Boarding Call to Investors

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Responsible property investment: is it time to give it a go?

Yes. And why not? Indeed, finding new ways of managing as best as possible an investment portfolio, whatever it is made of, should always be the main objective of asset and investment management companies; but sometimes other issues are blurring the picture. What other issues? Well...

The way things are

Looking for quality always means investing a bit more at the beginning, and not going for the bare minimum that is justifiable under current building regulation standards, even more so when we know as a fact those standards are going to be much tougher in the near future. Which could mean the new building or refit project, by the time it hits the market, will already be technically outdated. That's management on the cheap.

And we are already getting to the heart of the matter now: doing the minimum possible to maximise short term returns, forgetting in the process the long-term investment horizon offered by main institutional investors and pension funds. But why doing so?

Is it total and plain incompetency? I don't subscribe to this. But may be asset manager's common compensation practices have something to do with it, as they are rewarded on a short term basis instead of aligning the interest of investors and managers in a sustainable relationship. It is a lot easier and within present practices to go for the minimum at the building stage and then ask for hefty refitting costs a few years on, with incurring losses on rental income and inconvenience to the tenants. Even worse, investors who are very much used to it and are struggling to grasp the strategic shift needed for the best of their capital EXPECT this behaviour. There clearly is a lack of pedagogy from asset managers towards their clients, but isn't this the job of consultants after all? Is this included in fiduciary duties, and is it the responsibility of asset managers or consultants? Meanwhile, things are stuck and behaviours from the past last. Silly, but widespread.

On the other hand, investors themselves are pressing very hard for immediate returns, and as a consequence asset managers permanently live with a sword of Damocles hanging onto their heads, and they don't want to risk disappointing investors i.e. losing assets. And after all, asset managers have been handsomely paid in the process, so why bother?

This may look like a catch-22 situation.

The hot-potato game

There is little doubt in my mind property investment and asset management companies took advantage of a situation where money was made so easily and whole portfolios flipped within a very short period of time, offering inflated bonuses in what was nothing but a hot-potato game on a huge scale. To have more fun, wrap this up with heavy leverage and you have a time bomb; fingers will be burned in the end. The problem is the real losers are not the managers, but the investors; when things are OK managers get very well paid, and when things go awry they only get paid less. And this is mostly what retail and commercial property deals in the UK are still about, very much ingrained in the City's usual way of property dealing.

I understand flipping portfolios using high leverage could be a winning combination, although a highly risky one, but why "betting" all portfolios on this strategy? Good risk management should ensure such practices are contained within clearly defined boundaries, or put on offer by specialised funds, but why make it the essence of all "decent" UK property portfolio? This is an investment option along others, and certainly not the only one.

Another way

At Poune AM, we are after sustainable returns, the highest IRR possible, and of course increasing the portfolio's value is important but not the only goal. We won't bank everything on would-be value added deals, with no warranty whatsoever, but will look for best returns: return on capital is a key driver of long-term performance advantage, and it will be used as a core metric within our investment process.

We have an eye on things to come and position our investments on clearly stated objectives. A combination of factors, from the legislative to the social, is poised to drive a new era for the Responsible Investment sector. We incorporate future changes and their consequences, such as climate change and linked up-coming regulations, and make sure the investments we make are future-proof in a much larger scale than common property management companies do. And there is no "greenwashing" here, passing off regular products to clients as green thanks to a communication repackaging; we offer the real thing.

The secret to success is to get ahead and exploit the opportunities before competitor does. Companies that recognise that change is inevitable will outclass competition that is slower to grasp the point. As for any well-managed business, concerned trustees should regularly question the way their property fund managers and consulting actuaries work, and question themselves in the process to make sure they are asking the right questions. Which questions? Come along and let's talk about it.

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"The real voyage of Discovery consists not in seeking new landscapes but in having new eyes"
Marcel Proust

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