OAK INVESTMENT MANAGEMENT GROUP

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What is Opportunistic Real Estate?

Opportunistic real estate investing is characterised as the ability to buy real estate regardless of its investment style in order to make as big a return as possible. So much of real estate is earmarked, these days, that this is an important sector driving efficiencies in the real estate investment market. There is great value for arbitrage, and thus profit for the investor.

The target property can be greenfield / brownfield / up and running investment. This is important, because the range of opportunistic engagement in real estate is huge. The issue with this is that opportunistic real estate investment favours a manager over a principal due to do the deployment profile itself. This is because the scope and the dedication is so big that in the first instance and it allows little time for any other activity such as contemplation about other asset classes in the second instance.

Therefore, opportunistic real estate investment typically relies more than anything else on the character / composition of the manager and / or the management team. Necessarily, the risk as well as the correct return for this style of investment is very high. Getting to or judging the the right point *before* entrusting liquidity to an investor is notoriously difficult.

No prospectus can ever capture the essence of a manager under pressure or the qualities of a manager with limitless power. This plays a big role in every opportunity fund. Of course, the historical ability to make money counts for a great deal but just like equity funds or historic real estate opportunities this is fundamentally is a backward-looking criterion on which to measure anything on. The past is not indicative of the future.

A weakness to consider of opportunistic real estate investment is that it can go into a target property with little or no current cash flow and only with an implicit understanding that return will come on the back-end, in the form of future rental income or the sale or re-financing of the asset. This is something that heightens the risk (as well as the potential reward) of this type of investment in real estate. But it is not for the faint hearted. A strength of opportunistic real estate against the rest of the investment market is that it can swoop in on tactical opportunities, mispricing, or distress in the real estate and capital markets. This makes it very adept and very smart money in most circumstances. This means that it can outperform in speed and determination the other style of players in the market for assets that are appropriate.

Furthermore, opportunistic investment requires a high degree of discretion. In a period of dislocation of the market this strategy can do especially well, but in periods of prolonged and sustained stability finding appropriate targets might be a lot harder. As a result it is fair to say that an investor requires a higher conviction of intrinsic value to engage in this asset class.

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