

LAST WORD

Six Steps to Hold and Protect Your Assets

How to manage your commercial real estate portfolio through the downturn.

By Percy Pyne IV and Tobias König

Recently, several fund managers have asked a logical question, “What do I do if my investors, partners, or my banks urge me to liquidate my real estate portfolio?”

The fact is, under current market conditions, it may be impossible to dispose of good property at a reasonable price, or for any price for that matter. In such cases, as seasoned real estate investors and consultants, we advise fund managers and investors to protect their assets at all costs and wait for better times.

occupancy and rent growth. With that being the case, what do we suggest?

In short, put aside the rhetoric and deal with the reality at hand. Here are six strategic steps for holding and protecting your assets:

1 Build up your cash reserves. This can be accomplished in a few ways. For example, eliminate dividends and distributions; explore the possibilities for gaining additional equity capital from outside investors; defer capital improvement projects if possible; and monitor all operating expenses.

2 Inform your investors of the situation. Be completely transparent, get the correct information out and control the dialogue. The more disclosure you provide to your investors, the greater the level of comfort they will have.

3 Be proactive. Contact your lender and begin a non-confrontational dialogue. It’s certainly better to be upfront and cautious about the real-

ity of a situation instead of surprising your lender.

4 Know the rules. Understand the current REO (real estate owned) rules, as well as the way the Federal Deposit Insurance Corp. (FDIC) examiners currently audit loan categories.

5 Manage expectations and manage to the middle. The period 2004-2008 was an exception, if not an aberration, and not the mean. The last 10 years haven’t been a good benchmark for guiding management strategy.

6 Do not panic. Understand the situation and deal with the problems at hand. Make realistic business plans and conservative estimates of future

cash flows based on today’s markets, not yesterday’s excess.

It has been almost 20 years since we witnessed such a market catharsis. We are at one of those rare times in history when credit markets are frozen and investor confidence is at a low. Forced sales and resulting losses may be a self-fulfilling prophecy, but any well-informed investor, fund manager or financial institution should not settle for such an outcome.

Furthermore, it may well be that under current market conditions, many sales of real estate will result in losses.

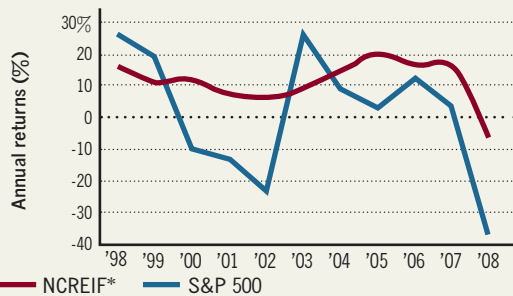
By accepting that premise, and realizing the cyclical nature of the commercial property industry, it will help all of us to gain the proper perspective on the past, present and future of the commercial real estate market.

As the market for U.S. property values trends downward, we predict that more foreign buyers will return to, and buy, this asset class because the United States is “oversold” in relation to other world commercial centers. We are seeing assets being traded below their replacement value. In fact, U.S. commercial property is considered to be a bargain by many foreign investors.

Just like the last two cycles, there will be many shrewd players who will gladly take your position and make a fortune. However, if you want to own a safe asset that will rise in value over time and with inflation, and where you can pay fixed debt with inflated dollars, then look carefully at commercial real estate for at least part of your portfolio. ■

COMPARING RETURNS

Real estate investments historically outperform traditional stocks and bonds, highlighting a need to protect hard assets.



*National Council of Real Estate Investment Fiduciaries
Source: The Pyne Cos. Ltd.

The basic tenet of macroeconomics is that supply does not create demand, so you should be prepared to hold.

First and foremost, there needs to be an understanding that commercial property is a resource, not a commodity. Additionally, good commercial property is a fixed, tangible asset that is hard to come by. And, when strategically purchased, good property that is properly financed and well managed will produce income.

We have to accept that for the foreseeable future we will not see the past years’ meteoric increases in value, unbridled liquidity in the financial markets, purchase and sales velocity, or

