



# Asia Outlook

## Hiring Forecast

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# 2016

Capital Continues to Flow from East to West  
Focus on Core Assets in Asia-Pacific  
Investors in Japan Climb the Risk Curve  
China's "Opportunistic" Debt Market



**FPL ADVISORY GROUP**  
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## Introduction



2015 looks set to be a record-breaker for fundraising for Asia Pacific, with many of the funds launched targeting core investments. Traditionally, Asia has been a destination for capital looking for opportunistic investments. However, over the past few years, and especially in 2015, opportunistic investing all but disappeared in most major Asian markets. Instead, the focus increasingly has been on core and core-plus—a trend that will continue in 2016. However, core has become an increasingly crowded area with more players jumping on board in a tight deal environment. The focus on core assets in Asia-Pacific is a major theme for 2016. Other trends for the year, as will be explored in this Asia Outlook report, include the continued flow of capital from East to West, investment opportunities in China and Japan, as well as an in-depth look around the region.

In Japan, and especially in Tokyo, competition for core assets is heightening, with activity being driven by domestic players, such as private funds and JREITs. With few core assets available in Tokyo, investors are venturing further out along the risk curve, taking on regional, operational, and development risk.

As we saw in 2015, capital continues to flow from east to west, with New York and London among the primary investment destinations. China remains the No. 1 source of investment capital in the region (\$6.58bn at H1 2015), followed by Singapore (\$4.40bn), Australia (\$2.92bn), Hong Kong (\$2.23bn), Taiwan (\$1.79bn) and South Korea (\$1.54bn). Bucking the trend is Malaysia, which has become a net seller, capitalising on a weak ringgit and strong returns on investments made post-global financial crisis.

Another major theme for the Asia Pacific region in 2016 continues to be China. The big headline there has been slowing economic growth, which is raising concerns about China's viability as a major international investor. In addition, tightening lending practices and reduced access to capital markets in China have set the stage for the emergence of a distress market, which may attract some opportunistic investors—but in debt, not equity.

Following is a discussion of the major trends that emerged in 2015 and the “hot topics” that are likely to influence hiring activity in 2016.

## January

- \$329 million: Dalian Wanda acquired office building Gold Fields House in Sydney from Blackstone.
- \$220 million: APG entered into a JV with Scape Student Living in Australia.
- \$201.5 million: CPPIB enters into a JV with Longfor Properties for a mixed use development project in China.

## February

- \$1.9 billion: Anbang Insurance completed their acquisition of New York's Walford Astoria Hotel from Hilton.
- \$1.1 billion: Fosun Group acquires Club Med holiday group.

## March

- €21.5 million: Cordea Savills acquired SEB Asset Management's real estate business in Europe and Asia. The combined entity was rebranded as Savills Investment Management.
- \$365 million: Baring Private Equity Asia closed its maiden real estate fund.

## April

- \$1 billion: Blackstone raised for its core investments in Asia.
- \$500 million: China Life and Ping An co-invested in Tishman Speyer's Pier 4 mixed-use project in Boston.

# Global Capital Flows

Capital continues to move from East to West. Asian investors, and most recently those in Japan, led by Japan's Government Pension Investment Fund (GPIF), are becoming active in overseas markets at a level that has not previously been seen. This outward flow of capital into overseas real estate has stimulated a recruitment need for distribution-focused roles in 2015. Demand for talent for such roles will continue to be strong in 2016, particularly within the investment and private equity space where there is a drive to export capital from Asia to Europe and North America. With a lack of existing bilingual (Chinese, Korean, Japanese) real estate-focused capital raisers, firms will have to identify the gaps in their existing Asia coverage and balance the need for investor access and sales ability versus real estate product expertise.

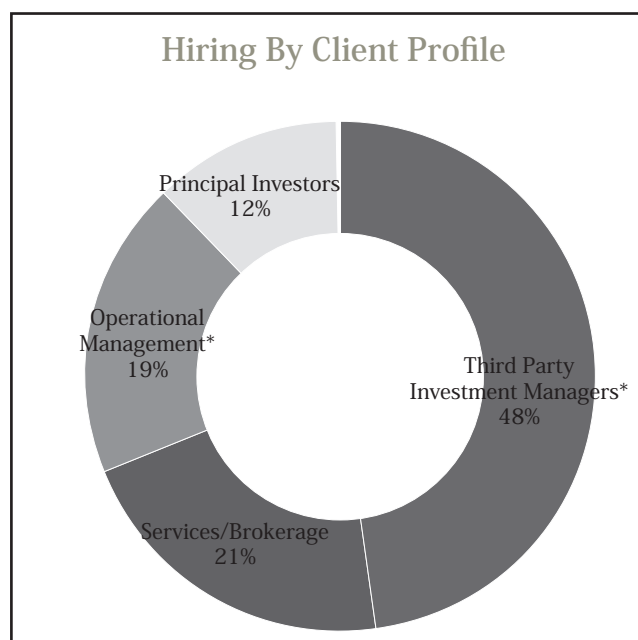
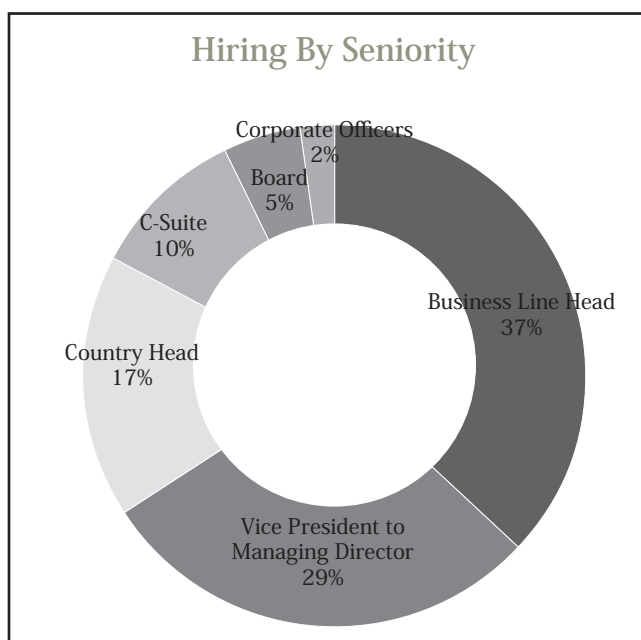
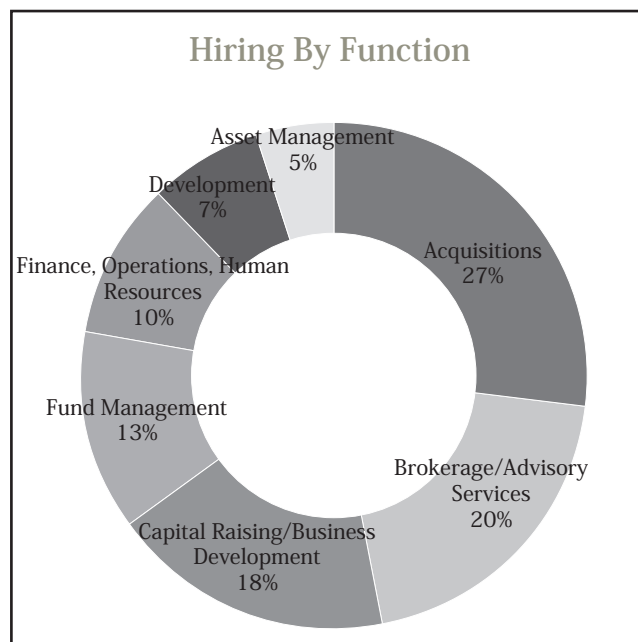
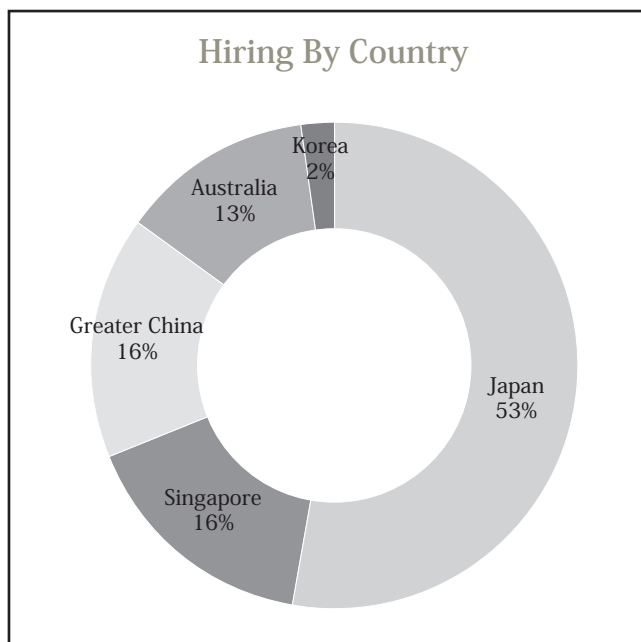
While the focus in Japan is around creating new access points and building relationships in anticipation of capital moving offshore, with Chinese investors, the emphasis is now on being able to differentiate diverse sources of capital in order to understand their varying investment objectives. At the forefront of developing relationships with the Chinese client base, many services firms have been expanding. These include the real estate consultancies building their cross-border capital markets teams, placement agents expanding their distribution capability, and real estate advisory teams within the tax and accounting consultancies. Chinese wealth management platforms also will expand their offshore presence as domestic stock market volatility leads to increased demand for international real estate.

In contrast to their Asian neighbours, Japanese institutional investors have taken more of a conservative approach, but this looks set to change. Japan's GPIF, the largest public pension fund in the world, will start to invest in alternative assets and is in the process of hiring a real estate team. As GPIF sets the trend, other pension funds will likely follow suit, which will put capital into both offshore and onshore investment products and vehicles.

The focus on capital raising across Asia will also continue to drive demand for compliance and legal staff to enable firms to navigate the regulatory landscape.



The following charts are based on Ferguson Partners' data from completed and current mandates in 2015.



\*Operational Management: Hospitality, logistics, storage, student housing, healthcare.

\*Third Party Investment Managers: Private equity, hedge funds, investment managers (listed and unlisted).





## Different Markets, Different Capital

In the last 12 months, we have continued to see major Asian sovereign wealth funds, insurance companies, conglomerates, developers, and trading firms establishing a physical presence in overseas markets. Developers from China, Malaysia, and now Japan, are actively engaged in major projects in cities such as London, New York, and San Francisco, placing equity into multifamily developments on the U.S. West Coast, and developing suburban residential projects in cities such as Sydney.

For 2016, we also foresee Asian developers, conglomerates, and insurance firms continuing to establish offshore investment offices and starting to hire local talent as opposed to relocating their Asia-based employees. Fosun Property Group, a Chinese conglomerate, has been one of the pioneers thus far in employing this strategy; it has been establishing offices and partnerships, and hiring local talent in Australia, Japan, Europe/UK and North America. The notable benefits of this strategy include superior access to deal flow and networks.

Following their lead, we will also see some of the major independent Japanese asset managers continue to build out regional operations in the U.S., Europe, and within the Asia region, with a view to engaging with Asian and international investors requiring advisory partners and services in Japan.

## Australia: Pursuing Core Returns Where “Cash Is King”

Australia is one of the few countries in Asia Pacific to offer investors opportunities for core returns; therefore, it is of utmost importance that firms retain their edge in this competitive market where “cash is king.” Global capital sources across Europe, North America, and Asia are all circling the same deals as domestic players—and, indeed, much of the same talent, too.

For 2016, we anticipate that the global real estate players who are not currently in Australia will look to build a presence. These platforms will focus on transacting on behalf of their core funds, as well as accessing capital from the superannuation funds.

## India: Global Managers Starting to Revisit

Southeast Asian sovereign wealth funds and private equity funds have been chasing opportunistic returns in India. Deal flow has mainly been facilitated by forming strategic joint ventures with local developers and partners to invest in this market. This approach

minimises risk as local partners provide insights into demographics of a particular market and local knowledge about deal flow.

Activity in India has been broadly split between large private equity and institutional capital able to take a long-term view on the one hand and domestic specialists able to access deal flow on the other. There is evidence that the regional and global managers are starting to revisit opportunities in India, and we are starting to see the green shoots of hiring demand.

## Hospitality

Hospitality was the asset class du jour for 2015, as many Asian investors have been active in this sector and turned their attention to key markets in Europe and the U.S. There were several notable acquisitions including Anbang Insurance Group’s \$1.95 billion purchase of New York’s Waldorf Astoria and Fosun’s acquisition of Club Med. Closer to home, we saw ADIA ink an agreement with New World Development for \$2.4 billion to buy a 50% stake in three hotels in Hong Kong, while Gaw Capital led the purchase of the InterContinental Hong Kong for \$940 million. However, the star player regionally has been Japan.

Meanwhile, on the hotel manager side, operators are examining their Asia strategies. The slowdown in China, along with the anti-corruption agenda, has led to pressure in the oversupplied upscale and luxury sector and may yet create rebranding opportunities for operators in a market that has been predominately focused on new development. We have also seen a trend of integration between local and global operators both inbound and outbound. Recent examples include Fosun Group acquiring Club Med; Accor Hotels agreeing to an alliance with China Lodging Group; and more recently, speculation around Chinese hotel managers (Jin Jiang) and institutional investors (CIC, HNA Group) bidding for Starwood and IHG.

In Japan, tourism has been on the rise for the past two years, thanks in part to relaxation of some visa restrictions for Asian visitors. According to estimates, some 14 million tourists had visited Japan by September 2015, well exceeding expectations, and numbers for 2016 are anticipated to surpass this level. Investors and operators are focused on how they can increase their footprint in Japan to capitalise on growth in an undersupplied market and leading up to the Olympics. Investors in the hospitality sector have also been trying to build out their portfolios, in regional areas, such as Kanazawa, which was linked to Tokyo by bullet train in March 2015. Another popular regional hub for tourism is Osaka, which boasts Universal Studios Japan and a major international airport, is in close proximity to both

Kyoto and Kobe, and is proving itself to be the main entry point and base for Kansai tourism.

Just as Japan has been promoting tourism, Prime Minister Abe's economic policies ("Abenomics") also have encouraged business travelers to return. In response, international and domestic owners and operators have been investing in and positioning mid long-term serviced apartment accommodation, especially in Tokyo. Student accommodation also has been attracting more attention with the arrival of an international group investing, developing, and operating premium student housing.

Demand for talent in hospitality continues to be robust, with a focus on developing locally based leaders who are equipped to react to a shifting market dynamic, which will put more emphasis on strategy as opposed to pure room growth. Integrating loyalty programs, sales and marketing teams, and creating corporate identity and a more culturally targeted brand experience will all impact the approach to recruitment in the sector.



## Japan: A Competitive Investment Destination

Tokyo remains a prime investment destination, both for foreign capital and for domestic investors. Property supply in Tokyo and Japan is very tight, which makes it extremely challenging to find deals. The deals that do occur are in the core or core-plus market, with far fewer opportunities for value-add or opportunistic activities.

JREITs continue to be aggressive acquirers of real estate, and for 2016 we anticipate several new listings from both domestic and foreign sponsors, taking the number of JREITs to more than 60. The appetite for A-grade assets among these REITs and private funds will mean an ever-decreasing supply, as assets "disappear" off market, with no indication as to when they might come back to be traded. As with 2014, major A-grade and portfolio deals in 2015

were primarily from international sellers looking to capitalise on rising prime asset values.

Despite these challenges, international capital is still being attracted to Japan. In 2015, more Asian capital looked for deals in Japan, along with global institutional and sovereign investors that are underexposed in Japan. Some of these players continue to access the market remotely, from global or regional offices, while others are looking to establish Tokyo offices; for example, the Norwegian sovereign group recently opened an operation in Tokyo. This trend looks set to continue in 2016, with firms already working on opening up new operations or expanding existing regional businesses into Japan.

2015 In Numbers

### May

- \$2 billion: DTZ acquired Cushman & Wakefield.
- \$2.4 billion: ADIA's HIP entered into a JV with New World Development to buy a 50% stake in 3 hotels in Hong Kong.

### June

- \$1 billion: CLSA closed their 3rd pan-Asia opportunity fund at its hard cap.
- \$1 billion: Japan-focused Fortress Real Estate Opportunities Fund II closed at its hard cap.
- \$5.5 billion: 12 Asian private real estate funds in H1 2015 contributed to the 2nd highest post-crisis first-half capital raise.

### July

- \$1 billion: The size of GE Capital's Japan property portfolio that was sold to PAG Real Estate Partners.
- \$1.8 billion: CIC International acquired Investa Property Group in Australia from Morgan Stanley Real Estate Investing.

### August

- 8.5%: Shanghai stocks plummet on August 24th; China's Black Monday.
- \$500 million: Invesco Real Estate launch their first opportunistic fund in Asia since the 2011 acquisition of AIG.

## September

- \$435 million: The State Oil Fund of Azerbaijan make their first foray into Japan real estate in partnership with Mitsubishi UFJ Trust and Banking Corporation.
- \$719 million: Ascendas REIT acquire a portfolio of 26 logistics properties in Australia from GIC and Frasers Property Australia.

## October

- \$940 million: Gaw Capital acquired the InterContinental Hong Kong.
- \$370 million: Saizen REIT acquired by Lone Star.
- \$1 billion: Hulic Co acquired Simplex Invstment Advisors from Aetos Capital.

## November

- \$1.6 billion: Evergrande Real Estate set a record in Hong Kong for an office asset when they acquired Mass Mutual Tower.
- \$12.2 billion: Marriott acquired Starwood Hotels & Resorts creating the world's largest hotel company.

## December

- \$57 million: M&G Real Estate acquired 2 industrial assets in east and west Sydney.
- \$16 billion: Asian Development Bank and Government of Japan announced a 5 year partnership to invest in infrastructure projects and developments throughout Asia Pacific.

Foreign investors have two strategies when it comes to establishing a presence in Japan, either organically or via a platform acquisition. Given where Japan is in the cycle and the difficulty of growing an operation and a portfolio organically, many firms are keen to conduct corporate due diligence.

As new teams are built or existing teams grow, the demand has and will be centered on sourcing managers and senior investment managers who can lead Japan investment strategies. In 2015, we also saw more requests for mid-level hires to support on execution and asset management; we feel that this will remain a theme in 2016.

Meanwhile, high-net worth and family office capital is also flowing into Japan, occasionally into smaller commercial deals, but increasingly into residential, and wealthy Asians are investing in off-plan apartments in central Tokyo. This has fueled an increase in residential sales teams at both smaller domestic agencies and global property services firms.

## Moving Up the Risk Curve

Echoing trends we saw in 2006 and 2007, the lack of supply is pushing investors up the risk curve, and in order to be active in Japan, many investors are getting creative and becoming willing to take on greater degrees of risk.

## Operational Risk

In addition to hotels discussed earlier, and logistics which is now well established as an investment class in Japan, investors are increasingly taking on operational risk with serviced apartments, student accommodation, healthcare, self-storage, solar energy, and infrastructure gaining greater interest in 2015. These are emerging as the next wave of institutionally recognised asset classes. As two new Japanese healthcare REITs demonstrated in 2015, these asset classes could potentially form the base of new asset-specific listed trusts in Japan in the future.

With few specialised players currently, the pool of available bilingual talent with direct asset experience required by these operators is limited. As with logistics in the past, they will most likely pull on real estate professionals with solid technical skills for underwriting and transaction management, or development experience to support the growth of the property pipeline through new builds or conversion projects. A strong interest and motivation to become a sector specialist will be paramount for any hire to be a success.

## Development Risk

Development costs in Japan remain high, driven by the continued reconstruction following the 2011 earthquake, major government- and city-backed urban redevelopment programs, general office and condominium developments, and the 2020 Summer Olympics. Despite these factors, the lack of supply has encouraged investors to take on some development risk, especially in hotels and other operating asset classes; as a result, bilingual candidates with a mixture of development and investment experience are highly valued.

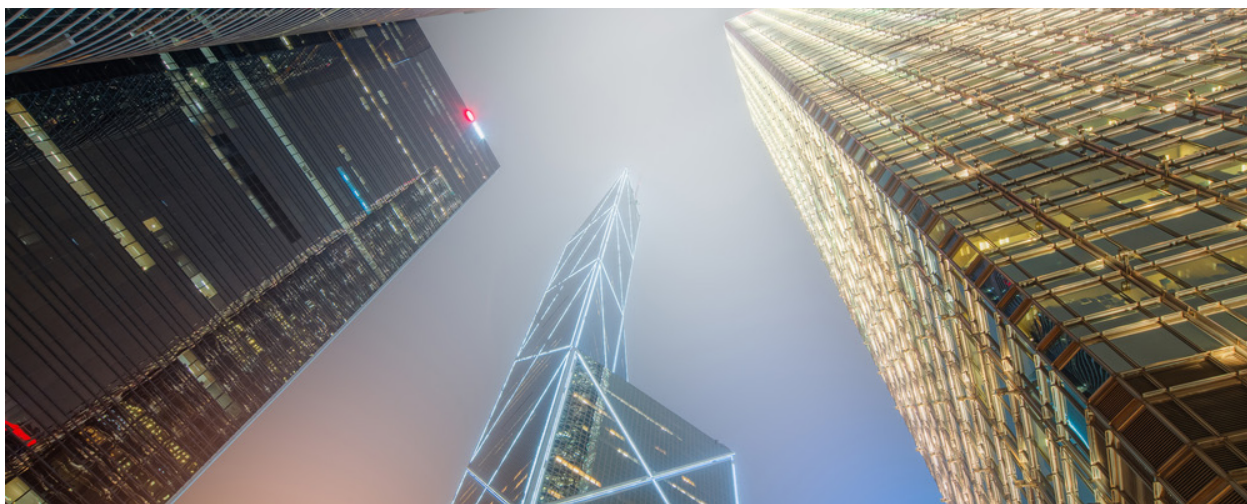
## Public to Private Risk

In addition, we have recently seen evidence of major opportunistic players looking to take down listed vehicles to access the underlying Japan-based portfolios. As in the US, we may see more "public-to-private" themes and potential consolidation of listed trusts, as larger opportunistic investors target REITs trading below net asset value in order to capture their often regionally focused portfolios.



## China – Economic Questions Dominate the Discussion

The big headline for China has been slowing economic growth and concerns about its growth rate in the future. Adding to the speculation about China's potentially waning financial strength, some Chinese insurance companies and pension funds have pulled back from some high profile deals, such as Anbang's anticipated investment in London's Heron Tower. A closer look at completed transactions suggests that Chinese investors are still doing more looking than buying.



### Mezzanine Debt Opportunities in China

The economic situation in China is beginning to pique investor interest. One such opportunity is providing mezzanine financing to fill a “funding gap” caused by limited access to the capital markets and tighter lending controls by domestic banks. Further contributing to the funding gap is the slowdown in residential sales, which traditionally has provided development cash flow to enable developers to hold and lease commercial office assets. In addition, weakness in the China stock market has exacerbated the funding shortfall for developers requiring additional financing. (Conversely, stock market volatility has led to increased interest in global real estate, as investment returns in the sector have proven to be stable versus equity markets.)

Private equity firms, in particular, are looking at mezzanine financing in China—one of the few opportunistic plays in a major Asian market that offers a relatively risk-adjusted strategy. In terms of talent, we are seeing demand for candidates who are familiar with investing across the capital stack and with specific debt experience, both for private equity investors preparing for more market fluctuations and longer-term capital starting to see a gap in the domestic lending markets.

The second potential opportunistic play is in distressed properties. Tighter lending and recent evidence that China may allow foreclosures have given rise to a focus on debt—distressed investing (equity), as well as focused mezzanine, senior debt, and mortgage strategies.

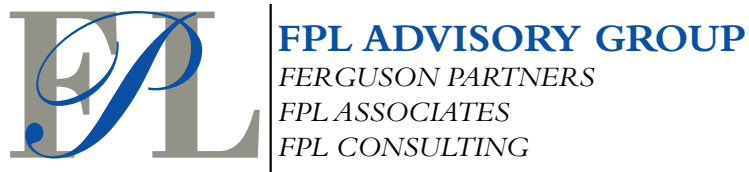
### Listed Developers Face Thinner Short-Term/Long-Term Property Spreads

Several publicly traded Chinese developers, which dominate the Singapore and Hong Kong stock markets, have traditionally been very long-term holders of commercial office and retail properties, while acting more like traders in residential. The spread between long-term commercial/retail and short-term residential typically keeps their share prices steady.

Now, with the governments of Hong Kong and Singapore clamping down on residential prices, this sector has remained flat. And, with a potential lag in growth in the commercial sector, developers are realising thinner spreads. As a result, their share prices could be affected.

In the future, some property developers may dispose of commercial office assets that they normally would have held for the long term. If this materialises, it would create opportunities for funds to buy in these markets. In addition, developers may turn to the capital markets to generate some value. For example, some privately held portfolios as well as listed companies could form REITs from some of their asset holdings. At this point, we see this scenario as a potential opportunity, which may or may not be realised.





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