MANAGING tenant risk *in* dynamic *markets*

Tenant risk can be understood and managed by having systems and processes to collect and analyze data.

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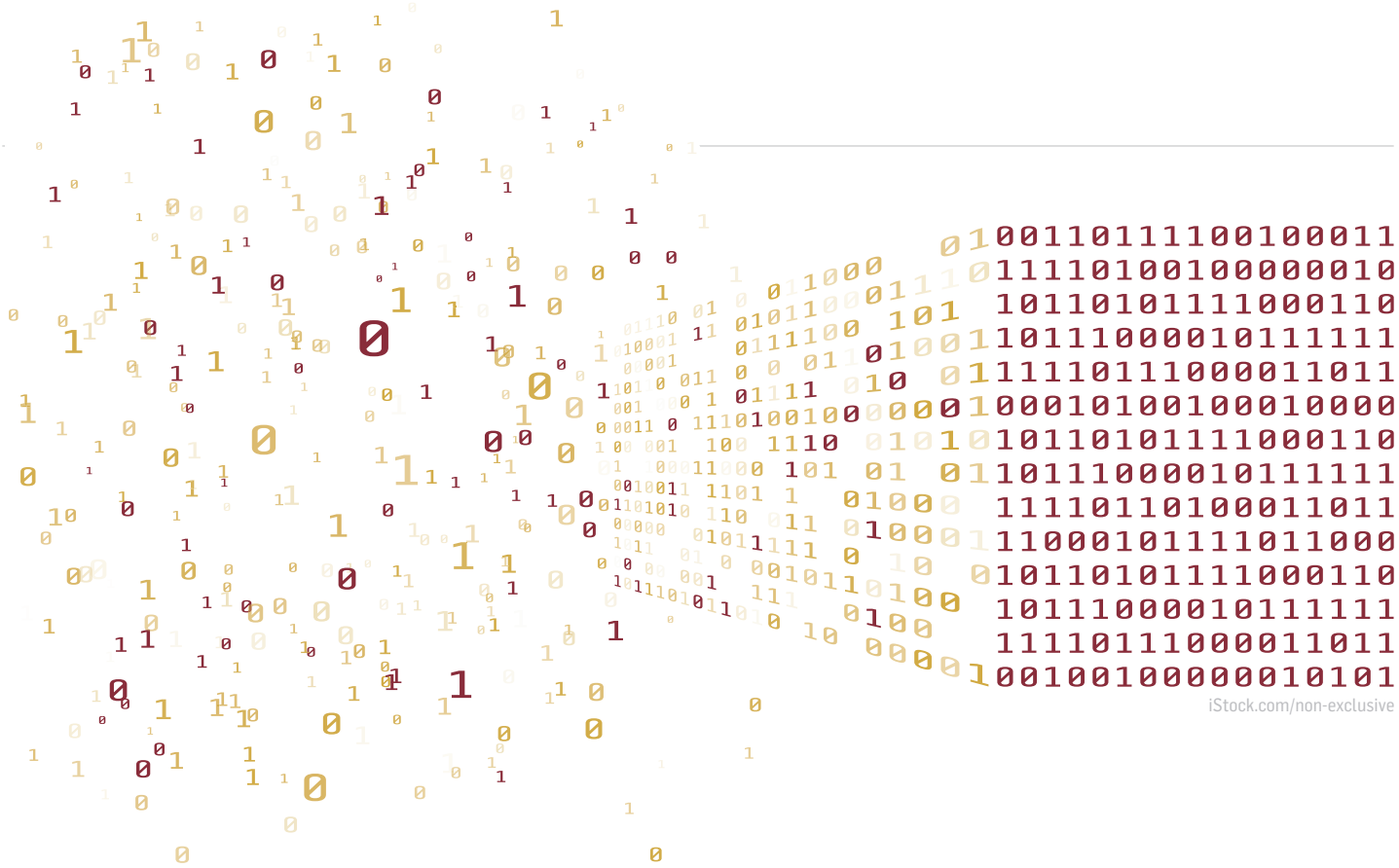
Understanding exposures and managing risk is at the core of what investors do. For real estate investors, the stability of their tenant bases is an important measure in judging portfolio health.

The current market, however, is unique in the extent to which tenant status has been shaken up. More than ever, information on tenant exposure across portfolios, financial risk of the underlying companies and the corresponding ability to get paid are central to the day-to-day operations of investment management firms and their investors.

A challenge to working with good tenant data is that managers must harvest it from a diverse and sometimes complex portfolio that spans multiple property types in multiple regions. For most, this still means dozens of hours consolidating, validating and aggregating the data into a useful format that can be stored in a single repository.



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The data spread across a real estate organization generally comes from disparate systems including ERPs, property management systems and Excel spreadsheets. This data generally isn't standardized in a consistent format, meaning someone has to normalize it to make it usable. And while investment managers are scrambling to transform the data into actionable information, their investors are seeking to mitigate risks across their portfolios before they become reality.

Having systems and processes in place to collect, aggregate and normalize data in a single and easily accessible location is the fastest and easiest way to leverage the data and be proactive instead of reactive.

The numbers that matter

Traditionally, risk management in real estate has involved looking at tenants, expertise and credit ratings. But the Covid-19 pandemic has changed how risk is managed across the portfolio. Stay-at-home orders, travel restrictions and government subsidies have modified the universe of data essential for managing risk.

Today's essential data points include:

- ***Tenant industry classification.*** Grouping tenants by classification allows investors and managers to understand exposure by segment. For example, bars, restaurants, movie theaters and other retail businesses have been shuttered or compromised due to the pandemic.
- ***Tenant credit rating.*** While individual credit ratings are important, understanding credit trends across industry classifications allows managers to work with larger datasets to gain a richer understanding of risk.
- ***Government subsidies.*** Federal, state and local governments are offering significant subsidies and loans to all businesses in an effort to limit bankruptcies and keep unemployment low. Understanding which tenants are receiving government subsidies, and which are not, can help predict which firms may be under the most pressure when these subsidies end.
- ***Options and break clauses.*** Understanding which of your tenants has the ability to either not

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- ***Receivables.*** Understanding which tenants are paying and which tenants are delinquent is central to asset and risk management. Aged receivables reporting across individual properties, portfolios and industry classifications, when married with market data, enables asset managers and investors to understand which companies are most at risk and which properties need the most attention.

Now that you know what data to collect, the question becomes how to collect it and where to store it so it can be analyzed. While the industry relies heavily on Excel, there are other tools and systems that make data aggregation and analysis easier and more reliable. While certainly not a requirement for understanding and managing tenant risk in your portfolio, leveraging a system that incorporates data governance, data validations and embedded analytics enables managers to curate data, develop complex risk management models and store that information to be used in the future. While the platforms are complex, the implementations do not need to overwhelm an organization.

Putting a platform in place

Where do you start with a project like this? Here are some pointers:

- First, ***don't boil the ocean***. Data management initiatives are large, transformative projects. Creating reasonable scope with the right partners is critical.
- ***Enlist the executive team.*** Having senior leadership support will help drive adoption; adoption is key.

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- ***Identify specific business challenges you are trying to address; don't leave your goals vague.*** Documenting the business issues, challenges and gaps will help to ensure your data project is on-task and will deliver for the enterprise.
- ***Understand your constraints.*** Every organization is different, but almost all will have constraints on personnel. Obstacles might include the bustling quarter-end for the finance team or a parallel project the IT team is working on. Knowing and documenting these constraints at the beginning will allow you to build realistic plans.
- ***Understand your data requirements.*** This is arguably the most important step. We like to either build out or enhance a 'data dictionary.' The data dictionary is the fabric or DNA of your entire organization. It ensures that everyone is looking at your data the same way.
- ***Understand your outputs.*** What do you intend to *do* with your data? This step usually identifies some missing data points you can layer back into your data requirements.

Once you have pinned down your objectives and understood what data you need to collect and how you would use it, you can start to layer in systems and processes, and begin to build realistic project plans, timelines and expectations for delivery.

After the storm

Now that you understand your tenants and their risk to your portfolio performance, you need to capitalize on this knowledge. The result will be that your organization is better informed and better prepared to weather not just the current crisis, but future ones as well. Your team will become more proactive in protecting existing assets and better positioned to execute on accretive transactions. I firmly believe that this distinction will become a defining factor in determining which real estate investment managers experience the most success in attracting investors over the coming months and years.

Having all your data in one place, easily accessible and in the forms various stakeholders need, will reduce response times, increase accuracy and free up your people to focus on decisions that help the bottom line. Instead of wrangling data, asset managers can focus on pinpointing opportunities for improvement and addressing issues before they become problems. ◆

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