

3 golden rules for tough property markets

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Investors considering property funds want to be assured of both strong ongoing income returns and promising long-term total returns – and there are various factors that determine these: how good a fund manager is at buying, selling, and improving properties, of course. But we believe that leasing, while far from the only consideration in property investment, is key. It lies at the heart of sustainable property management and creating value for investors.

In the 20 years I have been investing in commercial property for Centuria, one of the most consistent drivers of success has been active property management – in particular, the ability to understand what tenants want and how to provide it. Because in the end, if we can achieve that, we can keep our properties leased to quality tenants and provide income returns to investors.

If good tenants are crucial, a good landlord is equally so, and the only way to attract and retain tenants is by keeping the lines of communication open and transparent, and by developing strong relationships. Keeping relationships on track takes a great deal of attention to detail, an understanding of specific markets and what tenants in those markets want, and the ability to keep your eye on the ball all the time.

We back ourselves to lease our properties, even in the toughest of markets. That's why we have always had an in-house, rather than outsourced, property management team. The ability to upgrade and improve the properties we own, to make them fit-for-purpose and attractive to a diverse group of tenants in their market, is key to our ongoing success. We want our team to focus on leasing outcomes for our portfolio alone, and an in-house team does not have third-party conflicting objectives, or the same disconnect between tenant outcomes and investment outcomes.

Leasing is never easy. But we believe investors should look for managers that recognise its significance and have the experience and perspective to make it a priority and core discipline. There are three rules we live by when it comes to leasing.

Rule 1: Good relationships with tenants are priority

The days of adversarial relationships between tenant and landlord are over – far from keeping them at arm's length, we give ours Christmas presents, organise social events for them, and see them face-to-face regularly. Tenants expect to be a demonstrable priority and engagement with our tenants, and management of their issues, is central to our operations. Our team understand that our tenants are our customers, and without them we cannot provide returns to investors, so finding solutions rather than highlighting problems is the way we approach all negotiations. In order to do this, we have a few operational priorities:

- The first meeting of the working week is a leasing meeting on Monday morning. In this meeting, we review our property portfolio, agree actions and follow up on actions from the previous week.

- We stick to operational KPIs – for example, any prospective tenant who requests an offer from us, must receive that offer within 24 hours.
- Our team’s KPIs centre on occupancy rates as well as tenant retention. In this way, the team is incentivised not only to lease space, but to keep tenants over the long-term.
- Our tenants know us. The team visits properties regularly so we can be sure to understand tenant concerns and move to address and solve them early – tenants don’t just hear from us when their lease is up for renewal.
- And we know our tenants – we have regular formal tenant surveys to get their views on their building, its services, and our management. Again, this lets us solve any issues straight out the gate.

Rule 2: Different tenants want different things

Tenants in different markets want different things – that’s why thinking about how to make a property ‘fit for purpose’ is so important. There is no one way of doing things.

When we purchase a property our first step is to look at the essentials – so unless a property is very new, we undertake a speedy refurbishment of the foyer, and look at whether lifts and air conditioning may need an upgrade – as these are the two most important items for tenants.

When it comes to empty space, we look to keep a range of large and small tenants, this is a good way to diversify rental returns, maximise use of floorspace, and mitigate potential income loss when tenants leave. If a space needs to be upgraded, the larger tenants will usually decide on their own fitout, however, smaller tenants often welcome help – we specialise in undertaking speculative fitouts of smaller spaces, offering tenants the latest in design and workplace layout and allowing them to minimise moving costs and time.

The Zenith towers in Chatswood are a great example of how such work can take an office building to the next level, to offer the most attractive environment. A recent refurbishment of the towers has allowed us to re-sign or lease over 44,500 sqm across 54 deals. The properties are currently 100% leased, in some cases to tenants which have relocated from the CBD. The Zenith provides attractive workspaces for large and smaller tenants, but it now also provides various capabilities for their employees to support convenient, healthy lifestyles outside of their jobs – including on-site childcare, green spaces and health and wellness programs. End-of-trip facilities were not common when The Zenith was built, but we added lockers, bike racks and showers to enable greener, healthier commutes, which are a major drawcard.

Rule 3: Understand your market

Having considered the importance of leasing, investors shouldn’t necessarily discount less-obvious locations for leasing reasons. Certain markets will always be more challenging than others, but an active leasing team which understands the market, the tenants and the properties can still succeed.

We are asset-specific buyers and can be counter-cyclical, which means we are willing to take on properties in difficult markets (like Perth and Brisbane where vacancy rates have been up to 30%). In challenging markets, understanding what tenants want, and how to offer it to them in a way which will benefit both parties, is of paramount importance – if we can make properties fit for

purpose quickly (often by undertaking refurbishment), then we can lease them in the short term, and take advantage of improving market conditions in the medium to long term.

Not every tenant wants the same thing, and we understand that. But we believe they do all want a landlord they can communicate with, that is transparent, and that they can work with collaboratively in a spirit of finding solutions, rather than focusing on problems or battling for their needs.

Location is important in property markets, and timing equally so, but an intimate knowledge of property markets, including an understanding of what tenants are looking for in different markets and offering it to them is arguably more important. Property markets are cyclical – it's never easy to consistently buy and sell at the right price and maintain 100% occupancy along the way.

However, with experience, staying focused on the fundamentals and developing long term relationships with tenants, it is possible maintain high occupancy rates, keep tenants happy, and get the best possible returns from a property. When looking to invest, how – and therefore how successfully – a property fund leases its assets, should be a key consideration. We think that investors should look out for and analyse these factors as part of making informed property investment decisions.