

The Impact of Performance Management on the Real Estate Industry

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As companies increasingly develop, acquire, and dispose of properties, the complexity in supporting these growing portfolios will only intensify.

And as portfolios continue to grow, identifying key decision-making criteria will require additional time and analysis.

The Hyperion real estate EPM solution will give your company sufficient insight into the performance of your real estate business.

INTRODUCTION

Today's real estate industry is in a state of flux. In the residential sector, baby boomers are continuing to accumulate more wealth than their parents, retiring later in their careers, and purchasing real estate properties using their affluence. A 2006 study by the National Association of Realtors indicated that 43 percent of the baby boomer population is purchasing additional homes because of having sufficient wealth, while 21 percent is interested in the investment potential of an additional home.¹ In the commercial sector, the expansion in net absorption and commercial construction is expected to continue during 2007, but at a slower pace.² As a result, one would expect real estate companies to move forward with developing, operating, and investing in properties within their respective portfolios to meet the demands of the industry.

As companies increasingly develop, acquire, and dispose of properties, the complexity in supporting these growing portfolios will only intensify, and identifying key decision-making criteria will require additional time and analysis. And although the growth outlook might appear favorable, any slow down in residential or commercial sales will affect real estate companies. In an uncertain market, analyzing the effects of multiple conditions on a business scenario is important to understand risk and make the best decisions.

This white paper outlines how the Hyperion real estate enterprise performance management (EPM) solution from Oracle will give your company sufficient insight into the performance of your real estate business—supporting key business decisions to optimize the performance of your real estate portfolio.

CHALLENGES IN THE REAL ESTATE INDUSTRY

Managing Properties for the Highest Returns

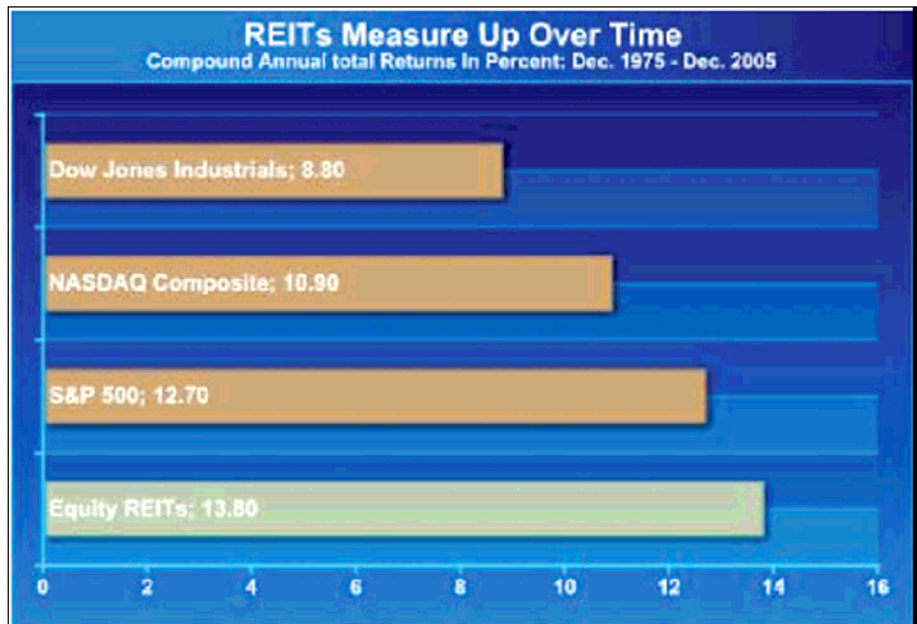
Real estate companies are in the unique position of managing their portfolios not only at the overall business level, but also at a more-granular level, such as property

¹ Harika Bickicioglu, Paul C. Bishop, and Shonda D. Hightower, *Baby Boomers and Real Estate: Today and Tomorrow* (Chicago: National Association of Realtors, 2006)

² *Commercial Real Estate Outlook* (Chicago: National Association of Realtors, 2006)

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type, geography, and square footage. If you also consider that each property has its own unique set of operating assumptions to produce rental income, there is a high expectation in the market to ensure that all the properties combined will contribute to maximizing annual returns, such as for real estate investment trusts (REITs). According to the National Association of Real Estate Investment Trusts, equity REITs have outperformed most other major market benchmarks for over three decades, with significantly less volatility.³



REITs have historically outperformed leading U.S. benchmarks.

To sustain continued high returns, companies must identify the right asset allocation at the corporate level by managing the operating requirements and nuances at the individual property level.

Balancing Individual and Corporate Operating Assumptions

There are additional challenges to managing the varying operating assumptions at the individual property and consolidated corporate levels. At the individual property level, companies seek to maximize funds from operations, benchmark internal rates of return and evaluate cash flow trends. At the corporate level, however, the availability of credit facility financing options at the corporate balance sheet level is as important as aggregating property cash flows. Will there be sufficient facilities and covenant compliance to meet the forecast cash outflows necessary to support portfolio growth? Should growth be obtained through further developments, acquisitions, or disposals, or some combination of the three? These

³ “The REIT Story,” (Washington DC: National Association of Real Estate Investment Trusts, 2006)

questions point to the types of essential information a real estate company needs in order to evaluate the relationships among the company's real estate assets. The "big picture," or full perspective, can only be obtained after the individual pieces have been analyzed carefully.

When to Make the Right Decision

Timing complexities associated with real estate transactions pose hurdles to managing business performance.

Timing complexities associated with real estate transactions pose hurdles to managing business performance. Development projects, for example, will vary and will depend on the completion of discrete projects that require significant cash outflows over several years. What if there is a delay in a project that will hold up the completion of the remaining projects? How should the projects be prioritized? How will this project affect the overall portfolio? Because the expected returns on this property will not be recognized until a future date, the risk of incompletion or delays can adversely impact the business if cash flow is not managed successfully.

Significant activity in the acquisition and disposal of assets is also critical. Will the gains from a disposal provide adequate funding for a future development or acquisition? What sort of impact will the gain have on corporate taxes?

Finally, when there is joint venture participation, it is critical to manage the partitioning of the appropriate value of the company's interest in each asset. Are the company's equity investments represented accurately in your analysis? How much time is spent actually analyzing the joint venture performance as opposed to maintaining and supporting the data underlying the analysis? Real estate transaction volume and joint venture activity will undoubtedly impact a company's ability to manage business performance.

MANAGING AND OPTIMIZING REAL ESTATE BUSINESS PERFORMANCE

To manage real estate business performance effectively, three components must work together. These three components provide real estate professionals with the tools and information they need to make better decisions and to manage the real estate portfolio more effectively.

User Confidence in the Process

Real estate professionals need confidence in the financial modeling integrity of their portfolios.

The first component is confidence in the property management process. Real estate professionals need confidence in the financial modeling integrity of their portfolios. They will perform better knowing their solution offers a robust financial analysis capability that includes prebuilt (but flexible), fully standardized, integrated financial statements (balance sheet and cash flow, not just the profit and loss statement).

To perform sophisticated financial modeling and scenario analysis, real estate professionals must be able to access quality information from anywhere.

Integrated Information for Improved Financial Modeling and Analysis

The second component is consistent, accurate, and timely information that is fully integrated across the enterprise. To perform sophisticated financial modeling and scenario analysis, real estate professionals must be able to access quality information from anywhere. They should also be able to make different operating assumptions and create alternative scenarios when doing financial modeling or analyzing and managing the portfolio. Modeling capabilities should include advanced customization. In particular, users should be able to aggregate and analyze property-specific variables, assumptions, and drivers to ensure that the resulting models reflect sound economic drivers. These multiscenario creation capabilities also make it possible to explore a variety of operating assumptions with different financing alternatives.

Robust, Flexible Reporting

The third component is robust, flexible reporting that enables users to spot trends early with graphical, interactive dashboards. Rapid identification of problems or opportunities allows decision makers to quickly respond or take corrective action. Enhanced reporting capabilities also empower business users by providing an intuitive user interface, which requires minimal training and support to learn—and get the most from—the system. These reporting capabilities should be integrated with the existing information technology (IT) systems and, as a result, be able to pull data from multiple datasources on demand.

CASE STUDY: A CENTRALIZING SOLUTION

A North American real estate company, owning more than 200 communities and 80,000 units, had historically managed business performance using a combination of manually based processes and systems. To support the analysis and evaluation of the property acquisitions and disposals that are core to its business, the company had relied upon a financial modeling environment embedded across more than 50 decentralized sources. Property acquisitions had been modeled in one area, disposals in another, joint ventures separately, with modeling aggregations consuming more time than the actual analysis required.

The Hyperion real estate EPM solution enabled this company to standardize its financial modeling processes in a centralized environment, and still maintain flexibility in switching between various operating assumptions across the portfolio. The solution also enabled the company to gain insight into the key business drivers that were impacting it at both the overall portfolio and individual property levels.

The Hyperion real estate EPM solution enabled this company to standardize its financial modeling processes in a centralized environment, and still maintain flexibility.

HYPERION ENTERPRISE PERFORMANCE MANAGEMENT SOLUTION

The Hyperion real estate EPM solution includes two modules that together provide all three essential components to manage and optimize your real estate business.

By integrating Hyperion Strategic Finance into property development, acquisition, and disposal processes, companies increase productivity, reduce costs, improve risk profiles, and gain greater insight.

Hyperion Strategic Finance

Hyperion Strategic Finance software delivers financial modeling and analysis to real estate companies seeking to improve profitability through more-efficient property asset management. By integrating this tool into the property development, acquisition, and disposal processes, companies can increase productivity, reduce costs, improve risk profiles, and gain greater insight into their business with enhanced modeling capabilities.

Hyperion Interactive Reporting

Hyperion Interactive Reporting – System 9 provides real estate professionals with the most intuitive user-directed query and analysis capabilities available today for portfolio management. Its powerful capabilities are delivered through an easy-to-use interface that lets users design their own dashboards, quickly monitor data, and evaluate information.

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Real estate professionals can create and adjust alternative scenarios to better understand the risks and rewards of their portfolios. They can also more-thoroughly evaluate portfolio risk with flexible report generation. Reports can be created using multiple variables for all assets or a cross section of portfolio assets.

Key Features

The Hyperion real estate EPM solution delivers a rich set of features that enable real estate companies to do the following:

Strategically prioritize scenarios across different operating assumptions.

- Create and manage multiple scenarios for every property in the portfolio.
- Select an unlimited number of business drivers to run sensitivities and produce instantaneous modeling forecasts.
- Evaluate the impact of modeling forecasts to key performance metrics.
- Compute multiple scenarios for consolidations in the portfolio.

Analyze and trend cash flow at the property or corporate level.

- Identify key trends within the portfolio to determine optimal asset allocations and transactions.
- Share relevant patterns across asset types to drive customer understanding.
- Provide insights to executives for key decision-making that maximizes annual returns.

Optimize financing options and compliance.

- Model multiple balance sheet scenarios to determine ideal debt and equity levels, using a sophisticated prebuilt engine.
- Evaluate different financing terms, and ensure compliance with creditors on a continual basis.

Effectively monitor performance and make better decisions with a rich set of business intelligence features.

- Visualize key results in graph, table, or pivot formats.
- Review data quickly and easily with built-in filters and drill-down capabilities.
- Enhance communication with an integrated reporting process that allows on and offline viewing of reports, dashboards and charts.

CONCLUSION

The Hyperion real estate enterprise management performance solution from Oracle gives today's real estate companies the competitive edge they need to stay ahead in a prospering real estate market and provides the tools to analyze multiple business scenarios and make the best decisions in both up and down markets. Although companies cannot control the ups and downs of the market, they can ensure the solutions they implement streamline and centralize the financial modeling, analysis, and reporting that strengthen their portfolios. Oracle makes it possible to evaluate and make decisions that are best for a company's individual properties as well as corporate management—decisions that are right for today and the long term.



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