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Inside HSBC's real estate reboot

Victoria Sharpe, the UK banking group's head of real assets, explains how the firm is building a different – and enduring – property business the second time around. By Christie Ou

HSBC, one of the world's largest banks, largely exited property investing after spinning off its private real estate business in 2011. More than a dozen years later, the UK banking company took a major step toward rebuilding it with the acquisition of Singapore-headquartered manager SilkRoad Property Partners at the beginning of this year.

Spearheading the deal was HSBC's head of real assets, Victoria Sharpe. In late April, *PERE* sat down with the 40-year industry veteran to discuss the relaunch and her plans for building a long-term platform in the sector.

Sharpe was hired from German asset manager DWS Group in 2021 to become the head and chief investment officer of HSBC Alternatives' real estate division in Asia-Pacific. HSBC Alternatives represented $67.2 billion of HSBC Asset Management's $707 billion in assets under management as of December 2023.

At DWS, she had served as head of real estate Asia-Pacific since 2016 and worked closely with former chief executive officer Nicolas Moreau. Subsequently, Moreau, who joined HSBC AM as CEO in 2019, was instrumental in Sharpe's hire at the bank and subsequent promotion in 2022 to head of real assets, overseeing both real estate and infrastructure.

"Real estate in Asia is an asset class with strong growth potential and it presents an attractive investment opportunity for our institutional clients and high-net-worth customers," says Moreau, commenting on the bank's real estate relaunch in an email to

PHOTOGRAPHY: MATTHEW NG

Analysis

PERE. "The successful acquisition of SilkRoad expands our real estate investment capabilities in Asia-Pacific under HSBC Alternatives and supports our strategy of connecting global capital with Asian strategies. It also aligns with our ambition of becoming a top direct real estate investment manager in the region."

Before Sharpe's hire, HSBC AM did not have a direct real estate business for institutional investors. While the firm declined to disclose its real estate AUM before the SilkRoad acquisition, it had exposure to the asset class through its fund of funds and advisory businesses for private banking clients on a deal-by-deal basis. Sharpe believes the direct real estate business has the potential to be "highly profitable" because the manager has more control over the return than with the indirect and advisory businesses.

Direct real estate investing is not new to HSBC, however. The bank once had a dedicated real assets team called HSBC Specialist Investments Limited that it inherited as part of its acquisition of Charterhouse Bank in 2000. Beginning with a UK-centric strategy in real estate, the platform later expanded into Asia and infrastructure.

HSIL struggled with finding an identity and a home at HSBC, where the unit was moved between the investment banking and asset management businesses. The platform's investment activities also overlapped with those of the bank's alternative investment business under the private banking group.

As one former investment team member recalls, HSIL was in a "weird spot" at the bank, and so it made sense to spin out the business, which was subsequently renamed InfraRed Capital Partners, in 2011. "I think people did not know where to put the team because there were multiple divisions that wanted to do real estate," he explains.

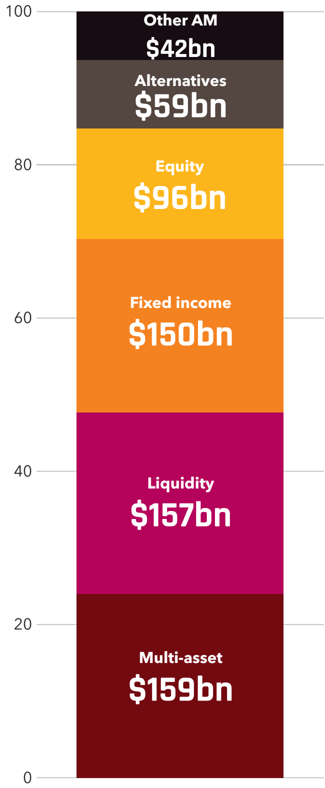
A different real estate business

HSBC's relaunched real estate business will have two major differences from its earlier iteration. First, it will have a designated home within HSBC Alternatives. The growth of the asset management division is a major focus for the bank, according to HSBC's 2018 strategic update.

Second – as the hire of Singapore-based Sharpe and the acquisition of a regional real estate firm demonstrate – Asia will be the key focus. In contrast, HSIL focused mainly on European real estate.

The regional focus of the real estate

Before the SilkRoad acquisition this year, HSBC's alternatives unit did not include real estate (%)



Source: HSBC Asset Management

One more try: The evolution of HSBC's private real estate business

2000 – Establishes real assets business HSBC Specialist Investments Limited through the takeover of Charterhouse Bank

2003 – Raises $105m for InfraRed UK Active Property Fund

2007 – Expands outside of Europe for the first time via an Asia-focused joint venture with Hong Kong developer Nan Fung Group;
Raises $707m for HSBC Nan Fung China Real Estate Fund

2008 – Raises $400m for InfraRed European Active Real Estate Fund

2009 – Raises $400m for InfraRed European Active Real Estate Fund II

2011 – Largely exits property investing with management spinout of HSBC Specialist Investments business is closely aligned with the bank's strong presence in the region, according to Sharpe. In 2017, 89 percent of the group's profits before tax were recorded in Asia-Pacific. Another reason for HSBC's Asia focus is that, as Sharpe notes, the region is "underserved" by many large global organizations. This is demonstrated by the fact that many groups typically focus on the region last when building a global real estate portfolio.

With the banking group's strong network and presence in Asia, Sharpe sees the advantages of building an Asia-focused real estate platform on the back of a growing need from investors to diversify their portfolios.

A major building block will be SilkRoad, which has $2 billion in AUM across two value-add funds and a core-plus vehicle. Peter Wittendorp, who founded the firm in 2012, was named the head of real estate, Asia-Pacific at HSBC AM following the acquisition. Additionally, the entire SilkRoad team has been integrated into the existing four-person team at HSBC AM. Under the new platform, Wittendorp will be responsible for the day-to-day management of the team, while Sharpe will work with him closely on the investor side and in driving the strategy of the platform.

Banking challenges

The bank's size could be a double-edged sword for its new platform

While HSBC's real estate reboot has the "perceived stability" of being a part of a large banking group, it also faces potential conflicts, since a large global entity typically "has a lot of people dictating a lot of different initiatives," says Vincent Ng, Hong Kong-based partner at capital advisory firm Atlantic-Pacific Capital. "It is never a walk in the park."

For example, different divisions in a group can have competing needs and requirements. "There may be pressure to do a deal or not do a deal because it conflicts with the bank's lending business and M&A business. It is common in the culture of these large organizations," he says.

In addition, a bank also has many compliance requirements that a flexible and nimble manager does not have. This could potentially slow the decision-making process of the manager, says the former investment team member at HSBC Specialist Investments.

"Of course, the risk is that some of the existing investors of SilkRoad may still prefer a small boutique manager. So they may want to find an alternative to SilkRoad. Our objective is to grow the SilkRoad business and in order to do this, we believe that we need to apply the necessary resources, especially for risk, compliance and operations, to meet the needs of an expanded investor base," Sharpe says.

Next steps

Before the acquisition of SilkRoad, Sharpe explored different ways of building the real estate platform at HSBC AM, including organic growth and joint ventures.

She thinks the timing of the market cycle was the biggest reason for

2018	2019	2021	2022	2023	2024
Announces strategic update to grow its asset management business	Hires Nicolas Moreau from DWS Group to become CEO of HSBC AM	Hires Victoria Sharpe from DWS Group to become head of real estate, Asia-Pacific of HSBC Alternatives	Promotes Sharpe to head of global real assets	Starts discussions to buy SilkRoad Property Partners	Completes buyout of SilkRoad and names SilkRoad founder and CEO Peter Wittendorp as head of real estate, Asia-Pacific

Why SilkRoad sold to HSBC

Planning for future growth was part of the big bank's allure for SilkRoad

In selling itself to HSBC, SilkRoad had reached an "inflection point" where the team understood the need to be a part of a larger organization to take the business to the next level, according to Sharpe.

One of the motivations was succession planning. "Peter himself needed to think about succession and he had been in discussions with his investors about it. The value proposition between an entrepreneurial and a big organization is not easy, but we believe it is achievable with the right people and aligned objectives," Sharpe says.

In addition, being sponsored by a banking group also provides co-investment or manager sponsor capital for different investment vehicles which is critical to grow the platform, according to Alfredo Lobo, partner of New York-based capital advisory firm Hodes Weill & Associates.

"As your business grows and your funds get bigger, or as you raise other vehicles, there is more pressure on your balance sheet to invest or co-invest as a GP into these vehicles. And HSBC is able to provide that balance sheet capital, as well as access to the capital of its affiliated businesses that a manager like SilkRoad wouldn't otherwise have access to," he says.

ultimately choosing the M&A route. The acquisition of SilkRoad allowed HSBC AM to jump-start the business and took only nine months to complete after discussions began in May 2023.

"We are in the longest protracted down cycle in real estate, and that changes your thinking [about organic growth]," says Sharpe. "There's going to be incredible opportunities coming out of this down cycle."

HSBC AM's new real estate platform will continue to follow the value-add strategy inherited from SilkRoad and is expected to come to market with its first post-merger fund before the end of the year, according to Sharpe.

The platform will look to benefit from the pricing dislocation in Asia-Pacific, she says. While the US and Europe are seeing more opportunities from price dislocation due to the more significant rate hikes, real estate prices in developed Asia have also dropped about 10 percent overall from their peak as of Q2 2022, according to a 2024 research report by manager Hines.

The platform will also pursue value-add investments such as the "change-of-use" of assets and making properties more sustainable, according to Sharpe, who sees plenty of repurposing opportunities in the retail space, for example.

While retrofitting assets in the US and Europe has been more prominent due to regulatory requirements and the greater age of buildings, corporate net zero goals are driving portfolio decarbonization ambitions for occupiers in Asia. In a JLL study of around 250 commercial real estate leaders in Asia, energy audits, sustainable fit-out and

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> **HSBC Asset Management**

green leases emerged as the top strategies implemented by occupiers to decarbonize their portfolios. The demand for green offices is also growing in Asia, as employees spend more time in the office compared with other regions, according to Ada Choi, head of occupier research, Asia Pacific for CBRE.

One property type HSBC AM's real estate team will stay away from is data centers. Instead, data centers will be managed by the infrastructure team, which is also under Sharpe's purview.

"Given the size of the assets, the level of operating skills required, and the risk exposure, we currently believe that data centers are more of an infrastructure investment. And that is a good example of where the real estate and the infrastructure team would come together under real assets," Sharpe notes.

In terms of its geographic focus, the real estate business – which is already active in Singapore, mainland China, Hong Kong and Japan – will expand into other Asia markets such as Australia. Notably, the platform will continue to look at China while many of its global peers are shying away from the country, according to Sharpe.

"HSBC is committed to Asia and China is a part of Asia. So, it allows us to think very far ahead about certain markets and our commitments in the region," she says. "We are a long-term player in this region."

While the platform will look at raising capital from both domestic and international investors to invest in China, Sharpe notes the importance of having an RMB strategy in providing exits for investors.

"It's all about the exit. I think people are convinced that money can go into China, but relying on offshore capital to sell assets is more challenging. HSBC's extensive network and history in China allows us to find onshore exits for investors – that's how we plan to find creative capital solutions for our investors," she explains.

Given the real estate opportunities available in Asia, the firm does not need to look further afield, she adds. "We would not be answering a global RFP by any means – that's not our strategy. We are keenly focused on Asia," says Sharpe.

While the integration of SilkRoad into HSBC AM is still in its early days, one can expect the new platform to differ from its predecessor in terms of geographical focus, leadership, structure and, most importantly, the determination to be in the game for the long term this time. ■