For: CREModels, St. Petersburg, Fla.
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***<u>FOR IMMEDIATE RELEASE</u>***

**‘NEED FOR SPEED’ THREATENS TO UNDERCUT DUE DILIGENCE IN COMMERCIAL REAL ESTATE ACQUISITIONS, EXPERT CAUTIONS**

*--As investors chase value-add shopping centers and other assets, they should redouble efforts to uncover hidden risks, writes Mike Harris of CREModels in Forbes.com column*

ST. PETERSBURG, Fla. (6/14/18) – As investors race to buy shopping centers, hotels, offices and other assets before the market turns, they should stay cognizant of the ways in which due diligence can suffer amid today’s need for speed, advises Mike Harris, Managing Director of CREModels, in a column for Forbes.com.

“As teams fly around the country bidding on properties, they can lose sight of a sobering fact about real estate deal-making—the faster the pace, the harder it can be to ferret out problems with prospective acquisitions,” Harris writes. “In the worst-case scenario, the buyer finds out about a huge issue only *after* the ink on the closing documents is dry.”

Harris’ firm provides consulting services and software products for investors, lenders and tenants in commercial and multifamily real estate. In the column (“Giving Due Diligence Its Due: Why Real Estate Investors Need To Ask Tough Questions”), Harris describes how today’s fast-paced transactions market can undercut the quality of due diligence.

In a sluggish environment, he explains, the seller of a value-add shopping center or multifamily property might struggle to find bidders, so when an interested party comes along, the seller is likely to give the buyer ample time to conduct a thorough due diligence process. When competition for assets heats up, though, a seller might have multiple suitors willing to pay competitive prices, says Harris. “All else being equal, if one bidder requires 45 days for due diligence while another is content with a short 15- or 20-day process, the seller will take the latter bid,” Harris writes.

This is partly why investors sometimes push ahead with “expedited” due diligence, he explains. However, today’s real estate market is characterized by riskier value-add plays as well as rampant disruption in retailing and other sectors. That means investors and real estate companies should think twice about rushing the process, he suggests. “Amid thin margins and a high degree of uncertainty about the long-term prospects of some tenants and assets, getting due diligence right is imperative,” Harris writes.

Investors should make sure the due diligence process has an investigative quality, with experts asking hard questions about the property’s financials, vendor contracts, co-tenancy clauses, Common Area Maintenance (CAM) reconciliations and more, he notes.

The column cites situations in which due diligence experts, working on behalf of buyers, caught potential problems with acquisition targets before it was too late. In 2017, for example, the seller of a struggling multifamily property provided a prospective buyer with documentation of accounts receivable dating back 12 months. On the surface, all seemed well, but the team pushed for 36 months of documentation. “This inquiry revealed that a large number of tenants were *not* paying their rent—an important detail that was omitted in the whitewashed document initially presented by the seller," Harris writes. "These uncollected rents totaled $236,000 for a single year."

In other recent transactions, due diligence experts identified misleading information in profit-and-loss statements and general ledgers; alerted buyers about exorbitant, above-market vendor contracts that would have been transferred to them along with the property; and redid outdated lease abstracts to give buyers essential information about tenants, Harris writes.

In the conclusion to the piece, Harris notes that due diligence is not a core competency for acquisitions teams, and that in-house property managers and accountants are often too busy to handle it properly. The wise approach, he writes, is to rely on a due diligence team with the expertise and bandwidth to sift through the paperwork, bring risks to the surface and uncover hidden value. "Due diligence is perhaps most critical when investors are least able to give it their full attention—i.e., when the market is hopping," Harris concludes. "And yet this process, when approached wholeheartedly and in an investigative spirit, can help answer a pressing question: How will this asset hold up if the economy nosedives?"

To read the full column, go to:
https://www.forbes.com/sites/forbesrealestatecouncil/2018/06/13/giving-due-diligence-its-due-why-real-estate-investors-need-to-ask-tough-questions/

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***About CREModels***
CREModels provides consulting services and software products for owners, investors, lenders and tenants in commercial and multifamily real estate. Founded in April 2010, the St. Petersburg, Fla.-based firm specializes in sifting through voluminous real estate investment data to create easy-to-grasp models that ramp up efficiency, transparency and productivity. For more information, visit CREModels.com.

***Note to media****: Mike Harris is available as a resource for your coverage of commercial real estate and multi-family housing.*

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