

# Renovating Real Estate Assets



Steve Sadler from Real Estate Value Advisors, a service provider at the **marcusevans Alternative Investments North America Summit Fall 2010**, shares strategies for increasing real estate investment performance.

Interview with: Steve Sadler, Managing Director, Real Estate Value Advisors

## FOR IMMEDIATE RELEASE

The performance of real estate **investments** is strongly related to the effectiveness of your operating partners, according to Steve Sadler, Managing Director at Real Estate Value Advisors. Investors should make certain that their interests are aligned with that of third party administrators. From a service provider company at the **marcusevans Alternative Investments North America Summit Fall 2010** taking place in Las Vegas, October 14-16, Sadler highlights the aspects of real estate investments that should be focused upon, and discusses how to turn around stressed or troubled **real estate** assets.

### How can real estate investors increase the return on investment of their properties?

Steve Sadler: The good news is that improving performance is not complicated. The bad news is that the work required is largely of the 'unglamorous' type. We call it 'shoe leather and elbow grease'; somebody has to show up every day willing to work in the trenches. Third party operators of commercial real estate properties have often failed to focus consistently on the fundamentals of delivering good value to the owners by serving the tenants in a 'Systematically Proactive™' way.

What we have seen is lackluster operations all over the country exacerbating the value decline that was driven by the credit crunch, banking crisis and the overall economic slowdown. Institutional investors in real estate should fix the operating component of their properties. It requires them to spend more time on the operating elements, the blocking and the tackling of running a property. Unfortunately, third party administrators whether they are large national firms or smaller regional firms, do not necessarily have their interests aligned with the owners of the property.

Investors need to understand what is going on at the fundamental level; pay attention to implementing the processes and procedures to ensure the strategic and investment priorities of the owner are of paramount importance to the third party administrator. It boils down to realizing what you are trying to achieve at the investment level, and making certain there is an alignment of interest in the contract with the administrators.

### What are your tips for acquiring real estate with value from day one?

Steve Sadler: The key to good acquisition in real estate is to first consider what your priorities are. Cash flow is absolutely the most central component to making a good real estate acquisition.

From my perspective, the first thing to focus on is the quality of cash flow at the property. And secondly, what practical changes or actions can be taken to improve that cash flow and at what cost. I always counsel investors to carefully underwrite the properties based on cash flows and market dynamics, not just a market of a metropolitan area but within the actual sub-market where the investment is taking place. And then be sure that you do not overpay. Overpaying on the front end makes it brutally difficult to have a good long-term investment outcome. We seek to buy at good prices upfront but then also to apply 'Systematically Proactive™' operating and **asset management** regimens to drive additional value by improving cash flow in property.

### How can investors turn around stressed or troubled real estate assets?

Steve Sadler: The essential element to turning around a troubled asset is to understand what the issues are. In many cases, we see a fundamentally sound real estate, a well located and constructed property, but perhaps ownership has taken their eye off the ball and not served the tenants well. When the market is strong and the economy growing, some of these trends are easy to forgive because the actual performance does not show that you have missed, that you have failed to serve your tenants well. It is only when the market slows down that the mistakes come back to bite you and those properties with good administrators continue to prosper. There are buildings with 98 per cent occupancy rates across the street from properties that are 40 per cent vacant. The market is bifurcating, the financial performance of those two properties is dramatically different and good owners/managers will continue to benefit.

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For us, a 'Systematically Proactive™' management of property is a central element. It amounts to a very rigorous oversight of all third party providers, making sure all goals and objectives are clearly articulated and holding them accountable on a daily or weekly basis. The building might require some renovation to increase the appeal of the property to prospective tenants, but that kind of capital improvement in many cases can be inexpensive and relatively strategic, and will yield a fabulous result in the look and feel of the building. A little creativity and elbow grease can go a long way to changing momentum.

#### What is your outlook on the real estate investment market?

Steve Sadler: We see many buying opportunities in the market today. The commercial real estate sector has taken a beating in terms of valuation,

but over the next three years, we believe that there will be significant returns for new investments. Having said that, we are also troubled by the lack of expertise that many of the owners and operators are displaying. Achieving great investment returns is not automatic! We consider that the opportunities are strongly related to who the operating partners are. It is very easy to buy a beautiful building that has been well run, invest a lot of money, hire the wrong partners, run the property poorly and find that you are losing money where others had made money before.

We would encourage investors to pick their asset classes carefully, develop their own expertise as an investor, stick to what they know best, hire excellent partners and watch them carefully - then their real estate investments will deliver superb results.

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#### About the Alternative Investments North America Summit Fall 2010

This unique forum will take place at Red Rock Casino Resort & Spa, Las Vegas, Nevada, October 14-16, 2010. Offering much more than any conference, exhibition or trade show, this exclusive meeting will bring together esteemed industry thought leaders and service providers to a highly focused and interactive networking event. The summit includes presentations on infrastructure investing, real estate, distressed investing, hedge funds and risk management.

For more information please send an email to [info@marcusevanscy.com](mailto:info@marcusevanscy.com) or visit the event website at [www.alternativeinvestmentssummit.com](http://www.alternativeinvestmentssummit.com)

Please note that the summit is a closed business event and the number of participants strictly limited.

#### About **marcus evans** Summits

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