



THE EVOLUTION OF REAL ESTATE INVESTMENT MANAGEMENT SOFTWARE



TABLE OF CONTENTS

1–2	<u>Introduction</u>
3–4	<u>I. Why REIM-specific software?</u>
5–8	<u>II. System Selection</u>
9–12	<u>III. The Evolution of Yardi IM</u>
13–14	<u>IV. The Cougar Power of MRI</u>
15–17	<u>V. Introducing RealPage Asset & Investment Management Solutions</u>
18–19	<u>VI. Invest Locally, Profit Globally</u>
20–21	<u>VII. A Sherpa for the Journey</u>



INTRODUCTION

Traditional Property Management and Accounting software is no longer the tool of choice for successful real estate investment management (REIM). Virtually every aspect of managing real estate investments—from fundraising to capital returns and every data-tracking need in between—is now more effectively handled by software platforms specifically created for the REIM world.

...reducing the risk of data errors and eliminating redundant or duplicated efforts can literally make or break a deal with a potential investor.

With the REdirect team's collective expertise squarely planted in both real estate technology and investment management, we are effective bridge-builders for those REIM firms looking to gain that competitive edge by bolstering in-house capabilities.

For REIM firms, reducing the risk of data errors and eliminating redundant or duplicated efforts can literally make or break a deal with a potential investor. Whether you're negotiating with a group of limited partners (LPs), high net worth individuals, or reporting to real estate investment consultants, your investors expect reports on various accounting, financial, quantitative, and

qualitative performance of their investments, and they want them regularly. And, considering that each investor's ownership stake likely changes from fund to fund—or even as the negotiations advance within a particular fund—your reporting requirements are far from uniform, making your work—and the work of your staff—all the more complex and arduous.

This year more than ever, new products and companies are bursting onto the REIM technology scene. Navigating this space and selecting the right tools for your needs isn't always a clear-cut path. This eBook is designed to provide an overview of what's out there, what's on the horizon, and how it can help you maintain your competitive edge in a constantly evolving industry





SECTION 1

Why REIM-specific software?

In the post-financial crisis world of real estate investment management, there is perhaps nothing more important to the investor than the accuracy of an investment's financial information and the speed with which it is provided.

Gone are the days when a competent real estate investment manager satisfies all of his or her investors with a single, slick, generic quarterly report. Today, private equity real estate is the wild, wild west of investment: rules and regulations are in constant flux, reporting standards remain elusive, all while investors' appetite for information is increasing. Surviving and thriving in the REIM space requires a new level of sophistication.

Successful investment fund managers must effectively wield a fund's data in ways that can satisfy the needs of the players across the fund: whether you need to aggregate data from various property managers, drill all the way down to underlying leases to satisfy a query from an LP or an LP consultant, or satisfy a new requirement from the Securities and Exchange Commission, reporting demands on a real estate investment manager aren't for the faint of heart. And the only commonality between these disparate players' requests is that they all want their different reports fast.

Simply put: general accounting software just won't cut it.

Real estate investment managers who use out-of-the-box general ledger software (QuickBooks, Excel, etc.) are not necessarily dealing with real-time information. Moreover, they are likely duplicating their efforts with each disparate report they create, and therefore also wildly increasing their risk of error. Think about it: if you have to pull data from different versions of the

"same" spreadsheets and documents—which reflect fluctuating financial information—you cannot be 100% confident that the particular version of a spreadsheet you're using is the most up-to-date.

At best, informational errors can lead to inaccurate budgeting and forecasting. At worst, it can damage your firm's credibility and reputation. In other words, the repercussions of a seemingly innocuous clerical error in a singular report can reverberate long after the lifespan of the deal.

One day, data agility may no longer have such a high premium for real estate investment managers. ILPA—the Institutional Limited Partners Association—is working to establish standard reporting templates, an industry-wide "ILPA-compliant" report that would satisfy all the LPs in any given fund, similar to the standardization that governs reporting on stocks and mutual funds. But until that day occurs, today's savvy, real estate portfolio managers rely on a fully integrated platform that meets the reporting needs for each stakeholder. From the property managers to the limited partner investor, an integrated software solution can provide your entire team with the visibility, efficiency, transparency, accuracy, and real-time access that can make you an industry leader.





SECTION 2

System Selection

The only way to ensure that you can stay on top of the field is to implement a system that is nimble enough, quick enough, and accurate enough to earn your LPs' trust and money. But navigating the options can be a challenge. "Investment management" can mean completely different things depending on which software vendor you ask.

The only way to ensure that you can stay on top of the field is to implement a system that is nimble enough, quick enough, and accurate enough...

REdirect can help you navigate this convoluted space by creating an inventory of functions that you currently execute manually, determine where you spend the most time (and where you are therefore most likely to make errors), and then evaluate which software packages can help you automate those functions.

There are considerable pros and cons of the "single stack approach" (such as that utilized by software powerhouse Yardi) as well as those that harness the "best-of-breed" approach (where MRI dominates). How large are your assets under management (AUM)? How many operating partners does your fund require? Is your time most spent fund raising or fund managing? As real estate

technology consultants, we posit these questions to you in pursuit of one core determination: how nimble do you really need to be?

When you are selecting a fully articulated investment management system, there are two essential functions to require of your prospective platform. First, it must be capable of tracking and measuring key performance and economic returns which are indicators of the "health" of your investment(s). Secondly, it must enable you to easily and regularly ensure and report compliance with regulatory requirements.

Just as a doctor checks your basic functions such as pulse, temperature, blood pressure, and respiratory rate, your investment management software should regularly monitor and report the "vital signs" of your investment portfolio. These include:

1 Total Return.

The value an investor earns from an investment over a specific period of time. It has two components expressed mathematically as Current Income + Appreciation.

a. Current Income – rental income minus all expenses, taxes, etc.. Also, expressed as $(\text{Net Operating Income} / \text{Property Value})$

b. Appreciation—the change in the value of an asset / investment property at a point in time. It is expressed as a total and as per share ex: Net Asset Value (NAV)) often based on a current appraisal of a property (aka: Fair Market Value).

2 Cash Flow

Cash flow (aka: flow of funds) dollars coming in versus dollars out. Just like with your personal checkbook, the goal is to have positive cash flow, where the money flowing in is greater than the money going out

3 Rates of return.

the percentage of your original investment that has netted you a profit over a period of time.

In addition to complying with recognizable accounting principles and laws, real estate investment firms often compare their asset performance against a set of published benchmarks, which enables them to produce meaningful "report card"-like grades, related to performance, risk, and valuation to investor/stakeholders. Many of the report card's metrics relate to the aforementioned vital signs.

...when selecting an IM software platform,
make sure that it can track and measure
all basic performance, economic
and benchmark return "vital signs."

Several benchmarks are available for comparative performance analysis, such as the National Council of Real Estate Investment Fiduciaries (NCREIF)'s leading Property Index (or NPI). NCREIF collects, processes, validates, and then disseminates investment and operating information reporting on the risk and return behavior of real estate assets owned by institutional investors. NCREIF collects data on the performance of both individual commercial properties and collective investment funds. NCREIF publishes the NCREIF Property Index (NPI) and other statistical measures of performance on a quarterly basis. The reporting standards contain required and recommended elements, detailed calculation instructions related to time-weighted returns, internal rates of return, equity multiples that foster transparent, consistent and complete reporting of financial and operating information. In addition to the property-level NPI, NCREIF also publishes other indices like the NCREIF ODCE FUND INDEX to measure time-weighted returns of Open End Diversified Core Equity funds.

Another leading benchmark is the Global Investment Performance Standards (GIPS) administered by the Chartered Financial Analysts Institute. As evident in its name, GIPS is a global standard that quantifies and measures, not just financial performance, but also compliance with a set of industry-wide ethical principles. This increasingly accepted standard guides investment firms on how to calculate and present their investment results to prospective clients. The GIPS make it possible for investment managers around the world to "transport" their historical investment returns to other countries without having to restate these figures using different calculation and presentation rules. GIPS ensures fair representation and full disclosure of investment performance results.

Several leading commercial real estate and investment management software vendors—including Yardi—incorporate NCREIF and GIPS reporting elements in their platform, including more sophisticated elements that are usually the purview of the upper-tier fund structures (such as assets under management, net asset value, modified Dietz return, etc.). This enables users to easily track the full complement of data points and rate of return calculations right within the system.

In sum, when selecting an IM software platform, make sure that it can track and measure all basic performance, economic and benchmark return “vital signs.”

Yardi, MRI, and RealPage do a great job—and increasingly so—at tracking these vital signs. The next two sections will look at these IM offerings in greater detail.





SECTION 3

The Evolution of Yardi IM

Yardi's footprint in the REIM world is growing, and in a big way. With an already powerful "investor-to-lease" platform becoming ever more robust each year, Yardi is investing considerable resources in their IM toolkit, with an eye toward even bigger growth on the near-horizon, too.

With such an evolutionary, increasingly valuable product, it is no wonder, then, that Yardi generally prefers to work directly with clients to personally show them how best to maximize their software's potential. We at REdirect were therefore honored to have been one of a select group of only six consultancy firms invited by Yardi for an intensive, three-day, concentrated training workshop at Yardi headquarters in Santa Barbara, to learn all about the newest features Yardi is—and will be—introducing to their IM platform.

From Back to Front

Historically, Yardi has been most useful in the "back office" end of real estate investment management: many accounting and finance teams have long been relying on Yardi to keep accurate and timely track of investors' capital transactions and managing complex ownership structures. While Yardi is making impressive moves on the "front office" end (more on this, in Part II of this blog), major additions and evolutions to back-office capabilities will significantly enhance the way your investment accounting team operates.

InvestorPlus

There is nothing as important to your investors as accurate, easy-to-read, performance return reports. With Yardi's InvestorPlus module, you can easily create and configure composite returns based on real-time information using any number of variables. Want to show an investor how their investment has fared with a specific property type (retail space), in a specific region (the southeast United States), managed by a specific asset manager? No problem. With InvestorPlus, your team will be able to calculate these detailed composite returns on the fly.

Capital Processing

Previously, managing the three major types of transactions—capital calls, distributions, and return of capital—had to be juggled among disparate parts of your accounting system. No more. Yardi has now introduced Capital Processing, a virtual one-stop-shopping for all types of capital transactions. Reducing transaction time means people getting their money faster, which means happier investors, which means a happier you.

Formidable Front Office Capability

Yardi's InvestorPlus tool provides a robust Customer Relationship Management (CRM) solution for the full investor/investment lifecycle including fundraising, acquisition/disposition management, investor relations, and dashboards to visual performance.

By utilizing Yardi's integrated CRM tool, you can be confident that your investor communications are drawing from the most reliable and up-to-date information...

InvestorPlus isn't just a useful CRM tool for fundraising purposes, but also managing those relations long after the investment has been pledged. Relying on a stand-alone CRM system such as Salesforce, which lives wholly separately from your core database, could lead to redundancies, wasted effort, and—at worst—can result in embarrassing errors. By utilizing Yardi's integrated CRM tool, you can be confident that your investor communications are drawing

from the most reliable and up-to-date information—from their kid's birthday and dog's name to how satisfied they were with their last distribution.

Beyond this comprehensive ability to track all the details of any given prospective or existing investor, Yardi's real big push is in its investor reporting capability.

Now, for the first time, real estate investment managers can drill all the way down into any given investor's portfolio. And we mean all the way down: into the funds, into the properties, down to the individual lease, and even access real-time information on whether the rent has been paid this month on any given unit. In other words, InvestorPlus doesn't just give you a map of any given high net worth individual; it's like deploying Google Earth to show him the weather pattern... or his house.

Yes, there are several other tools out there with this type of comprehensive, drill-down capability—such as Investran and eFront—but none of these competitor products were developed specifically for real estate investing, which, as any RE investment manager knows, has its own quirks and perks that must be properly considered.

Next on Deck: Limited Partners

Yardi's explosive growth in the IM space isn't over yet. While Yardi provides an Investor Portal to help investors understand performance, Yardi professionals have recognized that Limited Partners (LPs) want to understand their asset performance, to slice and dice the data in whatever ways they want, and be given the tools to do it.

"What we see is a deep desire to understand the health of the underlying asset," explained Robert Teel, Senior Vice President of Yardi Global Solutions. "What is my tenant's exposure to technology? Or what is the internal rate of return on the regional mall I acquired two years ago? Only a real estate-focused platform like InvestorPlus can help answer these questions."

A Platform This Powerful

It is our job—and not the job of your IM firm's accounting manager, or even that of your CTO—to keep on top of the evolution of Yardi products and their functionality and their direction for the future. Remember, even seemingly minor configuration errors can lead to relatively major performance issues on some key calculations.

The main takeaway is that maximizing the capability of a platform this powerful is a significant task, and rarely one that can be best met in-house. So whether you've long been using Yardi in your back office or you're entirely new to Yardi as an investment management tool, making sure that your IM firm is using the best of the best—and to the best of your capability—is imperative





SECTION 4

The Cougar Power of MRI

MRI, which has long been one of the most powerful, flexible, and popular software solutions for property managers, also offers a robust real estate investment management solution. MRI's investment management capacity leapt forward in 2015 when it purchased Cougar Software, a company with over 20 years of experience building custom valuation, asset management, and budgeting solutions for clients around the globe. They have since focused on standardizing this functionality into the configurable solutions listed above as part of an effort to bring the greatest value to the largest number of clients and fill what they see as gaps in the investment management software marketplace.

Today, there are three products that make up MRI's IM offering.

MRI Investment Accounting

1

MRI's newest core module gives investment managers one-click consolidated financials with drill down capability from investor level to property level. More than the ability to produce slick financial statements, Investment Accounting can also handle automatic processing of all capital transactions (contributions and distributions), and has even mastered pretty complex waterfall calculations.

MRI Investor Management

2

This past June, MRI acquired Integratec, a data aggregation and lifecycle investor reporting platform. MRI's Investor Central provides a solution for investment managers to collect and standardize all of the raw information from their various property managers, and provide their investors with robust reporting.

MRI Investment Modeling

3

Of course, successful investment management goes beyond simply managing the investments one currently has and must also effectively cast valuations for the future. This is where MRI's Investment Modeling comes in, a module that can forecast cash flows and value for even the most complex of assets while also allowing for comprehensive scenario building to support buy/sell analysis, debt management and overall strategic planning

With these three complementary products, MRI now meets the fullest range of real estate investment management needs and capabilities.

With these three complementary products, MRI now meets the fullest range of real estate investment management needs and capabilities, extending from a single property view through to complex portfolio and fund modeling, inclusive of partial ownership structuring and complex debt modeling.

MRI's Investment Accounting module is impressive in its own right: from consolidating GL data to handling capital transactions to performing complex waterfall calculations, this module does a lot. Even more impressive is its expedited journey from software development (started, in earnest it seems, in January) to beta (summer 2016) to general release (November 11, 2016).

Clearly, such lightning-paced evolution is indicative of MRI's investment in and commitment to—not to mention aptitude with—real estate investment management.

Now that this product is in general release, we look forward to working further with it and learning more at upcoming collaborations with MRI, and helping even more of our investment management clients harness the power of these exciting new tools.



SECTION 5

Introducing RealPage Asset & Investment Management Solutions

We're honored to be recognized as one of six distinguished teams of experts selected by RealPage to become certified Asset & Investment Management (AIM) software solutions consultants this year. We received extensive product training at RealPage's sunny Dallas headquarters to become authorized to implement and provide consulting services for RealPage's new AIM solutions, including two innovative components: **Investment Accounting** and **Portfolio Asset Management**.

RealPage Investment Accounting

Real estate investment managers, your prayers have been answered: RealPage Investment Accounting is an integrated, robust accounting platform designed to streamline and manage every accounting function related to real estate investing. What's particularly exciting about this product is it's tailored to booming middle market real estate investment companies, helping them seamlessly navigate the dynamic financial complexities they face on a regular basis. RealPage Investment Accounting serves multiple asset classes including commercial, hospitality, multifamily, single family, as well as senior and student living.

This investment accounting solution expertly manages all three major accounting functions: advanced consolidations, partnership accounting, and corporate accounting. Let's take a deeper dive, shall we?

1

Advanced consolidations consolidates accounting records and handles the complex ownership structures of your investments to produce concise, coherent statements for multiple sets of books for the fund or investment vehicle. It's automated consolidation rules also help to reduce the closing cycle time.

2

Partnership accounting manages all capital transactions, investor correspondence, reporting, and tracks investor returns.

3

Corporate accounting enables firms to simplify the process of allocating expenses and overhead from corporate entities to investments and properties, while also managing financial reporting for business units not specific to a particular asset or investment vehicle.

RealPage Portfolio Asset Management

The second AIM component we're certified for is Portfolio Asset Management (PAM), the first and only technology solution we've seen that drastically reduces the need for people to manage the data aggregation process. This, of course, results in more timely and accurate reports for real estate investment management firms.

In May 2016, RealPage strategically acquired AssetEye, a leading data aggregation and reporting platform for institutions holding multiple real estate asset classes including commercial, hospitality, multifamily, single family, senior living and student housing. Shortly after, RealPage rebranded the product as PAM.

As real estate technology consultants, we often come across investment management firms perplexed by effective data aggregation: How do I get the data I need? How well is this investment performing? I need clean, accurate data, and I need it soon!

There are two philosophies when it comes to portfolio analysis and reporting. The first: investment management firms host the property management activities with their own software—an excellent choice as you don't have to rely on property managers to provide reporting. But, this can potentially result in information overload and unnecessary time-consuming manual analysis if not managed carefully.

The second: investment management firms collect individual reports from property managers. This is also challenging because the onus falls on the investment managers to hunt down the reports from each property manager. And, because each report is different, consolidating it in your own system is can become complicated and burdensome.

RealPage PAM takes a different approach to the second philosophy. PAM offers a unique solution that enables operating partners and property managers to submit the exact information needed by investment managers, allowing them to make better investment and operational decisions. Here's how it works: PAM sends off an electronic reporting package for property managers to complete with specific requests for data such as financials, statistics, rent rolls, documents, and comments. PAM eliminates inaccurate reporting by alerting property managers of any possible errors and walking them through the correction process. PAM even offers other real-time alerts, workflow management, and escalations to keep reporting timely. Once that information is collected, PAM offers dashboards and customizable "drag-and-drop" reports where clients can slice and dice the portfolio to show trends, key metrics, variances, and more in an easily digestible format.

Another benefit to using PAM is that it works with any property accounting system, opening investment management firms up to the property management companies that are insistent on using their own systems. All-in-all, PAM software solution is a neat technology that isn't come across often, and we're thrilled to be able to implement it for our clients.





SECTION 6

Invest Locally, Profit Globally

For the multinational real estate investor, stakes are even higher. Managing a diverse portfolio with varying currencies and tax rates is a challenge as rich as its potential. Fumbling the management of this complex undertaking can have equally deep repercussions. Success on the international REIM stage requires finding—and mastering—software technology that is as globally responsive and flexible as you and your investors.

Web-based, database-driven software platforms like Yardi use real-time data on all your commercial assets across the globe to give you that competitive edge.

With virtually endless customization possibilities, Yardi users can configure the appropriate value-added (VAT) tax, business tax, property tax, or other national taxes, which, as any globe-trotting real estate investor knows, can be the subject of regular change. More impressive still, is that Yardi can automatically calculate individual investor withholdings on their distributed cash. This means that, even if you have investors in different countries, you can list up to three different tax rates instead of manually calculating for each investor.

But perhaps the most useful benefit of utilizing the International module is the ability to manage your assets in any currency you choose.

Yardi International not only allows you to track the performance of any given asset in the local currency—of both realized and unrealized holding gains and losses—and convert that performance into US dollars based on the day's given exchange rate. What's more, you can easily and fluidly manage these currencies across the investment spectrum. You can, for instance,

make a capital call in Euro for a USD fund to an investor that will pay in British pounds, and Yardi International will calculate the correct amount for any of the three currencies and track whether you have a loss or gain on translation from the date called to the date paid. Ditto goes for consolidations: with Yardi International, by using separate “books” for different currencies (even in the same accounting basis), and Yardi will roll up your consolidations to the appropriate currency for the reporting entity.

Other key capabilities of Yardi International include: local language invoices and reporting; invoicing per country (including credit notes and document sequencing); square meter to square feet conversion; and more.

And, as goes with any Yardi product, Yardi International users will also benefit from its powerful reporting capabilities, unlimited user capacity, ever-evolving high-level data security, to name just a few.

Improvements on the Horizon

At the 2016 Yardi Advanced Solutions Conference in Anaheim, we got a sneak preview at several updates and improvements that will make international real estate investment and management easier and more streamlined than ever. Take, for instance, the upcoming enhancements to the Investor Plus Plugin, which will soon be able to perform acquisitions and dispositions forecasting with the same global flexibility and adaptability as the core International Module functions. For example, if you have a planned acquisition in the works, you can customize the data entry templates based on any given stage of the acquisition process in any given country—replete with that country’s tax or insurance rates—and watch it move through the process and becomes an opportunity to seize.

Another highly useful evolution will be in the way in which ownership transfers are managed. Previously, when a portfolio is bequeathed to several benefactors, distribution is often messy and confusing, especially if the various new investors are spread across the globe. Soon, though, ownership transfers will be a seamless—and profitable—experience for all.





SECTION 7

A Sherpa for the Journey

More than 325,000 cloud-based users utilize nearly 1,600 servers around the planet, helping to manage nearly 2.5 million residential units (of which nearly 800,000 are affordable housing units). And, perhaps most impressive of all, MRI can rightfully boast a 98% client retention rate.

With a world's worth of currency conversions, tax regulations, and increasingly demanding investors to juggle, selecting the best REIM software for your investors' needs can be confusing. What's more, implementing the selected system is often the more arduous part of the process, and should not be taken lightly.

What often happens is this: a small team at the executive level makes the decision to move forward with a particular software system. It is precisely their great vision for the company that helped guide them to their chosen platform. They uniquely understand how the company operates and how it should be operating.

And then comes the disconnect.

All too often, after the system is selected, the selection team punts the painstaking job of implementation over to the IT department or business unit and eagerly awaits the news that the system is now up and running and their vision can now be realized.

If only software were this magical.

In the real world, the best case scenarios are when CFOs and other senior leaders remain involved in the initiative throughout its course. Likewise, the worst-case scenarios are when CFOs punt implementation over to staff who haven't been involved in the selection process, have no clear vision for what the end goal should look like, or even have a comprehensive sense of the day-to-day needs and functions of the firm at large. Consultants and vendors alike agree: this scenario can not only turn software implementation into a protracted nightmare, but it can nibble away at ROI, too.

Software implementation is a marathon, not a sprint, and the excitement that accompanies system selection can often dissipate in the middle of the implementation process. It is precisely at this point of fatigue that the executive's leadership is needed most. This doesn't mean that finance leaders need to suddenly morph into tech wizards and figure out how to design the system. That's our job. As consultants, we need the senior finance and accounting representatives to maintain the vision that the software will help the firm attain. This is the best way to guide our work and to ensure our collective success.

The most effective leaders are those who not only convince staff to buy into the process, who articulate how the technology will make everyone more effective and productive, but who can maintain that company-wide excitement for that vision, even during through the doldrums of implementation.

Remember, CFOs and finance leaders: implementing a new, state-of-the-art software system is your project and your investment, undertaken in order to help you realize your vision. It is not a technical task alone: it is more accurately a mission-critical task. And who better than you to ensure its success?

In sum, before embarking down the tricky path of system selection and implementation, it is wisest to take the journey with a trusted advisor by your side.





212 . 220 . 8601

redirectconsulting.com