

# **Chapter 26**

## **Real Estate Investment Management I:**

### ***The Institutional Landscape***

#### **Introduction**

#### **26.1 Real estate investment management**

#### **26.2 Salient features of real estate investment management**

#### **26.3 Responsibilities and functions of the investment manager**

#### **26.4 Private real estate investment products**

#### **26.5 The real estate investment management firm**

#### **26.6 Conclusions**

# **Domains of Macro-Level Real Estate Investment Decision Making:**

- 1. Strategic Investment Policy & Decisions**
- 2. Tactical Investment Policy & Decisions**
- 3. Implementation of Investment Policy**



SERVES

**The Professional Investment Management Industry**



CLIENTS

**Investors Lacking Sufficient Resources, Specialized Expertise, or Legal Authority to *Directly* Manage Their Own Investments**

## ***“Fiduciary Relationship”***

- Investment managers often operate in a “*fiduciary relationship*” with their investor clients.
- When the relationship is not strictly-speaking “*fiduciary*” in a legal sense, it often still has much of the same characteristics...

### **Fiduciary Relationship**

- **Binds the agent in a role of *trust* for the principal party.**
- **Requires the agent to act in the best interest of the principal party.**
- Requires certain standards of reporting & decision making, e.g.:
- **The “*Prudent Investor*” Criterion.**
- **Legal fiduciary relationship sets up formal accountability, potential legal liability.**

## 26.2 Salient Features of Real Estate Investment Management

### Characteristics of Real Estate Requiring Specialized Investment Expertise:

- Underlying space markets highly segmented, heterogeneous (Ch.1).
- Private asset mkt (search mkt trading of unique, whole assets) →
- Search function (must *find* individual assets)
- Transaction execution (negotiation, deal structuring, closing)
- Lack of asset mkt informational efficiency (asset price “noise”, inertia) →

Unique due diligence & decision issues.

- Asset operational mgt responsibility & opportunity

Operational Mgt Responsibility Important in L.R. Success:

- High transaction costs → Long holding periods → Long time span over which investor governs operations → Can have meaningful impact on investment performance.
- Cash yield orientation of R.E. investment total return (mostly in *y* not *g*) → Large part of investment performance directly impacted by on-going operations.

## 26.3 Responsibilities & Functions of the Investment Manager

### 1) Investment advisory services:

- *How should client invest in R.E.: Strategy (allocation, styles), Tactics (timing, reallocation, buy/sell), mgt (vehicles).*

### 2) Asset selection and transaction execution:

- *“Acquisitions Dept” (but also dispositions).*
- *Search, Find, Diligence, Negotiate/Structure, Close.*

### 3) Investment product development:

- *Vehicles, Structures, Innovation? (arbitrage?).*

### 4) Asset management:

- *“Asset Mgt Dept”*
- *Portfolio-level, Responsible for “property mgt”.*

### 5) Support functions: Communications & Research:

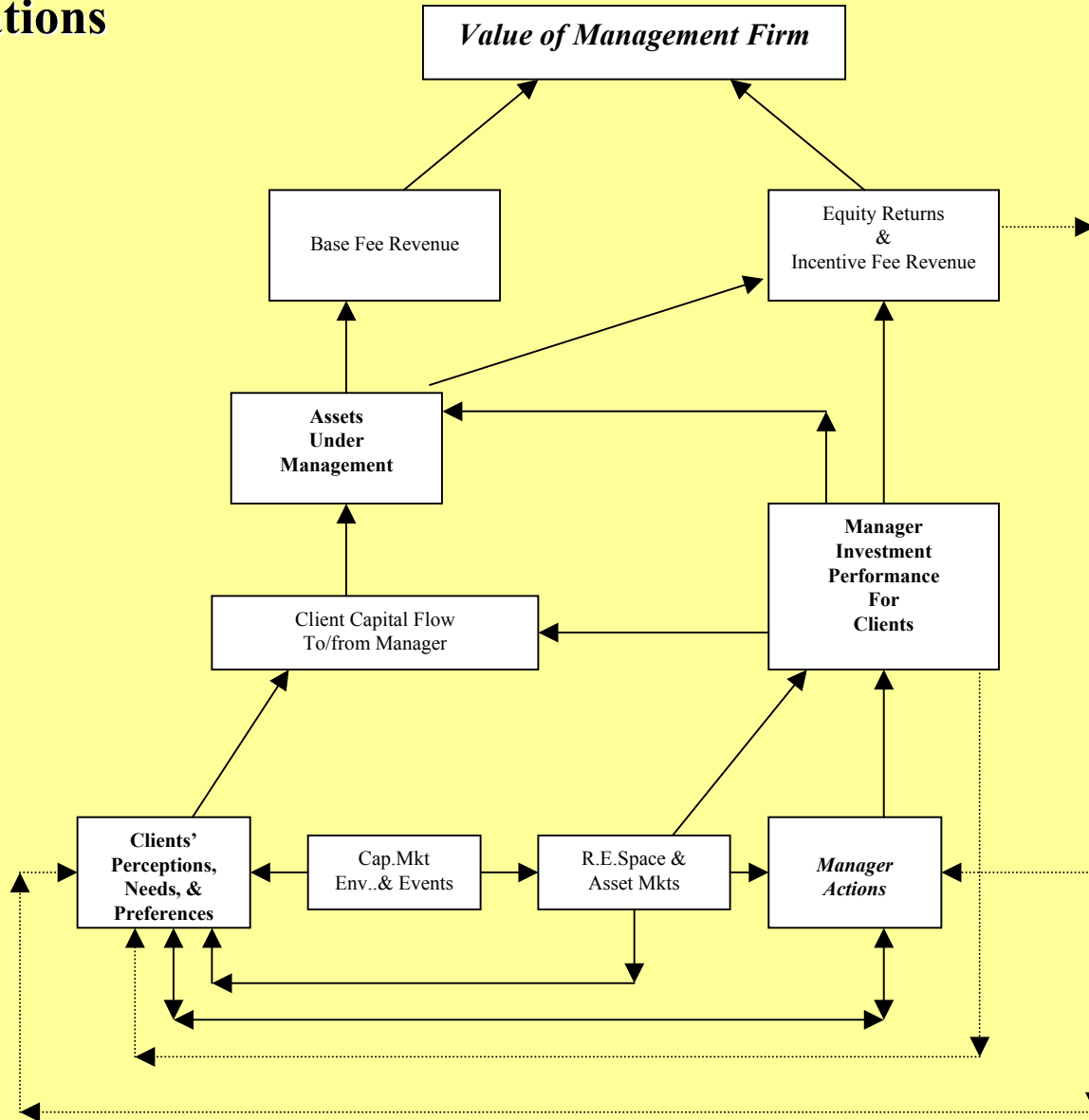
- *Gather, Analyze info, support investmt. decision making, firm marketing, client communication.*

**Not all firms provide all five functions.**

## 26.4 Private Real Estate Investment Products

- **Open-End Co-mingled Funds (CREFs) or Unit Trusts (PUTs):**
  - *On-going portfolio of properties (no finite life)*
  - *Investors can buy in (cash out) at regular frequent intervals (monthly, quarterly).*
  - *Based on NAV (appraisal-based) of fund.*
- **Closed-End funds or unit trusts & RELPs:**
  - *Portfolio of properties but*
  - *Investors can only buy in a beginning (capitalization phase, then fund is “closed”).*
  - *Planned liquidation after specified no. of years (but some flexibility).*
  - *“RELPs” marketed to individuals in 1980s (for tax shelter).*
- **Private REITs:**
  - *A way to structure R.E. funds.*
  - *Facilitates ownership transfer, potential IPO (“incubator REIT”)*
  - *>100 shareholders, 5/fewer*
- **Discretionary Separate Accounts:**
  - *Investor hires mgr to buy and manage properties on investor’s behalf, with the manager having the discretion as to which properties to buy and sell.*
  - *Each separate account is managed on behalf of a single investor, allowing a more “custom-tailored” service for larger investors.*
  - *For larger investors.*
- **Non-discretionary Separate Accounts**
  - *Even larger investors, requires some in-house R.E. expertise.*

## 26.5 The real estate investment management firm: objectives and strategic considerations



# Industry Associations and Real Estate Information Standards

- **NCREIF (National Council of Real Estate Investment Fiduciaries)**
  - **PREA (Pension Real Estate Association)**
  - **NAREIM (National Association of Real Estate Investment Managers)**
  - **NAREIT (National Association of REITs)**
  - **CMSA (Commercial Mortgage Securities Association)**
- 



**Real Estate Information Standards  
(REIS)**