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The Struggle To Measure Key Risk Parameters

By Noreen Seebacher

Commercial real estate investment managers are struggling to reconcile demand for more information with their ability to measure key risk parameters as quickly as possible. That's the consensus of more than 50 representatives of investment management firms, REIT's and private equity firms who responded to a survey from Needham, MA-based [Resolve Technology](#).

"With the real estate sector bracing for further fallout from the economic downturn, investment managers are shifting their focus from managing growth to managing investment risk," says Resolve CEO Eric Forman.

The survey found demand for information is growing in response to the economic slowdown, with investors and internal decision makers exercising tighter controls. More than 80% of respondents rate the frequency of demands for reports and information as higher than a year ago. But many companies are struggling to measure some of the most requested risk parameters. Many perform key calculations on risks such as tenant exposure every three months or more.

More companies said they are required to include debt mark-to-market calculations in their financial reporting. But many acknowledge difficulties projecting future compliance with Loan-to-Value and Debt Coverage Service Ratios as property values and projected income continue to decline. More than 70% of respondents consider such ratios important to financial and operational decision making. But more than a third concede it can take days or weeks to calculate a portfolio's future DSCR--and nearly half take just as long to calculate future DSCR for an entire fund.

"With property values going down and some tenants defaulting on lease payments, debt ratios can quickly be out of compliance with loan terms," Forman says. About a third of the companies responding report they use what-if scenarios to evaluate debt strategies on a weekly or monthly basis. Another 41% perform the analysis quarterly and 22% perform it annually, at best.

Forman says the survey "demonstrates the struggles of the industry to keep up with the growing demand for timely information and the need for proactive, forward- looking risk management capabilities. Most companies still rely on custom-built Excel spreadsheets as the primary tool for measuring risk and running what-if scenarios. There is an urgent need for better information infrastructure and analysis tools across the industry."

Forman's comments are not exactly surprising, since Resolve markets a complex suite of investment management software. But a random survey of industry professionals concedes the assessment is accurate.

Sophisticated software can provide global, up-to-the-minute access to data "much faster because the data is integrated into a centralized system that allows you to search or research specific tenants or industries," says Eric Schultz, a portfolio management associate at LaSalle, a wholly owned but operationally independent division of [Jones Lang LaSalle Inc.](#)

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