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Asset Management and Real Estate Values

There was a time in the commercial world when "selling" meant the simple act of convincing a prospective customer to buy.

In today's commercial world, the concept of "merchandising and marketing" involves everything from determining the nature of the product to be produced, analyzing the specific market niche at which the product would be aimed, planning and implementing the packaging and sales counter displays, the advertising, promotion and pricing strategies to be applied, and so on.

Consider a young woman emerging from a department store, carrying an expensive cosmetic of whose existence she had previously been unaware and her pressing need for which she had not previously realized. That young woman had been the target, not of "selling" but of "merchandising."

In much the same way, "building management," like "selling," was a simple concept; it involved the advantageous purchase of, say, fuel oil or the signing up of a tenant to a standard lease form.

"Asset management," like "merchandising," is a complex concept; its goal could be said to be "the optimum financial return over the holding period of the asset," achieved in a

manner that reflects well on the character and professionalism of the owner.

Today's unsettled real estate markets present challenges that for true professionals can represent opportunities rather than threats, possibilities not only to preserve but to enhance values. And that is the role of asset management.

The classic cases of effective asset management in U.S. real estate today are in the operation of major regional shopping malls, where the largest and most sophisticated owners endlessly analyze all mall activities, ceaselessly redesign and reconstruct the physical premises, constantly review and realign the various tenant mixes and the services provided.

Melvin Simon and Associates, Inc., one of the country's largest operators, with over 60 major malls comprising many tens of millions of square feet, feels that if a mall is totally unchanged in a year, someone hasn't been watching! And that was one of the major reasons that we at Rose Associates, Inc. selected them as our partner in the million-foot mall we now have under construction in Washington, D.C. Corporate Property Investors, a real estate investment trust on whose Board of Trustees I sit, has precisely the same philosophy for the 30-million square feet of mall space it operates.

Office buildings, hotels, industrial parks and multi-family housing developments do not offer quite the same opportunities for endless reworking that major malls do, but all real estate can benefit from the constant imaginative and critical review that reflects asset management at its best.

Whether in the application of appropriate marketing techniques or in up-to-date budgeting, inventory controls or accounting procedures; whether in taking appropriate steps to avoid functional obsolescence or in maintaining the continuing close relationships with existing tenants that make for advantageous lease renewals; whether in paying proper attention to the preventive maintenance measures that extend the physical life of the premises or in fighting for the lowest feasible real estate tax assessments or the most desirable mortgage financing arrangements, virtually all real estate investments involve living, changing properties that can benefit from the continuing care and attention and thought of competent and honest professionals.

In the case of office buildings, one of the most obvious and widespread problems the industry faces is in the safe, efficient and economical removal of the asbestos insulation that was so prevalent in office construction until a relatively short time ago. The actual fact is that such asbestos, if left quietly undisturbed and in place, is of no danger whatsoever to any tenant. A threat to health may only arise if the asbestos is improperly disturbed or removed.

But tenant desires, the growing refusal of mortgagees to place mortgages on such buildings and, in some cases, legal requirements dictate its removal. The process is expensive, disruptive and a threat to good tenant relationships; but it must be faced. The manner in which both the dollars and the tenant relationships are handled in such cases can have a serious impact on the long-term well-being of the building.

Our company usually tries to accomplish the work on full floors at a time, shifting occupancies, canceling,

restructuring or extending leases, doing the best we can to meet comfortably the needs of the tenants as well as the requirements of the owner.

In some cases, the building may actually emerge from the process with better occupancy and lease arrangements, and in better physical state, than before.

The disposition of a multi-family rental building through conversion to cooperative or condominium ownership is another exercise in asset management that is difficult, time-consuming and challenging; but the number of dollars the owner finally receives and the good will or ill will he gains in the process is directly related to the professional competence and sensitivity in tenant dealings of the asset manager.

It might be useful to close with mention of some of the more successful and more noteworthy recent cases of imaginative asset management.

The refurbishing of Rockefeller Center in New York, culminating in the restoration of the famous Rainbow Room to its former eminence, is an excellent example. Massachusetts Mutual's handling of the Chrysler Building rehabilitation and Metropolitan Life's recent re-doing of the retail and public areas of the Pan Am Building are also interesting cases.

In each instance, the dollars and intelligence applied to those buildings will bring satisfaction to the tenants, delight to the public and substantial rewards to the owners for years to come.

And that, of course, is the goal of successful asset management!