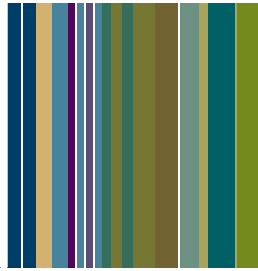




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*Finding Real Value and Efficiencies in
Commercial Real Estate*

Finding Real Value and Efficiencies in Commercial Real Estate

Despite recent market unrest, by and large private-equity professionals continue to view commercial real estate (CRE) as a viable asset class. On a five-year basis, returns top the S&P 500 by an estimated 35.8%, and many observers see a more stable climate for real estate just around the corner. As such, the reliable income streams and inflationary hedge provided by optimally located properties will likely continue to generate significant interest among pension funds and other large institutional investors who are seeking higher-returning strategies in a perpetually stingy interest-rate environment.

While further erosion of real-estate valuations through year's end cannot be discounted, those polled in a recent Ernst & Young survey believe that a "generational buying opportunity" is in order. Figures from CoStar Group, a provider of commercial real-estate intelligence, seem to support this notion; after shedding nearly \$100 million in holdings during 2009, managers increased their real-estate allotment by nearly \$300 million through the first part of 2010.

Despite these generally positive signs, in all likelihood private-equity professionals will have to work much harder to keep the ship on course. According to London-based research group Preqin, lower transactional volume has kept distributions to a minimum, and, consequently, capital commitments to new funds have remained extraordinarily weak. Also, unlike the boom years of 2007-8, investors are reluctant to support any strategies they perceive as unstable or illiquid.

This in turn has had a direct impact on private-equity fundraising; during the second quarter of 2010, 20 private equity real estate funds combined to raise an aggregate \$7.3bn, the lowest quarterly fundraising total since the third quarter of 2004, according to Preqin.

Total capital raised throughout all of 2009 was less than one-third of levels achieved during 2008, reported Preqin.

Still, three-quarters of institutional investors report being bullish on real estate in the coming year, with the strongest push for fund commitments coming from North American investors. Accordingly, Ernst & Young's "Market Outlook: Trends in the Real Estate Private Equity Industry 2010" survey found that nearly 87 percent of U.S. private-equity managers believe that the availability of debt and equity capital will increase as 2010 comes to a close. Even the potential for continued market weakness presents a significant buying opportunity for distressed real-estate investors, notes asset management firm Neuberger Berman in its 2010 Private Equity Outlook. "Lower valuations in the U.S. commercial real estate sector are likely to continue to make debt refinancing more difficult... and distressed investing for that asset class more robust."

Hence, the time is ripe for managers to shore up internal mechanisms in order to better serve their investor clients, particularly as interest in CRE continues to gain momentum. Commenting in *Financier Worldwide*, Stephen Renna, president of the National Association of Real Estate Investment Managers (NAREIM), suggested that managers consider several key areas, including maximizing the value of their existing legacy portfolios, and, perhaps most importantly, developing a sound investor-relations model. Fund performance and relationship management go hand-in-hand, argues Renna, who calls the managing and cultivating of investor relations "an investment in the future."

Given the pronounced swing in market psychology, strengthening the informational pipeline is, for all intents and purposes, a

requirement of private-equity firms. Tables have turned; today's institutional investors wield much more power than they did during the halcyon days of 2007-8. In addition to negotiating lower management fees, investors are demanding more comprehensive data surrounding portfolio positions, valuations and exposures as they attempt to boost their faith in the private-equity process. In short, rebuilding trust has become an integral part of the capital-raising initiative.

Operational Efficiencies

Logic dictates that investors who receive all of the information they require in a timely fashion will be much more willing to make fresh commitments of capital. Rather than rely exclusively on in-house resources to maintain data-facilitating technologies, however, many in the private-equity business are instead enlisting the services of an independent company that can provide solutions capable of addressing redundancies while ensuring proper synchronization of all front-, middle- and back-office information.

These tailored products assist the management firm with due-diligence and workflows, offer complete automation of fund-accounting processes including real-estate waterfall and management-fee calculations, deliver scenario-based analysis of liquidity requirements, and more.

Optimal use of private-equity software and systems can dramatically boost a private equity firm's efficiency, observes Tony Piper, Director of 4vco, a London-based consultancy specializing in private-equity operations.

Recognition of the importance of selection and implementation of the software most appropriate to a particular firm's needs has dramatically increased as a result of the financial downturn, says Piper. "This has led firms to seek better ways to capitalize more effectively on their intelligence, information and relationships and, ultimately, improve service to their investors."

Calls for increased transparency, including information on deal-flow pipeline and related activity, have put far greater emphasis on those entrusted with the task of properly servicing investors. Accordingly, private-equity professionals have found it to their advantage to invest more heavily in software that can help them monitor their investments more effectively, says Piper. "Many private equity solution providers have responded with significant developments to their product range." Furthermore, opportunistic providers have adjusted their business and pricing strategies in an effort to reach a much wider client base, including smaller houses with lower budgets and fewer resources, says Piper. Additional energy has been devoted to enhancing services for current clients, which is essential for the long-term success of these companies, he adds.

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In order to address investors' appetite for more complete data, while at the same time locating and subsequently managing sound CRE investment opportunities, private-equity professionals must be able to analyze and manage reams of qualitative and quantitative data, including locations, maps and other property information as quickly and efficiently as possible. This calls for a fully integrated front-to-back solution suite covering the entire investment lifecycle, from relationship management, reporting, monitoring and accounting, to fundraising and deal pipeline management.

Leveraging the capabilities of an independent service provider allows companies to replace

or fine-tune existing systems utilizing a fully flexible and customizable solution, thereby improving functionality and reducing operational risk through enhanced transparency and availability of data. By utilizing a single-entry point, comprehensive solution designed especially for private equity/real-estate, users are afforded complete access to investor/investment and fund information in real time, including transactional data associated with capital accounts, schedules of investments and portfolio returns. Multi-currency ledgers facilitate the tracking of fine detail such as regional exposure/property type concentrations as well as total commitments/fundings, while providing a glimpse into potential near-term liquidity needs and cash generation. Additionally, full reports containing balance sheet, cash flow, income and related data can be easily distributed online and in a number of formats.

While many solutions offered by today's providers are of exceedingly high quality, managers should also recognize the value derived from the smooth implementation, configuration and testing of these products. "Ignoring the importance of this stage can lead to frustration and sub-optimal outcomes," says Piper.

Developing a Real Edge

At first glance, the reduction in private-equity based real estate distributions appears to have forced even the most bullish of investors to assume a neutral posture until the markets begin to show sustained signs of improvement. And yet with so many remaining well below target allocation levels, experts like Prequin suggest that these investors actually lack confidence, rather than cash flow.

With investors still nervous about making fresh commitments of capital, those who wish to lead a successful fundraising campaign must be able to clearly convey how their strategies can overcome market volatility while generating positive returns. Notes Prequin: "Managers will need to take note of the current regional and strategic preferences, and should expect the fundraising process to take significantly longer than in previous years. Many firms have already taken the concept of fundraising to a new level, essentially remaining in fundraising mode on an almost perpetual basis." Even when not in fundraising mode, a key part of this initiative, suggests Prequin, is ensuring that current investors are well informed, and that potential future investors are also kept up to date with the firm's activities and successes.

All of this puts a premium on the ability to identify sound investments while managing higher levels of risk and adhering to a disciplined, long-term investment strategy, adds Marc Harris, co-head, global research, RBC Capital Markets. This could prove nearly as challenging a task as maneuvering through the volatile markets of 2008-9 – because, as Harris suggests, "sitting on the sidelines indefinitely is simply not an option."

With investors calling for far greater detail and more clearly defined data, increasing visibility across all property investments is key to boosting performance and mitigating risk. Leveraging the services of a skilled solutions provider gives professionals a real edge in a potentially potent commercial real-estate market.

How SunGard Can Help

Supporting 300+ global customers of all shapes and sizes, SunGard's Investran is a fully integrated software suite that simplifies the workflow associated to real estate project and fund investing, facilitating each step of the investment lifecycle from fundraising to project due diligence/evaluation to ongoing portfolio monitoring. The integrated front-to back-office solution contains a true general ledger at its core that physically stores all of a firm's investment and cash

flow activity, empowering users with the accuracy of information, transparency into data and holdings, and foresight they need to proactively adapt investment strategies.

Over 13 years of experience has provided the Investran team with a unique perspective and ultimately delivered a solution that provides full transparency and comprehensive reporting.

For more information on Investran, visit: www.sungard.com/investran/learnmore