ARENCORES

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REAL ESTATE EXPERTS

ACTIVE vs PASSIVE INVESTMENT STRATEGIES IN REAL ESTATE

Introduction

We often come across the dilemma about "passive investment or active investment"; so much so that it has outgrown the need for further explanation. When people say that old-style real estate is being "disrupted" by intelligent and sophisticated platforms such as Smart Property Sourcing and Qualitative Appraisal, it is reasonably clear that the real estate sector is not facing small-scale shaking, but rather off-the-charts seismic action that is tearing down the walls of the old-style investment approaches. The same applies to traditional commercial or private investments, which are being disrupted by performance measurement systems, portfolio theories, tax efficiency metrics, transparency barriers and all varieties of country dependent regulations and ever-changing market policies.

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Globally, the real estate industry is being disrupted by a plethora of economic, technological and social influences. Underperforming global investment confidence demonstrates the choice facing investors: **run for cover or settle for rising inflation and anemic economic growth?** Moreover, real estate investors have also significant concerns about primary and common investment objectives on ROI parameters, Cash-on-Cash Return, Holding Period, Financing Parameters, Maximizing Cash Flow and/or Capital Appreciation. However, the demand for more qualitative and accurate information about who is allocating their capital and from where operate their services should not be ignored.

This month, ARENCORES research team takes a close look at why and where the real estate sector is experiencing the dilemma of active or passive investment. One area facing noticeable and significant change is investment performance measurement. We've taken a look at several recent surveys and research reports in order to gauge how closely theory and practice match up when it comes to the Active or Passive management-investment decisions and their influence on the economic viability of the real estate assets. The results show a shift from the old-fashioned real estate assets sourcing methods to a more attractive and rewarding area of growing maturity, where real estate firms offering more sophisticated, comprehensive and reliable forecasts and investment proposals.

Development of such decision making methods and tools may still have a way to go, as many real estate administration platforms still function as adapted active management or passive management models. Nevertheless players in the real estate sector have clearly started demanding more transparency, flexibility and reliability while the increasing interest on hedging and risk management on the capital and market value of the properties is a fundamental part of the market learning curve.

Tax management and market volatility – including strategies tailored to the individual investor decisions, are also having a disruptive impact on real estate pricing and opportunities. As a result, noticeable spikes of activity are popping up in markets relatively quiet in the last seven-eight years after experiencing dramatic swings and decrease in growth volatility.

Beyond these major market trends, this month's report also takes a briefly look at issues affecting the real estate environment. In particular, we focus on:

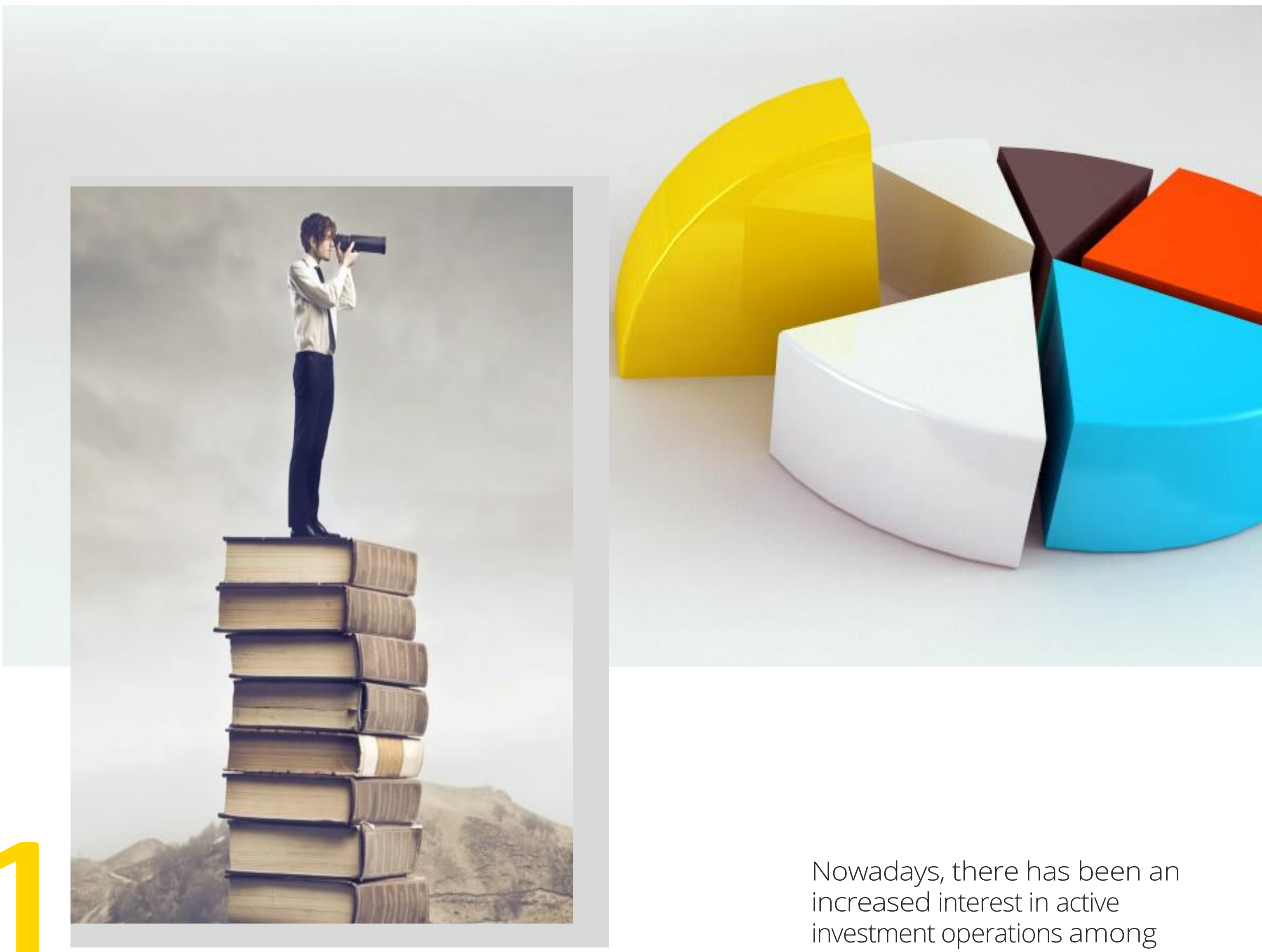
Real Estate deal flow – Exploring the key real estate trends in Greece, including German investors' interest for tourism infrastructure facilities, how Israeli bonds are helping Asian companies raise funds from Greek real estate assets and how Greece's economy stabilization may bring back foreign real estate investors.

Reporting – Examining the existing benchmarking standards and a series of transitions that are in the pipeline, including the European Real Estate Framework and Markets Authority's Guidelines on Decision Performance Measures.

Tax – Explaining the importance of a standardized framework for Economic Co-operation and Development between industry and institutions from academia including how knowledge sharing affects transparency and investments decision.

We also review investments risks, the existing risks and uncertainties management approaches from investment firms and the continued consolidation in the real estate fund sector.

Many of the subjects addressed in this month's report are causing widespread changes to the real estate investment environment and how investors are doing business. Should be also completely understandable that real estate is, after all, vital for society and industry to grow successfully, effectively and reflect prosperity and evolution in every aspect.



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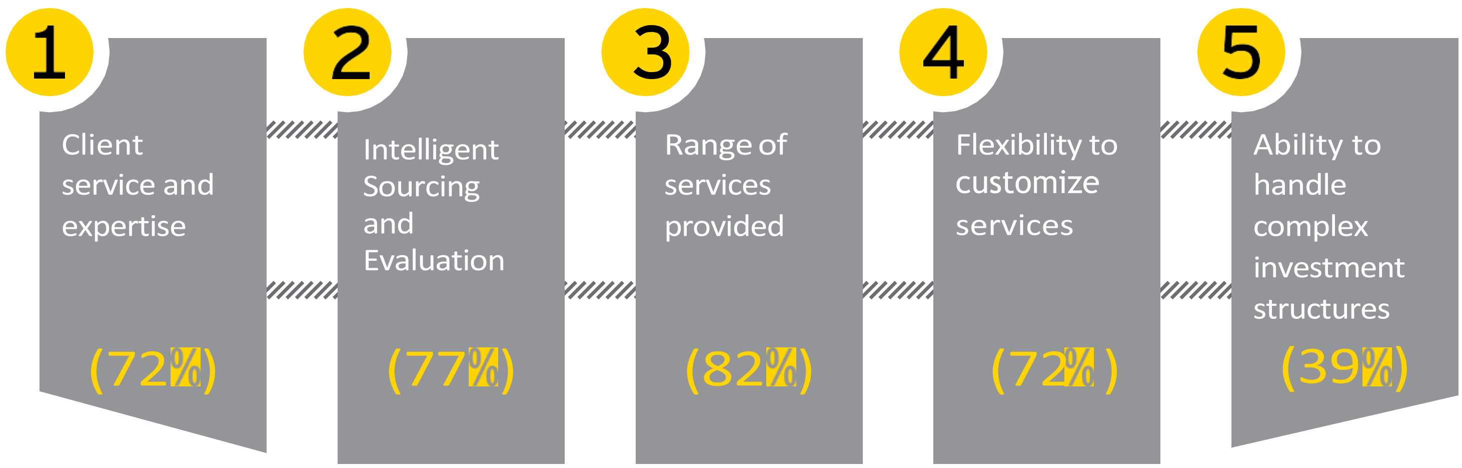
WHAT IS REAL ESTATE ACTIVE INVESTMENT?

Nowadays, there has been an increased interest in active investment operations among real estate fund managers. Active management might best be described as an effort to implement human intelligence to discover "good deals" in the financial markets.

Active investment capitals are operated and managed by a professional fund manager or investment research teams to create all the investment portfolio options and decisions, such as which companies or organizations to invest in or when to buy and sell different assets, on the behalf of the investor. They have extensive access to a plethora of market data, key trends, and market sector indicators to analyze and scrutinize their prospects before making an investment decision.

Differentiating from our competitors

Top five items investors look for in operations



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The scope with active investment is to provide a return that is superior to the investor as a whole or, for capital funds with more conservative investment strategies and administration platforms' mechanisms, to protect capital and assets value if markets fall or suffer dramatic changes. Active Management can offer the potential for higher returns of the investment (ROI). In more simplistic words AI means that the investor has a professional who tactically managing their clients' portfolios. In other words when a specific sector looks promising enough, or one region starts to suffer, the fund managers making a strong statement about their vision for the future of the business in relation to the risks exposure, market returns or additionally provide an adequate shielding from the potential losses and risks.

AI is a promising method to establish a cost-effective and flexible business strategy that is interconnected with all other functions, like fundamental analysis, technical analysis, sensitivity analysis, benchmarking, macroeconomic analysis, all having in common an attempt to determine profitable future investment trends. The message this sends to the investor is that fund managers recognize almost unmistakably what their long-term key value is, and the approaches related to improve or optimize their investment decisions under complex selection and trading systems.

Among the benefits of adapting an Active Investment approach are:

- Flexibility – since active managers, unlike passive ones, are not required to hold specific stocks
- Hedging – the ability to use short sales, put flexible routes, and other strategies to insure against losses-risks
- Risk management – the capability and aptitude to get out of specific holdings or market sectors when risks get too large
- Tax management – including tactics and strategies tailored to the specific investor.

Implementing Active Investment approaches with promising returns in Greece's real estate sector is difficult at this stage as the uncertainty remains. Moving out of an economic recession to a level of stabilization and subsequent recovery takes time.. Recapitalization of banks, rehabilitation of public expenditure as well as restructuring the economy and recovery of the labour market is not a simple process. No matter at what level Greece will achieve a primary budget surplus in 2017 the fund administrators that have established models for private equity or hedge funds start to consider Greece's real estate sector as an attractive market with recovery prospects. However, an agreement about the modalities of debt relief which is the "elephant in the room" that nobody - with the exception of the IMF - wants to address officially just yet, could be the beginning of the recovery.

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