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 campaign can be launched to attract these quality tenants to the buildings. Yet our company now do not have the resources to establish such a database. A feasible solution would be to reach out to an industry association and join an information exchange program, while being mindful of the data privacy issues.

For the new tenant due diligence, currently a formal process of interview and comment were put in place after the IPO process back in 2013. However, the result of the interview as well as the related documents submitted to the leasing team (such as financials, previous office locations, etc.) were promptly filed away without being put into searchable data formats, cannot be further analyzed. Thus if the conclusions reached after the interview were later invalidated, such as tenant early terminated, behaving radically (e.g. staff smoking in corridors, or harass other tenants), accumulate late rental payments, the management would have no analytical insights into how to improve the interview / negotiation process to reduce such hassles.

For the early terminated tenants, sometimes they would simply disappear and become unreachable. It would then fall onto the landlord to reinstate the leased premise at the landlord’s own cost. So a timely discovery of strange activity would be helpful to reduce the cost. Earlier discovery can also kick start the marketing process for the now vacated premise. Yet property manager’s incident report were only made available to the management on a weekly basis, where such issues really should be updated in real time. Combining this concern with the abovementioned new tenant filtering process, further analytics would no doubt be helpful in narrowing down the common traits to avoid.

The reporting and investor relationship part is well covered. All commercial terms of the lease were input to a database system for real estate industry in Japan, called at-property. After the updates (to reflect new and amended terms), I am currently downloading all the data since project inception into an excel file, then ran a Python script (I developed to deal with data issues after a tax reform in China), to convert it into a rent roll, where a snapshot of all the active lease on a certain date was taken, then the occupancy and weighted average passing rent can be reported. Other data generated in the process include the weighted average rent of new leases, expired / terminated leases, and renewal leases. Reporting such data to the investors are important for transparency as well as a good support for the value of the publicly traded stock. Yet even this part had its future challenges, the data not managed internally, if the Japanese company change or terminate the service, painful data migration would ensue and previously tested Python script would need to be maintained. Also the Chinese and English interfaces of the Japanese system are sometimes indecipherable, luckily PM team had Japanese speaker, and Hong Kong side had people who can maintain such data conversion code. But what if personnel changes robs the company of these skills? In the long-term, I would still advocate for a single source of truth maintained in-house by the Manager, and build interface for PM team in Beijing to input and review data.

## Risk Management

# 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”) | | | | |