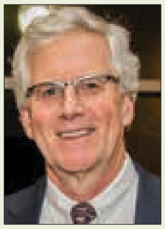
Manulife Investment Management

Ninety years of development experience

Recently, **Jonathan A. Schein,** senior vice president and managing director of global business development for Institutional Real Estate, Inc., spoke with **Robert Maulden,** vice president, global head of real estate development, for Manulife Investment Management. Following is an excerpt of that conversation.

CONTRIBUTOR



Robert Maulden
Vice President, Global Head of Real Estate Development

Robert Maulden, AIA, is currently global head of real estate development at Manulife Investment Management. Prior to this role, he was managing director of the multifamily investment platform, and director of acquisitions for the Affordable Housing Program, in addition to a variety of other as-needed roles.

Tell us a little bit about Manulife Investment Management's real estate platform.

Manulife Investment Management, through its real estate arm, leverages a global, vertically integrated platform that invests in real estate debt and equity on behalf of our clients. We have been developing, operating and managing real estate for more than 90 years, in most major metropolitan areas in three primary regions: the United States, Canada and Asia. As of first quarter 2019, we control roughly 58 million square feet of commercial real estate across those regions, in nine countries and in about 25 cities. Our combined AUM for real estate equity and debt on a market value basis, as of March 30, 2019, is just under $40 billion, which includes Manulife's General Account assets and assets managed by our private markets group and its affiliates. We have a growing multifamily residential portfolio that consists of six properties in Canada and 13 in the United States, totaling just under 5,000 units. We invest for both Manulife's general account, as well as on behalf of third-party investors whom we bring into various vehicles, including funds and separate accounts.

What about the development side? And what's your role within that?

I am fully dedicated to our development business and the development projects we have in progress. Manulife has been developing commercial real estate for decades, having developed more than 30 significant projects, primarily office, with substantial amounts of multifamily and industrial warehouse. Of course, there were times of hiatus, depending on economic cycles, when we paused our development programs. However, coming out of the financial crisis, we started to ramp up our development activities, and since then, we've completed three major office developments in Vancouver, Calgary and Montreal, and two multifamily projects, in Boston and Washington, D.C. We currently have one multifamily property under construction in Atlanta, and we have another eight properties that are in the pipeline, and in various stages of predevelopment or in the entitlement process.

Is the strategy to build and hold, or build and sell?

Our development strategy is client dependent based on the objectives of the portfolio and investor. The strategy for the general account is generally to hold, although that's changed recently, as we've been repositioning the portfolio and performing a hold-sell analysis on the assets in the account. In general, we strive to develop properties in irreplaceable locations that will perform well over a long time horizon and, therefore, we tend to hold for the long term.

What are you identifying as development or redevelopment investment opportunities in the current market?

At the moment, we're generally focusing more on multifamily and industrial warehouse. We like the fundamentals of both of these asset types, as well as the stability of the cash flows. We have some office activity as well. Most of the office activity is either lease-driven, or a substantial repositioning, such as converting an older flex-office property into creative office. We are cognizant of the significant changes that have happened in the workplace recently, so we're being very careful about how, when and where we develop.

I noticed you haven't mentioned retail at all.

We don't maintain a sizable retail exposure, and it's not an asset class that we've developed in any meaningful way. We do have an allocation to necessity retail in some of our third-party vehicles and believe it can play a role in a portfolio. However, in terms of regional malls or a large retail center, it is not something we have constructed in the past or an area of development focus for us. We do have a fair amount of ancillary retail that is associated with either the multifamily or the office portion of the portfolio.

Not all institutional investors invest in development. What's your perspective with regard to development as an allocation within an institutional investor's real estate portfolio?

As someone who lives and breathes this every day, I believe development should be a part of any diversified, high-quality portfolio. Certainly, it's further out on the spectrum in terms of risk and reward but, as long as the risks are understood, and the investor is being compensated for that risk, I am confident the investment can be attractive for investors. When we're looking at development opportunities, it's a matter of making sure we have fully underwritten the risks of the deal and whether we are able to actively engage to mitigate those risks. That kind of thinking probably rings true with many investors, as we are seeing the overall development allocation for portfolios go up. People feel they can control the risk and earn an additional return and, therefore, the allocation to development makes sense.

You mentioned earlier that, as a company, you got more involved in development following the financial crisis. The real estate landscape really has shifted quite a bit since then. What do you think are the notable differences today for development, relative to five to 10 years ago?

Certainly, the leverage levels are different. Pre–financial crisis, we saw some of the development deals were highly leveraged and, in some cases, structures were actually 100 percent leveraged. We're not seeing that today. Although leverage has increased since the early days postcrisis, leverage levels remain reasonable.

Another big difference is interest rates. Pre–financial crisis, the 10-year Treasury was hovering around 5 percent, and now we're at about half of that. That makes a pretty big difference in the interest carry for a deal and whether it pencils out.

Finally, there are the areas of concern with labor availability, cost escalation and land costs, all three of which are real headwinds for development at the moment. We are certainly in the latter part of the cycle, highlighting the need for prudent underwriting.

You mentioned moving a little further out the risk-return spectrum with development. What is your approach to identifying and mitigating the embedded risks of development?

I believe many of the risks for development can be mitigated and, if not fully mitigated, at least they can be well understood to be sure that you are being compensated for the risk. If you understand a risk, you're quite a ways down the line to figuring out a way to actually address it.

You can categorize risk in a number of different ways. Some are hard to have any control over, such as fundamental macro-economic risk. On the other hand, there are risks that can be mitigated, whether it's latent conditions, subsurface conditions or bankruptcy risk.

Generally, we think about mitigating those risks in two big areas: team composition and structure. Regarding the team, we typically partner with a developer, with a fairly typical JV structure. In other cases, we use a development manager to help us staff and implement the project. In either case, we want to make sure we are working with the best people in the industry in terms of execution, sourcing, underwriting, design and construction. We want to make sure we're working with local experts, who are doing this day in and day out, and who know where to go to resolve any issue quickly, i.e., the consultants and architects, designers, contractors, subcontractors.

With regard to structure, we typically look to mitigate our cost risk, particularly via some sort of guarantee from our partner or contractor, which gives us insulation from many issues, or we look to another third party for some form of guarantee.

Can you talk about the property markets and the property sectors in which Manulife is currently active with its development projects? What are you building, and where?

In the United States, we develop in the coastal markets plus Chicago. In Canada, we develop in five major markets: Toronto, Montreal, Calgary, Edmonton and Vancouver. Our development property types are primarily office, multifamily and industrial warehouse. Recently, we've completed multifamily properties in D.C. and Boston, an industrial warehouse in Atlanta, and three office properties in Vancouver, Calgary and Montreal.

In process, we have one multifamily project under construction in Atlanta, and another retail/mixed-use project under construction in Toronto. In the pipeline, we've got a number of properties that are in predevelopment or where we are seeking to gain entitlements for development in many of our target markets.

What do you think are the advantages of the Manulife platform? What sets the Manulife team apart and allows you to really differentiate yourself?

For one, we leverage our vertically integrated platform, allowing us to handle everything from fund formation, fundraising, acquisitions, dispositions, development, asset management, property management and leasing. In addition, we have a department of engineering and technical services, and the entire back-of-house support. All of these different disciplines are in-house, allowing for an integrated approach to real estate investment. A second key component that sets us apart is our regional office network located in all the markets I mentioned — a group of local experts who are our boots on the ground. They provide all the expertise we need at the platform level to make good decisions regarding assets at the local level.

CORPORATE OVERVIEW

Manulife Investment Management, through its real estate arm, proudly invests in, 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.

CORPORATE CONTACTS

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