KEYNOTE INTERVIEW

# Applying global lessons to local markets

*Sharing innovations and expertise across national borders is crucial to create value in fast-evolving markets, says Jessica Wichser of Partners Group*

Global private markets firm Partners Group manages $109 billion of assets worldwide on behalf of over 900 institutional investors, including $17 billion of real estate. Global head of private real estate asset management Jessica Wichser explains to *PERE*'s Stuart Watson how the firm is seeking to lever its global platform to achieve value-add and opportunistic returns while remaining nimble enough to adapt to the challenges posed by the pandemic.

SPONSOR
**PARTNERS GROUP**

### Q How do you define value creation?

Value creation is about having a vision to transform a property in order to meet the needs of a community, and then putting in the work to implement that vision. That transformation can be physical in nature, like construction or renovation. Or it can be operational, like increasing the efficiency of a building or its occupancy. It is also about being inventive and hands-on, and for Partners Group, being global.

It touches every aspect of the investment process, from sourcing an asset to selling it, with an angle available to create value at every step along the way. It lies at the core of our investment strategy, because we don't want to rely only on market-driven increases in rents, occupancy and pricing that we can't control. Of course, we look to capitalize on market dislocation to buy at the right price, and we want to target assets in strong irreplaceable micro-locations, with positive demographic and economic fundamentals. But our investment theses always look to incorporate asset-specific improvements.

As a manager targeting value-add and opportunistic returns, the implementation of the vision for each asset on schedule and within budget is critical.

### Q How do you combine being a global business

**with the hands-on asset management required to maximize value?**

The US and Western Europe are big markets for us. So is APAC, where we focus on Australia, Japan, China and Korea. Our business has a global relative value mandate, which means that we look for the best risk-adjusted returns in all investment-grade property types in markets worldwide according to our research-driven themes. So, we're able to accumulate broad experience of working across many different value creation plans, with many local partners, and that knowledge can be leveraged to apply best practices globally.

For example, in Asia, multi-story warehousing is a more established property type and we're now seeing that trend spread to the US and Europe. Meanwhile, Europe tends to be further ahead on carbon neutrality, and those lessons can be applied in the US. And in the US, the multifamily rental and senior living sectors are more mature than in Europe but are now gaining momentum in that region.

Having a global reach enables an asset manager to cross-pollinate different practices and trends across regions, while still working closely with local partners on the ground in each location. Global reach also creates multiple touch points with the tenants, investors, lenders, agents and consultants that help realize value creation plans. That's especially helpful when you hit bumps along the way, when having a large network and knowing who to call are key advantages.

In addition, if there are professionals in your global team with technical backgrounds in areas like architecture, engineering and construction, they can share ideas and make connections across regions. You're always likely to get external consultants involved during the ownership period. But by having access to those technical skills in-house, you can consider a wider variety of value creation angles earlier and dig into complex issues at a faster pace.

## Following the path of growth

**Asset case study: River Park, Austin, US**

Acquired by Partners Group, acting on behalf of its clients, and co-investor Presidium Group in April 2018, River Park is a 109-acre transit-oriented development that will ultimately support over 10 million square feet of mixed-use space adjacent to Oracle's Austin campus in the East Riverside submarket. The project's appeal lies in its combination of scale, zoning, access to existing and future transit, and proximity to downtown Austin and the airport.

"In Austin, we have the ability to create value on a large scale by redeveloping an infill location within a high conviction market," says Jessica Wichser.

Expected to take place in seven phases over 10-plus years, the plan includes over 5,000 market rate and affordable multifamily units, five million square feet of commercial space, and an outdoor park that spans the length of the site to enhance connectivity and provide an amenity to the surrounding community.

**Q Do you also seek to utilize know-how from outside of the real estate sector?**

As real estate becomes more oriented towards services and amenities, it becomes essential to develop deeper insights into business sectors like technology, consumer goods and leisure.

At Partners Group, we benefit from the fact that we're not just a real estate investment manager. We're part of a larger platform together with private equity, private debt and infrastructure, so we can draw upon the expertise of colleagues in those asset classes, whether they're investing alongside us, or consulting for us.

In the early days of the pandemic, our private equity colleagues were there to provide insight into the challenges facing some of our retail and office tenants, their likely ability to pay rent, and the best solutions to help keep them afloat during that difficult period. And when we consider investing in specialized property types, like data centers and cold storage, we collaborate with our infrastructure colleagues.

> *"Having a global reach enables an asset manager to cross-pollinate different practices and trends across regions"*

**Q What is the best approach for balancing risk and return in value creation plans?**

The key is to examine your vision for the asset and what it will take to realize that vision, then ask if you're being compensated for the work involved. There are big opportunities to create value by engaging in placemaking. For example, we are working on master planned developments in the path of growth in US markets like Austin, Charlotte and Portland, where we're constructing new buildings and also redeveloping older assets while preserving their historical character and adding amenities. Those are the value creation plans that come with the highest potential risks in execution.

At the other end of the spectrum, we execute business plans that involve minor leasing, light refurbishment and operational refinement.

Right now, investors want to capitalize on covid-driven market dislocation and the trends that the pandemic has accelerated. But they also want to invest in assets that are future-proofed and downside protected. Where we're developing industrial space, for instance, we are phasing it to manage the risk, or executing a combination of opportunistic development and build-to-suit. And we're only developing office buildings if we have significant preleasing.

We're also sensitive to obsolescence in the market. In the logistics sector, with an older vintage distribution center, you have to ask whether it's possible to upgrade that building to make it relevant to the needs of e-commerce tenants, so that you're not competing with new supply to your disadvantage. And in the office and retail sectors, we're not buying assets with a high risk of becoming outdated unless they're being sold at land value or we have a solid value creation plan to reposition them.

**Q Are ESG factors a growing consideration in devising approaches to value creation?**

ESG has become even more important since covid. Sustainability was on the agenda of most investors prior to the virus. But now the question of whether sustainability credentials are economically accretive in terms of achieving higher rents and sales prices has been sidelined by the conviction that pursuing sustainability is just the right thing to do. If you don't do it, you are at risk of running into a gating issue, where potential buyers and tenants just cross your asset off their list. Also, while investors previously focused on environmental sustainability and energy efficiency in particular, more attention is now being paid to other aspects of sustainability, like wellness, diversity and inclusion.

ESG must be a key aspect of value creation plans because it underpins many other work streams like improving the physical character of a building, its operational efficiency, and its marketability to both occupiers and investors. It's important to integrate sustainability during underwriting, instead of doing it post-closing, when the budget has been set. By looking at ESG factors during due diligence, you avoid investing in assets that don't meet ESG standards or cannot be improved to meet them in a financially feasible way.

**Q What challenges do asset managers face when trying to extract value in post-covid real estate markets?**

It's important not to just set a business plan when buying an asset and then execute it regardless of what's happening in the market. You always need to be evaluating market conditions and emerging trends, and looking for ways to adapt assets to them in order to optimize value. You may sign a major lease, which provides an opportunity to profitably sell an asset ahead of schedule. But sometimes you also face unforeseen negative events, such as an unanticipated lease termination from a major tenant, or at the extreme, an event like covid-19, which means you have to pivot the plan to preserve value.

Our own portfolio has held up well over the past year. We have limited exposure to the worst-hit sectors like retail and hospitality. But we're facing challenges where office leasing activity is slower than we had underwritten, and we're also seeing some tenants consider only short-term lease extensions. In response, we're evaluating the conversion of certain office assets in select markets into life science buildings, because that's a thriving segment. We're also downsizing some of the retail components of our mixed-use assets in favor of uses like industrial and residential.

We're also negotiating more profit-sharing and percentage leases that allow us to share in both the upside and the downside to tenants. And we're shifting our mentality a bit in terms of our retail and co-working space, so that these uses are considered more as an amenity for residents and office workers in the building, rather than as a standalone profit center. Sometimes you can drive your economics elsewhere in the building on the back of the space you're earmarking as an amenity.

Residents like to live near a local coffee shop or a popular grocery store, and that can help leasing and rents in the building overall. And some office tenants want to be in a building that includes co-working space that they can flex into while right-sizing their own offices. ■