OAK INVESTMENT MANAGEMENT GROUP

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Seasonality in Real Estate

Seasonality is when real estate is in high demand one season and not in another. Real estate is an asset like any other. The more it is 'worked' the more productive it is. When it is not, this is a serious issue, and, if this seasonality is not managed correctly can be a large – even terminal – drag on economic performance of the real estate asset in question.

Seasonality is most pronounced in the tourist sector of real estate. Some obvious examples include the Swiss Alps in the winter or the Mediterranean coastal rim in the summer. These are both areas and times of year in which this particular real estate is in high occupational demand. This particular exceptionally high demand is counter-balanced by low demand off season. Seasonality is least pronounced in all-year-round important segments such as offices and logistics – these are designed to be and utilised in a constant way.

Seasonality from a purely economic perspective is essentially volatility. Volatility, for a real estate asset is a draw back as well as an opportunity. In real estate, it is a draw back for passive, unresponsive and non-dynamic owners. On the other hand it is an opportunity for active, responsive and innovative owners of real estate. This means, by definition, that for an asset to be successful an owner's motivation has to be more than for that of a less seasonal asset.

This is not to say that opportunity for a seasonal asset is the easy or better route to take. It requires discrete understanding and iterative implementation of improving ideas to solve the fundamental challenge of seasonality. It makes the business of owning the real estate more like an active business rather than the non-active management of an asset that is stable all year round (though it should be noted no real estate is completely passive and that for really passive returns bonds should be bought).

What are some of the measures that can help deal with natrurally occurring volatility? On the revenue side measures that can be taken to extend the period of peak demand. These include qualitative initiatives or reduced prices to tempt guests in. On the cost side, although property is often regarded as a fixed cost on an annual basis, it is definitely possible to flex up and flex down these perceived 'fixed' costs. The appropriate soft resources need to be committed to an up season and withdrawn during a down season. This is where management alpha really makes the difference.

Seasonality also affects the market itself. There are marked periods of heightened market activity as well as noticeable and predictable troughs. There is sometimes a natural arbitrage to be made in buying in quiet times of the year and selling in busy times of the year. No investment market is immune to these fluctuations but in the real estate market – that is characterised by imperfect information dissemination, lumpy and binomial trades – these arbitrages can be quite pronounced and quite persistent. It is the specialised job of the investment manager to fully isolate and seize these opportunities for their investors.

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