OAK INVESTMENT MANAGEMENT GROUP

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Family Offices and Real Estate

A family office is an investment unit that looks after the financial interests of a defined (usually family related) group of stakeholders. A family office can consist of an entity that looks after a single founder right through to a large number of stakeholders built up over multiple generations. A family office can be large or small in investment consideration, formal or informal in structure – but for best results should always seek to maximise centralised investment management expertise available to the platform.

Family offices are particularly well suited to real estate investing. Real estate takes a long time to plan and a long time for any such plan to bear fruition. Usually, family offices are able to lock up liquidity for longer periods than other types of investors. For example, the patience that can be associated with a family office's long term management of an estate or the gradual amelioration of the built environment is not necessarily tied to immediate present value positive investments but improvements that generically benefit a building or an area over time. Thus, deep value is often crystallised after long periods of ownership, holding and investing. In extreme examples, a family office can take an 'inter-generational' attitude to property investment and ownership.

Clearly forgoing a smaller pay out now for a larger one later is the very essence of capitalism. A family office therefore that invests in property is well placed to reap the reward of this liquidity premium inherent in real estate investing. However, the long term attitude to investing cannot mitigate the risk control, nor the attention to disciplined analysis of the value proposition underlying a real estate proposition. After all, there is always an opportunity cost to investing in one type of real estate in comparison to another as well as between asset classes themselves.

Depending on the risk appetite of a family office it can choose to deploy into high risk / high expected reward development or lower risk / lower expected reward mature investment assets. As well as the expected returns real estate development and investment differ in that the former requires a great deal more management expertise. For a family office with scale this can be developed in-house, alternatively, and what is more common, a joint-venture is established with an experienced professional industry operator. Either way in real estate development acquiring domain expertise is very important for a family office as most managers tend to be generalists.

As a result of this specialisation in real estate in a family office - delivering *alpha* in this field needs to be balanced by the need for sensible diversification. This is where a family office comes into its own. A dextrous use of judicious leverage against an investment or a development can not only add to return on equity but it can also discretely distribute risk to other geographies, sectors and assets classes. A family office is well-placed to secure the right amount of leverage because it chooses to rather than it has to, it can also freely use resources freed up in real estate to put into low risk or non-correlated assets. The result is that the family office does not have to experience the re-investment problem of a pure play real estate investor and can successfully navigate differing economic cycles.

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