

TOPIC

The Key to Commercial Real Estate: Transparency

ADVICE

Look around. What do you see? I see stalled, incomplete, and floundering real estate projects. Some may be victims of the times. But most, I submit, could have been avoided if the investors had demanded transparency from the promoter/developer of the project so that informed decisions could have been made in a timely fashion.

I'm not talking about just the numbers, though numbers are important to decision-making. The root of transparency in real estate is qualitative information, not quantitative. To say it another way, interpretation of the quantitative information (i.e., financials, pro forma, etc.) depends on the underlying qualitative information.

What qualitative information is important? Start with the résumé of the promoter. What is his track record? Has he done this type project before? Has he worked on a project of this scope and magnitude? In short, what is his experience and expertise? He may be a fine homebuilder, but that does not necessarily mean that he can develop a successful swim-with-the-dolphins-themed water park. If you have a heart problem, see a cardiologist, not a podiatrist. Use common sense: look to invest with promoters who have proven themselves in their niche.

Second, assess the promoter's ability to timely deliver accurate, pertinent information in an understandable form. Personally, I have seen only a very few who can. Why? For the same reason we just discussed—information reporting is not a promoter's expertise. Development is. Moreover, it is better for someone besides the promoter to manage the information flow between the project and the investors because a third party provides accountability to the process and assurance to the investors.

A third-party professional able to deliver institutional-level reporting regarding your real estate is the best protection against a bad investment that you can buy. In the event that a project does turn south, you have the assurance that you will know in time to take appropriate action. And even if it seems too late already, a qualified professional may give a floundering project the transparency—and consequent credibility—it needs to keep from sinking completely.



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