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Technology Helps Investors Manage Risk, Software Makers Say

By Noreen Seebacher

The fall of former financial giants American International Group and Lehman Brothers, fire sale acquisitions of Merrill Lynch and Washington Mutual, the collapse of multiple banks and industry-wide cutbacks in the financial sector have undoubtedly left commercial real estate owners and investors wondering about the potential impact on their portfolios. But technology--in the form of automated systems to track and analyze RE investments--may provide some peace of mind for concerned owners and investors, several software makers suggest.

In some cases, the affect of the shakeout in the financial sector on commercial property was all too obvious: Bankrupt Lehman leased more than one million sf at Canary Wharf in London--and its rent was secured by AIG, which itself came close to collapse before a US government bailout. Canary Wharf Group's majority shareholder, Songbird Estates PLC, says AIG is supposed to pay up to four years of rent if Lehman defaults. But even if that occurs, the total will fall far short of the projected income from a lease that runs through 2033.

Songbird is still grappling with the long term implications. And so are countless other real estate owners and investors, who may have had varying levels of exposure to one or more of the crippled firms, industry experts concur. It's a challenging task, says Eric Forman, CEO of Needham, MA-based [Resolve Technology](#).

Every one of the financial services firms that is going down or scaling back is occupying multiple office spaces around the world, spread across many different real estate investment portfolios and funds, Forman says. "How will that affect my portfolio? To understand if there will be an impact from the collapse of Lehman, for example, an investment manager needs to have a consolidated view of his real estate investments," he continues. "Since some of the investments are made through joint venture partners, the assessment of tenant exposure is even more complicated."

For many CRE investment managers, the questions center on risk mitigation--determining the percentage of the total square footage in a portfolio that is potentially in jeopardy by insolvent or struggling firms, identifying potential problem leases and sharing that information as quickly as possible with owners and investors.

The solution, according to Forman and Brad Setser, vice president of marketing at Santa Barbara, CA-based [Yardi Systems](#), is technology. Data warehouse and business intelligence solutions give investment managers ways to assemble and analyze their portfolios quicker and more accurately, they concur.

Forman says it's virtually impossible for investment managers to juggle multiple relationships and increasingly dynamic portfolios "without a robust data integration infrastructure and the appropriate tools to manage fund-level financials." And Setser notes, "Volatility requires much more agility than does a stable market. In today's climate, it becomes even more important that asset managers have the analysis they need as quickly and accurately as possible."

At the 2008 Resolve Client Summit in Boston late last month, real estate investment managers from several firms reportedly credited their ability to provide immediate answers to questions about risk and exposure to specific tenants or industries to the use of Resolve Technology's business solutions. Forman says clients agreed the automated solutions gave them near instantaneous access to data that would have taken days to compile in the days of manual entry

spreadsheets.

"The need for visibility, accuracy, proactive thinking and quick reaction has never been greater," says Forman. "Investment managers can no longer be handcuffed by outdated data, inaccurate calculations and limited access to information."

Companies such as Resolve and Yardi provide business intelligence, reporting and decision support solutions to optimize the on-going management of real estate investment portfolios and potentially deliver higher returns to investors. "Say a company has loans due later this year. Maybe a year ago, it would have planned to pay them off. But now, property values are lower and lending is more conservative. It may not be possible to refinance for 80% of the former market value. It may only be possible to obtain financing for 50% of the current value. So what then? That's where fund modeling comes into play," Forman says.

While the specifics vary from product to product and company to company, the objective is to make data from disparate sources available for up-to-date analysis on demand and offer opportunities to alter the variables. In addition to off-the-shelf products from companies such as Resolve and Yardi, there are also in-house proprietary solutions in use at some firms.

It's faster to use investment management software than to pull data from traditional spreadsheets, industry experts agree. Software solutions are also likely to provide greater accuracy of information, they suggest. Since the systems pull data from multiple sources automatically, there are fewer opportunities for human error during the data input process.

Errors on manual entry spreadsheets are common, academic research shows. In a 2007 paper, for instance, Kenneth R. Baker, Stephen G. Powell and Barry Lawson of the Tuck School of Business at Dartmouth College, examined 25 spreadsheets provided by two consulting companies, a financial services firm, a manufacturing company, and an educational institute. They found 381 potential errors, 117 of which were confirmed as errors by the developers of the spreadsheets and about 60% of the confirmed errors had a quantitative impact on the spreadsheets' results.

The errors can be potentially staggering, such as Fannie Mae's \$1-billion-plus underestimate of total stockholder equity in 2003, the result of errors in a spreadsheet used in the implementation of a new accounting standard and a 1994 error at Fidelity Investments that occurred when an omitted minus sign turned a \$1.3-billion loss into a \$1.3-billion gain.

Last month, Stamford-based [Gartner Inc.](#), an information technology research and advisory company, warned that organizations expose themselves to significant risks by using spreadsheets to achieve performance management. "[Internet Technology] managers must understand the role of spreadsheets and plan how to embrace or replace them," it stated in a Sept. 23 report, *Embrace or Replace Your Spreadsheets for Performance Management*.

"Our sole focus is to produce solutions that real estate management firms need to maximize their holdings," Forman says. "We're taking those functions out of Excel, which is not a tool built for real estate analysis and investment, and moving them into an integrated solution that's customized for real estate investment." The tools give investment managers the ability to "slice and dice" data as desired, he says, and reassemble it into charts, graphs and other presentations.

Resolve has two key products: Portfolio Maximizer, which allows managers to try out different buying and selling scenarios and other "what-if" scenarios, and Request, a business-intelligence and integration platform that consolidates real estate data across all assets. Forman says clients are advisory and investment management firms, REIT's, life insurance, pension fund and banking institutions that collectively manage more than two billion square feet of real estate. The list includes Behringer Harvard, General Growth Properties, Glenborough, Kimco Realty Corp., LaSalle

Investment Management, Prudential Real Estate Investors, Principal Global Investors, State Street Bank and Trust and UBS.

Yardi offers an investment management product that also includes business intelligence, discounted cash flow modeling and valuation. The company says its clients include businesses, corporations and government agencies representing more than seven-billion sf of commercial space and eight-million residential units globally.

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For reprint information call 410-571-5893 or e-mail afaulkner@remedianetwork.com.