

IN FOCUS

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POSITION:
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H leading up a young company and also helping it find its feet in a sector filled with large and established players is an enormous challenge. However, this is precisely the task Phil Pearce embraced when he returned to Australia to launch the local arm of Hong Kong listed ESR Group.

ESR emerged as a major force in the pan-Asian logistics real estate industry after the 2016 merger between Chinese warehouse developer e-Shang and Singapore's Redwood Group. The company has since rolled out its own combination of investment, fund management and development across Asia-Pacific.

Two years into ESR's lifespan, the decision was made to expand into the Australian market. But, as Phil says, simply rolling up on Aussie shores to build the business from the ground up would have taken years, so a more strategic approach was necessary. "We had a choice," he recalls. "Do we come down here and put an ESR flag in the ground and say, 'Here we are?'"

"In the initial years, it would have been quite difficult to attract people; it would have required some convincing to get on board, particularly since I'd been out of the local market for many years." »

Rolling Start

AFTER YEARS IN ASIA, **PHIL PEARCE** RETURNED TO AUSTRALIA CHARGED WITH ESTABLISHING *ESR AUSTRALIA*. ALMOST A\$8 BILLION LATER, HE'S HOME.

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“We don’t benefit from incumbency; we know we have to go that extra mile to prove ourselves.”

After several years spent working for Goodman in Singapore, China and Hong Kong, Phil had lost touch with the Australian logistics real estate market. “I’d been out for a long, long time so it was rather daunting given ESR’s growth aspirations, and you already had a couple of dominant players in the market,” he says.

The purchase of property developer Commercial and Industrial Properties in 2018 and asset management firm Propertylink in 2019 solved the problem. “The acquisition and integration of these two highly experienced companies gave us a fully integrated property company within a nine-month period, which would have otherwise taken several years to create. These acquisitions helped to attract the third-party capital to grow the business, which vindicated our decision to acquire them.”

With boots on the ground and a firm foundation underneath, Phil was now ready to grow the business. “I had to put in place the infrastructure to allow us to go from A\$2 billion in assets under management to where we are now. That meant supplementing the skill set we had and broadening it,” he explains.

To do so, Phil set about rekindling relationships that had existed before his time in Asia. “A lot of the people I dealt with when I left Australia were –

and are – still in the industry,” he shares. “But quite a few high-skill Australians were working overseas and wanted to come back and resettle here. They were finding it, in many cases, difficult to get jobs.”

Phil’s own experience had been strikingly similar. “I’d spent so much time in Asia that I’d often hear I didn’t have enough Australian experience, so I was fortunate ESR wanted someone in my position to start the Australian business,” he says. “I understood some of the cultural issues in other Asian countries ESR was already in, so they trusted me, but it was a leap of faith.”

Both avenues proved to be valuable sources of industry talent. “A lot of people weren’t aware of who I was and who ESR was, but we overcame those challenges to build a very strong team,” he reflects. “I’m pleased with the way it’s going.”

Today, ESR Australia is a 90-strong mix made up of seasoned industry professionals and talented newcomers, with a hefty A\$8 billion in assets under management. This carefully considered ESR team sealed Australia’s largest-ever property deal in April 2021 when, with GIC, it acquired the A\$3.8 billion Milestone Portfolio from Blackstone.

“Our focus since then has been on integrating that platform,” Phil says. “Unfortunately, within two



weeks of the transaction, New South Wales went into lockdown and Victoria not long after.”

The COVID-19 pandemic has caused financial shockwaves worldwide, and changed the face of economics – but not always for the worse. “It has had a positive impact on our set-up,” Phil reveals. “Australia was a slow adopter of online shopping, but the pandemic has accelerated it. As consumers discovered the ease and convenience it offers they have embraced it as a complementary alternative to more traditional shopping experiences”,

Supply chains were another casualty of the lockdowns. To compensate for surges in demand, companies increased their inventories. “As a result, demand for warehousing space is high. There’s also a bigger push for onshore manufacturing, so our customers are motivated to take longer leases.”

An additional side effect is that as retail continues to evolve, capital has shifted away and into industrials. “That’s led to significant cap rate compression,” he adds. “There’s close to A\$50 billion of capital looking to get into our sector.”

Meanwhile, ESR Australia is enthused about its plans for the Milestone Portfolio, part of which is in Adelaide, presenting some new opportunities. “And the way the market has continued to move since we completed the acquisition has been pleasing; the leasing interest has been strong,” he says.

In fact, the purchase has significantly transformed ESR Australia, elevating it to the position of third-

largest operator in the industrial space for the greater ESR Group. “We’re quite focused and results-driven, but we do take the time to celebrate our successes,” he asserts. We really value our employees and their contributions. And it’s a fun place to work.”

Further afield, ESR is well placed to tap into the emerging economic powerhouse that is the pan-Asia region. “You’ve got some very mature economies – Singapore, Hong Kong, Japan, Korea – but the rest of Asia is, for want of a better word, developing economies,” Phil admits. “What that means is that the growth prospects are enormous. You’ve got a rising middle class, an increase in disposable incomes and huge potential for increased consumption.”

The growth outlook for the Asia-Pacific far outweighs Europe or North America, Phil believes. “Indonesia is a massive country of 300-odd million. The markets aren’t as transparent as other markets, but the potential rewards are high,” Phil says. “It’s not as easy to invest in those less transparent markets, but for those bold enough to capitalise on opportunities, Asia is the place.”

Back in Australia, ESR’s financial strength has poised the business for further expansion; a merger with ARA Asset Management worth US\$5.2 billion (A\$7.1 million) is in progress. “We are expecting it to complete in early 2022, at which point we’ll have around A\$18 billion worth of assets in Australia. ESR will probably end up with the largest development pipeline in the country,” he says.

As exciting as the big acquisitions are, for Phil the operational level acts as a source of significant pride. “We’ve bought companies. We’ve integrated them. We’ve restructured them. At the end of the day, we have retained a strong core team that executes our strategy,” he shares. “Operationally, we’re doing very well. Making the business work – and work well – is our greatest achievement down here.”

It is ESR’s youth that Phil believes keeps things interesting. “It’s one of the key things, actually,” he says. “We don’t benefit from incumbency; we know we have to go that extra mile to prove ourselves.”

Although ESR has made headlines for its big purchases, Phil believes its development work is just as noteworthy.

“We’re doing a lot on that front, and we’re doing it with the enthusiasm that comes with being a new team, a new entrant to the market.” ■