

HOW REAL ESTATE COMPANIES ARE USING DATA ANALYTICS

Using Data Analytics and Scenario Planning to Assess and Address Real Estate Portfolio, Property, and Tenant Health

These are trying times for real estate investors, landlords, and tenants alike. The COVID-19 pandemic has undoubtedly introduced financial stress to all, but from many different perspectives.

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COVID-19 is having negative impacts across industries and affecting almost every organization. Businesses are under tremendous stress, especially retail tenants, who this time may not escape through the bankruptcy route. Companies that take bold actions now to address their reduced demand for space, with a focus on implementing a real estate strategy that drives location closures, consolidations, and reduced footprint, will gain a competitive advantage and accelerate chances for recovery.



ROSS FORMAN

BDO Managing Director, Strategy & Operations, Corporate Real Estate Advisory Services

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Prioritizing a real estate portfolio strategy that addresses a justification for the need of space is a hot-button item every company will be facing. If productivity and engagement have been effective in the current state, then this is the time to completely reevaluate the footprint and determine how much space is actually needed. Why make investments in current locations in order to “coronavirus proof” them, if the location or amount of space is truly not needed? Specific actions may include:



Ensuring complete transparency and understanding of the organization's portfolio, including total occupancy costs, size, location, and previous utilization.



Scenario planning options to understand the impacts if a location is closed or consolidated.



Evaluating costs to implement versus total savings.



Considering a balance of hub, flex space and work-from-home strategies.



RETAIL AND COMMERCIAL TENANTS

Commercial and retail landlords alike have tenants struggling or even refusing to pay their rent. Retail giants argue government shut-in mandates prevent them from running a profitable business when deemed non-essential. Small businesses and restaurants have adjusted by offering alternatives to standard business models, such as offering curb-side pickup and alternative packaging options.

Restructuring existing leases needs to be a two-way street in order to maintain a working landlord-tenant relationship. Negotiating rent abatements, back-end lease extensions, or temporary rate reductions can offer relief during a pandemic that could result in unpredictable revenue and expense streams.

Additionally, landlords and tenants must reconsider what the new office/retail store is going to look like. The new office reality, in one sense, could result in less office space as the pandemic has pushed the work-from-home concept to the forefront. However, certain landlords are of the belief that space requests by tenants might increase as social distancing will force the need of certain commercial and retail tenants to situate their employees and customers over a larger floor plan.

Companies will continue to evaluate space planning more aggressively, downsizing or seizing opportunities to negotiate on pre-pandemic lease deals.

“With estimates exceeding 20% office vacancy in many markets, landlords need to immediately look beyond the question of how to ready their assets for reopening, to have a more critical focus on how they reposition their property for survival.”

- Ross Forman

Some companies are responding to the coronavirus crisis with recognition that they do not need the amount of space or footprint composition in order to maintain productivity and employee engagement. The reduced demand for space is compounded by an unprecedented increase in unemployment and anticipated bankruptcies. All of this equates to an immediate call for action for landlords to:

- ▶ Plan multiple “what-if” scenarios and relevant actions needed.
- ▶ Carefully review insurance policies, as well as existing contractual obligations to lenders to avoid violation of any debt covenants.
- ▶ Communicate with lenders to determine if a short-term loan modification or debt restructure is needed.
- ▶ Identify where future demand for space will evolve.
- ▶ Diversify property portfolio mix.
- ▶ Reposition assets/portfolios to meet anticipated demands and withstand downturns.
- ▶ Remain hyper-focused on cost reduction/mitigation in all expense categories.
- ▶ Reconsider a traditional approach to marketing with a more direct outreach strategy.
- ▶ Reinvent all traditional approaches to leasing (including virtual tours and the historic cost of commissions).



ASSESSING PROPERTY AND PORTFOLIO HEALTH WITH DATA ANALYTICS

Organizations with more sophisticated reporting solutions have tenant-health metrics available in near real-time, assuming supporting property data is available. Assessing a tenant's health helps organizations proactively manage risk and evaluate the overall health of the business as well.

Over 100 reporting capabilities can be considered when evaluating the health of the portfolio, spanning categories such as:

- ▶ **Accounts Receivable (AR)** – Reserves, Total AR, Unreserved Receivables, etc.
- ▶ **AR Balance** – Amount Outstanding, Amount Past Due, Average Days Outstanding, etc.
- ▶ **AR Transactions** – Amount Billed, Amount Applied, Bad Debt Expense, Reserves, etc.
- ▶ **End of Period** – Annualized Base Rent, Economic Annualized Base Rent, Lease Square Feet, etc.
- ▶ **Rent** – Recoveries, Deferrals, Delinquent, etc.

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Combining multiple sources of data into a single reporting solution not only saves significant manual effort, but also can help an organization become proactive instead of reactive. Budgeting and sales estimates can be compared against operational data to help an organization know how they are trending against plan, in addition to what impact other business decisions may have on operations.

No two systems are implemented the same. Off-the-shelf systems often allow for client customization in how data is stored and features get used. When combining data from source systems into a data analytics solution, these differences require a custom approach for each implementation in order to enable users to create the most meaningful reports for the organization.



WALTER HOGAN
BDO Digital Solution Architect

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RE-ENTRY TO REAL ESTATE FOLLOWING THE PANDEMIC

Taking bold actions and evaluating strategies for tenant re-entry, as well as assessing the business health of the tenants by landlords and investors is undoubtedly challenging. BDO has a breadth of services and resources supporting REITs, real estate investors, landlords, and tenants.

Associated BDO Services and Resources

- ▶ [Real Estate Analytics](#)
- ▶ [Real Estate & Construction](#)
- ▶ [Corporate Real Estate Advisory Services](#)

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