

Invesco Real Estate

Recently, **Geoffrey Dobrmann**, editor-in-chief and publisher of The Institutional Real Estate Letter—North America, spoke with **Cheng-Soon Lau** of Invesco Real Estate. The following is an excerpt of that conversation.

Asia is on everyone's radar today. What is Invesco's history in the region?

Invesco is very well known for its equity investments, having entered the Asian market more than 40 years ago. In January 2006, I was hired to add a real estate dimension to the platform. At that time, I was basically a one-man shop, but I had Invesco's well-established infrastructure for support. The first thing we did was set up our research capability by hiring Thomas Au, our director of Asian Research, whom I worked with to develop the economic themes that we were seeing in Asia, and all of the implications they had for real estate. Once we felt comfortable that we understood those implications, we began educating our clients about what the real estate opportunities could be in Asia, and then actually began investing with the launch of a small, \$100+ million opportunistic fund in 2008.

Where does your acquisition of the AIG platform fit?

Invesco Real Estate's business has grown organically and on occasion, where there has been a compelling opportunity, by acquisition. This has happened when there has been a good strategic fit, such as in the growth of our European business. When the AIG platform became available last year, it was a natural fit. We did look at a couple of others, but the AIG platform suited us the best. We were very fortunate to take on a talented team with a great track record of successful investing in real estate in Asia. We're very proud of this new team and the platform that we currently have.

How broad is the experience of the new combined team?

Our combined experience is very wide. We currently have a large team of 46 professionals in Japan. This team has been managing a large portfolio of quality, income-producing real estate assets for the past 11 years. They've been involved in just under 700 acquisitions and a similar number of dispositions. Many of those acquisitions were long-term investments, so they are an experienced asset management team as well. We also have a very experienced team in Shanghai. A couple of members of that team have development experience in China going back to the mid-1990s. So they are well equipped to deal with the complexities of the PRC market, as well as to seize on the many opportunities we currently see. In addition, we've got another good team in Seoul with very good transaction experience in Korea, and we're looking forward to doing more business there. We have an experienced team in Singapore, with a track record of making very good investments, such as The Sail, a well-known condominium project. We also have experience in Hong Kong, another major market. Hong Kong is a market that is dominated by large local players, but nonetheless, our Hong Kong team has a great track record of success. For example, they were heavily involved in building the iconic AIA tower, and they are currently completing a joint-venture residential condominium, which has been very well sold. So if we go across the markets, we've got deep and wide experience on the acquisitions front, as well as very seasoned asset manage-



Cheng-Soon Lau, Managing Director, Invesco Real Estate—Asia, joined Invesco in January 2006 and has overall responsibility for the management of the Asian real estate business. Lau has held senior management roles in the Asian real estate investment business for over 15 years. He has directed numerous real estate investment and development projects across all major markets in the Asia-Pacific region. Lau has transacted more than \$1.7 billion of real estate across the markets in Australia, China, Hong Kong, Japan, Indonesia, Singapore and Thailand.

ment professionals. In addition, we have a strong research base now that we have several years of publishing our bi-annual House Views under our belt. On top of that, we have a full set of back office functions, fund accounting and client service that are supported by Invesco's corporate offices, which provide us with all the IT, HR and other forms of support that we might need.

How does the Asia team match up with those in Europe and the United States?

The Asian footprint in terms of AUM is very similar to that of Europe. We are still smaller than our US region, but nonetheless we have a very significant platform locally. As a result, our teams are well matched in terms of depth, as well as breadth of experience. We have a very strong collegial culture that encourages us to work with each other using the same philosophy no matter where in the world a client invests. We find being able to work within the Invesco global infrastructure a distinct advantage in meeting investor needs as they move their capital outside their home markets. We truly enjoy working with each other across the globe and that helps us bring our clients into new markets, even though those markets are several thousand miles away, because we have a trusted team of colleagues on the other side managing for us — and we are available to manage for them as their investors come to Asia.

How are Invesco's global real estate teams organized?

We are one global real estate business that provides our investors with local, on the ground real estate expertise in the three major regions of the world. This “on the ground” philosophy means we have the local knowledge and ability to understand and take advantage of local market nuances. While real estate is a local business run by local teams, Invesco Real Estate brings the fiduciary culture and institutional best practices that our investors demand of each region. Investors around the world know what to expect when they invest with us. Top-down and bottom-up research, investment processes, client service, and reporting and accounting are some of the disciplines where our clients benefit from global practices.

The past couple of years have been pretty rocky. How has Invesco fared?

We've done well despite the crisis, which is best demonstrated by the fact that we were successfully able to acquire

AIG's platform in Asia. In addition, we added just under \$3 billion worth of new capital commitments in 2010, added a large number of new institutional clients around the world and completed about \$3 billion in global transactions. Plus, when others were cutting back, we were very busy adding new staff and resources. We've added 19 people in the United States and Europe, and with the addition of the AIG platform, we've added 72 people here in Asia. So I think we've done very well.

How are you different from the other global managers that are now focusing on Asia?

We are different firstly because we are a truly global business built on three similar platforms around the world. We work as one team, so in many ways our clients will have a seamless and consistent experience as they go from one part of the world to an investment in another. Being known as a trusted adviser around the globe is one of the primary reasons that we have seen success despite the crisis. During a time when investors needed a steady hand, Invesco was able to provide them with transparent communication from a stable and growing platform.

Has the crisis changed how investors look at real estate?

Investors have learned a lot since the crisis. They're more wary of very large funds, particularly in the opportunistic space. They're more sensitive about fees and fee structures. Many investors are moving back to core income-producing real estate as opposed to highly opportunistic strategies. Clearly, some investors have been able to capitalise on the downturn, and they continue to look for opportunities, but generally, because of what has happened in the financial crisis, there has been more caution and a return to fundamentals.

How are those fundamentals looking in Asia?

It's difficult to make an overall comment because Asia is a very large region, but in general, the market recovered very quickly — possibly a little too quickly in the residential markets. Specifically, economic growth is underpinning everything. Fundamentals are reasonably good, demographics are still very strong and a growing middle class is fuelling domestic consumption. In addition, the supply/demand situation is well balanced. So in general, we feel the fundamentals from an economic perspective are reasonably good for Asia.

Are Asian investors interested in investing in Europe or the United States?

We have seen quite a bit of interest. Investors are looking there to acquire high-quality assets in the gateway cities at reasonable prices and for long-term income. Now that prices have come down, many of the more sophisticated investors see the Western markets as very attractive from both a value and diversification standpoint.

Where should investors invest in Asia?

For core and core-plus assets, we like the Japanese, Korean, Hong Kong, Singapore and maybe the first-tier Chinese markets for office and both first- and second-tier PRC cities for retail. Multifamily in Japan is also a healthy sector. For higher-returning strategies, we are looking at development in China across the asset types, though residential and retail are most attractive. One area of concern is Hong Kong. While we like that market and the demand and supply situation is very good, the large pool of liquidity in the Hong Kong market makes it very hard to find good deals.

What about some of the other markets?

We continue to monitor and watch the Indian market very closely, but we aren't investing there yet. We also are observing some of the smaller markets such as Malaysia and Vietnam. We do have a project in Thailand, but these are newer markets for us, and we are taking our time in getting to know them. Australia is the other market that we like, but primarily in the core, core-plus space. It's not a large market, and there is a lot of money chasing good deals, so it can be more difficult to find value.

What type returns are investors finding in Asia?

Post global financial crisis, return expectations will probably have to be tempered. There will be a return to fundamentals and accompanying that, there will be a need for managers to be much more serious asset managers as opposed to financial engineers. Invesco has always been that serious asset manager, and we expect to continue to offer trusted investment services to our clients around the world, wherever they live and wherever they want to invest.

What do you see in the future for institutional real estate investment?

Bigger investors are shifting back to fundamentals, and there could be a return to the separate account and club investing as they look for more control. In the past, it was generally fund investing here, but we've seen a growing presence of some of the larger investors from the West, who have set up offices here to get a first-hand view of deal and opportunity flow in Asia. I also think that Asia will see a consolidation on the manager's side and, as a result, there will be just a few global players. At the same time, you'll see the emergence of quite a lot of smaller regional players. Asia is a very entrepreneurial region, and there will always be the investment professionals who spin out of a large organization to start their own or have been developers who have turned toward the investment management business as a way to continue to provide growth for their companies without having to carry a very large balance sheet. Finally, there will be more cross flows of capital into and out of Asia, and the institutional investors will be the force behind this movement, which will find capital seeking the best opportunities wherever they exist around the world. With its global platform, Invesco is well positioned to help investors find those opportunities, whether they be in their own domestic markets or half way around the world. ❖

CORPORATE OVERVIEW

Invesco Real Estate is a global real estate firm, which has been providing real estate investment and asset management services since 1983, first in the United States and then expanding into Europe and Asia. Globally, Invesco Real Estate has \$36.5 billion of assets under management, of which \$5.5 billion is managed in Asia, and over 300 staff across 16 offices globally.

All figures as at 1 January 2011.

CORPORATE CONTACT

Rita Ling

Invesco Real Estate, Client Portfolio Manager

Tel: Asia +86 138 1763 0458

Tel: US +1 949 610 5585

rita.ling@invesco.com

www.invescorealestate.com