# 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

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# 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

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# 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

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# 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

1. **Systematic Risk**
2. **Economic Risk**
3. **Location Risk**
4. **Political Risk**

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# 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.

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# Risk Management through Diversification

**Indicator** of Risk and Diversification

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

Achieve **Diversification** in terms of :

1. Location
2. Business Sector and Business Cycle
3. Asset Class

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# Location Diversification

**Low Correlation** in terms of:

1. Political Environment
2. 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

1. **Core** – Lowest Risk Level, Stable Income Return
2. **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:

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

Risk can be actively managed by diversification in terms of:

1. Location
2. Business Sector and Cycle
3. Asset Class

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# Thank You

The End