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ALTERNATIVE INVESTMENTS

Rising traction in alternative real estate plays

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Introduction

With the emergence of the latest fast-spreading Omicron variant, the long-drawn battle with the Covid-19 pandemic is far from over. However, one conclusion is clear: the investment performance of traditional real estate asset classes has been varied. The star performer is undoubtedly the industrial sector with its resilient performance, whereas transaction activity was subdued for other sectors such as retail and hospitality.

As we trudge towards a post-COVID world, an increasing number of investors are adapting and turning towards alternative real estate sectors to deploy their capital as they are deemed to be less susceptible to economic headwinds. According to the Monetary Authority of Singapore's latest annual asset management survey, alternative assets under management registered growth of 31 per cent from S$721bn in 2019 to S$947bn in 2020, of which real estate was the second-largest segment (S$221bn) after private equity segment (S$375bn). Alternative real estate assets under management experienced growth of 56% in 2020, outpacing the other alternative asset types. The enlarged scope of coming-of-age opportunities in such new economy assets is underpinned by new ways of working, demographics shifts, tech-enabled lifestyle changes of consumers and occupiers as well as repositioning of assets.

Rationale

Investments in alternative real estate assets have been gaining traction for a couple of reasons. First, demographic and lifestyle shifts characterised by the rise of millennials and fast-ageing populations have driven the popularity of new economy assets to suit their real estate and lifestyle needs. Second, they provide investors with another source of stable recurring income stream, demonstrating exceptional resilience in the face of current economic uncertainties. Third, niche sectors have generally higher yields and potential growth than traditional real estate assets. Last but not least, investing in alternative real estate assets enhances the diversity of investment portfolios, strengthening the risk-reward ratios in many cases. According to the Emerging Trends in Real Estate Asia Pacific 2022 report by PWC and Urban Land Institute (ULI), the majority of investors venturing into niche sectors have cited demographic demand and diversification as the two main incentives.

New ways of working

As the future of work shifts irrevocably towards a hybrid working model, investments in co-working spaces have been gaining prominence. Co-working spaces entice occupiers due to their flexible leasing terms and well-designed spaces enable the reinvention of working environment. Co-working spaces with an extensive footprint allows for the implementation of a hub-and-spoke office network to meet employees' evolving expectations and rising premiums for a convenient commute.

More landlords are also developing innovative long-term office space (Core) and shorter-term flexible offices (Flex) model to reinvent their workspace solution offerings and increase the appeal of their assets. In 2018, a joint venture between CapitaLand and co-working operator The Work Project acquired the co-working platform of Collective Works. Within the same year, GIC, Frasers Property and JustCo jointly invested US$177mn to develop a co-working space platform across Asia, enabling JustCo's expansion into other Asian markets. Another major landlord who has joined the co-working space bandwagon is Keppel Land and its investment of US$25mn in Smartworks, a pan-India flexible space solutions provider, in 2019. The upcoming Guoco Midtown mixed-use development will also introduce the 'Core and Flex' office concept to offer its tenants flexibility to streamline their space requirements.

In June 2021, Tiga Investments and private equity firm KKR acquired co-working office operator The Executive Centre (TEC). TEC operates in 14 markets and its Singapore portfolio includes prime downtown spaces in Frasers Tower, Marina Bay Financial Centre, Ocean Financial Centre, One Raffles Quay, Six Battery Road, and The Gateway.

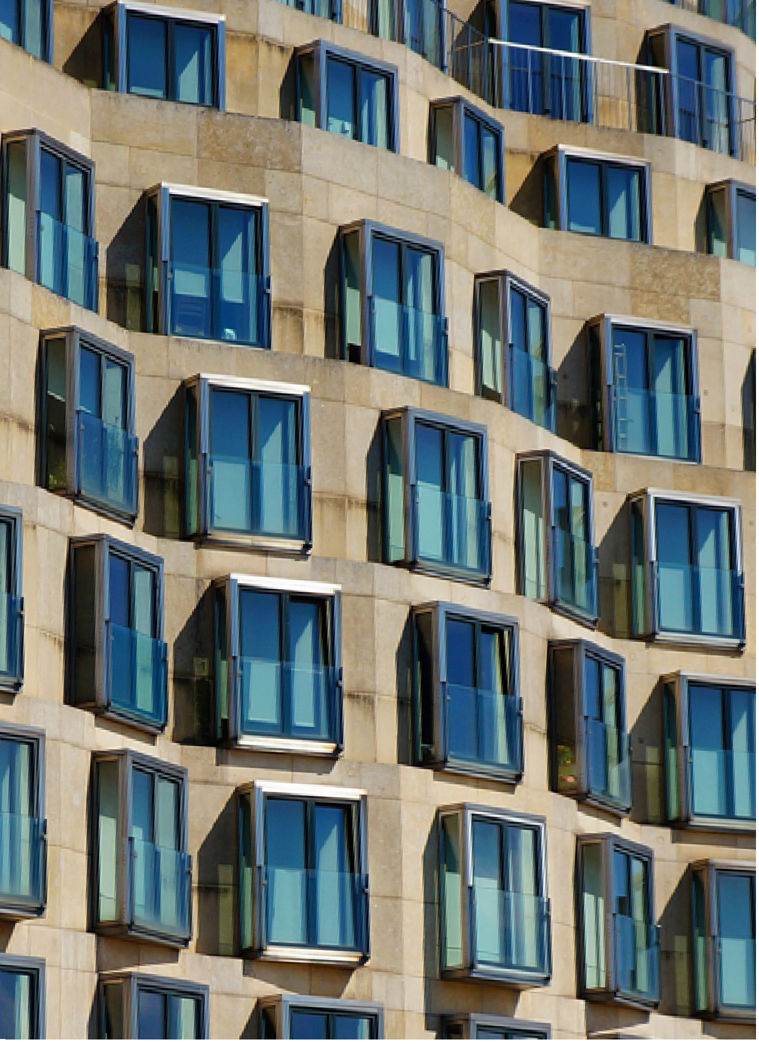
More recently, Singapore Medical Group and Aurum Land, which runs a co-working platform for fitness, wellness and lifestyle practitioners known as Core Collective, announced the introduction of Singapore's first medical co-working space, Core Clinic. As a new and innovative medical co-working concept targeting specialist healthcare practitioners, Core Clinic will be part of the new Core Collective site located at Katong i12 Mall, with an expected opening in March 2022.

Demographics shifts

Co-living spaces

The rising share of millennials is influencing not just the redesign of workspaces but also living spaces. Today's fast sharing economy is emblematic of the rising demand for co-living spaces, especially from the millennials who are attracted to the concepts of flexibility and convenience. Additionally, the entrenchment of work-from-home (WFH) practices brought about by the pandemic and the desire for privacy have propelled people across various age groups to move out from their family homes and rent a space to call home. Furthermore, some homebuyers facing pandemic-related construction delays have also turned to renting co-living spaces in the interim.

With their rich heritage, shophouses have gained traction as an emerging use as co-living spaces. Co-living providers operating in this space include The Assembly Place (TAP), Hmlet, and Figment. In August 2021, TAP acquired four properties to increase its portfolio of purpose-built co-living assets, which includes a 171-bed, co-living hostel at 25A Perak Road, which was a refurbishment of the former Footprints Hostel. Three other assets located at 3 Tank Road, 18 Penhas Road and 272 East Coast Road will be repositioned as a mix of serviced apartments and residential units.



Senior housing

Against the backdrop of fast-ageing populations in many regions globally, there is rising demand for senior care services and retirement communities. Investment interest in this sector is also picking up.

In March 2020, a Keppel Corporation subsidiary expanded into the overseas senior living sector with the acquisition of a 50 per cent stake in US senior housing operator Watermark Retirement Communities, which manages more than 60 senior housing communities in 21 states across the USA, for US$84.6mn.

Most recently in December 2021, First REIT announced its maiden entry into the Japan nursing home market through its acquisition of twelve nursing homes at a purchase price of JPY24.2bn (S$163.5mn) from its sponsor, OUE Lippo Healthcare.

Multi-family assets

Demographics and lifestyles shifts have resulted in a growing preference for renting, especially from millennials who value flexibility. In the APAC region, Japan is the sole established multi-family market which garners a high level of investor interests and activity, largely attributed to the Japanese preference for renting over owning properties. While still in its infancy, Australia's multi-family sector is another market in the region with growth potential due to escalating residential prices and declining home ownership rates.

In June 2021, TE Capital Partners completed its second acquisition of a portfolio of multi-family residential assets in central Tokyo, Japan for approximately US$60mn (S$81mn) from a local developer. 2020 marked its first foray into the multi-family sector in Japan, when it acquired a portfolio of multi-family residential assets in central Tokyo for US$50mn (S$66.4mn).

Tech-enabled lifestyle changes

Data centres

Accelerated by the pandemic, the fast-growing digital era is characterised by the rapid adoption of the latest technology trends, such as 5G network, artificial intelligence, big data, Internet of Things (IoT), Industry 4.0 and e-commerce. The corresponding surge in cloud computing and data storage requirements has accentuated the appeal for data centres, which has seen strong investment activity. In April 2020, Hong Kong-based Big Data Exchange (BDx) acquired a data centre at 110 Paya Lebar Road from Australia telco Telstra, signifying its first expansion outside of Greater China.

However, the tight local supply of data centres arising from a current moratorium on construction of new data centres has led data centre players to focus largely on overseas acquisitions. In the first three quarters of 2021, Singapore-listed real estate investment trusts (S-Reits) made S$2.8bn of data centre purchases, surpassing that of logistics properties and business parks[1]. Almost S$2.7bn (96%) of the data centres transacted were located in Europe and the USA. In particular, there are three major S-Reits, namely Keppel DC Reit, Mapletree Industrial Trust and Ascendas Reit, with strong investment mandates in data centre assets, especially in overseas markets.

In March 2021, Ascendas Reit paved its maiden entry into the European data centre market and acquired a portfolio of eleven data centres located across Europe, for S$904.6mn from subsidiaries of Digital Realty Trust. In July 2021, Mapletree Industrial Trust completed the acquisition of 29 data centres in the USA. In the same month, Keppel DC Reit acquired Guangdong Data Centre in Guangdong Province, establishing its first foray into the Chinese data centre market.

Acknowledging the large energy consumption of data centres and the impact on the environment, some asset owners have implemented solutions in line with their Environmental, Social and Governance (ESG) sustainability agenda. For instance, Keppel Group aims to tap on the expertise of its other business units, such as Keppel Infrastructure and Keppel Renewable Energy, in areas such as cooling and the use of renewable energy as part of its data centre solutions.

[1] Institute of Real Estate and Urban Studies (IREUS).

Cloud kitchens

The growth of cloud kitchens has been catalysed by the pandemic, especially during the general dining restrictions. Locally, the share of online F&B sales has surged significantly during the pandemic. The proportion of online F&B sales has more than doubled to 22.4% in 2020 from 8.8% in 2019. The share rose further to 32.6% for the first eleven months of 2021[2].

In July 2020, food-tech firm TiffinLabs announced that it has acquired access to 1,000 delivery-enabled kitchens across the US, Europe and Asia to create an international cloud kitchen network, which are expected to open progressively from the last quarter of 2020. In July 2021, ten commercial units operating as cloud kitchens at CT Hub 2 were sold.

The pandemic has created more opportunities for well-capitalised investors to strengthen resilience of their property portfolios through repositioning and/or to gun for value-add investment plays. Some investors seek to diversify their portfolios through greater exposure to alternative real estate asset classes, while others explore the repurposing of their acquired assets to higher-value uses.

[2] Source: Singapore Department of Statistics

Repositioning of assets

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Purpose-built student accommodations

Amid the growth of the higher education sector and correspondent demand for student rental housing, purpose-built student accommodation (PBSA) assets have emerged as a popular alternative investment sector.

Various local property players are active in the overseas PBSA scene in the UK and USA in a bid to diversify their portfolios. They include Singapore Press Holdings (SPH), Far East Orchard and most recently, property group Metro Holdings. In early 2021, Metro acquired a student accommodation property in Bristol, UK for a total purchase consideration of £30.1mn (S$54.8mn).

Other companies, such as hospitality Reits, have also followed suit and invested in PBSA assets to diversify their portfolios from traditional hospitality assets. Portfolio resilience is boosted as PBSA assets provide a longer duration of stay, with average leases at one year, as compared to hotel stays. For example, Ascott Residence Trust's (ART) maiden PBSA asset acquisition occurred in Atlanta, Georgia, USA in early 2021. In a span of a year, it has invested in eight student accommodation transactions, with its latest portfolio of four assets in USA which was acquired in December 2021.

Carparks

With its relatively low maintenance and recurring income nature, carparks are a popular asset class in China and Hong Kong. Locally, we have seen a pick-up in acquisitions of such tightly held assets with a repositioning mandate.

In December 2020, a joint venture between LHN Group, GMTC, and SM Ventures acquired a 999-year leasehold carpark at Bukit Timah Shopping Centre, with approval received from the relevant authorities to convert part of the carpark space into self-storage space. In early 2021, Parklane Shopping Mall's carpark at Selegie Road was sold to a Singapore-based family office, with in-principle approval sought from the authorities to convert part of the carpark into a capsule hotel.

Hotels

As hotels grapple with low occupancy rates amid the dearth of international tourism, investors have embarked on creative ways to repurpose hotels into other property types such as residential, co-living or offices. In September 2021, a joint venture between Coliwoo Holdings and Four Star acquired the freehold Balestier Hotel with the intention to operate it under the Coliwoo co-living brand.

Conclusion

In our view, alternative real estate investments are anticipated to capture a greater stake in moulding the future of capital flows, although traditional real estate assets will likely continue to dominate the market. The pandemic has magnified the attractiveness of alternative real estate investments and more investors are expected to seek exposure and tap on its potential growth. In particular, data centres and life sciences are two niche sectors that were singled out for exceptional investment prospects for 2022 in the PWC-ULI report. Other emerging trends within the life sciences and biopharmaceutical industries may lead to a possible rise in investments in other types of new economy assets such as vaccine facilities.

Even as investors look to include niche real estate sectors in their radar, they should be mindful of some key trends that could impact the investment potential and flexibility. With the ESG agenda rising to the forefront of decision-making efforts, investors are fast adopting green finance to benefit from more favourable financing terms and higher yields. In addition, investors are placing greater value on flexibility in usage of their real estate assets, such as the ease in change of use in a dynamic pandemic environment. Furthermore, the drive towards digitalisation has wide-ranging implications from consumer data analytics to property management. Investors can look forward to new investment opportunities in the horizon as we chart a sustainable path towards the new endemic normal.

Annex 1: Details of selected alternative real estate transactions between 2020-2021

Rise of co-working trends

Asset/Type	Vendor	Purchaser	Price
Acquisition of The Executive Centre (co-working office operator)	HPEF Capital Partners and CVC Capital Partners	Tiga Investments and KKR	Undisclosed

Demographics shifts

Asset	Vendor	Purchaser	Price
25A Perak Road, 3 Tank Road, 18 Penhas Road and 272 East Coast Road (Co-living)	Unknown	The Assembly Place	Undisclosed Under a 5+5 year management contract
Three multi-family residential assets in central Tokyo, Japan (Shinjuku ward, Koto ward and Kita Ward)	Local developer	TE Capital Partners	US$60mn (S$81mn)
Two multi-family assets in the Minato Ward and one asset in the Setagaya Ward, Japan	Unknown	TE Capital Partners	US$50mn (S$66.4mn)
50% stake in Watermark Retirement Communities (US senior housing operator)	Diana and David Freshwater Living Trust, the Barnes Family Revocable Trust, and its related entities	Keppel Capital Senior Living LLC	US$84.6mn
Portfolio of 12 nursing homes in Japan	OUE Lippo Healthcare	First REIT	JPY24.2bn (S$163.5mn)

Tech-enabled lifestyle changes

Asset	Vendor	Purchaser	Price (S$)
Data centre at 110 Paya Lebar Road (SIN1)	Telstra	Big Data Exchange (BDx)	Undisclosed fee
Portfolio of eleven data centres located across Europe	Subsidiaries of Digital Realty Trust	Ascendas Reit	S$904.6mn
Portfolio of 29 data centres in the USA	Subsidiaries of Sila Realty Trust	Mapletree Industrial Trust	US$1.32bn (S$1.80bn)
Guangdong Data Centre in Jiangmen, Guangdong Province, China	Guangdong Bluesea Data Development and its parent company Guangdong Bluesea Mobile Development	Keppel DC Reit	635.9 mill yuan (S$132mn)
10 cloud kitchen units at CT Hub 2	Undisclosed	Undisclosed	Approximately S$8.6mn

Repositioning of assets

Asset	Vendor	Purchaser	Price
Dean Street Works in Bristol, UK (PBSA)	Independent third party	Metro Holdings	£30.1mn (S$54.8mn)
Paloma West Midtown in Atlanta, Georgia, USA (PBSA)	Preiss and Investcorp JV	Ascott Residence Trust	US$95mn (S$126.3mn)
Link University City in Pennsylvania; Latitude on Hillsborough and Uncommon Wilmington in North Carolina; and Latitude at Kent in Ohio, USA (PBSA)	CA Residential Drexel, Raleigh NP Property Owner, DRI/CA Wilmington and Residences at Kent State Property Owner respectively	Ascott Residence Trust	US$213mn (S$291.2 mn)
Carpark at Bukit Timah Shopping Centre	Unknown	LHN Group, GMTC, and SM Ventures JV	S$16.2mn
Carpark at Parklane Shopping Mall	Unknown	Singapore-based family office	S$16.18mn
Balestier Hotel	Independent third party	Coliwoo Holdings and Four Star JV	S$15mn

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