

# Aberdeen Asset Management

Recently, **Geoffrey Dobrmann**, editor-in-chief of The Institutional Real Estate Letter – North America, spoke with **Gert-Jan Kapiteyn**, fund manager of core real estate in Europe for Aberdeen Asset Management. The following is an excerpt of their conversation.

## *How is Aberdeen structured?*

Aberdeen Asset Management is a long-established pure asset management company listed on the FTSE 100 Index in the United Kingdom with a very experienced management team. As of September 2012, assets under management amount to \$302 billion, including \$30.1 billion in property. Aberdeen is a geographically diverse company. We have 31 offices across the world and almost 2,000 staff, including 500 investment professionals. What really sets us apart from many other asset management companies is that our sole focus is asset management. We are not related to a banking or insurance group. We have to do our best in the market to ensure the assets under management deliver performance and customer satisfaction.

## *What is your approach to property investment?*

We are absolute value investors. We are target driven, not benchmark driven. Of course, we use benchmarks and compare with our peers, but when it comes to our investment process, we look at fundamental values. Also, we have a team-based approach. We aim to deliver the best outcomes when we make team-based, high-conviction decisions. We seek to add value through every investment that we make. What sets us apart at Aberdeen is that we have local management and research presence across Europe, so we run this business with our own people on the ground. U.S. investors should realize that the situation in Europe can differ quite strongly from market to market. There are all kinds of differences — social, economic, political, regulatory, legal, financial. We believe these differences increase the need for employing the right capacity in those markets because you really need to have the knowledge and the skills in each market to be able to execute your strategy in the right way. If you want to operate effectively in European markets, you really need to have resources with local presence.

## *What are Aberdeen's competitive advantages?*

There are a number of elements that we think are crucial in our service to clients. First of all, we have a robust investment process applied across all funds in a uniform way, although of course differing investor risk profiles and performance aspirations generate different outputs. The second element is our dedicated property research team. You need to have your own local research capabilities who speak the language, know the culture, know the way business is run in the markets where you are active. The third element is specialist asset management teams; we have our own asset management resources in-house. There are other fund managers that rely on third-party asset management, but we think it is crucial to have them in-house: they are locally based and understand the physical assets in their markets, and they have relationships with the key



**Gert-Jan Kapiteyn** is a fund manager for Aberdeen's Pan-European property investments. Gert-Jan has an academic degree in Business Administration and more than 18 years' professional experience in advising, structuring and managing European real estate investment products for institutional investors. Prior to joining Aberdeen Asset Management in 2006, he worked for ABN AMRO Bank NV and Altera Vastgoed NV.

## **CORPORATE OVERVIEW**

Aberdeen Asset Management is a global investment management group, managing assets for both institutional and retail clients from offices around the world. Its mission is to deliver strong fund performance across diverse asset classes in which Aberdeen believes it has a sustainable competitive edge. Aberdeen Asset Management is an active property investment manager with an unrivaled local presence in key international markets. The group offers separate accounts and commingled funds, including funds of funds.

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tenants in each country and market segment. The fourth element is focused transactions teams. They supplement the fund management teams' own initiatives, ensuring a constant, high level of deal flow to satisfy all client requirements and minimize conflicts of interest.

## *What investment styles do you offer? Core, value-added, opportunistic?*

Aberdeen offers a variety of investment products with different investment styles, focus areas and diversification strategies. Aberdeen's commingled funds and separate account mandates are typically core to value-added, with opportunistic strategies generally handled only through our global multi-manager team. For instance, I am responsible for Aberdeen's European Balanced Property strategy, a core diversified Pan-European investment. If you look at investor preferences globally, a common denominator is that investors are now more focused on low-risk products — investment strategies in core products, established markets, secure income streams, high covenant strength, moderate leverage. At the moment, de-risking is a very strong phenomenon. And if you look at the investment amount targeting direct real estate across Europe, there is clearly a strong appetite for low-risk products. But if you look at secondary properties in a smaller city or locations beyond the typical central

locations, demand is a lot weaker. We see those markets struggling at the moment.

*With all the investor focus on core, does Aberdeen have a particular strength in that investment area?*

Yes, and that has certainly helped us to maintain a strong business during the last few years, despite the pressures of the financial crisis. When it comes to core, we believe we are really well positioned because of our long track record, experience and local presence. There is concern that the core spectrum in Europe is becoming overpriced. In a few very large cities that is the case, but certainly not in all markets, especially not in Northern European cities one layer below the typical gateway cities, where we can find interesting investment opportunities at good yields and coupled with attractive growth potential.

*Are you finding particular opportunities in a certain sector or geographic focus?*

In Europe, if you look at our product range, the focus is clearly on the robust northern part of Europe. Aberdeen is one of the market leaders in terms of property asset management and investment management in Sweden and Finland, as well as Norway and Denmark. We have a very strong position in the United Kingdom, Germany, France and the Benelux. We think those are also the markets with the best performance prospects going forward and with moderate risk. If you look at the economic situation in Europe, most of the issues are concentrated in the south — Spain, Italy, Greece. Those markets are still too risky for us, and we expect further price correction in those property markets in the near future.

*When do you expect improvement in the economies of Europe?*

The outlook for prime, low-risk property remains strong, but it is still too early for a move up the risk curve. We think a sustained economic recovery should be a signal for more risk taking, but it is not anticipated until 2014. But in a climate where sentiment is already very negative, a recovery may start to emerge sooner rather than later. The lower euro currency rate will support exports going forward, and don't forget that households in many northern European countries generally have high savings and low debt. Also, troubled countries in Southern Europe and Ireland are taking drastic measures to reform their economies which, at some point, will lead to positive momentum again and renewed economic growth. Besides that there are currently still plenty of real estate investment opportunities in the core spectrum. Even in markets with relatively weak macro prospects, there will be a wealth of potential opportunities in the property market. To give you an idea, in 2011 the top 25 percent of property investments in a troubled market like Spain still outperformed more than half of the properties in markets in much better economic shape such as Australia. So the macro view is just one side of the coin, but local market circumstances vary considerably, and stock-picking

therefore remains crucial to the performance of any real estate investment fund.

*Where else do you see market opportunities?*

If we look at Europe in broad terms, we still see very good value in the retail sector, although there are some oversupply issues in the U.K. Retail property is clearly the focus and a distinctive feature of our investment strategy. Most other investors are focused on the traditional office markets, but we think fundamentally many office markets are overpriced, so our allocation to offices is underweighted. Elsewhere, the logistics sector, aided by the strong growth in e-commerce logistics, also provides for good investment opportunities with durable high income streams, especially in transportation hub locations. The yields on prime logistics real estate are typically more than 150 basis points higher than on prime office investment opportunities, but then with a similar risk profile.

*What are the attractions of retail?*

What makes retail investment so attractive in Europe is the fact that — especially compared to the United States — many European markets have strict planning and zoning regulations in place, so it is very difficult to construct or develop new retail property. In many markets, new retail construction is only permitted if you can prove to the local regulators that the new development will not cannibalize existing retail centers. The retail sector has had a persistent and consistent track record of outperformance in many markets for a long period now, and we think that it is set to continue. We have developed our strategy with regard to the challenge of e-commerce and have identified three main types of retail destinations which we believe are best positioned in the future: prime regional destinations such as shopping centers or historic inner cities that are sustainably dominant in their area, supermarket- or hypermarket-anchored shopping destinations with a strong daily needs component, and large-scale retail parks, as we call them in Europe, the out-of-town, bulky goods shopping centers.

*What kinds of retail deals are you doing? Can you tell me a little bit about a deal you have done recently?*

We recently did an investment in Belgium at favorable terms where we bought a brand new retail park close to the city of Antwerp, very dominant in its catchment area, fully leased with a broad tenant mix of food and nonfood retailers, established retail chains. We sourced this asset through our own network without a broker at a discounted price to market value. We structured this transaction as a share deal, which means that the transaction costs on this asset were extremely low. The property has already delivered a value increase of over 8 percent since we bought it in May, and it is fully income producing at a yield of around 6.5 percent. Another interesting deal we recently concluded is a leasing transaction at a prestigious retail property we own in downtown Paris. We signed a new 18-year lease with a luxury fashion retail chain, and we were able to increase the rent for that particular shop by 42 percent. I think it is a good example of how we add value through our leasing activities. ♦

Investments in property may carry additional risk of loss due to the nature and volatility of the underlying investments. Real estate investments are relatively illiquid, limiting the ability to vary investments in response to changes in economic and other conditions. Property values can be affected by a number of factors, including, inter alia, economic climate, property market conditions, interest rates, and regulation. Aberdeen Asset Management is the marketing name in the U.S. for the following affiliated, registered investment advisers: Aberdeen Asset Management Inc, Aberdeen Asset Management Investment Services Ltd, Aberdeen Asset Management Ltd and Aberdeen Asset Management Asia Ltd (collectively, the "Aberdeen Advisers"). Each of the Aberdeen Advisers is wholly owned by Aberdeen Asset Management PLC. "Aberdeen" is a U.S. registered service mark of Aberdeen Asset Management PLC. Foreign investments are more volatile, harder to price and less liquid than U.S. investments; and are subject to different accounting and regulatory standards, and political and economic risks. Diversification does not guarantee a profit or protect against a loss.