eastern capital is invested in alternative sectors, particularly hotels

Figure 3 - Characteristics of Major Cross-Regional Investors into Europe (2007 – 2013)



Source: CBRE Research 2013

and residential development. The majority of Middle Eastern investment into Europe has been into the UK, but a significant amount has also been targeted at France and Germany.

The large oil backed sovereign wealth funds have been focussed on larger investment, often at the corporate level, with a general preference for higher returns (10% plus), when compared with other global sovereign wealths. Private capital from individual families, or pooled as syndicates or via wealth management groups, tends to be invested via relationships with Propcos.

Australasia

Australian investment has dropped off to almost nothing since 2007. Aside from the sovereign wealth fund, Future Fund, Australian institutions have noticeably retrenched from the European market, where they had up to the GFC been characterised by being a platform led investor, happy to invest across Europe, often pursuing value-add strategies. This retrenchment has been a function of reviewing European commercial real estate exposure, dealing with the legacy issues, particularly the leverage associated with these past strategies. It has also been a function of a robust Australian economy through the period post GFC, accompanied by high gilt and core property yields compared to other global markets. Combined, this has made it difficult to argue for overseas investment. However, increasing

competition in core real estate and recent changes to superannuation pension regulations is expected to increase pressure to make outbound investment going forwards.

Asia – London and core-centric, but initial signs of continental drift

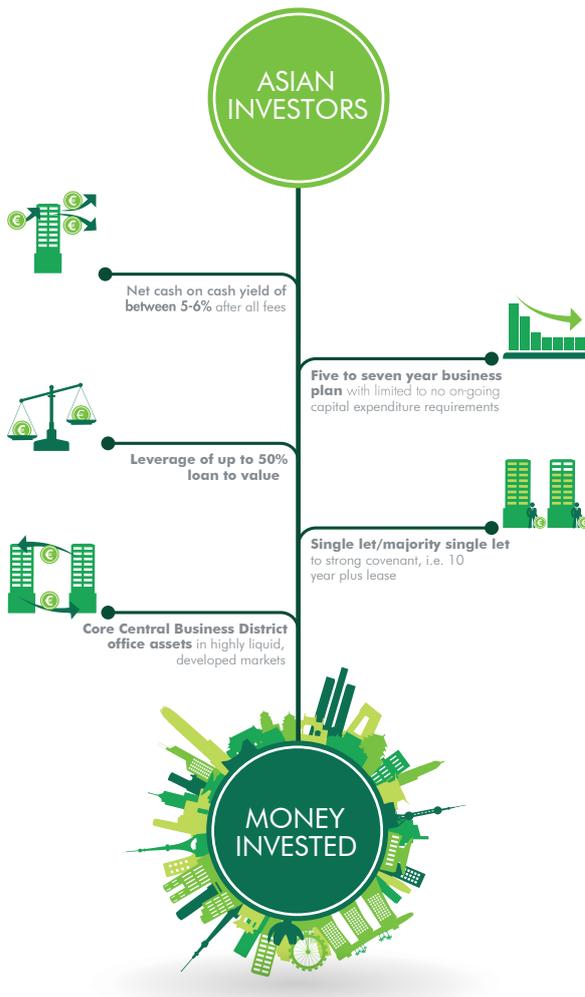
Investment from Asia has been pioneered by the sovereign wealth funds and large national pension funds with sovereign status from the region – such as China Investment Corporation (CIC), Government of Singapore Investment Corporation (GIC), National Pension Service (NPS) of South Korea – via direct investment and corporate tie ups.

This has been followed more recently by successive waves of Asian institutional investors from Malaysia, South Korea, and China. Thai investment is being made, and Taiwanese investors are expected. This investment has typically been direct investment or quasi direct (Joint Venture, Co-Investment or Club Investment), as opposed to indirect investment through listed or unlisted vehicles. It is often assisted by European investment advisors or retained segregated account managers to underwrite the deals locally. Investment has been concentrated in a relatively small number of CBD locations, with a strong preference for the UK (80%), and is also highly concentrated in the office sector (72%). Notably, investors from Asia have one of the largest average lot size for

their transactions (€110m), and rarely take portfolio exposure as it is more complex to underwrite.

Malaysian institutional investors tend to invest alone. It is likely this will be the favoured approach of the Chinese institutions as appetite grows, and is also relevant to a few of the larger South Korean pension funds and insurers who are capable of making an equity investment of c. €/\$100m plus, and will invest alongside other global institutions. However, a more common approach for South Korean institutions is to club. Typically, the larger institutions capable of a €/\$50m-75m investment will act as a cornerstone investor taking the lead to a wider South Korean club, pulled together from investors committing €/\$10m-30m. As momentum gathers for a deal more investors are attracted to join the club. This South Korean club approach provides diversification to the investors and cost saving in relation to transaction and management costs. It is a mentality partly borne out of the South Korean culture, but is also the result

Figure 4: Institutional Asian Investors: Investment Requirements



Source: CBRE Equity Placement, 2013

of a relatively small domestic institutional investment market, which drives even small institutional investors to invest overseas. It can have the result of tying up large numbers of South Korean outbound investor teams once a due diligence process is under way. South Korean investor clubs are also a function of the fact that most investors are impacted by a regulatory requirement to invest outbound either through Financial Supervisory Service (FSS) (South Korean regulator) regulated and registered overseas funds (costly and difficult where there are no seed assets), or through a South Korean vehicle (more typical), arranged and managed by an FSS authorised Asset Management Company (AMC).

Leaving aside the Asian sovereign wealth investors who have the capacity to act fast, the institutions tend to need extended time for deal due diligence and the on-going comfort of transaction exclusivity to maintain momentum. These requirements lead them to be more attracted to off-market opportunities, where they feel the playing field is levelled versus more responsive domestic, intra-regional and North American investors. This results in a higher degree of co-investments and backing into existing ownerships via equity shares.

DRIVERS OF ASIAN INSTITUTIONAL CAPITAL

CBRE has looked in detail at the push factors impacting cross-regional capital coming to Europe², whilst also considering the globalisation of Asian institutional commercial real estate investment³. Below those aspects particularly relevant to Asian institutional capital are reviewed.

The principal driver of significant cross-regional investment flows is a high level of savings and pension contributions in a particular country. This is amplified if that country also has a relatively small domestic market and is therefore unable to accommodate the investment of those savings. The drivers of these excess savings and the extent to which future sources of cross-regional investment can be predicted are impacted by five key factors:

Limited institutional investments within region

Asian institutional investors, unlike their counterparts in other regions, have a preference for well-located core office assets providing secure income streams. However, very few assets of this type are accessible for investment within region. Developed Asia Pacific

accounts for just 17% of the global real estate investment universe, whilst in comparison, developed Europe and North America collectively account for more than half of the global total. Furthermore, a large proportion of investable assets in Asia are tightly held by large property companies which tend to “build and hold”, and are therefore not regularly traded. In addition, the strong investment demand for core assets in Asia has pushed down yields over the past few years, meaning that foreign markets offer a yield premium relative to Hong Kong, Shanghai and Singapore.

Legislative change relaxing restriction on overseas investment by insurers⁴

China: In October 2012 the Chinese Insurance Regulatory Commission (CIRC) relaxed its restrictions on overseas investment by domestic insurance companies. Chinese insurers are now permitted to invest in completed commercial properties in the gateway cities of 45 designated countries. China Life Insurance and Ping'an Insurance have already acquired property overseas.

Taiwan: Discussions about permitting domestic insurance companies to invest in real estate offshore have been on-going. In November 2012, in response to concerns of an overheating Taiwanese commercial real estate market, dominated by insurers (40% of transaction volume), regulators increased the minimum annualised yield on commercial property acquisitions by insurance companies from 2.125% to

2.875% and restricted onwards sale within five years of purchase. As a result, Taiwanese insurers have been inactive in the domestic market, and have begun to assess opportunities offshore. It is thought that leading insurers will move fairly quickly following any rule change regarding overseas investment. Most will establish overseas business arms. Whilst, it is unlikely this will result in significant overseas investment initially as the regulations remain quite restrictive as to capital ratios required to invest outbound, what proportion of AUM can be invested, what type of investments can be made and how, it should be viewed in the context that Taiwan insurers' real estate investment assets have grown by 13% per annum since 2006 to c US\$20bn.

As a foot-note on Asian insurers, it is notable that Japanese insurers make up 14 of the top 25 insurers by AUM in Asia, reflecting the depth and maturity of their insurance market. Almost all of these are significantly larger by AUM than other Asian insurers but few are active overseas investors. If the Abenomics stimulus package takes a firm hold, expectations would be for more Japanese insurers to follow suit.

Growth and evolution of Asian sovereign wealth funds (SWF)

SWF's, who invest proceeds due to a temporary advantage for that country, so as to even-out the benefit of that advantage across generations, are key investors in cross-regional real estate. The global SWF AUM has grown from US\$1.2 trillion end 2002 to almost US\$6 trillion by 2012⁵. They continue to be

Table 1 - Asian Insurers – Overseas Real Estate Investment Interest

INSURER	COUNTRY	AUM (\$BN)	INSURER	COUNTRY	AUM (\$BN)
Nippon Life	Japan	649	China Pacific	China	98
Ping An Insurance	China	359	Mitsui Life Insurance Company	Japan	86
China Life Insurance	China	251	Hanwha Life	South Korea	61
Tokio Marine Holdings	Japan	197	Samsung Fire & Marine	South Korea	34
Cathay Financial	Taiwan	165	China Taiping	Hong Kong	28
Samsung Life Insurance	South Korea	133	Kyobo Life	South Korea	20
Fubon Financial	Taiwan	119	Hyundai Fire & Marine	South Korea	16

Source: Preqin

Source: A bird's eye view of global real estate markets: 2012 update, Pramerica Real Estate Investors Research, 2012

² International Capital Flows – The Future (September 2013), CBRE

³ Going Global: Asian Institutional Investment in Real Estate' (July 2013), CBRE Viewpoint,

⁴ Going Global: Asian Institutional Investment in Real Estate' (July 2013), CBRE Viewpoint,

acquisitive, but have also looked to make changes in allocation to real estate as a result of underperforming fixed income markets. Several Asian countries have had, and continue to have, substantial and long-term trade surpluses, such as China and Singapore, or significant foreign exchange reserves, such as China and South Korea. They have set-up non-commodity based sovereign wealth vehicles to invest this surplus. Institutional investors have tended to be followers of sovereign wealth investors, often restricted by domestic regulation (see above), so as sovereign wealth investors from Asia focus more widely in Europe, institutional investors will be expected to follow.

Asian pension funds with little or no current real estate exposure

On a global basis, whilst the rate of growth maybe less dramatic, existing pension funds control far more capital than SWFs. It is estimated that in 2011 total pension fund AUM globally were more than six times higher than those of SWFs. Traditionally domestic real estate investors, it is expected real estate exposure will follow the internationalisation of wider capital markets.

Global pension fund assets total in the order of \$29.75 trillion⁶, but are very concentrated in a small number of countries. The USA stands head and shoulders above the rest with total pension fund assets estimated at between US\$16 to 18 trillion⁷, with the

Table 2 - Asia's Largest Pension Funds*

RANK	FUND	MARKET	TOTAL ASSETS (\$BN)	RANK	FUND	MARKET	TOTAL ASSETS (\$BN)
1	Government Pension Investment	Japan	\$1,292	140	Mitsubishi UFJ Financial	Japan	\$25
4	National Pension Service	South Korea	\$368	149	Nippon Telegraph & Telephone	Japan	\$24
7	Local Government Officials	Japan	\$201	168	Panasonic	Japan	\$21
8	Central Provident Fund	Singapore	\$188	195	Government Pension	Thailand	\$18
12	Employees Provident Fund	Malaysia	\$175	205	Public Service Pension Fund	Taiwan	\$17
20	Pension Fund Association	Japan	\$119	209	Mizuho Financial Group	Japan	\$17
24	National Public Service	Japan	\$93	212	Zenkoku Shinyo Kinko	Japan	\$17
39	Employees' Provident	India	\$68	215	Government Service Insurance	Philippines	\$16
40	Public School Employees	Japan	\$67	219	Labor Insurance Fund	Taiwan	\$16
56	Organization for Workers	Japan	\$54	222	Hitachi	Japan	\$16
58	Labor Pension Fund	Taiwan	\$53	267	Korean Teachers' Pension	South Korea	\$13
85	Private Schools Employees	Japan	\$40	279	Toyota Motor	Japan	\$12
117	Retirement Fund-KWAP	Malaysia	\$29	285	Fujitsu	Japan	\$12
118	National Pension Association	Japan	\$28	291	Sumitomo Mitsui Financial Group	Japan	\$11

* Currently Active Overseas Investors Highlighted & Global Ranking

⁵ Sovereign Wealth Fund Institute (www.swfinstitute.org).

⁶ The Pensions & Investments/Towers Watson World 300 (end 2011).

⁷ The estimated total varies depending on the source. Sources used here include Towers Watson, OECD and ONS.

⁸ As at 30 April 2013 - CalPERS Web site (www.calpers.ca.gov)

⁹ Strategic Investment Mix - ABP Web site (www.abp.nl)

¹⁰ People, Purpose, Performance, CPIIB Annual Report: 2012

¹¹ The Pensions & Investments/Towers Watson World 300 (end 2011)

¹² All references to projected populations and population age structures are taken from the medium fertility scenario, World Population Prospects: The 2012 Revision - United Nations, Department of Economic and Social Affairs

next largest national totals being for Japan (US\$3-4 trillion) and UK (US\$2.5 to 3 trillion).

Of the countries with the highest pension fund assets, Japan stands out as the one where the proportion held in real estate is lowest. In the USA, UK, Australia, Canada and the Netherlands pension funds typically have a significant allocation to real estate already. For example, CalPERS has an 8% allocation to property (with a strategic target of 9%)⁹, ABP has a 9% target and CPPIB is at over 10%¹⁰.

This compares with the Government Pension Investment Fund (GPIF) of Japan, the world's largest pension fund with AUM of US\$1.2 trillion¹¹, and the Local Government Officials Pension Fund (Japan), also in the top ten of global pension funds with AUM of US\$ 200 million of AUM, which both have only very limited exposure to foreign markets (less than 10%) and almost none to real estate (either foreign or domestic). If the rest of the deep and established Japanese pension fund market is similarly allocated, a re-allocation to real estate both domestic and overseas, combined with growing pension funds in emerging Asian markets, will have a marked impact on the capacity for Asian institutional cross-regional investment.

Population age structure¹² & socio-economic growth

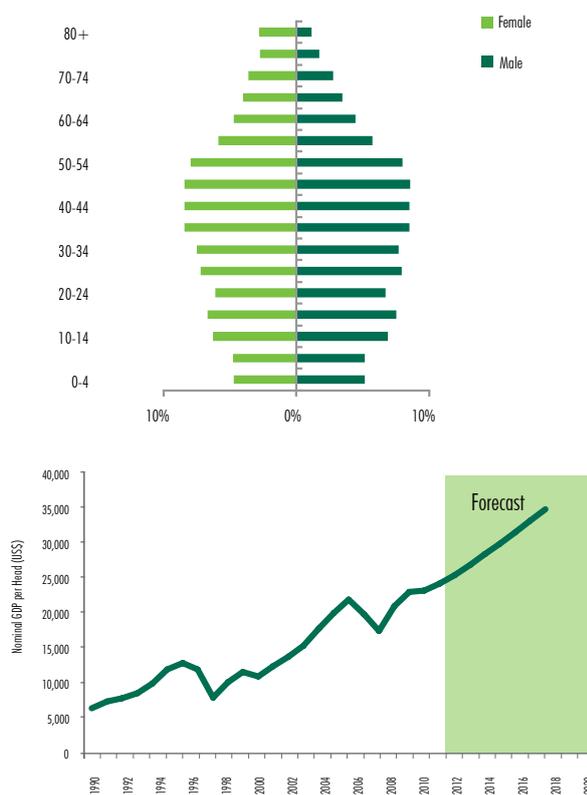
Although separately demographic and socio-economic factors can have an impact on international investment, it is generally when the two reinforce one another that the effect becomes greatest. In both cases the driving force is the net level of long-term saving being generated in an economy. As a result, the most rapid growth in long-term savings will normally be seen in populations where the age structure is biased towards middle age AND there has been a recent growth in living standards (meaning that this large middle aged population has spare income that can be saved). A clear example of this is South Korea, and Malaysia, which have both been significant sources in cross-regional capital in recent years.

Looking at South Korea population age profile, there is a distinct bulge in the population tree between 35 and 55, with an unusually high proportion of the population in this age group. This group has also benefited from higher disposable income as a result of the strong economic growth in the country that

saw GDP per head increase by nearly 200% between 1998 and 2007. Moreover, although the financial crisis saw a brief interruption in this growth it has since resumed and is already more than 10% above the pre-crisis peak. It is no co-incidence, therefore, that the last five years have seen an increase in capital flows out of Malaysia and South Korea, into European (particularly London), US and Sydney real estate. Pension funds in both countries are very cash positive at the moment as they have large working age populations paying into their pension systems, but very few retirees receiving pensions.

To an extent this also explains the growth in investment from Malaysia (Employees Provident Fund and Permodalan Nasional Bhd), although in Malaysia the growth in GDP per head is not as marked as in

Figure 5 - South Korea – Population Age Profile (2010) and GDP per Head



Source: United Nations, Department of Economic and Social Affairs, Population Division (2011), Oxford Economics

Korea. Pension funds in both countries are very cash positive at the moment as they have large working age populations paying into their pension systems, but very few retirees receiving pensions. This South Korean and Malaysian situation mirrors that in Western Europe in the 50s and 60s, although in Europe the build-up of pensions saving was diluted by state-run pensions systems that were unfunded (that

is contributions made in a particular year were used to fund pensions paid that year rather than put aside to pay the future pension of the person making the contribution).

Partly as a result of the lessons learnt from the legacy of unfunded pensions that have left many European countries with substantial unfunded liabilities, this is not a model that is being copied in most emerging markets. Instead, publicly run pension schemes in most emerging markets are organised on a funded basis, with current contributions being invested to pay for future pensions.

In addition to existing sources of cross-regional investment, China will be an increasing source of cross-regional real estate investment in the near and medium term, but mainly due to its sheer size and the relatively small extent to which China has already invested overseas rather than its particular demographics. Expectations are also for the rapid increase in GDP per head to continue in the medium term and growing urbanisation should lead to a strong growth in personal, long-term saving. However, strict laws aimed at population control introduced

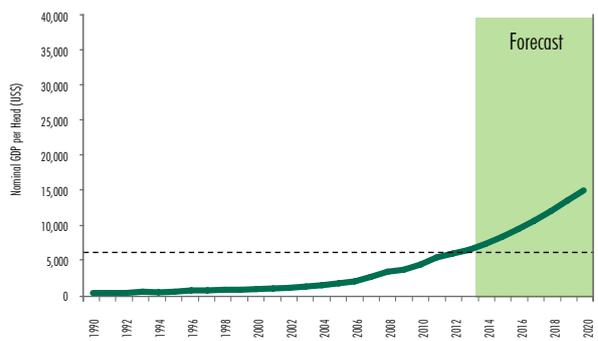
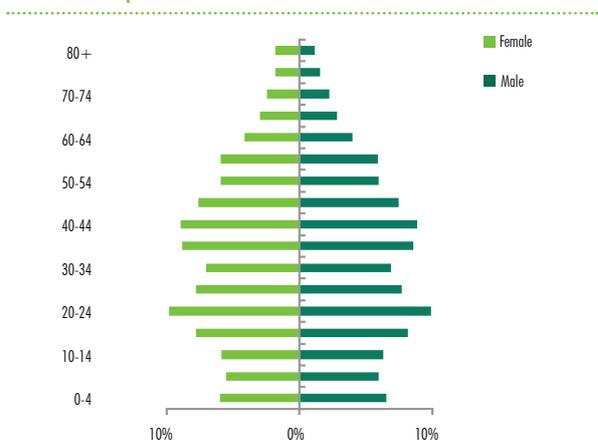
in the late 70s mean that the working age cohort is already at its peak as a proportion of the population.

Both Thailand and Malaysia have also experienced rapid growth in GDP per head in recent years¹³, growth that is expected to continue in the near term. At just under US\$11,000 per head the GDP per head in Malaysia is almost twice that in Thailand and on the basis of that measure alone Malaysia is a more obvious candidate to generate capital outflows. Indeed there have already been significant real estate acquisitions by Malaysian pension funds in the European market. However, the total population of Thailand is more than twice that of Malaysia and is more biased towards the 35-55 age group, which will counterbalance this to some extent.

Other cross regional sources

CBRE have looked ahead at what might be the new sources of cross-regional real estate investment, identifying the strongest prospects as those that have this same combination of age profile and socio-economic change. The results are highly dependent on the timescale being considered, with different countries reaching their peaks at different future points. It is noticeable that Asia dominates the short term prospects.

Figure 6 - China – Population Age Profile (2010) and GDP per Head



Source: United Nations, Department of Economic and Social Affairs, Population Division (2011), Oxford Economics

¹³ In the ten years to 2013 nominal GDP per head in Thailand increased to 2.5 times its 2003 level and in Malaysia to 2.3 times its 2003 level (Source: Oxford Economics)

Table 3 - Prospects and Expectations for Cross-regional Sources of Capital

TIME HORIZON	COUNTRIES
Short term	China, South Korea, Thailand, Malaysia
Medium term	Brazil, Azerbaijan, Poland, Russia
Long term	Indonesia, India, Turkey

NATURE OF ASIAN INSTITUTIONAL INVESTORS

Asian institutional investors are seeking to make overseas core investments away from their domestic markets in order to obtain higher absolute returns, higher risk adjusted returns, diversification or some combination of these three. However, implementing appropriate international investments – sourcing them, pricing them and effectively executing them - is complicated by physical and cultural distances from an investor’s domestic market.

Asian Institutional Overseas Investor Requirements & Strategy

With the exception of a few, the current requirements of Asian institutional investors making outbound investments can be summarised as follows:

- Core CBD office assets in highly liquid developed markets:
 - Gateway US cities
 - or London, Paris, top 5-7 German cities
 - Sydney/Melbourne
- Leverage of up to 50% LTV
- Single let/majority single let, to strong covenant, 10 year plus lease
- 5-7 year business plan with limited to no on-going capex requirements
- Net cash on cash yield of between 5%-6% - after all fees (including local AMC fee*) and after a hedging allowance for currency costs

An asset that can be cleanly underwritten is preferred – at this time there is limited appetite for portfolio investments.

Most investments need to be considered in the context of a global overseas strategy, meaning that an investor will always need to consider any opportunity from multiple points of view i.e.

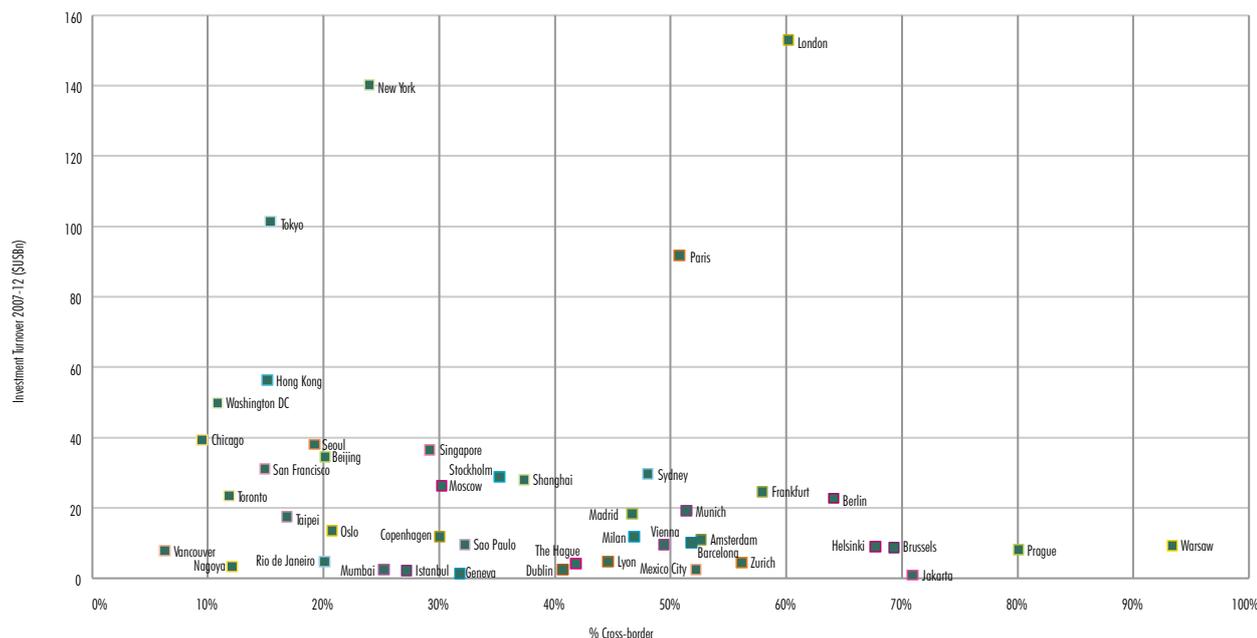
- Why EMEA not Asia Pacific, or North America?
- Why Paris not London or Frankfurt?
- Why this location in a particular market?
- Why this asset?

For Asian institutions, the decision to allocate internationally to Europe is well established, but still relatively a small allocation within an institutions global real estate strategy. The outbound commercial real estate investment arms are typically made up of highly qualified investment professionals, in teams of 1-6 people, often with responsibility for investment across the entire 'Alternative' investment space (including infrastructure and private equity) and often seeking to compare investments globally. Depending on the scale of an investors AuM, they can be under pressure to invest sums of €200m up to €2bn per annum, placing significant pressure on the requirement to transact in as confidential and uncompetitive an environment as possible.

Resource is scarce for almost all cross-regional investors, and as such there is a tendency to start with those markets (UK, Germany, France), cities (London, Paris, Frankfurt, Munich, Berlin) and/or sectors (Offices, Shopping Centres, Hotels) where the information hurdle can be more readily bridged. This tendency is more acute for Asian institutional investors. If you strip out Asian sovereign wealth capital from the data discussed in section 1, almost all their focus has been on London offices, as it is one of the most liquid and transparent markets globally.

For some investors, the depth of support available from the real estate investment agency industry in London, enables them to invest by directly underwriting the deal themselves. Liquid and large markets are also preferred as they present a high

Figure 7: Liquidity & Cross-border penetration



Source: CBRE Research

capacity for investment entry and exit across multiple investments, ensuring economies of scale through on-going efficient deployment of capital.

Within Europe, London is often viewed as the more familiar market for reasons as simple as the fact that it is a market where the institution may already be invested (fixed income/equities), or where other factors drive close association:

- language (English is the more readily understood second language)
- higher education links (China, Malaysia, Indonesia) – often the investment professionals have been educated in UK or have children being educated in Europe
- shared basis of common law (Malaysia)
- Internationally recognised and supported football team

Investment alongside local managers, particularly in Europe, for greater access to stock

London is globally attractive, which makes it a highly competitive market particularly for core prime offices.

As such a **best-in-class local asset/acquisition manager** can often help to identify and front 'off-market' non-competitive opportunities, or where necessary provide access to less familiar or readily accessible markets such as Paris or top 7 German cities. These markets are well covered by Europe's recognised, institutional and established real estate investment managers, which helps as Europe is not a uniform market. Even between the three more favoured markets there are significant variations in market practices (lease, valuation and measurement standards), legislation and tax treatment for real estate investment, and within Germany itself, different practices in different states.

Investment via investment managers/advisors, in fund or segregated account, or alongside co-investment/JV partners who will undertake the day-to-day management of the asset therefore becomes more important as institutional investors look to Europe. As core product in Europe is also competitively sought after, a local manager to source and execute deals effectively is paramount. This is especially relevant if they can source assets off-market, whilst managing the vendor's expectations to be able to de-risk the transaction during an extensive (by European/North American standards) due diligence process through exclusivity.

Ideally investors are looking to make relationships that will be established and go beyond the initial investment to warrant the time spent approving the manager, and enable efficient further deployment of capital. This is a dilemma and/or problem, as the institutionally recognised managers that are required, are often in reduced supply as they need to be free of conflict with similar strategies and/or similar segregated accounts. Beyond a manager's capacity simply to source assets and execute the business plan, the investors will also be considering the following when investing with a local European manager:

- a proven track record and capability
- the status of a manager's legacy issues (if any)
- their approach to risk management and corporate social responsibility
- the effectiveness of IT and recovery systems
- the quality of a managers reporting
- alignment of interests through co-investment, manager removal clauses, appropriate fee structures and vehicle governance
- and the cultural fit with key senior personnel will all need to be considered by the investor

As the above needs to be considered in parallel to the investment opportunity, there is often more for an institution to consider when making an investment, which increases the due diligence complexity of a possible transaction and hence the timescale to execute.

Securing capital from Asian sources

Given all of the above, from a local European manager's perspective, securing capital from Asian sources is a function of being able to manage the following key issues:

- Deal with the cultural differences that exist (often the largest hurdle) between approaches to commercial real estate transactions and due diligence, making allowance for the additional investor practices and procedures that may be necessary
- Articulate an investment proposition on a global, regional and local basis having strong regard to investment liquidity and seeking to closely match the investment requirements of Asian institutions
- Work to support the outbound investment teams in presenting any opportunity through investment committee, being prepared to respond to a fastidious approach to underwriting and due diligence

CBRE's experience in working either to assist European managers in sourcing Asian capital, or selecting the right local European asset management partner for Asian investors, is reflected in much of the above. We work closely with our local offices in Asia-Pacific to track the outbound requirements of Asian investors on an on-going basis, supporting their fact-finding and developing interest in the different opportunities across Europe's key markets, and feeding a voracious appetite for supporting research and data. This is done in conjunction with seeking to introduce and match proven institutionally acceptable managers capable of executing the favoured strategies, particularly focussing on their acquisition track record and relationships for sourcing product. In the first instance, this matching process is often best undertaken without the pressure of a targeted transaction, which helps to first and foremost assess whether there is a strong enough cultural fit and respect between manager and investor to work together going forwards.

As the relationship moves towards sourcing opportunities for the parties to transact upon together, this is made more efficient by preparing market specific materials across a range of possible opportunities, enabling investor and manager to use the limited time together work in identifying the optimum investment for a partnership. CBRE are able to utilise their global research functionality to help by making clear comparison as to the relative risk/return of a proposition versus other developed global markets, not just local (European) comparable transactions, whilst the manager is able to demonstrate their sourcing expertise by seeking to present asset(s) that can be selected 'off-market' where possible. The local European asset manager then works to co-ordinate the asset underwriting, due diligence process (possibly underwrite the costs) on the Asian investors behalf, being the on-the-ground face of the transaction in Europe.

Throughout the entire process, CBRE's reach via team members in its local offices is key to bridging the cultural and physical gap between Europe and Asia, as we are able to maintain constant dialogue with the investors on the opportunity, providing real time input on the transaction status, acting as a go-between on the more difficult queries on the manager, and ensuring nothing gets lost in translation during the course of the process. In this way momentum can be assured, without the

need to get on a plane to resolve potentially deal-breaking issues. Formal translation of key transaction documents can for some markets be a regulatory requirement, as can the use of regulated investment advisors/managers to oversee outbound investment. CBRE local teams work to manage and coordinate this process as necessary.

The prize is significant. The Malaysian institutions, which have been active in London, are beginning to focus on continental Europe, particularly Paris and German cities. Korean institutions have followed up on club investments in London, with a club investment in Frankfurt. This is likely to continue as these institutions follow the lead of their sovereign investors, who have been investing increasingly in Europe and away from other sectors (industrial, retail and residential). The core European market is relatively more accessible than the US market, which is dominated by domestic investors (90% share), and significantly larger when viewed as a whole against the Australian markets of Sydney, Brisbane and Melbourne. As summarised above, the drivers for Asian institutional investment will continue to generate inflows, particularly from Japanese institutions.

CONCLUSION

Asian institutional investors are an **important and growing influence within the European commercial real estate market**. Institutional investors from the region are increasingly being released by **de-regulation (pension/insurance)**, allowing them to follow sovereign wealth investors from the region overseas. They are driven by current and **increasing demographic and socio-economic pressures** causing positive net savings and pension contributions, and also starting from a position of **extremely limited exposure to overseas real estate** relative to their global peers. From some jurisdictions, even the smaller investors are forced to look overseas, to due to limited institutionally investible domestic markets.

Europe presents a **developed, transparent and readily understood and accessible market**, with **significant liquidity** in the key markets that currently match investors' requirements. All of the above said, overseas investment teams are small, physically distant, and being asked to invest in new markets on the other side of the world. When few have resources on the ground in Europe the significant information hurdle presented by a new market and the distance from it, is further complicated by the need to overcome language barriers and cultural differences.

Europe has a regulated, institutional and established real estate investment management industry through which Asian investors can invest, but the best managers with proven execution capability are limited in number, and can be conflicted by existing mandates, relationships or strategies. The **greatest challenge is for the capital and manager to find the right counterpart, whilst sourcing opportunities which give the most chance for Asian investors to successfully invest**.

CBRE GLOBAL RESEARCH AND CONSULTING

This report was prepared by the CBRE Capital Advisors and EMEA Research Teams. The EMEA Research team which forms part of CBRE Global Research and Consulting – a network of preeminent researchers and consultants who collaborate to provide real estate market research, econometric forecasting and consulting solutions to real estate investors and occupiers around the globe.

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