OAK INVESTMENT MANAGEMENT GROUP

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The fundamental distinction between real estate ownership structures is between direct and indirect ownership. There are benefits and drawbacks of each mechanism of holding real estate. In principle, the broad benefit of the former is control as well as transparency and the broad benefit of the latter is professional oversight as well as liquidity.

Direct ownership of real estate can be through personal or corporate ownership. Usually commercial real estate is held through corporate ownership of one form or another. Corporate ownership can take the form of aggregating individual assets into a company holding a portfolio of real estate or holding each asset in a segregated Special Purpose Vehicle (SPV). Direct ownership typically does not concede discretion to external managers and thus means control is retained by the owner or internal managers of the underlying real estate.

Indirect ownership of real estate is usually through a fund. This can be a private property fund, a listed REIT, a real estate private equity fund or ownership of shares in a property company. Indirect ownership typically cedes control to professional management and, by definition, discretion over how funds are deployed (albeit within marketed guidelines). Financial interests in this sort of real estate can be more easily marketed to a wider universe of investors and therefore, in theory, this means that there should be more liquidity for buying and selling them.

Numerous studies underline the return superiority of indirect investments over direct investments in real estate. These findings stand to reason, especially in commercial real estate where investment parameters and process, a strong characteristic of indirect vehicles, are as important as the underlying real estate assets that are invested in; also typically the scale, scope and informational edge of indirect managers is considered superior to their direct 'in-house' counter-parts.

However, there are serious informational and reporting biases between direct and indirect investments in real estate. Indirect investments are much more easily measured, tracked and benchmarked than direct holdings. But this does not necessarily translate into better performance in absolute terms. Furthermore, although indirect interests are generally more liquid in extraordinary cases this can be the opposite can be the case – and ultimately because direct interests are owned outright they can be sold outright.

Clearly, the best of both worlds is to have the benefits of direct real estate ownership, with the professional oversight of the investment management process standard to the indirect world. To this end professional real estate investment management platforms, such as *Oak Investment Management*, provide owners of real estate with a comprehensive solution for all the numerous issues thrown up by direct ownership, but with fewer fundamental drawbacks of having an internal investment manager for real estate. As a result of this specialization there is more innovative sourcing of product, greater range of sub-sector offering and a maintenance of broader industry wide contacts in the industry. From an asset point of view the owner remains in control, from a management point of view a professional manager adds bandwidth to the owner's strategy.

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