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Stocks Real Estate

For real estate veteran Tripp Gantt, humility is an indispensable quality in leadership - it's essentially empathy turned inwards, where the leader is fully cognisant of his own humanity and imperfections.

"Don't be afraid to let your team see the real you," said the Chief Executive Officer of the Manager of SGX-listed Manulife U.S. Real Estate Investment Trust (MUST), who describes himself as "calm, friendly, and doesn't get too ruffled under fire".

"As a leader, you don't need to be the best at every single aspect of your business, but you do need to continue learning and growing every day. You can learn something from every single person on your team, no matter their rank or role."

Likewise, empathy is another core value. "This goes beyond being nice or understanding. It's about truly recognising the humanness of your team and comprehending their motivations and values, so you can build lasting connections,' he added.

“What continues to excite me most about real estate is employing creative strategies for a property portfolio to maximise its functionality and value, at different points of the property cycle, and in varying macroeconomic and sociological environments,” Gantt said.

“I think there is no more interesting time to be doing this than now, when we’re witnessing a once-in-a-generation change in how and where Americans work, and the implications that has for the U.S. office market.”

Compounding this trend, however, are numerous challenges in the broader landscape. “We’re experiencing one of the most volatile economic periods in recent memory, with inflation at the highest it has been in decades, fear of recession gripping the market, employment plateauing, debt costs rising, bid-ask spreads widening in the transaction market, and office leasing demand slowing as employers figure out their space needs with hybrid work arrangements,” he added.

"All of this makes for a very exciting time that calls for innovative ideas. In my first 100 days, we’ve already begun formulating creative ways to ensure that our portfolio is able to keep abreast of the trends, and stay relevant to the demands of tenants, so we can continue to deliver sustainable returns to our unit holders.”

Post-Pandemic Shifts

MUST is the first pure-play U.S. office REIT listed in Asia, established with the investment strategy principally to invest, directly or indirectly, in a portfolio of income-producing office real estate in key markets of the U.S., as well as real estate-related assets.

The REIT’s portfolio comprises 12 freehold office properties in Arizona, California, Georgia, New Jersey, Oregon, Virginia and Washington D.C. The portfolio has an aggregate net lettable area of 5.4 million square feet, and is valued at US$2.2 billion as at 31 December 2021.

Manulife is part of a leading Canada-based financial services group with principal operations in Asia, Canada and the U.S. The Sponsor operates as John Hancock in the U.S., and as Manulife in other parts of the world, providing a wide range of financial protection and wealth management products, as well as asset management services. The REIT Manager is Manulife U.S. Real Estate Management Pte Ltd, an indirect wholly owned subsidiary of the Sponsor.

Looking ahead, the outlook for the U.S. office market remains fluid as the sector continues to evolve post-pandemic, Gantt noted. “Hybrid work has changed America’s work culture and tenants’ space needs quite significantly.”

“There will be clear winners and losers in this market, and some assets may even be rendered obsolete as tenants relocate to modern and better-quality Trophy/Class A buildings,” he added. “Therefore, it’s critical for us to ensure that amid this great shift in the market, we emerge winners with the right formula and optimal mix of traditional, flex and turnkey space to win tenants over.”

At the same time, across the U.S., the return to offices has been slow. “That’s how we came up with our two-pronged approach to provide more flexible office solutions in our portfolio - by partnering with best-in-class operators, as well as shortlisting some of our Trophy/Class A assets in great live, work, play locations to embark on hotelisation,” Gantt pointed out.

In September 2022, MUST announced a management and licensing agreement signed with Flex by JLL to take up 15,407 sq ft of office space at 500 Plaza Drive in Secaucus, New Jersey, with options to lease a further 20,451 sq ft in two phases by 2023.

The space will offer flexible private offices, co-working space, meeting rooms, team suites and virtual offices to organisations and residents in the region. The three phases are expected to achieve a stabilised rent premium of about 30% to the market, and allow MUST to enjoy greater upside potential by sharing a majority of the operating profits with the operator.

As for hotelisation, Gantt describes how office landlords need to adopt new approaches to future-proof their portfolios. “Essentially, we plan to reinvent the office space in some of our Trophy/Class A assets to entice workers back, attract quality tenants, and remain competitive by commanding higher rents,” he added.

"On the defensive front, to ride out the cyclical office downturn, we're working on capital recycling/allocation to strengthen our balance sheet and contain gearing, while staying nimble in leasing to protect the occupancy and weighted average lease expiry (WALE) of our portfolio. We want to continue to leverage the location and quality of our assets to attract stable and creditworthy tenants," Gantt explained.

" On the offensive, to embrace the secular shift towards hybrid work, we'll partner flex operators and embark on hotelisation for some of our assets to provide a greater variety of workspace options in our buildings."

At the same time, MUST's strategy to pivot into growth markets and asset types remains, as it has already built a high-quality portfolio of Trophy/Class A properties since listing. "We're always seeking JV and/or M&A and capital partners to work with," he added.

In November 2021, MUST announced its entry into high-growth markets with three acquisitions - Diablo and Park Place in Phoenix, Arizona, and Tanasbourne in Portland, Oregon.

"This objective hasn't changed, and we plan to continue to increase our exposure to growth markets - sunbelt/magnet cities that benefit from population and corporate in-migration, growth sectors such as healthcare, life science, knowledge economy, as well as property types, for example, buildings with limited capital expenditure needs. We believe such assets will offer more resilience to ride through the structural shift towards hybrid work that the office sector is going through," Gantt noted.

"Therefore, we're evaluating capital recycling opportunities, but our focus in this uncertain leasing environment is more on intensifying leasing momentum to maintain our portfolio occupancy and WALE. We believe that by managing our spending prudently, it will help us improve the valuation of our properties, as well as keep them relevant and in-demand amidst the cyclical downturn."

Future-Proofing

Apart from its growth objectives, the REIT is also focused on its Environment, Social and Governance (ESG) initiatives. "At MUST, sustainability is about future-proofing our business to create long-term value for our stakeholders," Gantt said.

"Perhaps one of our greatest challenges when it comes to ESG - beyond operations - is really in terms of helping investors and stakeholders understand that sustainability has tangible returns, and can even offer competitive advantages," he noted.

"Many people are under the impression that ESG comes at a high cost and will affect distributions per unit negatively. But not embracing ESG will incur greater losses in the long run for unit holders, with stranded assets, regulatory penalties, loss of competitiveness, and loss of market demand - all leading up to decreased returns."

MUST has seen increasing regulation and penalties imposed on non-green buildings and buildings with high carbon emissions in the U.S. Conversely, demand is on the rise for green buildings. "For us, 70% of our properties are already green-certified, versus the U.S. average of about 14%. Hence, there's no need for us to spend huge amounts of capex to green our properties," he added.

Indeed, there's much to keep Gantt busy in terms of the REIT's day-to-day operations, but when this 52-year-old is out of the office, he turns into a handyman and DIYer. "I like to build, repair and maintain things," he admitted.

"In the past year, I've replaced a gas-fired furnace - a necessity in the U.S. Pacific Northwest - and rewired a kitchen electrical system in my house. I've also done a complete 60,000-mile maintenance service, and rebuilt the suspension and drivetrain of an off-road SUV," he said with a laugh.

"I'm convinced you can learn how to do almost anything just by watching YouTube!"

Manulife US REIT

Manulife US Real Estate Investment Trust (MUST) is the first pure-play U.S. office REIT listed in Asia. It is a SGX-listed REIT

The company website is: **www.manulifeusreit.sg**

Click **here** for the company's StockFacts page.

For the half-year ended 30 June 2022 financial results, click **here**.

About kopi-C: the Company brew

Text: Jennifer Tan-Stanisic
Photo: Company file

kopi-C is a regular column on the SGX Research website that features C-level executives of leading companies listed on Singapore Exchange. These interviews are profiles of senior management aimed at helping investors better understand the individuals who run these corporations.

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‹ Back to Market Dialogues