

## **ESR-Reit: Warburg's platform for S-E Asian logistics assets**

Warburg's S.E. Asia head Jeffrey Perlman says it's important to build up ESR-Reit for it to enjoy economies of scale

By Lee Meixian, *The Business Times* FRI, AUG 24, 2018

ESR-Reit could become a platform into which private equity firm Warburg Pincus would inject South-east Asian industrial assets.

The Reit's sponsor, ESR, an aggressively expanding logistics property developer and operator, is eyeing the region as its next target to expand into.

In a recent interview, Jeffrey Perlman, managing director and head of South-east Asia at Warburg Pincus, said it is very important to build up ESR-Reit's scale, given that larger Reits enjoy better cost of capital and trading prices.

ESR-Reit is already in the middle of a merger with Viva Industrial Trust to form Singapore's fourth largest industrial Reit, with a combined S\$3 billion in assets.

Mr Perlman noted that there are still many "subscale" Reits "caught in what we call a 'no man's land'", because they are not large enough to enjoy economies of scale.

ESR established its foothold in Singapore in January last year, when it bought an 80 per cent stake in the manager of ESR-Reit, which was called Cambridge Industrial Trust at the time. It later engaged in talks with Sabana Reit in what the market speculated to be a trade sale, but those discussions eventually fell through.

After the completion of the ESR-Viva Reit merger, Mr Perlman does not rule out purchases of other Singapore Reits, even as it looks to the region for other potential targets.

The South-east Asian market is highly fragmented, he said; there are many small players as well as larger real estate firms that own industrial and logistics assets as just a small, non-core part of their business.

ESR believes that as investors become more specialised in real estate investment, some of these portfolios will eventually be spun off. If they are not sizeable enough for an initial public offering, they could be offered up for a trade sale - to ESR's benefit.

The fragmented nature of the logistics property market is not unique to South-east Asia; other Asian markets are this way as well.

Platforms that fail to reach a size and scale that the owners had initially hoped for will start looking for opportunities to become part of a bigger platform, which is what has accelerated ESR's acquisition activity over the past 18-24 months, leading to its rapid growth.

Part of the reason for ESR's interest in expanding into South-east Asia stems from its existing tenants, such as JD.com, moving to Singapore.

At the same time, some of its limited partners at the fund level are also interested in investing as more properties in the region become investment-class.

However, because only about one per cent of all logistics properties in South-east Asia is considered modern and suitable for e-commerce, ESR said that it would also likely develop its own facilities. It is eyeing markets in the cities of Indonesia, Thailand and Vietnam, where rising income is driving consumption.

An expansion into this region would complement its presence in Asia-Pacific markets such as China, Japan, Korea, India and Australia. It entered the Indian and Australian markets only in the past year.

Mr Perlman said: "I think our vision has been that, over time, we want to have sizeable vehicles not just in Singapore, but elsewhere across the region because we want to be long-term holders of warehouses, where we go from developing the warehouses to continuing to own and manage those assets over the long term."

Discussing the Singapore industrial market, he noted that the last few years have been "tough" amid an oversupply situation and the conversion of many properties from single- to multi-tenanted ones - developments which have put pressure on rentals.

"But I do think that the worst is behind us," he said, observing that supply has slowly been absorbed by tenants. In Singapore, besides development opportunities, it is looking at acquiring warehouses geared towards e-commerce, data centres and well-sited business parks.

"We want to be well-positioned with the right set of assets so that we can capture that eventual recovery. It's not a matter of if, but a matter of when."

ESR is now one of Asia's largest logistics developers and fund management platforms, managing about US\$13 billion in assets and 10 million sq m of logistics facilities in Asia.

Mr Perlman said these figures will burgeon to US\$20 billion in assets under management by 2020.

As a group, ESR has been aggressive in raising new funds from institutional investors and making acquisitions - whether stakes in asset-owning companies or platforms of logistics properties.

Its growth has been organic and also the result of mergers and acquisitions. ESR began when e-Shang, co-founded by Warburg Pincus with ESR chief executive Jeffrey Shen and Sun Dongping, merged with Redwood, a company with assets in Japan and China, in 2016.