

REAL ESTATE INVESTMENT THESIS

After the Great Recession destroyed significant value in real estate, the markets that recovered the quickest were urban cities with strong local economies, improved domestic and international travel, growing technology and healthcare industries, active local governments helping to spur economic growth, and increasing housing demand.

As a result, LNG Management (LNG) has been focusing its real estate investments on these urban markets and their sub-markets in the US and globally. Over the past five years, our investment thesis has drawn us to the following markets:

- Austin, TX
- New York City
- Los Angeles
- Downtown San Diego
- Singapore
- Tokyo, Japan

We believe that these market characteristics have not only helped to increase our investment values significantly, but the liquidity from global investors would help to limit our downside. In addition, banks have been much more active lenders in these markets, thus providing a virtuous cycle for asset prices and allowing for refinancing opportunities and additional market participants.

Once we have selected a market, we adhere to buying with a “margin of safety” at the asset level. We try to create this margin of safety by looking for assets with depressed cash flows from below-market rents, artificial vacancy resulting from near-term market disturbances, and an urban infill component. In addition, we always underwrite returns using modest leverage.

One example of this is an investment we made for a retail condo in the heart of Tribeca, NY that was experiencing high vacancy due to heavy construction activity on the street. The street is a major thoroughfare in the downtown area, and the subject property is within a couple blocks of several subway stations. While the NYC market has experienced significant asset appreciation, this asset has outpaced the overall market as a result of the discounted pricing resulting from the temporary issues creating artificially high vacancy at time of acquisition. This deal was acquired in conjunction with our operating partner HP Investors.

Current Focus

There are three cities where LNG is actively investing: Tokyo, Japan, Pasadena, CA and Downtown Oakland, CA.

Tokyo is the financial and management center of Japan. A 2014 UN estimate puts the population of the Greater Tokyo Area at 37,883,000, making it the world’s most populous metropolitan area. According to a study done by the Brooking Institute in 2014, Tokyo’s GDP is ~\$1.67 trillion, which surpasses even New York City at \$1.4 trillion. With such strong economics tied to the city, the hesitation among investors has been the deflationary environment and weakening consumption. The Bank of Japan’s bond-buying strategy that began in 2014 is aimed at reversing these trends and has already jumpstarted the Japanese stock market over the past two years. Along with the weakening Yen, international buyers from China, Singapore, and Taiwan view prices in Tokyo as a bargain, with comparable real estate trading 30-50% less compared to Hong Kong and Singapore. In 2014, Chinese buyers are estimated to have purchased \$250 million in real estate, more than triple the amount of the previous year. As a point of

reference, we have experienced this purchasing activity first-hand from our Singapore acquisitions over the past few years. In addition, institutional buyers, such as GIC Pte, a Singaporean sovereign wealth fund, and Blackstone, have been stepping in to make acquisitions. We see the inflationary policies, increased international capital, and favorable lending environment as key factors of investing in the Tokyo real estate market.

Pasadena is a city within the county of Los Angeles with approximately seven million square footage of rentable office space. It has historically been a strong office market with peak vacancies around 17% during 2010. Since then, the city has been experiencing net absorption despite some larger properties coming online after being redeveloped. Its proximity to executive housing in La Canada, San Marino, and Pasadena, as well as Idealabs and CalTech, has made it a desirable area to obtain and retain workforce talent. Over the past couple of years, Pasadena rents have been gaining momentum as a result of a stronger local and global economy, an emergence of technology companies, and residential house prices increasing rapidly. Assets on Colorado Blvd, the main artery of Pasadena, are trading at their highest levels since 2010 on a PSF basis. We see two major drivers continuing to push this market up. The first is the increased demand of startups and technology companies for office space as well as the services needed to support them. An example of this is the emergence of two co-share offices, Epic Spaces and Crosscampus. The second driver is the influx of international capital into the commercial and residential markets. Recently, it was announced that Alibaba is taking 20,000 square feet in the Pasadena Playhouse building, further solidifying our thesis that technology and international capital will continue to transform the Pasadena market.

Downtown Oakland is only a 15-minute commuter rail ride from Downtown San Francisco. With the rapid growth of office, multifamily, and retail rent and asset prices in SF, businesses and residents have been relocating to downtown Oakland in search of more affordable accommodations. A combination of successful firms, such as Google and Facebook along with venture funding, have created a huge demand for all real estate in San Francisco, pushing the rent spread between SF and Oakland to unprecedented highs. Many companies based in SF have been considering making the move to Oakland as a result of office rents in San Francisco trading at approximately 2-2.5x comparable space in Oakland and a growing workforce now living in or near downtown Oakland. Major detractors of value for Oakland have been the negative perception associated with crime and safety, the Occupy movement, and a government that struggled to attract private capital. However, we feel that these negative factors reflect previous city administration and reflect outer-lying parts of Oakland, providing us the opportunity to invest in an area experiencing the same spillover effect as Brooklyn, NY. Asset prices in Oakland have already been rising, and private investments, such as the Hive, the Sears building renovation, the Jack London renovation, and the Shops at Broadway will provide a strong base for the local economy to continue to thrive. In addition, the city is providing support through infrastructure projects such as the 19th Street Bart Station renovation and fast-tracking redevelopment opportunities. We believe that Oakland will turn the corner in this cycle and establish itself as a strong urban market enjoying the growth in the Bay area. While some individuals still view Oakland as a weak sub-market, strong brands, such as Wholefoods, Sprouts, and Blue Bottle Coffee, have already established a presence in this market.

Previous Deals

New York, NY



Singapore



Los Angeles



San Diego

