OAK INVESTMENT MANAGEMENT GROUP

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Strategy in Real Estate

Strategy is an abused term. In the business world it is often used as a catch all for any decisions made in the ordinary course of business – usually reserved for 'long term' decisions whatever that means or may be. This is a tragedy and a sign of second rate management.

Properly understood strategy is ultimately about having the right amount of resources at the right place at the right time to overcome a pre-defined aim. It follows that you cannot have strategy without resources, without the ability to act (deviate from what you are doing), without the ability to 'time' your move and without a clearly articulated goal. The numerous variables that go into this make strategy first, hard to do; secondly, more of an art more than a science; and thirdly, a never-ending process.

The stakes of deploying an effective strategy in real estate have never been higher. A rapidly changing market place affects how people live, work and entertain themselves which has profound consequences for the built environment that supports these basic activities. In residential, the proportion of homeowners is falling, and of renters is rising as a function of affordability in many developed countries. In office commercial, the nature of 'slab' leases i.e. contracts for long durations and fixed amounts was diminishing even before the arrival of open plan / hot desking / collaborative working. This trend is only accentuated now with well-funded, technologically driven enterprises giving the occupier more of what they want, on a 'bundled' basis at a better price than they could get themselves with the right to walk away with few of the traditional consequences. In retail commercial (excluding food and beverage) direct competition from the online world with embedded bias from typically an advantageous VAT position as well as no local occupation taxes whatsoever (*c. 50% of a retailer's costs even before the cost of renting the physical space itself*) – some question the very existence of this sector going forward.

These occupational elements exacerbate the importance of investment decisions. What may look like a good buy on historic terms, or ratios might be a disastrous value dead end. Equally, novel or risky bets might be where liquidity (and attractive pricing) of the future might find itself. Changing a portfolio's composition to reflect an investor's opinion of how the market will change is an essential for the existence of a coherent strategy. This is not for the faint-hearted because this involves real cost decisions taken now for unrealised future reward.

In this market, therefore, a real estate investor requires an articulated objective for the future, with the confidence and competence to get there, often against strong resistance – because the bet is an active one and usually against 'perceived' and 'settled' wisdom. The rewards of getting it right will be correspondingly outsized. Good strategy results at being in the right place at the right time, by design.

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