GE Capital
Real Estate

Back to Basics to Stay Strong In Commercial Real Estate

Protecting assets, adapting to a new partnership climate and engaging the government key to success

By Ron Pressman

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To succeed in this real estate market, investors and managers need a new kind of toolbox. While financial implements are still critical, more traditional tools of the trade, a hammer, paintbrush and the number of a good plumber, for example, have joined them.

As the industry experiences one of the worst downturns in decades, real estate investors and managers are reconsidering strategies for success. Many of them have embraced a back-to-basics approach that provides a path for staying strong in a difficult economy. A key part of that approach: actively maintaining their properties.

Gone are the days when making a profit in real estate involved a financial transaction and little else. Now, in an effort to remain viable, real estate professionals are focusing on 1) protecting and enhancing the value of their assets; 2) adapting to a changed investment climate; and 3) reallocating precious resources.

And despite the rough sledding, there is a good likelihood that these strategies, taken together, will yield success. To be sure, a meaningful recovery is not imminent. But there is a growing list of companies lining up to take advantage of the recovery when it occurs, giving perhaps the first indication that a slow turnaround may be beginning, at least in some sectors.

Generating Value through Maintenance, Management and Realigning Resources

This current approach is based, in part, on the value of the properties themselves. This cycle differs from prior ones in that a severe lack of liquidity has made it very difficult to sell. The only way to generate value, therefore, is to preserve the value of the portfolio, minimize loss and outperform on a management level.

For those reasons, savvy investors, landlords and managers are more proactive than ever, with the goal of avoiding negative absorption. Depending on the situation, managers may offer new lease terms to existing tenants, actively solicit new ones, and anticipate and address any physical issues, from lighting to elevators to cleanliness.
In fact, though it may seem counterintuitive in a time of stretched budgets, there is a renewed emphasis on capital expenditures, with tenants being attracted to buildings that can offer tenant improvements.

As it turns out, the financial pressure felt by many commercial real estate investors impacts them very differently. For example, highly leveraged organizations find it much harder to come up with the tenant improvement dollars required to attract tenants. Others, however, find that conservative decisions made in the past leaves them in a position to maintain and improve their properties, thereby retaining and even attracting tenants, even in this difficult market. And, the cash flow this eventually generates translates directly into property value.

Organizations are also adapting by becoming more flexible and realigning their resources. For example, they are shifting people from less-active areas, such as origination and deals, to asset-management positions that have an immediate impact.

The Quest for Proven Partnerships

Equally important, the back-to-basics approach is being seen in a much-altered investment client. Driving the changes are both the experiences of investors – many of whom incurred losses in general real estate and private equity funds – and a critical lack of capital. Taken together, this means investors are being much more careful, opting to invest in groups rather than as single entities.

Many are also more hands-on, personally evaluating and scrutinizing opportunities rather than having fund managers direct their investments.

Overall, the marketplace is characterized by a more disciplined approach and stricter underwriting practices. This is in marked contrast to the past several years, when an apparent limitless supply of capital drove some investors to continue doing deals, despite dropping returns.

Another shift involves the types of partners investors are seeking. They're now looking for partners who have the ability to protect, manage and improve an asset as the need arises. That could mean finding tenants or more effective marketing, for example. Moreover, investors are seeking partners with proven track records and deep expertise. There is a growing understanding in the industry that many financial players simply don't have the knowledge and experience to proactively manage properties with their myriad needs.

As the market roil continues, it's important to remember there is a way to stay strong and position one's assets and financial profile for future success. Combining a back-to-basics approach and adapting to changed market and investment conditions can help make this cycle a catalyst for growth and create a more sound foundation for the future.

GE's Approach

At GE our approach has always been, well, "basic." GE Capital Real Estate's prudent investment philosophy, risk management and depth of industry knowledge have helped us adjust to market transitions in the past. Having overcome previous downturns, we know these simple strategies will work again.

Our path is clear. In line with the views expressed here, our first objective is to manage our property portfolio for the greatest value. Second, we focus on managing the profitability of our real estate lending business. Finally, as a real estate operator, we are leveraging the opportunity we see in working with institutional investors to create partnerships that give them access to our operating experience. In this way, we hope to stay strong and position ourselves for a brighter tomorrow.

Ron Pressman is President and Chief Executive Officer of GE Capital Real Estate, one of the world's largest and most diversified commercial real estate finance and investment firms, with 1,500 professionals in 31 markets globally.