Manulife

Invitation to invest alongside a life company

Whether as John Hancock or Manulife, the insurance company has been in the real estate markets for more than a century. Now they are bringing in third-party investors to invest alongside them. Recently, **Jonathan A. Schein,** senior vice president and managing director of global business development for Institutional Real Estate, Inc., spoke with **Michael McNamara,** global head of real estate investments for Manulife. The following is an excerpt of that conversation.

Michael J. McNamara
Senior Managing Director and Global Head of Real Estate Investments, Manulife

Michael McNamara plays a critical role in the sourcing and closing of acquisitions of new assets worldwide. In his role, he leads the development and implementation of the insurance company's global real estate strategy.

Manulife may be better known in certain markets as John Hancock, correct?

Manulife acquired John Hancock back in 2004. In the United States, we do business as John Hancock, and in the rest of the world, as Manulife. John Hancock in the U.S. is a well-known, historic brand. Manulife, the fourth-largest life insurance company in North America, is a very visible name in Canada and in Asia. We have been in Asia for more than 100 years.

You have a 100-year-plus history in the insurance space. And now you are opening up to third-party institutional investors. What has driven that decision?

We looked across the franchise to see where we had industry-leading expertise — whether in natural resource investment, timber and agriculture, or real estate — that we could share with our clients and help them invest their capital alongside us. Real estate revealed itself as an area in which we have a great deal of experience — we have been everything from a developer to a buyer to an investor in real estate for many, many years.

Can you elaborate?

If you go back into the late 1970s and early '80s in the United States, Manulife was a very active developer and developed some significant office buildings in markets like Washington, D.C., Los Angeles and Chicago. And we still own many of those assets today. In some situations, we have recently brought investors into those assets. In Canada, too, we have a long history of being a developer, an owner and a manager of real estate assets. In Canada today, we continue to have that development arm. We are developing in Toronto, Vancouver, Calgary and Montreal. We have been an investor in alternatives for many years. When Manulife bought John Hancock's timber and agriculture business in 2004, it was about C$4 billion dollars. Today it is closer to C$18 billion, and a lot of that increase has been driven by bringing third-party clients into that business to take advantage of our expertise.

When you talk about "expertise," what do you mean, specifically?

When I say expertise, I am talking about our fully integrated model. What that means is, the teams who run the office buildings, who lease the office buildings, who drive the tractors picking the cranberries and cutting the trees — they are Manulife/John Hancock employees. That is the culture of the company. That is a fully integrated operating model, and we believe it is a key differentiator for our investors. Ten years ago, we only invested on behalf of Manulife's General Account, whose sole goal in investing in alternatives was to match assets against liabilities. Manulife agents would sell a couple of billion dollars worth of life insurance policies that the actuaries would, for example, need to be paid out in 15 years. So we would go buy hard assets — real estate, timber, land, oil and gas — as a hedge against inflation. Because they had built-in rents, the cash flows were pretty steady, you could define them easily, and they were contractual. That allowed us to match up those assets against liabilities.

And now?

Fast-forward to today, we are taking that expertise from the alternative space and bringing in investors as a way to grow our wealth and asset management business. Since the beginning of 2004, we have done a number of interesting things on the real estate side in terms of bringing in investors. We created a real estate investment trust (REIT) in Singapore, the first pure-play U.S. office REIT to be listed in Asia, about two years ago. We took the Manulife name, which is very visible to investors in Singapore, and we took some assets out of the general account and seeded them into that vehicle to create a public company that is traded on Singapore Exchange Securities Trading Limited (the SGX-ST). It is an opportunity for institutional and high-net-worth investors in Asia to invest in a publicly traded company that buys assets in the United States. Singapore has a very large index, nearly 50 REITs and Business Trusts on the SGX-ST with different asset classes, but the Manulife US REIT has been a resounding success, and its valuation has now grown to about $1.3 billion. We also have a number of separate account clients that have more specific mandates.

How would you characterize the market opportunity as you consider the real estate?

We have always been a long-term investor, and historically we have not levered our assets. We are at nine years into this recovery, but we think that there continues to be opportunities. You have to peel the onion a little harder and a little finer to find them, though, and I think that is where, with our fully integrated model — having real estate people across the country that are property management people and leasing people and acquisitions people and transaction people — we think we can find those opportunities. That's not to say it is easy, but across the cycle and across the real estate clock, there exist opportunities almost at any time around that clock. Clearly we have gone beyond peak pricing in some markets. Still, fundamentals, for the most part, are supporting investment. The U.S. economy is doing well, we are basically at full employment, and we have development that is muted for the most part. I think we are in a good place, and I have no reason to believe that will change in the next several years.

How would you characterize your target market?

Typically we have been major-market driven — long-term, big, chunky assets in basically a dozen markets. In the U.S., we are in New York, Washington, Atlanta, Boston, Chicago, San Francisco, San Diego and Los Angeles.

What differentiates Manulife from other competitors?

Having the global footprint that we have. I think investors like our conservatism, frankly — they like being able to invest with a company that has been doing this for 100 years. We have a long-term investment philosophy. We've been a developer, we've been through a number of cycles, and we are liability driven.

As a global investor, how would you characterize the current geopolitical risk?

Depending upon which paper you read, some geopolitical situations seem to be getting better, and some, worse. You have to insulate yourself from those situations. Obviously, people will sleep at night a little better if the situation in Korea gets resolved. The U.S. continues to be a great place for foreigners to invest capital, and they do it because the market is transparent. You have money coming out of Asia, you have money coming from Europe, you have money coming from Singapore to the United States — for example, we have Singaporean investors investing in office buildings in New Jersey that were acquired by Manulife US REIT — so there is a nice easy capital flow there. But you also have it flowing the other way. We just invested in our first fund in Asia where we have a large appetite to invest on behalf of Manulife's General Account in Asia. It is hard to deploy capital in Asia because the deals are large, and unless you have a really strong team over there (which we do) to deploy capital, Asia is a challenge. You have 500 million people moving from rural farms in China into the inner cities, so that creates a tremendous opportunity for residential, for retail and for logistics, also.

It is easy from the United States to think of Asia as a unified block, but it is so many different countries, so many different opportunities. What looks most appealing right now in Asia?

We are looking at the same kinds of asset classes we look at in the States — office, industrial and multifamily. We bought an office building in Singapore two years ago at the bottom of the market, and it is beginning to perform very well. Melbourne, Australia, where we recently acquired an office asset, is a very transparent market, which behaves a lot like the U.S. market. It is easy to understand — there are some tax complications with investing in Australia, but we like Australia. We like Singapore, we like China, both for office and industrial. We also like Japan, but it is extremely expensive. Five to seven years ago, when you invested in Asia, you got a 300 basis point to 400 basis point benefit in IRR just because it was Asia. That is completely gone now. There are a number of core funds being raised in Asia, and those funds are being fueled by U.S. investors who want a diversified Pan-Asia investment.

A final word?

Whether we are investing alongside an Israeli life insurance company or a Canadian pension fund, we are long-term, patient, low-leveraged buyers. That has really been our bread and butter over the last number of decades — that combined with having the fully integrated model. We believe when we have people all moving in the same direction and working for the same company — whether they be the property management people, the leasing people, whoever it is — that is a culture that, long term, will help our investors as they partner with us going forward.

CORPORATE OVERVIEW

Manulife Real Estate proudly invests, owns, develops and asset manages commercial real estate across the globe. We leverage our fully integrated in-house capabilities to best serve our customers and investors, while generating value for our stakeholders.

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