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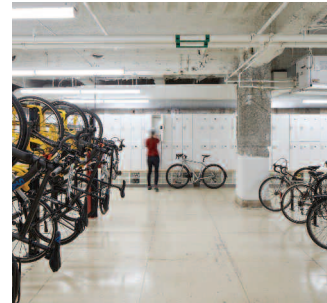
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Prioritizing data integration during an M&A

How organizations handle the integration of data can determine the success or failure of an M&A.

By John Seaton and Jim Valente,
RealFoundations

Mergers and acquisitions (M&As) have potential to positively transform companies by making the combined entity more efficient, profitable and valuable. In today's data-driven world, one of the most important things that companies joining together can do to ensure long-term success as a single enterprise is to thoughtfully and skillfully integrate their data and the underlying technology systems.

Successful M&A outcomes require integration of virtually all functions of the two legacy companies into one unified operating platform. Data integration is especially important. Among a real estate company's most valuable assets, on par with its physical properties, is its operational and financial data. In our decades of experience, the health and competitiveness of any real estate company directly correlates to the effort and investment it makes to manage and govern this critical asset.

Why data is important

The real estate investment industry is no longer driven by relationships. Today's companies rely, instead, on big data analysis to make informed strategic and operational decisions for running their businesses. Data is essential for actively managing assets, reporting to investors, complying with regulations and raising new capital. The ability to have full command of your data — to get it to the right place, at the right time, in the right format and with accuracy — is now a competitive necessity.

In the case of an M&A, a well-executed data integration project can enable the new entity to optimize performance, achieve target efficiencies and synergies, and keep investors and investment managers informed without disruption. Conversely, a poorly managed integration project will have the opposite impacts. According to a *Harvard Business Review* article, an

¹ Alan Lewis and Dan McKone, So Many M&A Deals Fail Because Companies Overlook This Simple Strategy, *Harvard Business Review*, May 10, 2016.

² Ibid.

³ Analysis limited to deals where the deal values were disclosed by the entities engaged in the transaction and covered SNL.



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analysis of 2,500 M&A deals found more than 60% of them actually destroyed shareholder value.¹ Similarly, a KPMG study found that 83% of mergers failed to increase shareholder returns.²

This topic is especially important now for investors and investment managers because real estate-related M&A activity has been increasing in the last few years. Based on RealFoundations' research of global real estate companies covered by SNL Financial (part of S&P Global Market Intelligence), real estate M&As publicly announced and completed in 2019 had a combined value of over \$68 billion.³ By contrast, the aggregate value of M&A deals in 2018 was just over \$58 billion. Moreover, most deals today involve hundreds of assets across multiple geographies and entail an unprecedented volume of data points housed in an incalculable number of disparate systems.

“ It’s imperative to understand what a successful data integration involves. ”

Common data integration challenges

With more companies going through mergers or acquisitions, it’s imperative to understand what a successful data integration involves and to be clear-eyed about the challenges.

Scope and complexity

The typical real estate company can easily be operating on dozens of different systems for the multitude of functions within a real estate firm, ranging from enterprise resource planning (ERP) to accounting and financial management, lease

management, customer relationship management (CRM), reporting and analytics, debt management, human resource and payroll, payment/transaction management, utility management, collaboration, property marketing, document and content management, and capital project management. Now imagine consolidating all this information — and more — for two companies that use different applications, policies and processes.

Different operating platforms

Although the merging companies may be in the same business, they will operate with different management philosophies, organizational structures, ways of working and systems to support the work. Even if the two firms rely on the same enterprise applications, the configuration and use of these systems tend to be very different from one firm to the next, often due to customizations or legacy data sets.

Case study: Data integration post-M&A

Mid-America Apartment Communities' (MAA) 2016 merger with Post Properties produced the largest US multifamily REIT by unit count, with more than 100,000 units. Aggregating residential property management and accounting data from these two industry leaders into a consolidated platform for future analysis and reporting would be no easy feat, so MAA took a methodical approach to ensure its success.

At the time of the merger, both MAA and Post were operating on numerous different systems configured for how each company was running its business. With a focus on business process improvement, MAA's primary objectives were to: 1) reduce the number of disparate technologies each original entity utilized; and 2) increase the efficiency and effectiveness of property and portfolio accounting by incorporating leading practices in property and portfolio accounting, operations and asset management, and analysis. MAA engaged RealFoundations to provide program management and technology strategy services over an 18-month period to support the initiative.

In the immediate post-merger period, among MAA's most critical needs was to produce consolidated corporate financial reports using data from the legacy companies' disparate systems of record. RealFoundations partnered with MAA to design and implement a "financial data bridge," or transitory platform which permitted timely, accurate and consolidated portfolio reporting from Day 1 and throughout the duration of the integration project with minimal disruption to operations.

Leveraging RealFoundations' proprietary M&A Data Integration Approach, members of the integration management office worked together to evaluate the complexity of the data integration and develop a migration strategy to accurately consolidate both companies' historical financial information. This team considered and made decisions pertaining to a range of issues including, but not limited to, data mapping, data definitions, charts of accounts, security and reporting requirements, eventually leading to creation of a plan for an interim data bridge.

Once the confirmed plan was executed, the data bridge was designed and created, followed by multiple rounds of testing. Financial data from both companies' system of record was then staged and validated, and reports were generated for stakeholder consumption.

Lessons learned:

- All key stakeholders must be fully and actively engaged from the start of the project to reduce the need for incorporating late feedback and 11th-hour requirements.
- Dedicated and knowledgeable team members from both legacy companies must be involved when mapping data and documenting conversion rules for the deployment team.
- The earlier you can bring a team onboard to design and build a financial data bridge, the better. Do not underestimate the amount of time it can take for mapping, development and testing leading up to a merger.
- Include more than one mock data conversion in your timeline to ensure stakeholders are comfortable with the output and validation before the first reporting deadline.
- Carefully consider how much legacy company history gets brought over with the data bridge. The more history, the more challenging the mapping and validation becomes.

MAA and RealFoundations successfully integrated financial and operational data from both legacy companies into a single, consolidated platform, enabling the post-merger enterprise to achieve the business objectives originally envisioned for the transaction with Post Properties. The financial bridge was the first big step in reporting a combined portfolio and driving an effective integration. Now, several years after the merger, MAA benefits from a consolidated and scalable system for highly efficient resident management as well as portfolio accounting and investor reporting. The company's technology landscape is optimally configured to take advantage of digital technologies and critical for continuing company growth and expansion.

Data inconsistencies

Rarely do any two companies define every piece of data in the same manner. KPIs, metrics and calculations vary from organization to organization. These

differences in how the companies define, store, manage and report specific leading indicators create serious data integration challenges. Net operating income (NOI) is a good example, as

organizations often include different financial items "above" and "below" the line to calculate NOI. Occupancy is another example, as firms are often unclear if they are reporting on

Managing the pitfalls

Companies going through a merger or acquisition not only need to understand common data integration challenges and success factors, but they must also recognize and avoid potential pitfalls that can derail them. These pitfalls include:

- **Application bias.** The combined entity must achieve an efficient, scalable and unified platform that supports future state operations and reporting requirements. This platform will be unique and distinctive from each legacy company's platform. An integration management group should assess the tool sets from both legacy companies' platforms, consider which sets are best suited for long-term needs, as well as determine whether to keep existing systems, implement new systems, or do both. Legacy company preferences for, or against, specific applications can stall the realization of synergies and the future state technology framework.
- **Data errors.** If companies don't take the time and/or lack the expertise to validate their respective data as they unify their platforms, they risk reporting inaccurate information. For example, erroneous data-mapping can result if the two companies have inconsistent naming conventions or use different metric calculations. Additionally, data entered manually, as opposed to system-generated, is more prone to mistakes and can lead to reporting inaccuracies. This, in turn,

can result in publication of incorrect information and cascade into suboptimal business decisions and reputational damage. Data validation must be a priority throughout an integration.

- **Budget shortfalls.** During underwriting, there's often a lack of understanding about the cost to combine systems and technology for operating without disruption during the first 180 days post-M&A. The investment committee overseeing the deal must ensure that underwriting includes budget for the requisite post-deal integration, which is usually about 2% to 4% of the overall value of the acquisition.
- **Overextension.** Organizations tend to believe erroneously that existing staff can run the business as usual day-to-day while simultaneously creating a new operating platform that integrates the legacy companies' data. This is short-sighted and can produce conflict between managing the business and driving change throughout the entity. Even a strong operator is almost never qualified to lead the tasks essential for success in a large and complex integration and change management program. An external consultant with M&A integration experience can help lead the company through the first 120–180 days, stabilizing the operating platform(s) and controlling the velocity of change to minimize adverse impacts on daily operations.

“physical” or “economic” occupancy. The differences in calculations can cause confusion when trying to compare numbers between firms or consolidate them for portfolio reporting.

Reporting

In the early stages of an M&A, the merging companies must report unified financials and operating performance as a single entity although they are still operating on separate platforms. This bifurcated reporting environment can create a financial reporting nightmare if data inconsistencies are not resolved during the due diligence or transition phase of the acquisition or merger.

Underestimation and constrained resources

Because most companies have never undergone a merger or acquisition, they tend to vastly underestimate what is required to integrate two organizations' data. Furthermore, they almost always lack the resources and expertise to do the integration themselves. Senior executives and department/function leads have to focus not only on running the business as usual, but also oversee all the other aspects of the M&A. They are hard pressed for time to do the important upfront work of defining the data that the new entity will need for research, managing investments, daily operations, reporting to investors, etc.

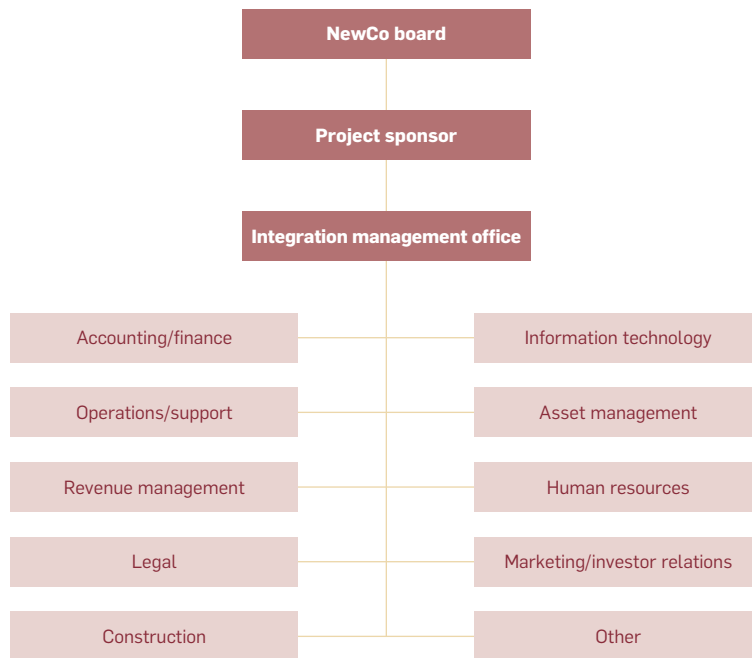
Keys for successful integration

Although significant, these challenges are very manageable if the combining companies apply a rigorous methodology to their data integration initiative (see Exhibit 1). Here's what they must have to do to ensure a successful outcome.

1. **Establish a cross-functional integration committee, or management office,** to plan and implement the integration. This should happen as soon as the intent to merge or acquire is announced, typically six months before the deal closes. Often, the COO of the combined entity serves as the sponsor of the group. Other members may

Exhibit 2: Common structure of an integration management office

The integration management office (IMO) oversees the project, bringing discipline and structure to the work. This group reports to the project sponsor, typically the COO or the CFO of the merged company



Source: RealFoundations.

5. **Develop and execute a data migration plan** to move data from older technologies to newer systems. The plan should consider the level of data granularity of legacy technologies to ensure that these data sets can be consistently moved into the unified ERP. Older technologies and the underlying data sets typically have gaps as well as naming conventions that do not align with modern applications. These discrepancies must be accounted for in the plan and validated for complete and accurate conversion of all data sets.
6. **Create and adhere to a data governance program** to make sure that the new entity's data is fit, or high quality — accurate, timely, consistent and complete — throughout the

organization. The program keeps data fit by establishing and continuously applying an exacting framework of policies, procedures, standards and definitions for how the enterprise will manage its data. It should include a data dictionary that lists and defines every applicable data element that matters to the organization. It also should include company-approved methods for calculating each element, the class of data and data type (alpha, numeric, integer, etc.), information users and the source system from which the data originates.

7. **Implement a change management, or an adoption acceleration, program** to keep employees informed of system changes and new data practices that affect their work. This

helps mitigate disruption to the business and keep morale positive. A good program announces the merger or acquisition and explains how the organizations will form and operate with collaborative, cross-functional teams. It also includes frequent communications to manage expectations, provide integration updates (especially on milestone achievements) and offer training. The latter is key for team members who, post-M&A, have to use new systems and/or handle data differently.

Conclusion

An organization going through a merger or acquisition must proactively plan for integrating its existing and newly acquired data into a single, unified platform. Although a significant undertaking, it is an opportunity for “cleaning up” both companies’ data and structuring the information in a way that empowers the new entity going forward to attain its business goals. These goals include cost savings and synergies envisioned at the outset of the M&A event. An organization only gets one bite at the apple, so it’s crucial to invest the resources and time required to get everything right. Without that investment, the enterprise is likely to develop serious problems that can take months to fix or, worse, lose data permanently, leaving money on the table. ♦

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