StoreREIT telling: three key elements

by Jackson Franks

For me writing has never been easy, in fact English was my least favourite subject at school. However, I enjoy a challenge and as I think about what to write this week, I take myself back to my English class at school to remind myself of what writing tricks I was once taught. What I remember most is how we were taught the basics of writing a story: each story must consist of a beginning – hooking the reader & setting the scene, a middle – a series of interesting and exciting events, and an end – tie up loose ends & satisfy the reader. As I wrote these characteristics down it suddenly looked very familiar. This is what we expect of and how we critique real estate managers. We look for the successful implementation of a story which follows the same characteristics; a beginning – raising capital & deployment, a middle - asset management initiatives, and an end – disposing of the asset(s) & redeployment of capital.

The beginning. The most crucial part in any story as it's the time to set the scene and hook your readers. As with a real estate manager it's the first insight we get at their deployment capabilities. Are they able to acquire buildings at an attractive yield with the potential to enhance that yield over time? Can they put together cost-effective initiatives to help achieve this and provide capital appreciation for their investors? These are the sorts of initial questions we critique when looking at real estate managers. If they manage to showcase their aptitude to answer these questions the book remains open and we continue to follow the story.

The middle. The manager has set the scene and acquired their portfolio. This is the stage in the story where the action takes place. We look at the manager's competence of successfully implementing their initiatives from turning a building into an asset. Such initiatives will include the manager's ability to let the vacant space, renegotiate existing leases, structure their debt, dividend controls and enhance any of their buildings through development opportunities (to mention a few). Moreover, we critique the validity of the manager's sustainability policy. Does the manager live by this policy, and is there evidence to confirm it, or is it written to tick a box? The built environment is currently responsible for 40% of global energy consumption, 25% of global water consumption and is emitting 33% of greenhouse gas (GHG) emissions. We expect our managers to contribute to the global initiative of reducing these levels through efficient water and power resource utilisation by observing the managers track record in all operational aspect of their assets.

The end. As with storytelling this is the stage at which we would expect the manager to tie up loose ends and satisfy their investors. The asset(s) would be nicely packaged by virtue of all their hard work throughout the asset management phase and to be sold at a yield which satisfies the investor. However, with real estate we want a sequel, and with that we judge the manager on their redeployment of capital. Can the manager begin the story again and do they have a track record of that story being as good as before?

Only when we are satisfied with all three elements will we consider an investment.

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