# When the music stops

## How AI is shifting alpha in real estate investment

Andrew Sangster

Operational Real Estate Summit 2026

OpRE Analyst

# A scene from Margin Call

*"When the music stops,*
*in terms of liquidity,*
*things will be complicated."*

*— Margin Call (2011)*



**Investment performance is determined by decisions, not information.**




# Aristotle's three forms of knowledge

## Episteme

*Knowing — facts, theory*

## Techne

*Making — process, execution*

## Phronesis

*Judging — wisdom, decision-making*

**AI excels at episteme and techne.  Alpha increasingly resides in phronesis.**

# Where real estate alpha used to come from

| | |
|---|---|
| **Market intelligence** | **Valuation** |
| Lease analysis | Debt structuring |
| Legal structures | Comparable evidence |

**Information advantage created investment advantage.**

# The shift from covenant to capability

| | Then | Now |
|---|---|---|
| **Focus** | Covenant strength | **Management quality** |
| **Structures** | Lease terms | **Customer proposition** |
| **Creditworthiness** | Tenant credit | **Operational capability** |
| **Investment** | Buildings | **Businesses** |

**Investors increasingly underwrite businesses, not buildings.**

# AI attacks the traditional sources of alpha

| Scarce | AI-assisted |
| --- | --- |
| Research | Research |
| Analysis | Underwriting |
| Underwriting | Modelling |
| Documentation | Due diligence |

*When everyone has access to better analysis, analysis becomes less scarce.*

# The role of the occupier has changed

Traditional model

Building ▶ Tenant ▶ Rent

Emerging model

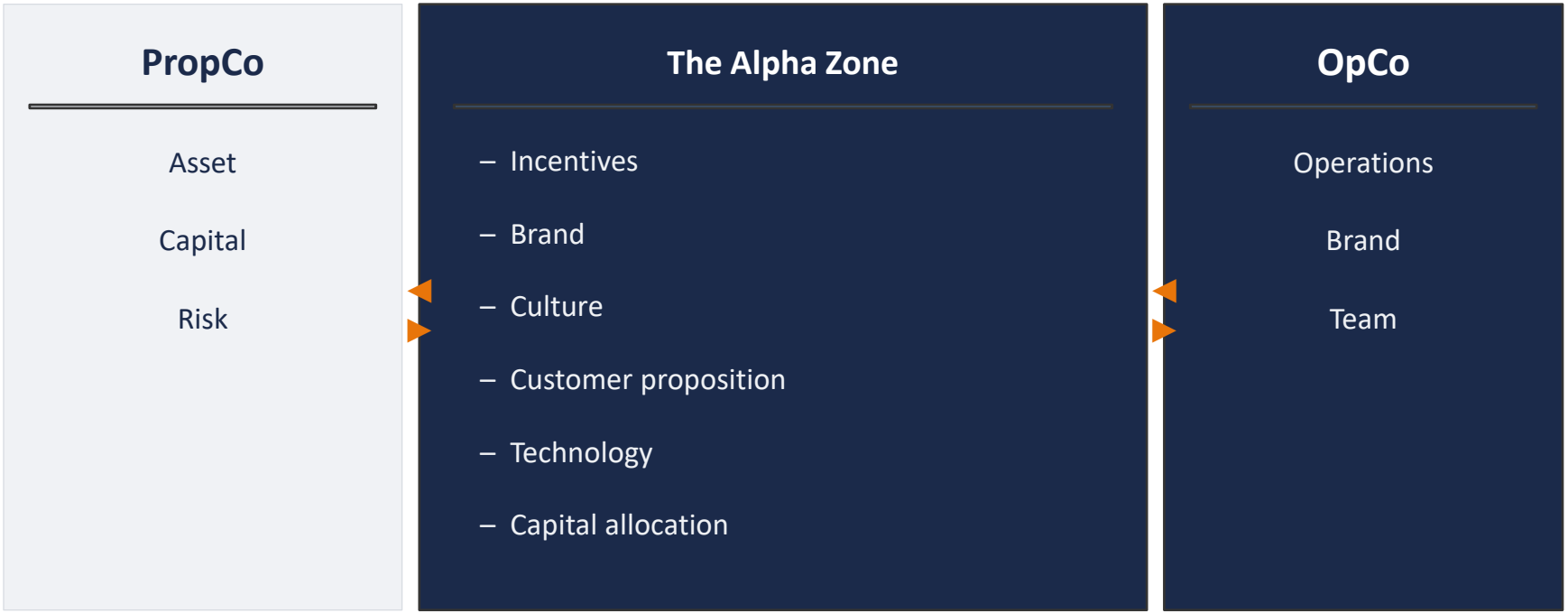
Building ▶ Operator ▶ Customer ▶ Cashflow

Examples:

Hotels | PBSA | Later Living | Flex Office | Self Storage

**The occupier is no longer simply paying rent. The occupier is creating value.**

# Where value is created




**The alpha zone sits at the opco-propco interface.**

# Why this requires phronesis

**Can a spreadsheet tell you...**

- Is management exceptional?
- Is culture deteriorating?
- Has the brand lost relevance?
- Will customers remain loyal?
- Are incentives truly aligned?

**These are judgement questions. No algorithm can answer them.**

# The challenge to my argument

***Won't AI learn judgement too?***

### Tacit → Codified

Intuition becomes algorithm

### Scale dominates

Vast data beats human pattern recognition

### Moving frontier

Today's judgement is tomorrow's algorithm

*This is a moving frontier, not a permanent distinction.*

# But AI still does not decide

Return to Margin Call.

*"The data tells you there is risk.*
*It does not tell you what to do."*

| | | | | |
|---|---|---|---|---|
| **Sell?** | **Hold?** | **Invest?** | **Reposition?** | **Change operator?** |

**The closer a decision gets to irreversible capital commitment, the more valuable judgement becomes.**

# The future source of alpha

| FROM | TO |
| --- | --- |
| – Asset selection | – System selection |
| – **Information advantage** | – **Judgement advantage** |
| – Tenant covenant | – Operator capability |
| – Property risk | – Operational risk |

**As AI commoditises information, alpha migrates towards judgement.**

# The emerging investor skill

The future belongs less to the investor who knows more
**and more to the investor who decides better.**

*As AI commoditises information, alpha migrates towards governing the relationship between capital, operations and human behaviour. Operational real estate sits precisely at this intersection.*

**Operational real estate sits at the intersection of capital, operations and human behaviour.**

# When the music stops

***"When the music stops..."***

Who decides when to leave the dance floor?

**That is where alpha lives.**

OpRE Analyst www.oprereanalyst.co.uk