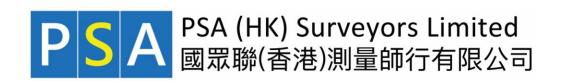
## Optimize Asset Performance, Manage Diversified Risks

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## Introduction

#### **Optimize Asset Performance**

- Measure Asset Performance
- Realize and Unleash an asset's potential into actual performance
- Perform Optimization

#### **Manage Diversified Risks**

- Identification of Risk
- Perform Diversification





## **Assessing Asset Performance**

#### 1) Income and Capital Return

- Comparison internationally recognized standards
- Comparison with Inflation, Hang Seng Index, CPI
- Comparison with other competitors

#### 2) Income Sustainability

- Protect the long term Income Productivity
- Minimize Carbon Emission
- Minimize Rate of Deterioration and Obsolescence





## Realize and Unleash Asset Potential

#### Real Estate

- 1. For **land**, the aim is to select the optimum scheme which creates a sustainable design and optimizes profitable investment
- 2. For **buildings**, the aim is to achieve maximum lifespan and reduce obsolescence through conversion/continuance of uses to achieve the optimum profitable uses. Sustainable building operation creates value, enhance building performance and reduce operating cost.
- Win-win situation for investor, user and the general public





## **Asset Performance Optimization**

#### **Optimization** can be defined as:

- 1. Maximize strengths and minimize weaknesses
- 2. Maximize the monetary value and social value the asset creates;
- 3. Minimize the cost of producing that value
- 4. Extend asset lifespan and reduce maintenance cost





## What is risk?

### **Risk** can be classified into several categories

- Systematic Risk
- 2. Economic Risk
- 3. Location Risk
- 4. Political Risk





## Risk Classification

- 1) Systematic Risk Risk that cannot be foreseen or avoided In real estate, specific risk include: Imperfect market, illiquid
- **2) Economic Risk** Risk due to over-exposure on certain asset class Overweighting/Underweighting in certain business sectors
- **3) Location Risk** Risk due to over-exposure on certain location Overweighting/Underweighting in certain geographical regions
- **4) Political Risk** Risk caused by political uncertainties
  Unstable political environment; Possibilities of war etc.





## Risk Management through Diversification

#### **Indicator** of Risk and Diversification

- Beta, Standard Deviation: Measurement of an asset's volatility
- Correlation: Measurement of assets' mutual relationship with each other; An indication of diversity

#### Achieve **Diversification** in terms of :

- Location
- 2. Business Sector and Business Cycle
- Asset Class





## **Location Diversification**

#### **Low Correlation** in terms of:

- Political Environment
- Drivers for Gross Domestic Product (GDP)
- 3. Geographical Location
- 4. Currency





## Business Sector and Business Cycle Diversification

- Retail Demonstrate steady income flow during recession periods,
   especially retail shops selling necessities
- Office High correlation with economy and supply and demand of office space
- Industrial Contains hope value of redevelopment, rental value appears less attractive
- Residential Serviced apartments and rental apartments provide steady rental income flow
- Hotel High correlation with tourist figures and local currency





## **Asset Class Diversification**

To create portfolio of properties with different risk exposure level

- Core Lowest Risk Level, Stable Income Return
- Value-Added Medium Risk Level, investors anticipates certain degree of capital appreciation
- 3. **Opportunistic** High Risk Level, Involves properties with redevelopment potential or property under development





## Conclusion

#### Optimization of Asset Performance aims at:

- Maximizing return
- 2. Creating income sustainability
- 3. Reducing operating cost and maintenance cost

### Risk can be actively managed by diversification in terms of:

- Location
- 2. Business Sector and Cycle
- Asset Class





## Thank You

# The End



