



**Technology is the difference-maker:
Cleaning up the real estate mess, then and now**

New software tools providing data transparency and access could lead to a faster resolution of the crisis than was possible during the RTC era

By Paul Muessig
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Anyone in the commercial real estate industry who lived through the savings and loan debacle of the late 1980s and early 1990s may recall that it took several years for the Resolution Trust Corporation (RTC) to sort through the mess and liquidate all the bad assets. By the end of the process, the once vibrant S&L industry had literally vanished.

Today's real estate insolvency crisis provides a sense of déjà vu. But even though we feel like we've seen all this before, advances in information technology suggest the potential for a faster and easier resolution of the current situation, regardless of the government's strategy for dealing with the crisis.

Unlike what happened to the thrifts during the RTC years, the big banks most likely will not be allowed to fail – whether an RTC-like agency is created to buy the so-called toxic debt that is preventing the banks from lending normally, or the US treasury simply provides funds directly to the banking industry. In a direct bailout scenario, the banks will continue using bailout funds to reserve against bad debts. And, unlike the huge asset pools assembled by the RTC, banks today could create smaller asset pools that could find buyers in a shorter timeframe. Enhanced technology could allow a “boutique” approach to asset pooling compared to yesterday's “big box” approach.

Another difference between today's crisis and that of the RTC era is the state of the art in business communications, which has progressed significantly during the past 20 years, as the Internet has increased the proliferation, speed and transparency of

financial news and communications. In almost every situation, business people have greater volumes of high quality data, along with better tools to access it quickly, analyze it, and share it more effectively.

Technology Enables Asset Transactions

Perhaps more than any other factor, software and information technology may prove to be the real difference maker in managing the current real estate crisis compared to the one we experienced 20 years ago.

The RTC never had the technology tools to address the flood of bad assets that they had to dispose of. In fact, the RTC first tried using a “small pool” approach. Under RTC’s SAMDA System (standard asset management disposition agreement), investor groups bid for the management and disposition assignments on relatively small pools of assets. But the system quickly failed for – among other reasons – a lack of technology tools to help make a market.

A major weakness of RTC’s subsequent “bulk sales” approach was the fact that purchasers significantly discounted prices of these portfolios because the assets in question had so many unknown variables. Admittedly, many of the assets were simply of such poor quality that they had to be steeply discounted. But many assets that could have attracted much higher prices were sold for cents on the dollar because RTC had no good way of sharing data and documents about the properties and their histories, and, consequently, investors didn’t really know what they were buying.

It may be hard to believe, but 20 years ago we were limited in the use of information technology to fax machines, scanners for digitizing documents to CDs (hugely expensive by today’s standards) and rudimentary spreadsheet and accounting software applications. The lack of adequate technology significantly hampered the pace – and price – of asset sales.

Today’s software systems feature sophisticated document-management and document-sharing capabilities that solve the problem of “unknowns.” These systems provide data-warehouses that are easy to use, easy to access from any location at any time, and

create unprecedented levels of data transparency, enabling buyers to make more fully-informed investment decisions.

Back in the RTC days, a handful of “loan sales advisors” made the market for asset sales. These independent experts were Wall Street veterans – not real estate professionals – whose expertise lay in the ability to “make markets.” The current political climate and continuing turmoil in the financial services sector will likely prevent a return to Wall Street for an RTC-type of solution.

Today’s market landscape is much more fragmented, yet new technology provides better tools for larger numbers of loan sales advisors and traditional commercial real estate brokers. These professionals can work with individual banks to bring assets to the market, knowing that they have the tools to preserve and share all relevant knowledge and history of the assets, resulting in their accurate representation and valuation to prospective buyers.

The key to their success in disposing of real estate portfolios at better than fire-sale prices will be their ability to use software, document-management and communications technology to achieve quick turnarounds at reasonable valuations.

Today’s leading property information management systems can help banks or their agents quickly and accurately assemble and disseminate information about real estate portfolio assets. These systems also support the due diligence process to accelerate closings. By aggregating detailed property-level data, these systems help banks communicate the value of their assets to prospective buyers and lead to quicker transactions based on objective and accurate property descriptions, including such variables as leasing and vacancy status.

Yesterday’s “war room” full of bankers’ boxes is replaced by today’s laptop PC, with a literal wealth of information at your fingertips, ready to be reported, analyzed and shared with all parties to the transaction.

It may be an overlooked factor, or one that's simply taken for granted, but advanced portfolio management software applications may be a key aspect in helping to resolve the current real estate crisis more quickly and equitably than was the case 20 years ago.

(April 20, 2009)

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About Paul Muessig

Throughout his 30-plus-year career, Paul Muessig has worn many hats in commercial real estate, including managing the RTC lending effort for ITT Real Estate Services. His unique and diverse background suits him perfectly to help meet the information management and decision-support needs of commercial property managers, owners, brokers, asset managers and fund managers.

Muessig guides the development and improvement of Leo Software's applications from the user's perspective, striving for simplicity and focusing on how customers use the product individually and collaboratively. Through Leo Software, Muessig helps commercial real estate professionals simplify, visualize and understand complex data to quickly and accurately solve problems and facilitate more effective collaboration.

Prior to starting Leo Software in 2004, Muessig, founded and served as president of Arthur Capital Group, a Chicago area investor and manager of single-asset and small portfolio commercial property that currently manages more than 560,000 sq. ft. of office and industrial space. Earlier, he served as vice president and director of strategic planning for ITT Real Estate Services in suburban Chicago where he was responsible for designing and promoting all new commercial real estate finance program and products.

Muessig is a member of the American Institute of Architects (AIA) and maintains a license in Illinois and Maryland. He also is a licensed real estate broker in Illinois. Muessig earned a bachelor of architecture from the University of Cincinnati and went on to complete an MBA in finance and investments from George Washington University.