Analytics Reflection from the Perspectives of an Office REIT Manager

# Introduction

I work for a Manager of an office REIT for the last 6 years. A small team of 8 people manages an office REIT listed in HK Stock Exchange (1426.HK) with a market capitalization of c.USD500 mn. The asset base is predominately two office buildings in Beijing (aside from investment in UK, accounts for only c.7% of the asset).

Currently analytics is not playing a crucial role in my company, mainly for reporting and contribute little to risk management and yield no insights to improve operational performance. While the DELTA Framework characterized the overall assessment to be that of localized analytics, a critical look at the overall operations could easily fall to the impaired category.

# Information Value Chain Setup

The Manager of the office REIT (the “Manager”) was set up to make sure the REIT make stable dividend payment to its investors for the long term.

To achieve this goal, I see analytics being useful to at least two aspects of the operations, leasing management and risk management.

## Leasing management

I shall begin with leasing management. Beijing office leasing market is kind to its landlords. Until recently, no new supply had come to the market since 2008-9, when a glut of supply hit the market before the 2008 Summer Olympic Games. Demand was strong as Beijing was not only the center of political power in a highly centralized regime, it is also the undisputed center of higher education. The talent pool and easier reach to various levels of governments made it attractive to domestic and foreign tenants alike.

This cozy market is turning though. Central planners in Beijing had rezoned a central location 6 years ago and the current development plans would enlarge the total stock of prime offices by c.25% in the next 2-3 years. Sino-American Trade war and COVID-19 had put pressure on demand.

The leases in office buildings usually last 3 years that means on average one third of the office tenants will be negotiating with their landlords on leasing terms. Such negotiations rarely drag on for more than 6 months. For the assets of the REIT, that means approximately 60 out of the 180 tenants would renegotiate in a given year, however early terminations would mean a busy schedule for the leasing team all year round.

[4] areas stands out: 1) sourcing new tenants; 2) assessment of new tenants (credit and future expansion); 3) monitoring of early terminations and 4) reporting and investor relationship.

For the sourcing new tenants, if an existing quality tenants (renewed / expanded) is known in the database to have affiliated companies, targeted marketing can be launched to see

# Assessment DELTA Framework

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | Capabilities | | | | |
|  |  | Data | Enterprise | Leadership | Targets | Analysts |
| 5 | Competitors |  |  |  |  |  |
| 4 | Companies |  |  |  |  |  |
| 3 | Aspirations |  |  |  |  |  |
| 2 | Localized | 2 | 2 |  | 2 |  |
| 1 | Impaired |  |  | 1 |  | 1 |
|  | Total | 8/5 = 1.6 (Stage2: “Localized Analytics”) | | | | |