



## CASE STUDY: TURNAROUND and STABILIZATION of a DBSI PROPERTY

**Background:** The owners of this 300,000 square foot office building were faced with numerous issues as the asset was swept up in and emerging from the DBSI bankruptcy. The real estate fundamentals of the Property were sound, but operations had deteriorated over the last 12 months leaving a myriad of concerns and the possibility of a ‘death spiral’ taking hold:

- Significant deferred maintenance including roof and HVAC
- Inattentive property management and leasing
- Substantial near term lease roll-over
- Two tenants where DBSI left large un-reimbursed Tenant Improvement bills
- Reserves stripped from the property
- Loan in technical default due to DBSI bankruptcy
- Loan maturity in 2010 creates refinance concerns
- Sagging demand in office market

### FIRST STEP:

Real Estate Value Advisors, LLC took the assignment based on a ‘voice vote’ of the TIC owners and began work immediately through our REVA Management Advisors, LLC subsidiary without compensation (collectively REVA). Senior members of the team were dispatched within 48 hours to walk the property, interview leasing agents and property managers as well as visit with tenants and tour the neighboring office buildings. The objective was to rapidly develop a tactical plan (sample attached) and approach to deliver maximum impact to stabilize the property. This

step has to be achieved in the shortest amount of time while utilizing capital as efficiently as possible.

### APPROACH:

REVA has been doing this for years with excellent results. Our first priority was to correctly diagnose the property’s ills and bring it into our proprietary Systematically Proactive™ asset management system. We needed to develop a triage plan as well as an operating plan. Both plans must address the needs of key stakeholders....so, step one is identify the players and their respective needs:

- TIC owners
- Property manager/Leasing
- Lender
- Municipality (zoning, codes, fire department, tax authority, etc)
- Tenants
- Legal counsel
- Vendors

Next we built a plan based on a strong and decisive presence of the REVA team where our experience and track record, combined with our aggressive approach, allowed us to build good relationships and credibility very quickly.

Our tactical approach was rapidly developed and communicated in writing as well as with conference calls and personal meetings to accurately identify key issues. With open communication and knowledgeable personnel we were able to reassure the key players thereby allowing REVA to take rapid action and deliver tangible results.

- **TIC owners** - need to have issues clearly communicated, path to victory articulated
- **Lender** – wants to know someone is actively preserving the value of the asset
- **Tenants** – need to see action on the ground that demonstrate owner investment
- **Vendors** – need to be reassured and paid
- **Property Manager/Leasing** – need clear direction, confidence and some good news to share
- **Municipality** (zoning, codes, tax authority) – want to know issues will be resolved by a responsible owner
- **Legal counsel** – need clear direction and to be reigned in from business activities and confined to purely legal issues

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Communication of the plan with the most critical audience was undertaken immediately. REVA's emphasis was on two targets, Lenders and Tenants.

**LENDER** - we bypassed all the lawyers (with their knowledge) and went directly to the business people at each lender. REVA conducted personal, face to face meetings and shared our philosophy, track record and plan with the lenders. The critical objective was to gain the credibility and 'buy-in' needed to allow us to operate the property aggressively.

**TENANTS** - here the mission was a bit different. Given the deterioration of services, the deferred maintenance and the large unreimbursed TI expenses, REVA was focused on listening to concerns and issues and outlining our plans to give the tenants hope and a reason to bear with us. Our objective was to gain their confidence and buy-in and to have them give us a chance to perform. We also outlined our philosophy of fair dealing and began working to negotiate resolution to the TI expense problem.

Second on our list of crucial meetings were the Property Manager and Leasing Agents. Here we needed to build our knowledge base of property operations, gain insight into challenges and re-build the enthusiasm of the on-site personnel. We met with these folks personally, took them to lunch and sold them hard on our ability, with their help, to pull the Property out of a nosedive.

**PROPERTY MANAGER** – these folks had been beat up pretty badly. Confused, unhappy tenants; unpaid

vendors; angry TIC owners; all combined with the fact that they weren't getting paid meant we had some work to do. Our objective was to re-ignite enthusiasm ASAP and get the property on the path to recovery with upbeat and optimistic personnel. Clear communication of a good plan with good materials for delivery to vendors and tenants goes a long way.

**LEASING AGENT** – here we wanted to confirm our understanding of the market dynamic and the past leasing efforts. We expressed our plan of action and sought input on where efforts should be focused to jump start leasing. Clear communication of priorities was paramount and implementing an aggressive system of support for leasing as well as reporting and accountability were essential to achieving results. REVA's rapid responses to all inquiries and flexible, crisp decision making helped establish the confidence and credibility needed to restore the property's position in the market.

Finally we worked on various vendor and municipality issues to be certain, with the input of our on-site personnel, that we understood the nature of the concerns and developed an appropriate plan of action.

**VENDORS** – communicated with vendors to clarify outstanding invoices and ascertain who was responsible. The key was to know which vendors were irreplaceable and which should be kicked to the curb. The ultimate objective was to reward those that had been loyal and had done a good job while re-bidding

the work wherever possible to reduce operating expenses and improve the bottom line.

**MUNICIPALITY** – opened a dialog to be certain taxes were paid and property was in compliance with codes, zoning, etc.

**LAWYERS** – we took the reins and immediately sought to minimize attorney involvement in business negotiations. REVA took over all tenant issues, lender issues and vendor issues retaining control and only calling upon the attorneys when absolutely required. This helped speed practical solutions and removed a huge expense load from the property.



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### RESULTS:

As of this writing, the property is performing well, meeting debt service obligations and all operating expenses while throwing off sufficient additional cash flow to address deferred maintenance and eventually to build up depleted reserves. REVA has successfully navigated the lender relationship and achieved an excellent working relationship that has allowed significant freedom in operations and decision making.

REVA has successfully implemented numerous high impact and highly visible property improvements at moderate cost in an effort to visibly demonstrate a change in ownership and philosophy. Projects accomplished in the first 90 days include: new landscaping materials outside the property, complete redesign and replacement of interior plantscapes, refurbished elevator cabs paneling and flooring, upgrades of HVAC system to improve efficiency and tenant comfort, curb and sidewalk repairs, paint and carpet for certain vacancies to accelerate leasing.

The reinvigoration of property management and leasing staff has been remarkable. We have reaped great rewards on our investments, delivered a tangible sign of the turnaround that has helped REVA develop significant positive momentum in tenant satisfaction and leasing. We have been able to successfully negotiate the renewal of three existing tenants and conserve capital by incurring zero tenant improvement costs. REVA has successfully negotiated the expansion of a current tenant by 20,000sf and an extension to a 15 year lease while preserving capital with a tenant funded build out of the space. We

have signed a lease with one new tenant and have two others in process.

We have nearly completed negotiations with one of the large tenants to eliminate a \$400,000 +/- TI bill left by DBSI and extend the tenant for an additional two years in lease term. The only element that is not yet fully satisfying is our negotiations with a second tenant where DBSI left a \$1,000,000 +/- TI bill unpaid. In this case we are currently at an impasse and are evaluating various options with the overall objective of a fair and reasonable solution that preserves a good relationship and allows the property owners to benefit in the long term.

### LESSONS:

Time is critical - This property is already well on the road to recovery because aggressive and proactive action was taken. REVA has delivered tremendous value in the form of new leases worth over \$12,000,000 while minimizing capital outlay to preserve the property's ability to weather this storm. It is essential that someone be in charge and take a personal interest in solving problems, invigorating staff and protecting the lender and the owners respective investments. Failure to act could doom the property to an accelerating death spiral.

Creativity counts – A less seasoned and entrepreneurial asset manager could have looked at the complete lack of reserves at this property and decided leasing would be hopeless. REVA did just the opposite and offered prospective tenants the option of a full landlord build out along with a compelling alternative that limited capital needs....and

they took it. We also met in person with the prospective tenants and the leasing agents, demonstrating a high level of involvement and commitment to the process. Responsiveness in turning proposals around in 24 hours or less helped evidence our seriousness and emphasize the importance of each deal.

Experience matters – our team has been down these paths many times. We know the language and the landmarks, which allow us to navigate to a successful conclusion more often than not. If you have a property that is in jeopardy, whether from a lender that is threatening or tenants that are leaving....the last thing you want to be doing is providing on the job training to a novice asset manager. All the counterparts whose confidence you must have to succeed will be reassured by REVA's seasoned, experienced team and track record of success.

Think like an owner – REVA has an owner-centric culture and we routinely implement decisions that save our clients and their properties hundreds of thousands of dollars. In the 15 year lease mentioned above, we negotiated a commission reduction that saved the property nearly \$200,000. Our efforts to re-bid and reevaluate various vendors and property operations will save the property at least \$150,000 every year and that income drops to the bottom line adding about \$1,500,000 in value upon sale. Little things make a huge difference and behaving like an owner is the key to long term success.