OAK INVESTMENT MANAGEMENT GROUP

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Good asset management in real estate is the about the good stewardship of owned assets. This has two limbs. The first is to ensure the smooth running of the real estate owned from a physical standpoint. The second is about looking after the value of the owned assets from, at the time of execution, a much more intangible standpoint.

The first limb for an asset manager involves ensuring that there is transparent and clear communication (either directly or through a facility manager) as to what is going on with the asset(s), that the rents are being collected promptly / efficiently and that the general well being of the facility is being looked after on a day-to-day level. This limb is the 'do-not-pass-go' part of real estate asset management, there can be no further 'value add' on a facility that has no proper communication of information to the stakeholders, in which the tenants are not paying their dues or where the general infrastructure has become abhorrent.

But assuming that this limb has been adequately catered for, advanced asset management sometimes called *proactive* asset management or for our purposes 'the second limb' is about thinking holistically about the real estate in question. This involves asking questions and delivering answers to issues that do not have immediate relevance or might not be self-evident. For example, increasing the weighted average unexpired lease term (WAULT) can have a profound effect on the value of an asset if the owner is gearing up to sell an asset. However, if the owner has another more protracted time line then increasing the WAULT now can not only have a negative effect on value when it come to sale but also give away valuable terms in the leases in order to get a higher WAULT when it is not actually required.

Delivering a correct mix of tenants sometimes called 'tone' is another discrete way in which a competent asset manager delivers value for the owner of real estate. Headline rental income sometimes disguises the fact that the value of covenants attached to the leases is not as good it should be and *vice versa*. Indeed sometimes it may be preferable (or optimal) to downgrade the mix of tenants in search of higher income even with the risk that that involves. That judgment call is where a good asset management becomes excellent asset management. Some other measures of the excellent asset manager are to suggest plans that are low in expenditure but high in return and to keep up cordial relations with tenants. The former, delivers 'kickers' to the return of the investor and the latter builds good will in what is almost by definition a long term relationship as well as one that an owner hopes is iterative.

It is these two limbs on which asset management rest. It is important to see the difference between good and excellent asset management. It need not be something that is motivated by money or a 'profit share' but the simple fact of the matter is that it often is. An asset manager who secures some of the value add that they create is a replicable model. One that is good at managing just one facility is not. The dynamics are different from case to case – sectors have radically different expected payoffs for investors as well as for asset managers. But it is clear that a good well rewarded asset manager is an essential part of a real estate investment strategy.

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