

Scenario Planning Drives Value

The current real estate down-cycle has resulted in occupancy declines, seen investors flee and illuminated many things, one of which being that existing models for real estate value-creation are flawed, according to Al Beaudette, CEO of Attentus Advisors in Irvine.

Have you ever wondered about the person that sold all their stock just before the crash, or the real estate investor who sold at the top of the market? What did they know that you didn't? What metrics did they consider? Was it luck or something else? Beaudette speaks with *Real Estate Southern California* editor Natalie Dolce about how he believes that "something else" is scenario planning.

Define what scenario planning means and how real estate investors can benefit.

Beaudette: Scenario planning is an advanced approach to asset and portfolio planning that is designed to maximize value. It involves the integration of data that are essentially known facts with outside uncontrollable elements that will drive alternative performance outcomes. Herman Kahn of the Rand Corp. described it as thinking the unthinkable. Thinking the unthinkable allows you to look at the real estate world very differently than your competitors.



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AL BEAUDETTE
Attentus Advisors

As it relates to the investor, it is essentially an approach that some may call gaming the system. The difference is that you are not gaming your competition, as most do in the real estate sector. Rather, you are gaming against nature. By integrating traditional data sources with models that look at the what-if, you get an entirely different set of potential outcomes.

What are the steps involved for someone looking to utilize this approach to investing in real estate?

Beaudette: You begin by defining your investment strategy. People invest in real estate for different reasons: some for wealth creation, some for cash flow and some for wealth preservation. Once you know your strategy, you can begin to use data sources to zero in on markets, product types, operating strategies and even tenant mixes, which will in theory deliver the results that will meet your financial objectives. Next you will need to identify the

outside influences that could positively or negatively impact the results you are trying to achieve. Then, integrate these elements into your operating strategies for your assets.

How do you build an asset strategy?

Beaudette: Each asset is unique and has its own story. Your challenge is building that story. You bought that asset to meet certain investment parameters. What is your plan to make sure it meets those parameters? Is it repositioning, leasing, more efficient property management, cost controls or other factors? Once you determine what you need, you will want to create a written asset plan. Now integrate outside factors that may combine in complex or unusual ways, creating alternative performance outcomes. What do you need to do to respond if one or more of those variables surface? Review that plan at least every quarter so you can make adjustments quickly, prior to these external factors impacting the performance of the asset. Few people and organizations take the time to do this.

Do you find that other real estate companies take this approach?

Beaudette: There are numerous people and organizations that subscribe to scenario planning. They seem to sell when everyone else is buying and buy when everyone else is selling. When you look at their performance, they always seem to be ahead of the game. Why? Because they view the performance of their real estate investments as part of a larger game. They recognize that traditional tools yield only a part of the real estate investment and operating solution.

Do asset operations factor into scenario planning?

Beaudette: Your operations are linked directly to your asset strategy. The alternative performance outcomes I've discussed become integral to your asset operations. In a competitive real estate environment, product differentiation often comes down to very subtle differences. One of the most important differentiating factors is people. People are what make real estate work. It is the people that attend to the details of managing an asset, effective marketing and tenant relations.

Do these concepts apply to other real estate vendors and service providers?

Beaudette: Absolutely. These same principles apply to vendors and service providers in any industry you can think of. Many of the principles outlined in scenario planning came directly from the military. Substitute your industry and you'll see the same principles apply.—SOCAL