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MALAYSIA'S real estate asset management has embarked on an exhilarating journey in recent years, keeping up with the boggling twists and turns of the economy and the blossoming investment opportunities in the property sector. But just what is asset management? Well, this field is about skillfully steering real estate assets to boost their value and reel in solid returns for investors.

The Malaysian real estate market is like a confusing piece of batik, featuring a mix of residential, commercial, industrial and hospitality properties. With urbanisation in full swing in lively cities like Kuala Lumpur, Penang and Johor Bahru, the demand for savvy management practices is hotter than ever. Real estate asset managers are like Nathan Drake, a protagonist of the Uncharted franchise - most notably in the video game series, in this fast-paced arena, guiding property owners through complex market trends, regulatory mazes and financial analytics.

The adventure of asset management kicks off with a deep dive into the real estate portfolio. This involves exploring current market vibes, peeking into the competition and measuring how each asset performs against its potential. Using a blend of market forecasting tools and sharp insights, asset managers unearth juicy growth opportunities while ensuring investors are in the loop about where to place their bets for maximum impact.

A key ingredient in the recipe of successful real estate asset management is whipping up and executing strategic plans that cater to each property's unique flavour. In Malaysia, these strategies can be insanely creative. For urban properties, the focus might be on designing mixed-use spaces that enhance the tenant experience and attract foot traffic like bees to honey. Meanwhile, rural developments could tap into agricultural or recreational activities that resonate with local communities. The top-notch asset managers know the secret is flexibility, essentially adapting their strategies to ride the waves of changing market dynamics and ever-evolving consumer tastes. This adaptability not only makes their roles crucial but also transforms their work into a thrilling adventure in the lively realm of real estate.

The quiet losses

To get first-hand insight into what these elusive silent losses actually are, Starbiz7 talked with real estate asset management firm Pragmatique managing director Timmy Ho. "The concept of silent losses in real estate refers to often unseen or unrealised value erosion within investments. These losses can manifest in various ways, starting with the foundational stages of a project. For instance, asset owners frequently engage in under-budgeting and overspending during capital budgeting and cash flow planning. Furthermore,

the selection of inappropriate consultants during the conceptualisation of an asset can lead to flawed advice, significantly diminishing its potential value," shared Ho.

"Timeline planning also plays a crucial role. Overly aggressive development schedules that fail to account for necessary buffers can lead to premature hiring of personnel, such as general managers, resulting in substantial salary expenses without corresponding income due to delayed openings. Once an asset is operational, the absence of proper benchmarking and pricing practices can lead to underperformance relative to the competitive market. Finally, a significant

oversight contributing to silent losses is the failure to adequately budget for future maintenance, refurbishment and upgrades, which if neglected due to the distribution of all profits, can erode the long-term competitiveness and value of the property," he continued.

Several underlying factors contribute to the prevalence of silent losses in the real estate market, according to Ho. A primary issue is the reliance on outdated or static market data when making critical property investment decisions. Investors sometimes base their choices on emotions or historical information rather than dynamic, forward-looking market analysis. The unavailability or inconsistency of detailed and comparable market data, particularly in certain regions like Malaysia, further exacerbates this problem. The lack of comprehensive metrics beyond basic parameters like location and size makes it challenging for investors and valuers to make informed decisions and accurate comparisons, especially for complex properties where factors such as operating status and special conditions are often unrecorded.

Additionally, the influence of bad advice stemming from individuals with perceived authority rather than data-driven insights can lead to poor property investment choices driven by the halo effect. Spending priorities can also contribute to silent losses when excessive focus on certain design aspects of the building overshadows functionality, creat-

ing a deficiency in the value equation where the overall value proposition is unbalanced.

Inefficient capital stacks and corporate structures, which fail to optimise debt-to-equity ratios or leverage available tax benefits, represent another significant source of unrealised value. Moreover, accepting sales pitches and financial projections without conducting thorough due diligence or seeking independent valuations can lead to investments based on unrealistic expectations. Finally, unrealistic timelines and cognitive biases can further cloud judgment and contribute to decisions that ultimately erode value.

Stopping the bleeding

"To effectively identify and mitigate the risks of silent losses, investors need to adopt a systematic and procedural approach to their investment activities, ensuring that no critical steps, such as thorough due diligence, are overlooked. It is crucial to analyse potential property investments from a holistic perspective, considering accounting, tax, legal, compliance, business and future risk implications, rather than focusing on a single viewpoint," said Ho.

"The decision-making process should be iterative, incorporating feedback and insights from all relevant stakeholders to ensure a well-rounded evaluation of potential directions and risks towards the property. Investment decisions should be driven by empirical data or reasonable pre-

dictions, avoiding emotionally based assumptions. When assessing data, it is essential to evaluate both its validity (suitability for the purpose) and reliability (consistency and generalisability)," he elaborated.

Furthermore, property investors must understand the motivations of all stakeholders involved, recognising potential conflicts of interest, such as the principal-agent problem, where the objectives of those acting on their behalf may not perfectly align with their own. Ultimately, engaging in unbiased representation and implementing robust asset management practices are vital for preventing and mitigating silent losses.

Certain types of properties and markets are more susceptible to silent losses. For example, markets experiencing oversupply due to inaccurate demand forecasts, such as the office space market in Kuala Lumpur with its continued overhang of vacancies despite expectations of increased occupancy from multinational corporations and family offices, are particularly vulnerable to value erosion.

Tackling the issue of silent losses in real estate asset management requires a thoughtful approach that focuses on informed decision-making and strategic planning. As Malaysia's real estate market evolves, asset managers and investors need to use data-driven methods, carry out detailed market analyses and prioritise regular property maintenance to maintain long-term value. By keeping an eye on potential pitfalls waiting to open a gash on your portfolio, such as relying on outdated information and ineffective financial planning, stakeholders can reduce risks and improve investment performance. In the end, a proactive and adaptable management strategy is what will get the gears running.

■ **Asset managers should only make data-driven decisions.**

■ **Detailed market analyses show what needs improvement.**

■ **Regular property maintenance support property value.**

Silent losses in real estate asset management

