Building at scale

Tracy Stroh, managing director and head of Europe at GIC, Singapore's sovereign wealth fund, gives her first interview since taking charge of the region

BY **ROBIN MARRIOTT**

In the past 12 months alone, GIC has made headlines having been involved in four of the largest 30 real estate transactions in Europe.

Deals included the €4.43 bn takeover of Student Roost from Brookfield for which it teamed up with Greystar; a €2.1 bn majority stake alongside APG in The Student Hotel, since rebranded The Social Hub; a majority stake alongside management in Mediterranean luxury hospitality group, Sani/Ikos Group, valuing the company at €2.3 bn; and a 75% stake in British Land's Paddington complex in London for €775 mln.

In her first interview since assuming responsibility for the region as MD and head of Europe real estate in 2021, Tracy Stroh speaks to PropertyEU about the investor's mindset and the role that real estate plays within its portfolio.

Stroh, who joined GIC in 2001, has something of an inside track. Not only has she worked for the sovereign wealth fund for over 20 years, but she has done so in all three regions where the fund is active – the Americas, Asia, and Europe. Having begun in the San Francisco office concentrating on GIC's US real estate portfolio, she later relocated to Singapore as head of research and strategic planning and as co-head of Asia real estate (ex China). In 2021, she was posted to London as head of real estate, Europe. She remains a voting member of GIC's real estate global investment committee, a leader in the Women in GIC Taskforce and plays a part in GIC's sustainability committee.

It is interesting to hear Stroh speak of European real estate from her global vantage point. 'One of the benefits I've had working at GIC is I've sat in all three regions,' she says. 'The eurozone is a big economy – it's a major economic bloc, but it is also fragmented. Each country has its own rules, regulations, tax structures and so on, so questions arise such as: how do you execute a real estate portfolio that is so idiosyncratic?'

'But we have boots on the ground, and we've been investing in real estate for over 40 years globally and in Europe, for over 30 years. I think if you are an international investor, it can be a little difficult to scale up in Europe given the fragmentation. It has taken us several years to get to the scale we are at. You have to be patient. I think that is one thing that GIC has – as a long-term investor, we have the patience and ability to execute and build that scale.'

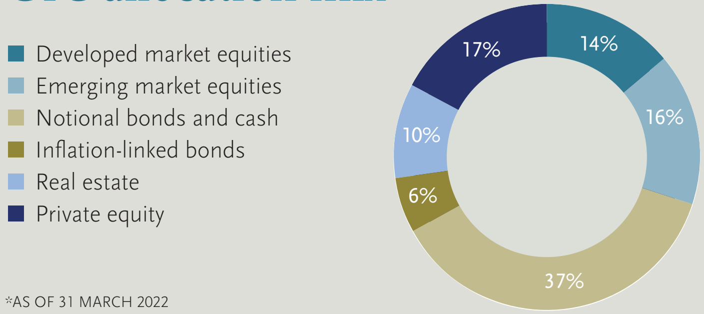
SIX ASSET CLASSES

Established in 1981, GIC has been tasked to manage Singapore's foreign reserves and its objective is to preserve and enhance these reserves above global inflation. It does this by investing across six core asset classes globally: developed market equities, emerging market equities, nominal bonds & cash, inflation-linked bonds, private equity, and real estate.

Temasek, Singapore's other investment company that was formed in 1974, also covers real estate among financial services, transportation, telecoms, media and technology, life sciences and agri-food. But a significant difference is that Temasek is not investing the country's foreign reserves and owns the assets it manages. It states its AUM ($304 bn as at March 2022). In contrast, historically GIC has not shared either its total AUM or AUM for individual asset classes as it is a fund manager for the government, and does not own the assets.

The Republic of Singapore is a relatively small, sovereign island city-state which at the same time plays an important role on the global economic stage. On the Ministry of Finance's website, it is stated that it is not in the national interest to divulge the total size of its reserves.

GIC allocation mix*



*AS OF 31 MARCH 2022

‘The contribution that real estate can make is important to the overall portfolio. Europe will be a key place for us so we will hopefully continue to scale’

Personal profile

NAME Tracy Stroh
POSITION Head of Europe, real estate, GIC
JOINED 2001, San Francisco
CURRENTLY BASED IN London
PREVIOUS POSITION Global head of research and strategic planning; co-head of Asia (ex-China), real estate

However, GIC does provide a breakdown of the asset mix of its portfolio by strategy and geography (*see pie chart*). According to GIC’s last annual report, as at March 2022, global real estate constituted 10% of the portfolio, up from 8% the previous year. Though one might say that increase is not dramatically ‘moving the needle’, make no mistake – GIC has been very busy on the real estate side as evidenced by the recent large investments.

LONG-TERM HORIZON

GIC’s investment portfolio is designed to meet its long-term objectives regardless of whether the world is in global recession, high growth, or somewhere in between. With current inflationary pressures and the world’s major economies generally contracting, one can guess that GIC needs its real estate investments to perform well and possibly work even harder over the next few years as a hedge.

The wealth fund says there is still room to grow in real estate, and with headroom and significant dry powder to deploy, it is looking for more opportunities to invest (so long as it does not feel it is overpaying).

Stroh says Europe is ‘fragmented’, but at the same time she points out the region offers the chance for geographic diversification. As she notes, each nation has different macro-economic drivers. And, it is not only the diversification that GIC likes, but the ‘resilience’ of European real estate, which fits GIC’s long-term horizon.

Says Stroh: ‘An investor like GIC looks across cycles on a very long time horizon. The resilience and diversification is very important to us. We are all very clear on the role that real estate plays so we look for a little bit of an edge to secure a steady stream of income from our different real estate investments. Europe remains a key place to scale for us, but the private markets are always a bit more illiquid and fragmented so it ebbs and flows.’

INVESTMENT APPROACH

That last statement implies that if the right opportunities arise, GIC will continue to be a strong player in the European real estate landscape.

With economic volatility seemingly contagious across global markets, does GIC currently gravitate towards certain European countries while avoiding others? The answer is not really. GIC does not put green and red pins on a map, or as Stroh puts it, the investor does not take a ‘hard, top down’ geographic allocation approach.

Instead, it is a flexible and bottom-up investor. Every time, it will appraise an investment on a risk versus reward basis. ‘The key point is to be compensated for risk,’ she explains. ‘We are agnostic so we look for where we can get the best risk-adjusted returns. But, we have

Europe playbook samples

Net zero play

100 LIVERPOOL STREET, LONDON

British Land and GIC's 440,000 ft² (40,800 m²) 100 Liverpool Street development in London's CBD became the first net zero carbon development for British Land in the UK upon completion in November 2020. British Land and GIC are investing more than €1.5 bn in the whole Broadgate office campus in a 10-year programme, of which 100 Liverpool Street is a key part. GIC acquired a 50% interest in the Broadgate estate from Blackstone in 2013. 100 Liverpool Street is fully let. The upper floor of the project is let to Hudson River Trading for 10 years. British Land's flexible workspace platform, Storey, is also leasing space, along with retailers and restaurants. GIC says it is committed to the global transition to a net zero economy. It has been proactively ensuring its real estate investments meet standards on carbon and energy intensity.

Labs, living and retail

TRIBECA, KING'S CROSS, LONDON

In February 2023, four parties announced a partnership to develop an 830,000 ft² life sciences quarter with labs alongside retail, restaurants, and residential. GIC is joining with REEF Group, BlackRock Alternatives Real Estate, and British Airways' New Airways Pensions Scheme.

London office

PADDINGTON CENTRAL

In April 2022, GIC and British Land announced GIC had acquired a 75% stake in Paddington Central for £694 mln. The properties involved are 2 and 4 Kingdom Street, 1 and 3 Sheldon Square, and the Gateway development and moorings. GIC has an option to also take a stake in 5 Kingdom Street.

Luxury hospitality

SANI RESORT, GREECE

GIC took a majority stake in Sani/Ikos Group last year, operator of over 2,750 rooms in Greece and Spain valuing the company at €2.3 bn.

Student bet

STUDENT ROOST

GIC and Greystar teamed up to buy a student housing platform from Brookfield last year, for a reported €4.43 bn, which is operated under the Student Roost brand.

Hybrid hospitality

THE SOCIAL HUB, NETHERLANDS

In 2022, GIC acquired a substantial stake in The Student Hotel, since rebranded The Social Hub, with original investor APG and founding investor Charlie MacGregor increasing their ownership positions while Aermont Capital cashed out. The Social Hub has a hybrid model of student flats, hotel rooms, co-working and meeting spaces. The strategy is to grow the portfolio from 25 assets and projects in 8 countries to 50 hotels.

Data centre platform

DATA CENTRES

In 2019, California-based Equinix Inc and GIC agreed a $1 bn JV to build six new hyperscale data centres in Frankfurt, London, Amsterdam and Paris. In 2021, the pair followed up with a $3.9 bn investment programme to build out Equinix's xScale platform further to more than $6.9 bn and 32 facilities globally. The agreement involved centres in Dublin, Frankfurt, Helsinki, London, Madrid, Milan, Paris, and Warsaw. GIC agreed to take an 80% stake in future JVs. GIC followed up by buying a French data centre business based in Paris to add to xScale.

a pretty flexible investment mandate. If we have a high conviction about an investment, and it's scalable, and we believe in it over the long term, we shall invest. As a team, we are looking for "bottom-up" idiosyncratic opportunities where we can create that extra alpha to generate a risk-adjusted return.'

A good recent example of how GIC thinks is Sani/Ikos Group (SIG), a leading luxury beach resort group in the Mediterranean. In September, the investor agreed to become the leading shareholder alongside the management team in a transaction that valued the company at €2.3 bn.

SIG started out as a family-owned business in Greece and has grown 4x since 2015 with backing from Oaktree, Goldman Sachs Asset Management and others. GIC has bought out those investors and will now look to grow the platform with its management.

GIC liked the impressive past growth but also the trajectory given bookings at SIG's resorts were up 52% compared with 2021 and 57% compared with 2019. Together, SIG and GIC have a €900 mln, five-year investment plan.

Says Stroh: 'This is a good investment to talk about in the sense that we think that it's an asset that has good brand recognition. We think there's resiliency in the product type. We've seen that repeat customer scores have continued to increase and the net promoter scores are consistently in the 95%-plus range. So, it's a brand that I think is identifiable and a business that has proven to be resilient throughout the cycle.

'We also like the management team, and we think it's well placed to capitalise on more growth. What we try to do with our investments is not make it a "one and done". We try to build the businesses we like. We ask the management team: can we grow with you? We would also add value by working with the management team as partners to assess what we are doing globally, connect the dots, and bring some of these teams together to capitalise on further opportunities. So, it's not just a Europe-based hospitality platform. We think about it holistically across all of our regions to see how we can grow with our managers and companies.'

So, does this mean GIC as an investor is only concentrating on the luxury end of the hospitality market? The answer is no. It continues to invest across the spectrum, SIG being the latest.

GIC has a long history in the hospitality sector. Back in 2006, for example, it forged a joint venture partnership with APG, the Dutch pension fund asset manager, and US-based Host Hotels & Resorts to buy six properties in Europe from Starwood.

In 2018, APG and GIC bought out Host's interest in the JV, establishing Archer Hotel Capital, since when new brands have been added such as CitizenM, a boutique chain aimed at short-stay business travellers, and The Social Hub, both headquartered in Amsterdam. The Social Hub is a hybrid student housing, hotel, and coworking concept (see box).

Explains Stroh: 'The value proposition we look for is, where are those demand drivers? We look for the best relative value and the best entry point, and that might be debt, equity, it might be public or private.'

TAILWIND SECTORS

It is obvious that GIC looks for certain thematic investments that come with tailwinds that can propel returns rather than adopting a kind of 'market pricing arbitrage' approach to individual assets or portfolios.

Student accommodation is a sector that GIC entered into in Europe, outside of the UK, all the way back in 2016, thus becoming a very early institutional investor in the asset class before it gained mainstream popularity. The investor entered into a partnership with Nicolas Porter's GSA to buy in Germany. The first portfolio was close to 1,000 student beds that GSA bought in June that year. Later that same year, GSA and GIC acquired a 7,150-bed portfolio from Oaktree and the pair have kept adding to the platform.

> 'The key point is to be compensated for risk. We're agnostic, so we look for where we can get the best risk-adjusted returns'

'We have been investing in student accommodation for over 10 years globally. It isn't a new sector for us, especially in markets such as the US and Australia. But what you are seeing is that we are obviously scaling our exposure in Europe. It's partly that we have been investing for a number of years and partly because we think the demographics are well suited. It is an asset class that does not get as easily disrupted by macroeconomics if we pick the right assets near top-tier universities.'

It is a similar story in European logistics. In 2016, in a deal led by Stroh during her first posting to London, GIC made a significant move by acquiring P3 Logistic Parks from TPG Real Estate and Ivanhoe Cambridge for €2.4 bn. GIC is a big investor in logistics globally. Though some heat has gone out of the sector as values correct in some spots, it remains a long-term hold.

GIC admits it has been quite hard to crack the code of doing logistics at scale in Europe, but it has made several large-scale acquisitions since 2016. For example, in 2019, it scaled up P3 via a €950 mln deal to buy the Maximus portfolio of 28 assets from Apollo Global Management. This was followed up in 2020 by the acquisition of the Matrix portfolio of 33 German assets from Aroundtown for a reported €800 mln. P3 has continued to add assets since then.

But there have been other joint ventures as well. With Kennedy Wilson it has a JV to acquire a targeted €1 bn of urban logistics properties in the UK and Ireland. In addition, it has a JV with Melcombe Partners to acquire and develop urban properties in Europe. Both of those were announced in 2020.

Says Stroh: 'We are a big logistics investor globally. We have had 3x growth in the P3 platform since we invested in it in 2016 and we continue to grow the business. Again, it is about relative value. Historically, logistics was getting to be what we felt was potentially over-priced, but we are finding opportunities in development right now, notwithstanding pressure on construction costs and financing.

'We are still seeing low vacancy rates and tailwinds. Many types of occupiers still need more space and we have a diversified portfolio. When we build our portfolio, we look at geographic diversification and tenant concentration risk.'

If anything, GIC is looking for further opportunities. Re-shoring (the practice of a business moving operations back to its original location from overseas) is a trend Stroh mentions: 'Because we have boots on the ground and we have a wide net cast in Europe, we can see these trends emerging early and see the green shoots versus looking at it just as a top-down e-commerce trend.'

THE OFFICE IS NOT DEAD

One might have thought the office sector is not of interest due to post-pandemic trends. Yet, last year GIC struck a €775 mln JV with British Land to own in London's Paddington with clear potential to expand the partnership via new buildings. But why?

'I don't think office is dead,' says Stroh. 'Our office is located in the west end of London and the tube trains are packed. When close to transport hubs and with great amenities and high ESG standards, the office is a work environment that people are drawn to. We announced an investment in Paddington, London, and we have a project in La Défense in Paris right on top of the metro where we are redesigning the whole building to make it more efficient from an ESG standpoint. We see long-term value in that.'

The office referred to is PB6, also known as Tour EDF, that it bought in 2019 for a reported $592 mln.

Then there are the other specialised sectors of data centres and life sciences. In the life sciences space, it was revealed in February how GIC is teaming up with REEF, BlackRock, and British Airways' New Airways Pensions Scheme (NAPS) to develop Tribeca King's Cross, a life sciences development in London's so-called Knowledge Quarter. The first phase is under construction.

Commenting on GIC's approach to life sciences, Stroh says: 'I think the one thing with life sciences is that it is something we are always going to be doing in a partnership. 'We are looking to be a financial investor that can support the growth of life science companies as they go from the incubation phase to expansion, as and when they require more physical space. We have a very flexible capital source whereby we can develop or buy income-producing assets, and support companies because we keep such a long-term horizon, and we look towards the growth of this sector not just from a real estate standpoint but from a thematic standpoint.'

Another example of a life sciences investment is the High Tech Campus Eindhoven in the Netherlands with Oaktree as the joint venture manager.

> 'What we try to do with our investments is not make it a "one and done". We try to build the businesses we like'

With several platforms to grow, it is a safe bet that more real estate agreements will be struck by GIC as the year unfolds. But of course, the investor must operate in an environment not without risks.

GIC PORTFOLIO PERFORMANCE

In GIC's last report on the management of the government's portfolio in 2022, CEO Lim Chow Kiat wrote in a letter to shareholders (made publicly available last July): 'The landscape is shifting rapidly.' He spoke of the possibility of stagflation. Yet he also said GIC had generated good stable returns over inflation – a feather in the fund's cap.

Stroh says: 'We are not naive in that we acknowledge we're heading into a potential market environment in which there is inflation with higher energy and labour costs, and profit margins potentially under pressure. 2023 could be a challenging year despite the fact that so far the occupational side and real estate have actually been quite resilient. We have not seen a big correction on the supply-demand fundamentals. Even if that starts to change, we could see opportunities come to the marketplace but again, we need to be compensated for the risks.' ■