

## Slowing Economy Drives Information Demand

Author: Eric Forman, Resolve Technology

***In today's volatile economy, commercial real estate investors and investment managers must be able to accurately assess trends, analyze their portfolios, and evaluate options to ensure they make effective decisions that maximize investment returns on an ongoing basis. Information has become a competitive advantage.***

There is an inverse relationship that exists between economic performance and the demand for information. When things are going well, people are less inclined to ask questions and dig deep. The booming real estate market of years past has caused a relative level of complacency with regard to access to critical business data.

What a difference a year makes. In a worsening economy, there is a sense of urgency that drives a growing demand for information. An analyst at one of the leading investment firms describes the recent shift in attitude: *"It's a bit of a renaissance around here. As the market goes down, people want more data. I am very busy building dashboards."*



Back in March 2007 (which seems like eons away nowadays), Josh Herrenkohl, a senior manager at Ernst & Young, wrote in an article titled "Survival of the Fittest Funds": *"The unfortunate fact is that in spite of common sense, many funds have been using inefficient and redundant processes and ineffective technology to get things done, often on an as-needed basis. This behavior has not yet raised flags with the majority of investors, who seemingly haven't cared much about how funds do what they do, as long as the returns are good. Unusually high returns in recent years have overshadowed the usual scrutiny."*

Until recently, the real estate industry lacked the tools to support investment management. Designed for adding, editing and deleting single records, property management and accounting systems are ineffective for investment-level data aggregation and analysis. Moreover, with the move away from core investments, advisors must now be able to consolidate varying sources of data. As a result, investment management is still predominantly done in Excel spreadsheets that are error-prone and difficult to manage.

"Financial modeling in Excel can be time consuming and potentially subject to errors," says Brian Peay, Chief Financial Officer at Glenborough, a real estate investment management firm with \$2.8 billion of assets under management. As Herrenkohl noted: *"In truth, funds are simply expecting too much from a simple program not tailored specifically for their business. Even seemingly benign errors made in the all-to0-prevalent spreadsheet can result in significant miscalculations."*

### Information as a Competitive Advantage

Since the subprime crisis has hit, credit markets have tightened and real estate prices have been affected. Many financial service firms are still not sure what the effect is on their balance sheet. What is apparent is that the need for accurate and timely information is paramount.

Currently, collecting and disseminating information is manual, costly, time intensive, and non-scalable. As portfolios get bigger, returns seek their historic norm, real estate asset allocations increase, and investments become more distant (both geographically and in ownership structure), information demands grow.

Implementing an investment management solution today is just as imperative as property management and accounting systems were a decade ago. To remain competitive, leading firms are implementing information management and analysis tools that provide aggregated investment-level data to support internal decision makers as well as automated distribution of information to investors.

Commercial real estate investors and investment managers must be able to accurately assess trends, analyze their portfolios, and evaluate options to ensure they make effective decisions that maximize investment returns on an ongoing basis. *“One of the ways we add value for our partners is by constantly evaluating the opportunities in the marketplace,”* says Peay.

By integrating all investment-related data and providing managers with advanced analytical capabilities, decisions can be made based on up-to-date information and their impact on future returns. Allowing senior management to be strategic and proactive, investment returns can be maximized. *“Having the modeling in a consistent format will allow us to quickly and accurately understand how different scenarios affect the returns to our investors and to combine and compare alternatives,”* explains Peay.

### **Are You Up to the Task?**

To address the growing need for information, real estate investment management organizations that are looking to stay ahead should be evaluating the following steps:

- **Put the infrastructure in place:** Establish a platform that aggregates data from all relevant internal and external systems to allow a consolidated view of all investment management information;
- **Eliminate time consuming and error prone manual data entry:** Implement direct data feeds from underlying systems and provide third parties such as property managers and joint venture partners with the means to populate data directly into your investment management system;
- **Help decision makers be more proactive:** provide tools to evaluate decisions in an expedited manner and encourage users to kick the spreadsheet habit;
- **Make timely information easily accessible:** Allow investors and internal decision makers to directly access information that is relevant to their decision making process, including “below the NOI line;”
- **Standardize processes:** Establish tighter controls and promote collaboration by standardizing data management and decision making processes across the organization.

### **About the Author**

*Eric Forman is founder and CEO of Resolve Technology, [www.resolve.tech.com](http://www.resolve.tech.com), dedicated to providing investment management solutions to the real estate industry. With over 20 years of industry experience, Mr. Forman has designed and been involved in creating and implementing strategic investment management solutions across real estate firms worldwide.*