

WORK YOUR ASSETS HARDER AND REALISE THEIR FULL POTENTIAL VALUE



An asset training plan will drive a competitive advantage for assets that can quantifiably demonstrate to tenants that they offer better sustainability, lower service charge and better tenant services.

Richard Marriott, Partner

Current market issues

It is evident that the Asia market is recovering from the global financial crisis and a number of challenges are occurring as a result. Fund managers and investors are seeking to benefit from growth opportunities that are prevalent in the market.

As discussed at the recent Real Estate Investment World (REIW) Asia conference, investors are seeking greater portfolio performance control and transparency. This is whilst facing a reduction in fund fees due to recent falling values through the downturn. There has never been a greater need to differentiate fund performance and develop a 'best in class' reputation.

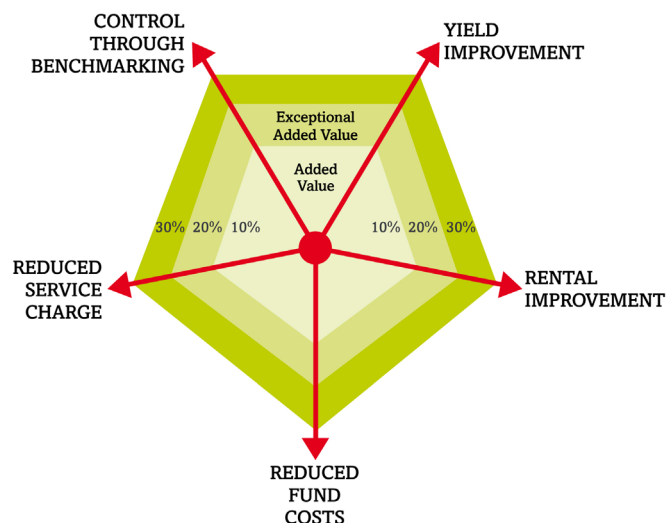
However, our survey polled prior to REIW Asia identified that the best way to differentiate is to stay close to tenant needs. In order to retain and attract quality tenants, investors have to understand their views and priorities.

Some quick wins

We have created an 'asset training plan' to evaluate how the asset is performing currently and to create a plan focusing on key areas and realise its full potential. In all areas, this plan is built around a deep understanding of tenant needs and how to turn this knowledge into a commercial competitiveness.

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The Asset Training Plan



The plan will have more effect if it includes asset performance opportunities for the following:

Go green

Sustainability issues are overtaking the markets in the US and Europe where already most government buildings need to be energy certified. Asia will eventually follow and adopt similar sustainability legislation and best practices. Most importantly, tenants are now starting to systematically differentiate against poorly performing sustainability assets.

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Looking at trends in Europe, we predict commercial property assets with a substandard energy rating will be subjected to a 15-20% valuation discount within five years.

Fund managers need clear information on their portfolio's sustainability performance in order to help make informed decisions early and stay ahead of competitors. Plans can then be made to either retain and improve or dispose of

the asset altogether. Such a review may even identify quick win opportunities where incremental actions can result in big energy savings such as automatic temperature controls and voltage regulation.

Reduce service charge

As part of the effort to reduce operating costs, tenants are demanding a reduced service charge, whether charges are transparent or included as part of the rent.

With the right advice, fund managers can achieve 20% reduction on service charge with minimum effort.

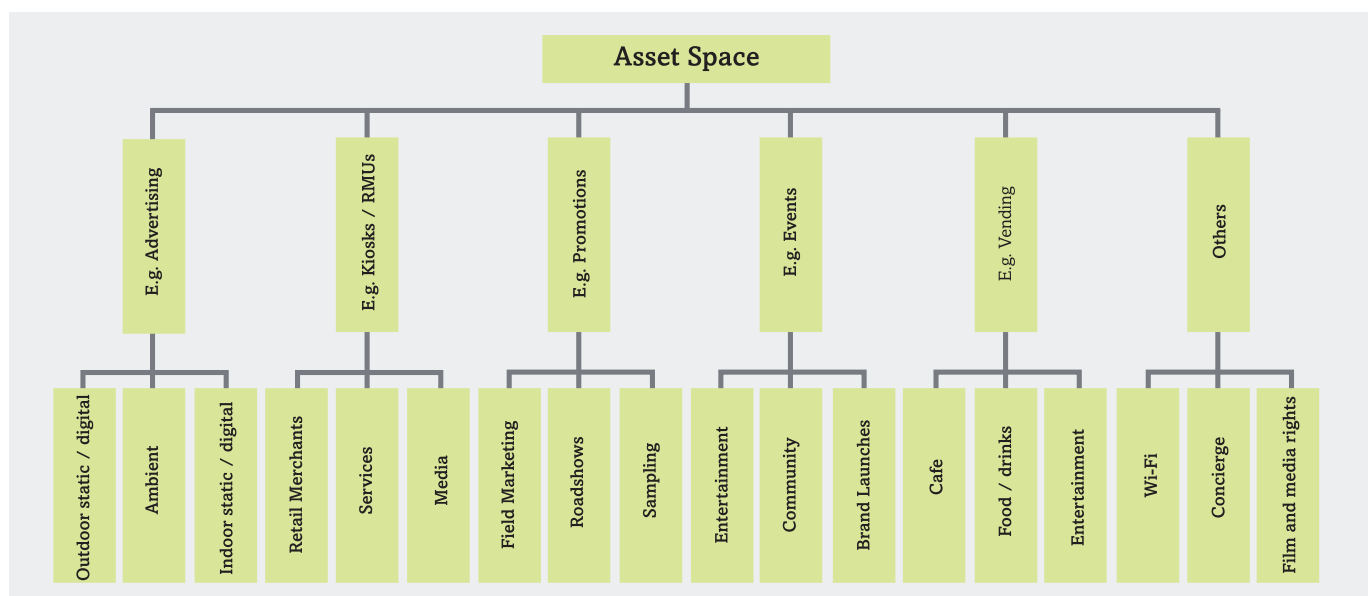
Key to this is capturing quantifiable service charge data and benchmarking the data against similar assets. The data can then be challenged with a close review of service level and procurement efficiencies. Once identifying a 'best in class' service charge, this can be compared against the remaining portfolio for more savings.

The first step to reducing service charge is to create an asset register. This is an indispensable list of components of the building that will drive the planned preventative maintenance plan and life cycle plan.

Look for additional revenue

Currently, revenues from assets are only comparable through rental charges. However to ensure the asset is reaching its full potential, non rental incomes should be targeted and benchmarked. By developing a reputation for creating a percentage of non rental income revenues, fund managers will differentiate their performance.

Additional revenue generated through existing asset space



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In the case of one sub-prime building, providing managed office services resulted in an 8% per annum increase in income, which directly translated into an 8% increase in total return.

Other ancillary benefits included higher tenant satisfaction and a significant increase in net asset value. Providing tenants with extra services, (such as retail merchants, entertainment, cafes etc), ensures they operate more efficiently and creates new revenue streams for the asset owner.

Fund managers can benefit from adopting a highly structured approach to commercialising their asset space. The diagram illustrates how existing asset space can be put to use in generating new income streams.

Another area for consideration is a technical review of the asset to improve aspects such as layout of common areas and make space available for other revenues (e.g. cafes/ATM). For example, other areas such as the roof may be utilised to accommodate a roof garden or a food outlet.

Take control of your asset

Once the asset training plan has highlighted areas of portfolio performance improvement, the best way to take control of the performance of your assets, is to contract the delivery of target improvements to third parties. Property managers, on behalf of investors and fund managers, are best placed to implement the recommendations. This will then lead to a more open and transparent benchmarking of property manager performance in delivering the required targets.

This will also respond to one of the key issues we have found from investors that there is little comparable data currently available to the market.

Summary

Overall, EC Harris is proposing a more systematic approach to improving property performance. We have introduced a tool to support this: the asset training plan. The key to driving improved performance is a greater emphasis on benchmarking current and target performance. Such information will drive a competitive advantage for those assets that can quantifiably demonstrate to tenants that they offer better sustainability, lower service charge and better tenant services.

Also, such information will allow fund managers to build a reputation with investors as 'best in class' for non rental income revenue growth and closer alignment of their property manager's objectives with their funds' objectives.

With the above in place, funds will quickly see yield growth and increased fund fees linked to better performance. They will find that their brand value derived from a guardian of tenant needs, has dramatically improved.

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For more information on the asset training plan, please visit our website:

echarris.com/lendersandinvestors