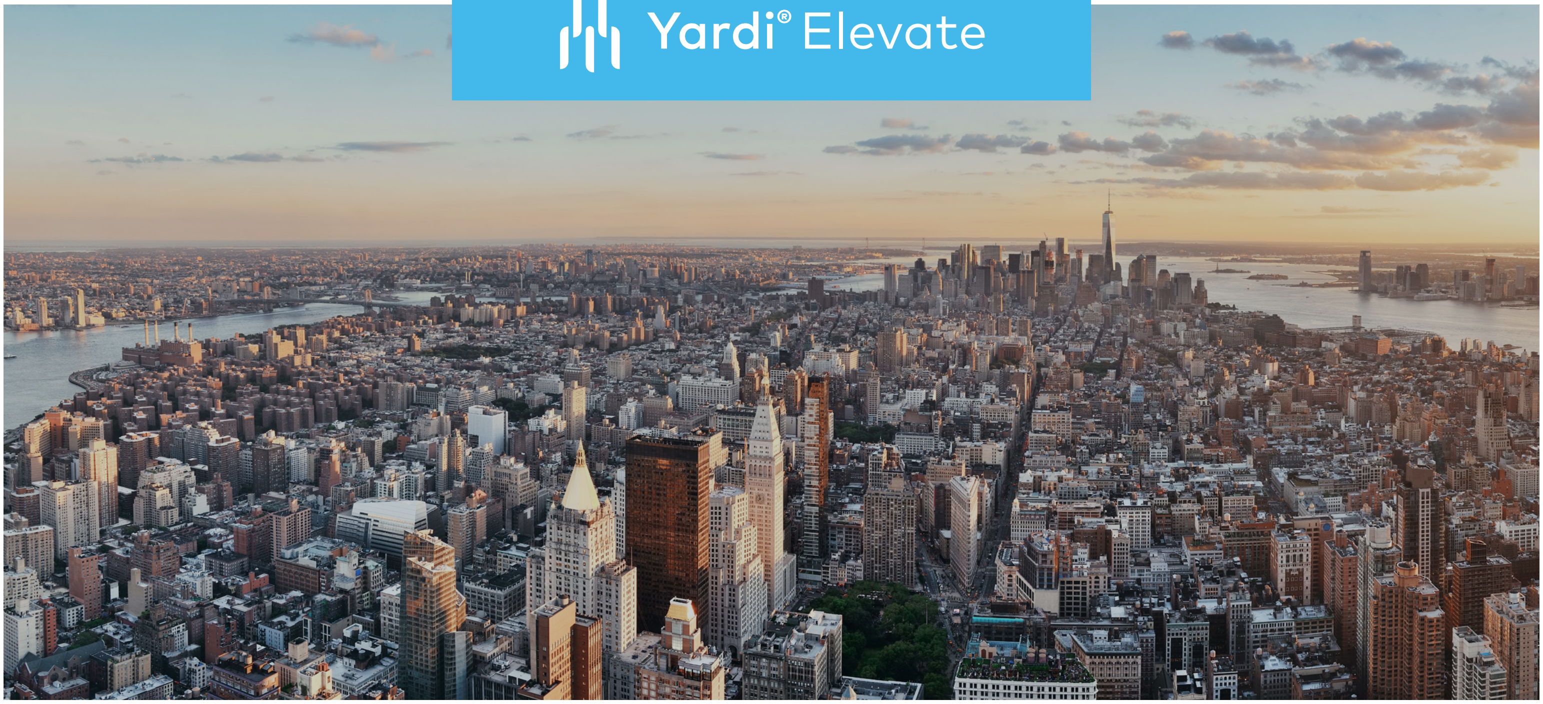


The Asset Manager's Guide to Better Deals

FEATURING INSIGHTS FROM

Rob Bridges, *Executive Managing Director*, **Transwestern**

Drew Genova, *Executive Managing Director*, **CBRE**

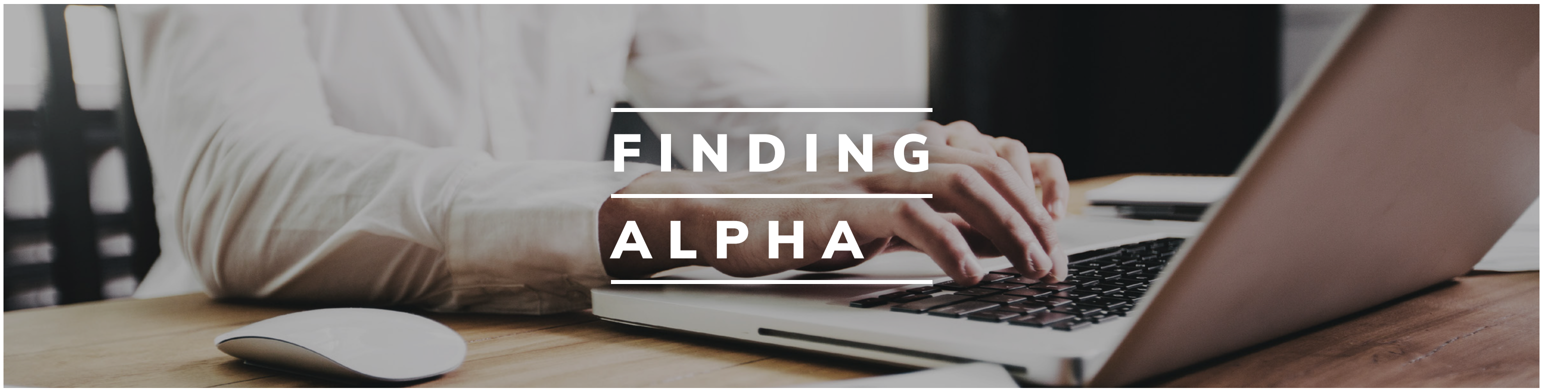
Mark Holoman, *Senior Vice President & Managing Director-Charlotte*, **Cousins Properties**

Karen Whitt, *CPM, RPA, CRE, President*, **US Investor Services, Colliers International**

Bryan Furze, *Vice President, Asset Management*, **Federal Realty Investment Trust**

INTRODUCTION

Commercial real estate is in the midst of a sea change that is reshaping the traditional roles of its specialties and its customers' needs. For asset managers in the office sector, emerging factors include demands for greater lease flexibility and for underwriting value against fluctuating short-term occupancy. In this climate, structuring the best possible deals requires a deep understanding of the trends and market dynamics that form the backdrop for every deal. With this in mind, we asked respected investors and asset managers to address the question: What are the best practices for doing better deals? What follows are some navigation markers for asset managers piloting new waters.



FINDING ALPHA

Meeting ownership's rising expectations in today's competitive environment is the asset manager's primary mission. Responsibilities range from day-to-day asset performance and management of third-party providers to ensuring future value and "finding alpha" – the ability to create an edge to beat the market. "Your asset's returns in comparison to your local market peers is the key," says CBRE's Drew Genova. "It all comes down to growing NOI."

Asset managers can achieve alpha through:

- Revenue growth
- Tenant retention
- Occupancy increase
- Tenant mix re-evaluation
- Operating expense reduction

To carry out these tactics, it is imperative to make the most of the abundant tools available to track building performance. Today's software "allows for the aggregation of data to help the asset manager make smarter decisions about choosing the right tenant and pricing the space to its maximum," Genova says. "It helps us use TI dollars more prudently and manage the capital spend to an ROC/ROI metric." Asset management has advanced beyond the use of software to merely "capture the age of an asset's operating systems," says Rob Bridges of Transwestern. "If you're not thinking about how to reposition the asset and building in appropriate capital structures to achieve those goals, you're missing out on opportunities to attract the right type of companies."

Moreover, occupants are looking for maximum convenience, an expectation driven by the instant access afforded by technology. "It is an unwritten expectation, in such subtle moves as situating the coffee shop between the garage and the building elevators," says Cousins' Mark Holoman. "Make such improvements well, and folks will renew." Though the capability of estimating future value is at a relatively early stage, that is likely to become a standard part of the asset manager's toolkit in the not-too-distant future. At one Cousins-owned property, the installation of new lights in a 2,000-space parking structure paid for itself in less than two years while also significantly improving the guest experience. "We couldn't do that without those analytical tools," Holoman noted.

TAKING ACTION

- Regularly review your analytical tools to make sure that you're using the products best suited to your portfolio.
- The volume of data available today is enormous. Use it strategically to gauge your assets' performance against comparable properties in your portfolio and those of your competitors.

BUILDING THE PERFECT LEASE

To win the war for talent, tenants are appealing to prospective team members by creating spaces that reflect the company's culture and mission. The traditional organizational hierarchy is giving way to open office layouts that are flexible in both design and lease terms. Bridges speculates that asset services will effectively morph into "a recruitment arm of your tenant." In this climate, a good lease can be defined by a combination of factors: terms, time to closing, the owner's hold strategy or other priorities. "All of those things can fluctuate," says Bridges. "In a soft market, you want speed to close. In a stronger market, you probably want upside in longer-term deals." Options are a particular tug-of-war. "Generically, landlords don't like options," says Bryan Furze of Federal Realty Trust. "It takes control away. But tenants always want more. It protects their future." As a general policy, Federal Realty avoids providing options beyond the lease term.

Up for Grabs in Lease Negotiations*:

- Renewal & Extension Options
- Right to Assignment and Sublease
- Termination, Expansion & Contraction Options
- Flexible Office/Alternative Work Strategies

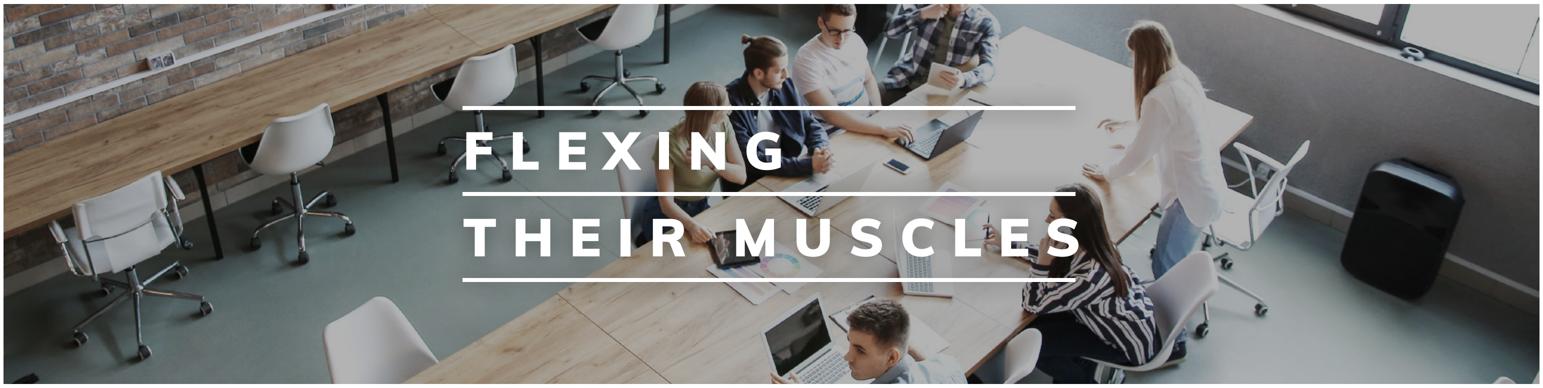
Another challenge is the frequent disconnect between an increasingly younger pool of office workers and the nation's aging office building stock. "Nearly 85 percent of all U.S. buildings are 30-plus years old," says Bridges, "and in the next five years, 70 percent of all building occupants will be Millennials. That's a huge delta."

Major retrofits are often required to accommodate the younger customer base, but those makeovers can carry sand traps. "If you overspend on TI dollars when you're pursuing a tenant, you're diluting the value of the real estate, because it directly impacts NOI," says Genova. "The same is true if you mismanage the capital spend, which could be extremely damaging to returns." That, he says, could punch a hole in ownership's standing in the funds market.

TAKING ACTION

In planning capital spend, rigorously evaluate the impact of changing demographics and customer expectations.

* *From the Tenant Advisor* http://www.coydavidson.com/leasing-tips/how-to-structure-a-more-flexible-office-lease/



The 10- or 15-year lease isn't going away, but leases that take potential expansion and contraction into account are priorities for startups and other occupants that must manage their footprints against market fluctuations. A major factor is coworking, which JLL reports has grown at an annual average rate of 23 percent since 2010. Landlords that grasp this trend are partnering with shared-space providers to meet their customers' needs for flexibility. It's part of an overall tenant-retention strategy, according to Yardi Kube, a coworking technology platform from Yardi. "By embracing coworking and following the trends of collaboration, innovation and technological integration, your space becomes more competitive. ... Simply put, fostering your network and community is as important as your interior design, furniture and décor."

TAKING ACTION

Identify your coworking sweet spot. CBRE estimates that a good rule of thumb is to dedicate 20 to 30 percent of an office property's leasable space to coworking.

WHAT'S NEXT?

With an estimated $5 billion in venture capital raised last year, new proptech tech players are swarming CRE. "There's a lot of noise out there," Furze says. Identifying underwritable programs is an exercise in creating strong partnerships. But that's all part of the effort to address a new age of demand.

TAKING ACTION

Separating the wheat from the techno-chaff is a challenge. In making the critical choice of analytical software products, do your due diligence, talk to other professionals and align yourself with a trusted provider.

Contact us to get a personalized demo on how to close better deals, faster, with Yardi® Deal Manager.

Yardi.com | sales@yardi.com or (800) 866-1144