Forum Partners

*Recently, **Alex Eidlin,** managing director – Asia Pacific with Institutional Real Estate, Inc, spoke with **Russell Platt** and **Gregory Wells** of Forum Partners. The following is an excerpt of their conversation.*

Russell C. Platt is a managing director and CEO of Forum Partners and is based in London. He has enjoyed a 30-year career in real estate finance and investment in Europe and North America. He served as managing director of Morgan Stanley & Co. from 1982 to 1999, where he was involved in all aspects of its real estate business. Immediately prior to founding Forum Partners, he served as managing director of Security Capital Research & Management, where he was responsible for the firm's private equity and international investment businesses. Before that he served as president of JER Partners – International.

Gregory Wells is a managing director and senior partner with Forum Partners' office in Hong Kong. Prior to joining Forum, he had an extensive tenure at Deutsche Bank where he established and managed the firm's commercial real estate business in the Asia Pacific region then shifted his focus on the United States. He also built a real estate law practice in China for Paul Hastings and was the COO for Morgan Stanley in Japan responsible for the firm's Asia real estate funds.

Please tell us about Forum Partners. How did the firm get started?

Russell Platt: Forum Partners was established 11 years ago as a real estate specialist, focusing on delivering high risk-adjusted returns to our investors through investments in real estate assets, portfolios and operating companies, initially in Europe and then in Asia as well. The firm is wholly owned by its founders and other senior partners. We have raised six regionally-focused closed-end funds to invest in those two regions. We are currently investing our third European fund as well as our third Asian fund. We are supported by more than 50 institutional limited partners; about two-thirds by volume come from North America and the rest from Europe and, to a lesser extent, Asia and the Middle East. Today, our firm is based out of 10 offices around the world with about 70 professionals.

Why have you focused on Europe and Asia?

Platt: When we started the firm, we wanted to take tools and techniques that we had honed through real estate investment experience in the United States and bring those tools and techniques to markets where they would be relatively novel, which would provide us a competitive edge. So we started in Europe and then branched out to Asia. Although we use the same toolbox in both Europe and Asia, there is likely to be a much bigger development component in Asia, whereas in Europe we traditionally invest in assets or businesses that have an investment property and income focus.

What differentiates Forum from other real estate investment managers?

Platt: A few things are unique about the firm. We invest up and down the capital stack, making investments in real estate equity and as a senior lender. We are probably best known for our work in investing in hybrid debt/equity instruments. We find these hybrid structures have very good downside protection and current income but also allow our investors to enjoy some of the equity upside that is attendant to long-term ownership of real estate. We also invest across the public/private divide. We are very active investors in public real estate equities and have a dedicated real estate securities team. Lastly, we invest across the entire lifecycle of real estate assets and real estate enterprises, from startups to pre-IPO and post-IPO real estate investments all the way through to distressed investing and restructuring.

Asia has been quite popular with investors from all over the world. How has your strategy evolved through your three Asia-focused funds?

Platt: We have seen substantial evolution in the markets over the course of the nearly 10 years we have been investing in Asia. We established the firm just a few years after the Asian financial crisis. It was very early in what ultimately would become a huge cyclical boom across emerging and developed Asian markets, but that wasn't evident in 2004, so we started out cautiously. We invested in markets that were more transparent, where we could see early signs of recovery. We did quite a bit of investing in Singapore and then Hong Kong and some other markets in Southeast Asia. It was a time when some Asian countries were first adopting a REIT structure. We helped play a role in the formation and IPO of a number of those REITs in several countries.

By the time we began investing our second fund, which was in the 2006–2007 timeframe, we saw signs of recovery pretty much across the Asian theatre as well as opportunities in the emerging markets of India and China. We made a very good mark investing in private as well as listed real estate companies in China, which became the cornerstone of our second fund, and we had an opportunity both before and then after the global financial crisis to take public a number of Chinese real estate companies. Then as the global financial crisis began to hit in Asia, some markets that had traditionally been off-limits for us from a valuation perspective, most particularly Japan, became much more attractive.

So by the end of Fund II and then through Fund III, we became much more active investors in some of the developed Asian markets, particularly Japan, but also South Korea and now

Australia, and are now able to offer investors a Pan-Asia vehicle that can find opportunities throughout various market cycles.

Where do you see opportunities in Asia in the next two, three or five years?

Gregory Wells: We have no specific geographic allocations. Where we see opportunities will lead us to where we end up investing. China, Japan and India are the largest markets, so you will probably see the largest focus there. We also see good opportunities in South Korea and Australia over the next couple of years. Given that economic cycles in Asia tend to be quicker than cycles elsewhere, our preference would be to do more medium-term investments. Would we do a five-year investment? Yes, but that is pretty much the upper limit. Two years is fairly quick, so I would suggest generally three to four years is the sweet spot. It fits in pretty well with the way the economic cycles tend to work in Asia.

Platt: To the extent that our investments are frequently structured in the form of a debt instrument, with some kind of equity upside participation, we are able to structure a specific maturity to our investments, so our operating partner with whom we have invested has a fixed obligation to return principal as well as current and accrued interest as of a particular date. In some cases we do have to be flexible and restructure investments from time to time, but generally it gives us the ability to know when we deploy capital and when we expect to have it returned to us.

It sounds like risk control/risk management is a cornerstone of your strategies. What do you consider the greatest risks to investing in Asia, and how do you manage them?

Wells: The greatest risk, generally speaking, is a lack of transparency. China and India are fairly opaque markets. Obviously, it is always critical to know your counterparties, but that is even more true in Asia. It is critical to know who you are doing business with and be comfortable with them. Given the lack of transparency, it is also critical to understand the legal framework in which you operate and the rights you have.

Platt: That is one of the reasons why we've chosen to build what we refer to as a hub-and-spoke network system in Asia. It is not enough to simply fly in from New York City or London, or to run an Asian business out of a single office, as a number of our competitors do. Instead we have a robust network of branch offices in each of the countries in which we operate, led by a senior executive from that country, who speaks the language, understands the culture and has a strong network of relationships. We can identify the strongest sponsors and maintain resilient relationships with them over the course of investments, which may span a three- to five-year timeframe.

You have been investing in Asia through quite a turbulent period. Could you share some specific examples of lessons learned that have affected the evolution of your strategy?

Wells: The most important lesson learned is to ensure that the appropriate downside protection is in place. Most of our investments are structured with equity subordination and current income payments, so if the investment sours, you are not the first dollar of loss and you have already recovered a portion of your capital through current income payments received. Also, given the duration of cycles in Asia, which tend to be significantly quicker than elsewhere, it is important to get your capital in and out quickly, which requires an identified exit.

China has been going through some serious changes recently on the political front, as well as on the economic side. What are your views on China from a macro perspective, and how is that affecting your investment decisions?

Wells: Any way you look at it, China has got a terrific future with urbanisation and the growth of the middle class. The thing to remember about China is that, over an extended period of time, given that urbanisation and growth of the middle class, China is going to have an upward trajectory. In the short term, though, there are likely to be bumps up and down. Recently, the Chinese government re-emphasised the limitations and restraints in place in the real estate sector. Given that real estate is such a large part of the economy, if the Chinese government were concerned about an overall slowing of the economy, you would see exactly the opposite. From an investment perspective, the constraints on liquidity imposed by the government are good for us, providing us with investment opportunities.

Platt: I think it is important to note that our strategy is to be countercyclical or even counterintuitive. We watch the property cycle certainly to have a view as to where values and rents will be heading over the short to intermediate term, but we also have to have an eye on the capital markets and capital flows. The best time for us to make investments is usually when capital is in short supply and when policy is most adverse to the property sector. ❖

CORPORATE OVERVIEW

Forum Partners, along with its affiliates, is a global real estate investment management firm with $5.5 billion in assets under management on behalf of institutional investors and family offices through commingled funds, separate accounts and club funds. Forum's capabilities span public and private debt and equity with a sole focus on the real estate sector. Forum's capital markets expertise focuses on finding opportunities in the intersection between public, private, debt and equity markets and has established Forum as a leader in hybrid debt globally. Established in 2002, Forum has over 60 employees in 10 offices globally with expertise in acquisitions/development, restructuring, investment management, debt and equity capital markets.

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