KEYNOTE INTERVIEW

How to improve visibility into real estate debt

Technology can help real estate lenders and borrowers gain transparency and mitigate risks in loan management, say Chris Barbier and Alex Droste

Debt is growing as an asset class, and real estate borrowers try to avoid breaching covenants amid challenging times. That has driven a significant increase in the need for data reporting in the debt space. Chris Barbier, investment management industry principal for investment and property management software provider Yardi, and Alex Droste, global real estate platform leader for fund and corporate services provider Alter Domus, discuss technology's role in managing the process efficiently.

Q What are the main trends in the real estate debt market?

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Chris Barbier: Borrowers want more transparency in their lender requirements and deeper understanding of what's happening with their debt, how underlying collateral assets impact covenants with their lenders, and the impact of forecasts and rents.

Covenant tracking is a big trend now. On the borrower side, the emphasis is on transparency and getting insight into debt portfolios.

Something we saw among our clients before the pandemic, and are seeing again now, is taking the debt position in real estate as an investment. That includes doing deals through a fund, syndication or other structures to invest in real estate debt. And now those investors are facing the challenge of managing the accounting efficiently, in some cases all the way to billing and collecting from borrowers.

Alex Droste: Alter Domus focuses mainly on the lender's perspective. The primary trend we see involves increased data reporting and data transparency.

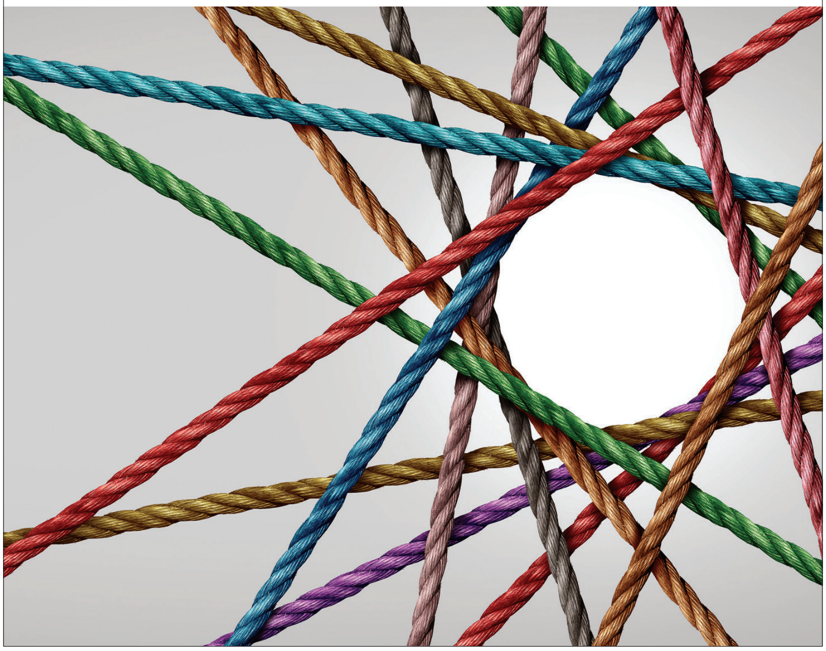
We're regularly being asked to not only do the servicing and administration on loans issued by a debt fund – along with accounting for syndicated lenders in the loans alongside the fund

Case study: Complete investment management from a single system

Using Yardi investment management software solutions, fund servicer Alter Domus brought into a single system what a global debt manager client previously did through disparate systems, including loan servicing, accounting, and reporting.

"We were able to convert a complex debt fund and loan structure with almost 1,000 investors from the client's in-house platform to a single connected solution," says Alex Droste of Alter Domus.

"Combining the Yardi technology solution with the services of Alter Domus helped the client provide transparency their investors needed on a timely basis."



that issued the loan – but also to provide performance monitoring on the underlying collateral. How do you put all of this into a single source of truth? That question brings advanced technology solutions into play.

We sought a system to service the loans, roll that information up into a general ledger and consolidate it for reporting at the fund and investor level. We also wanted a general ledger for the underlying real estate assets so we could calculate the performance of the asset that accepted the capital.

Q What are the shortcomings of the solutions that many debt investors currently use to manage their loans?

CB: From our perspective, most organizations are utilizing spreadsheets which can be cumbersome and error-prone.

AD: We see the same thing. If we're bringing in a new client with a fresh build, obviously we can try to get them into a single system environment on our side. But many times, when we do

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CHRIS BARBIER

any kind of portfolio takeover for administration services, we see the same problem that Chris mentioned.

Sometimes there's a system in place to do the loan calculations and loan servicing. But then there's another system in place to do the accounting, with spreadsheets relied on to bring everything together.

CB: I think the main concern is accuracy. You get one cell with the wrong formula or something like that and the calculations become inaccurate. But there's also infinite flexibility with spreadsheets, which is why a lot of people like them. They allow investment managers to track things the way they want to. But as the volume of the loan portfolio grows, so does the risk.

AD: Risk mitigation becomes the rationale for implementing a single system that lets you do all the loan servicing and loan calculations, and then roll that data up into a general ledger, eliminating rounding errors and other potential outages.

CB: If you've got an operating property – which is usually the collateral for the loan in a system – and then you've got loans being tracked somewhere else, the two processes are not aligned. A more tightly integrated solution allows for better transparency and risk management.

Q How can an advanced investment management technology platform help investors manage their portfolios?

CB: It provides a single source of truth. That means transparency from the investment to how the loan and underlying collateral are performing.

AD: That's exactly right. As a service provider, if we didn't have the single source of truth for the entire investment structure then data integrity and efficiency losses would be a huge concern for us. Once you start having to roll forward countless spreadsheets in multiple systems to track certain data points, the reconciliation process becomes very difficult to manage.

Today, a lot of investors, especially on the institutional front, want a technology platform that gives them full drilldown to the fund and then the underlying assets.

They also want a view of any costs at SPVs in the middle, or if any other investors are coming in at a lower level within the structure. That all needs to be shown to these investors. So, they're really looking for a vertically integrated system that captures all the elements of the structure.

CB: It's all about transparency. Real estate has historically been an industry focused on reporting and analyzing what has happened. That's important but so is looking into the future.

By operating assets and managing debt on the same connected solution, organizations can leverage current operational budgets and forecasts and see the impact on their debt covenants.

Q What other technology tools are becoming important?

AD: Another key trend is a desire by our clients and their clients – the investors and their funds – for more self-service tools. As we provide enhanced visibility and the ability to look both backward and forward within all of the assets that we're servicing for our clients, they want to be able to access all of this data on their own.

In real estate in general, whether it's debt or equity, the fastest moving piece of innovation is going to be portals that offer visibility into the data and on-demand data access from any device. ■

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>
> **ALEX DROSTE**