GREYSTAR™
The Global Leader in Rental Housing

Building and buying multifamily in APAC

Greystar's LIV'N property in Shanghai

Recently, **Jonathan Schein,** senior vice president and managing director of global business development for Institutional Real Estate, Inc, spoke with **Adam Pillay,** senior managing director – Asia Pacific, of Greystar. Following is an excerpt of that conversation.

What is the Greystar investment philosophy in the Asia Pacific region?

Our investment philosophy here is fundamentally the same as in all our markets — it is the same thesis that Bob Faith identified when he first set up Greystar in the early 1990s. Growing urbanisation in cities will draw people from all walks of life to move to those cities for employment and social mobility, and by virtue of that, there will be a need for housing. That type of housing will not always be accessible for everyone through the for-sale market, so a more attainable source of housing is needed, which multifamily can provide.

More broadly, rental housing moves up and down the age bracket — down into student or up into senior — which is where we play. Back in the late 1980s, Bob saw that there were a lot of mom-and-pop owners of apartment buildings who had their daughter doing the leasing, the son being the lifeguard around the pool, for instance — so there was a drastic lack of professional, institutional-quality management of the space. If you fast-forward to today, we have built the blue-chip-quality operator, developer and investment manager of rental housing, and we manage the most apartments in the world — close to 700,000 units under management, which is more than four times the size of EQR, the largest publicly listed apartment REIT.

And those demographic drivers that drove the institutionalisation of the sector in the United States are exactly the same that have driven it in markets like London, Barcelona, Madrid and Amsterdam. Then in Asia, it is the same pattern, but at an even more heightened level, in that you have cities like Shanghai, with 24 million people, or Tokyo, with 38 million people. These markets have huge populations that are growing and that ultimately will need this type of housing. Usually in these markets, the bulge of the demographic population that requires this type of housing is young professionals or elderly people. What we are bringing to these markets is purpose-built product. We build the right type of product and provide the right type of housing, which will address not only the demographic need, but also the regulatory side, which helps the local political efforts to address the undeniable housing needs. There is a structural undersupply of quality housing for people, and that allows us to build an asset that provides a very durable cashflow, very steady capital appreciation, and which appeals to a wide range of investors — in particular, large, institutional partners that need to diversify away from their traditional asset classes.

It is a pretty straightforward philosophy, driven by a need from a local population, and all we are doing is bringing our nearly three decades of experience into the management and construction of these assets, so we can build portfolios in Asia that mimic what we have in the United States, Europe and the rest of the world.

How do you view the Asia Pacific region? Do you differentiate between Australia, versus China, versus India?

Absolutely — more so than in any other region in the world. The differences among these countries are quite dramatic — on one level, in terms of language, culture, population, demographics, political environment, regulatory, but on another level, the drivers of the asset class are very similar.

You cannot be a fly-in, fly-out manager in our space. It is operationally intensive. You have to build up vertical integration across property management, development and investments to be successful, which means you have to have local boots on the ground and local employees trained in the methods we have to really drive investment value. But, importantly, you can amalgamate that with their local experience to create the best of both worlds.

We have a centralised head office in Singapore, out of which all of our funds are managed. I am headquartered in Australia with our regional COO, largely because I don't have citizenship in Singapore. From the investment business standpoint, we have deep teams located in Shanghai, in Tokyo, and in Sydney and Melbourne. We absolutely look at these markets on a country-by-country basis as it relates to the investment strategies we employ to deliver returns for our investors, but ultimately our goal is to be the leading provider of rental-housing investments in the region, which will lead us to move away from country-specific investment strategies or vehicles. Our plan is to create a regional rental-housing strategy, but in order to do that, you have to build up your track record. We have only been in this part of the world since 2017, so we are willing to wait on that front, but stay tuned.

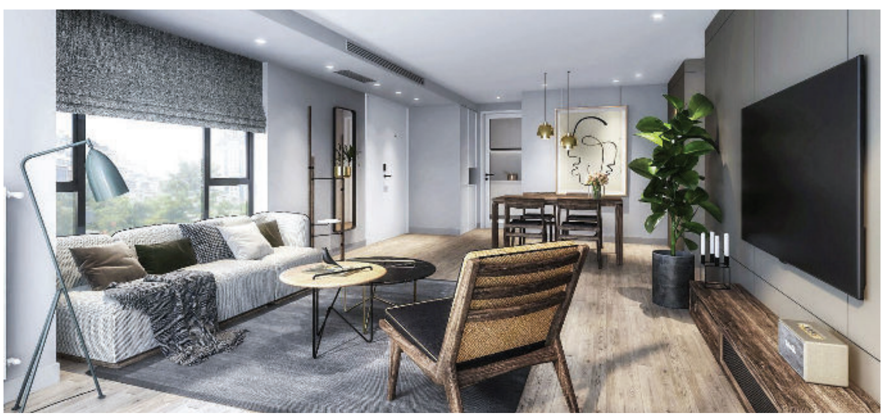
Which specific markets are most attractive to capital? And which markets are not?

Each of these markets is attractive to different groups of capital. I don't think you can use a broad paintbrush stroke to describe the region, but if I had to identify what is most widely accepted today amongst the community, Japan is a market where there has been a long history of multifamily rental product in existence. You can actually acquire assets there, as well as develop, and so from that standpoint it is a very deep, liquid market with a good deal of data that supports the investment strategy. The main focus for investors in that market is the spread between spot cap rates and financing rates, which is quite dramatic. While Japan has been in a negative interest-rate environment for a long time, rates are close to zero, so you can leverage between 50 basis points to 100 basis points in multifamily product, and you can obtain up to 75 percent leverage with limited covenants. When you are buying assets at a 4 percent or a 5 percent cap rate, if you are able to source at that type of pricing, you can generate close to double-digit cash yields, which allows an investor to get a very stable cashflow or dividend — which is not easily replicated anywhere else in the world, especially today, in light of COVID-19. That is one of the big reasons people are underwriting Japan residential today — the stability of the asset class that has been there and well tracked for over 30 years.

In Australia, we have had an economy that grew for almost 40 years in a row, which overtook the Netherlands as the longest-running growth economy ever. But through this pandemic, the drivers of our economy in immigration, in education — since student housing is a big component of that, as well — have largely had a handbrake put on them, primarily because people can't travel in and out of the country. We are seeing Australia move into a recession over the next little while. That being said, Australia's housing market has grown pretty consistently through that time of growth, barring a few corrections, so that today, we have a lack of home affordability for the average person, tightening of credit from the banks, and a lack of construction of apartments because the presale market for for-sale assets has disappeared. Today, we still have strong population growth, we still have the largest proportion of the population sitting in the 20- to 40-year-old age bracket, that age bracket is taking longer to get married, that age bracket is increasingly renting for longer, but they are renting from the shadow markets — individual owners who own an apartment and rent it out with no amenities, no services and — this is probably the critical piece — no security of tenure.

It is quite common in Australia to trade real estate, but also, a lot of people move back from other cities and want to move into their apartments, or renovate and then re-lease at a higher rate. As a renter — and I can tell you this from my own experiences living here — you can be booted out of your apartment with very short notice. That is a critical component that will play in our favour for multifamily build-to-rent. There has been great support more recently as the government here has provided a lot of stimulus, which is putting the budget into a deficit to create new investment opportunities, which create jobs and keep people in their homes. Multifamily is an excellent choice to address that social need, and we have seen tax reform starting to come through at the state level in the form of a reduction in land tax, specifically, build-to-rent properties, which currently don't have a different zoning, to for-sale residential. That alone helps improve investment returns quite dramatically.

In this part of the world, we took the fundamental view that the demographic drivers supporting the sector made a great deal of sense, and that the government would ultimately make adjustments to its tax policy, both at the state and federal levels, to help support the growth of the sector. They just needed a push to make that happen, and an economic recession puts more of a focus on finding other ways to get yourself out of a deficit, which this sector provides. So we have quite a substantial amount of equity to invest in this market. You have a very strong growth profile ahead of you from a rent standpoint, largely because of the lack of supply; you will have muted rent growth in the next two years, given the economic pressure that is there, but as soon as immigration opens up, we would expect to see growth move back towards 4 percent and 5 percent for both Sydney and Melbourne. Australia is a very strong market long term, and from an institutional investor standpoint, Australia is a very widely accepted market — more than 70 percent of the real estate here is securitised in some shape or form. We have a very sophisticated equity and debt market that provides for international investment, as well, and it



Greystar's LIV'N property in Shanghai – Living area

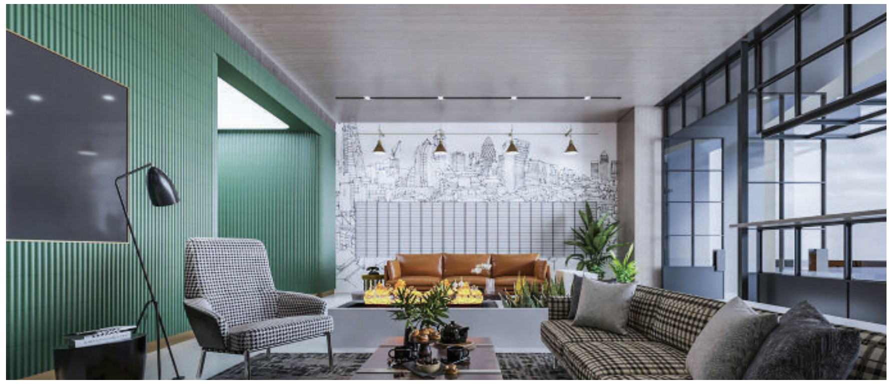
is very liquid and transparent. And the rule of law follows English Common Law, which is also widely accepted.

How are you finding the investment climate for Asia Pacific investors?

One of the fundamental principles of our business is our desire to partner with our investors and help them access rental-housing product globally. We are the only manager that has a truly global footprint in rental housing. Our largest partners are global investors by their very nature and, therefore, like to have the same discipline, the same quality of management, transferred around the world. Typically, they are the first groups to support us in new markets, and these are large investors that deploy very large amounts of capital. As we build our track record in these markets, we then move into more traditional, commingled closed-end funds because that allows a wider range of investors to participate. That is how our US business grew, and we went from development and acquisition vehicles through commingled funds on a closed-end basis and then, ultimately, open-ended funds.

In Europe, we have done the same thing — we are through the joint venture and open-end funds, and now we are launching a closed-end regional fund. In this part of the world, we are three years in, so we are still pretty new. But we have joint ventures with our largest partners in China, Japan and Australia. It has been very successful for us.

The investor mix is global — it includes European, Middle Eastern and North American investors. Some of these groups are actually new investors to Greystar, and they are investing with us in Asia Pacific rental housing. One takeaway there is this is something people believe is going to work in this part of the world. The other takeaway is the other major markets of the world are challenged for growth, whereas in Asia Pacific, China is still growing; Australia has been historically a great growth market; and Japan represents a very liquid, stable market to invest in — not growing, per se, but a market in which you can build up assets under management and drive return through different types of strategies. Asia Pacific offers good diversification and the ability to deploy capital, which attracts a global investor base.



Greystar's LIV'N property in Shanghai – Common area

These new investors — were they already engaged before the pandemic? Or are they new since COVID-19?

Both. We have been surprised — COVID-19 definitely put a lot of groups on hold, largely because of the difficulty in completing their traditional diligence processes to complete new investments. But almost a year in now, many investors cannot continue to sit on the sidelines. They need to deploy capital. I think next year we will see the fundamentals shifting, which will lead to more opportunistic or distressed players, as investors need to move or recycle their capital.

In what other ways has COVID-19 impacted the residential rental marketplace in the Asia Pacific region?

China was the first country to come out of this crisis in a meaningful way and reopen their economy. We had a one-month delay in construction, and we are now leasing our first assets in Shanghai. And we have incredible demand. We are delivering on the promise of what we hoped, which was a premium product that would garner premium rents from its resident base. The product is just different from what exists in the shadow market. Our projects in China weren't impacted as severely, by virtue of the fact that we were in a construction phase there anyway, and more broadly, there weren't any major hiccups in the operational side.

Moving to Japan, most people in Japan rent. Land is a huge proportion of the value of real estate, and, therefore, owning a home is very unaffordable for the average person. Consequently, occupancies in that market stayed above 98 percent, cashflow has been very durable, we haven't seen rents going backwards, and so it has held up extremely well. We are sitting on more than 50 properties in Japan; and we started investing in July of this year. We are very pleased with the performance.

There are only two operational build-to-rent assets in Australia, so it is still a burgeoning market. These aren't Greystar assets, but we all want to get this sector going in this country, so we are pleased to see our competitors doing well. COVID-19 hasn't impacted the leasing of these assets yet, but I think it would be remiss to assume the rents that have been achieved in the shadow market would continue to grow when cities are still in lockdown. We are quite comfortable not underwriting rent growth this year and having very small rent growth next year, whereas in 2022 and 2023, the supply constraints should lead to rent growth. Australia is a market where you can, from an international standpoint, say, at least we know that country is going to come out of this pretty quickly, whether it is a vaccine or just more stringent controls of the spread.

How does Greystar add value to acquired residential assets?

As a philosophy, we try to use one of the three value buckets to drive value. No 1 is sourcing and buying better through our network, which obviously will allow us to drive value from day one. The second way we drive value is to use our operational platform to improve the resident experience. We either focus on the amenity and service offering to bring something different from what those residents had before, which would then entice them to stay longer and be more comfortable paying more rent over time. The second element of operations is using different tools we have developed to manage revenue or control expenses, and so through that process we are able to drive NOI up, which, on an unlevered basis, helps to improve returns. That is pretty difficult, frankly, for an asset allocator to do because they don't control the process from start to finish as we do.

Do you have an example?

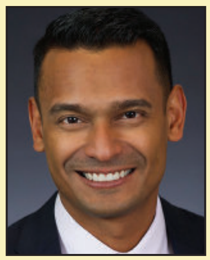
We have revenue-management software that uses a model similar to how airline tickets price. This dynamic pricing, as it is called, can look at comparable assets in the area and then price a top-floor unit differently from a bottom-floor unit to cater to the demand at the time. It does that on a daily basis, and that enables us to grow our rents in line with market demand on a dynamic and very efficient basis. On the expense side, we have national contracts with a number of vendors, and that allows us to drive bulk-pricing discounts. We typically look to achieve a 25 percent discount to retail pricing, so whether that is cable and utilities or waste-management services, we aim to control our expenses very carefully through our budgeting process at the asset level. These tools translate into increased cashflow, which will help increase value.

The third piece is that we try to find ways to invest accretive capital for capex — whether that is refurbishing a lobby area, adding a gym or adding a common area. We are looking to offer services that aren't there today. These are incremental dollars that we will put to work, from which we look to have at least a 20 percent return on cost. Through that, we can increase the rents across the building. When you can get all three of those boxes ticked — sourcing, operations and capital expenditure — you have a great investment.

You build and you buy existing assets. Why do both, and how do you bring operational excellence to both?

Development is equally as important as acquisitions to us, because we think we can build the right product for the long term through development. Acquisitions are important to us because we can operate them better than the local market.

We like to acquire existing assets where they are functionally ready to support multifamily. We look at hotel conversions. We look at service department conversions and at condo projects. But in an ideal world, where pricing and returns all look similar, you would develop because you can build the asset the way that you want to build an asset for multifamily. We can staff it appropriately to maximise our efficiency per head, and we will build it in a way that is very different from a condo. A condo developer builds a lot of two-bedroom, three-bedroom and four-bedroom units because a homebuyer wants to make their dollars stretch to buy as much space as they can afford. We build things very differently. When we build a building, we have a lot of studios, one-bedroom and two-bedroom units, limited three-bedroom units, and virtually no four-bedrooms, because we are catering to the rental market. We typically have three times the amenity space, though. For a condo developer, the large proportion of the value they can generate will sit in the penthouses, with the best views from their building. We will take that top floor, and we will make that the common area — the pool, the gym, the club rooms — because that allows everybody in the building to enjoy the best views of the city. By virtue of that, we can drive enhanced rents because of the access across the resident base.



CONTRIBUTOR

Adam Pillay

Senior Managing Director – Asia Pacific Investor Relations

Adam Pillay is responsible for leading Greystar's Asia Pacific investment management and Global Investor Relations and Capital Raising team globally. Pillay was previously with J.P. Morgan Asset Management – Global Real Assets, where he was the platform specialist for the Asia Pacific region, leading the formulation and structuring of the Asia Pacific real estate strategies, while also supporting the European real estate team with capital raising from major North American clients. Prior to joining J.P. Morgan, Pillay was a vice president at CIM Group, where he worked closely with global institutional investors to form and structure the equity financing of real estate and infrastructure investment products across direct, co-investment and commingled-fund strategies.

CORPORATE OVERVIEW

Greystar is a leading, fully integrated real estate company offering expertise in investment management, development and management of rental housing properties globally. Headquartered in Charleston, South Carolina, Greystar manages and operates over an estimated US$200 billion+ (€169 billion) of real estate in nearly 200 markets globally, including offices throughout the United States, United Kingdom, Europe, Latin America and the Asia Pacific region. Greystar is the largest operator of apartments in the United States, managing approximately 693,000 units/beds, and has a robust institutional investment management platform with approximately US$35 billion (€29.6 billion) of assets under management, including more than US$15 billion (€13 billion) of assets under development. Greystar was founded by Bob Faith in 1993 with the intent to become a provider of world-class service in the rental residential real estate business. To learn more, visit www.greystar.com.

CORPORATE CONTACT

Adam Pillay | Senior Managing Director – Asia Pacific Investor Relations
+1 (212) 364-6336 | adam.pillay@greystar.com | greystar.com

GREYSTAR™