

Q. Can you explain your investment process?

A. Whether we're working with private investors or institutional investors, it's important that we first get to know exactly what the client would like. It doesn't do us any good to try to find properties without fully understanding the client's appetite for types of properties, risk profiles, geographic preferences.

So it's really sitting down with the client first and understanding what they'd like to accomplish and what their resources are. That's the first step for the investment team and the asset management team. Once we have an understanding of what the client would like to do, implementing that strategy on the investment side means going out and trying to source assets around the country.

That process requires that we are well known in all major markets. We specialize in office properties, but we also invest in multifamily, industrial and retail. In all those markets we are very well known, both personally and organizationally, so that, when assets are available, people do come to us. We're always on people's lists, as we say.

Usually we have a flood of properties coming in that we look at all the time. Of those properties, we filter down to probably one in 20 that makes sense for our client. We then do a preliminary analysis that involves checking out the market and running some preliminary analyses. If it all looks good, we'll show the asset to the client.

Preliminary Analysis

Once we have an asset that we think fits the client's profile, we'll check with them for their first thoughts about it. With their approval, we start diving in deep in terms of market research, property-level research in terms of the financials on the asset, physical research on the asset, as much as we can do on a preliminary basis. And we do this in conjunction with our asset management team.

This is one thing that differentiates us from other firms. Because we're a relatively small organization, I can get our asset management side involved very, very quickly on anything that we're looking at. Once we've decided that it's an asset we want to pursue, we will start doing some up-front due diligence.

This is generally on a very preliminary basis on revenues, expenses, the market, physical qualities of the building. We'll check with our asset managers to make sure they agree with our initial underwriting. The reason that's important is, if you look at the two sides of the real estate company, the investment side and asset management, the investment side buys the building.

The asset management side has to live with it and has to live with the projections. Unless they are involved up front, it can cause great conflict later. It would do me no good to buy something with very aggressive assumptions that can't be accomplished. So we work very closely. After we've done our initial underwriting, there's a bidding process that takes place.

Offer Submission

Because our clients retain 100 percent discretion on their investments, they are very involved in the bidding process. We provide them with financial models. We discuss assumptions as well as pricing and return requirements with them. And we get pre-approved levels for pricing that we can bid.

LOI Negotiations and Due Diligence

We go through that bidding process. Usually it's two or three different rounds, in great communication with our clients during that time. If we are lucky enough to win the bidding, then a new series of activities take place. Typically in U.S. real estate, if you win a bid you have a 30-day period to finish due diligence. At that time, the investment team is almost like the conductor of an orchestra, where you've got physical engineers reviewing the building, you've got environmental engineers reviewing the building, you've got a contract and leases to review with attorneys, you've got your asset managers to review both leasing assumptions as well as operating expenses in order to put together a budget.

Investment Process

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Offer Submission

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LOI Negotiations

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Initial Due Diligence

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Contract Review
Due Diligence

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Contingency Waiver,
Closing

You've got all these different groups to conduct, all heading toward the same goal over a 30-day period in addition to keeping the client informed.

There are a number of periods within those 30 days where we check to see how everyone's doing, to make sure we're all heading toward the same goal.

Contract Review Due Diligence

When the results aren't what we expected and something has come up in terms of the physical due diligence, or we've found something in the leases that isn't correct, or the models that the broker and seller provided have a mistake in them, then generally it's a negotiated process with the seller to resolve the issue.

Contingency Waiver, Closing

Once the deal closes, this is where the close relationship between the asset management group and the investment side is very, very important, during the handover of the property.

Because we involve the asset manager so early in the process and we will not approve pricing until they have signed off on the assumptions and have been involved in the due diligence period, when we hand off, they know what they're getting. During our due diligence period, they've been interviewing management teams, leasing teams in the market. They've been doing their own independent market review.

So by the time they're taking over a property, it's a relatively seamless process. In all handovers there are going to be little things that come up. But generally, because we're such a small team and we work together so closely, it's a relatively painless process. After that point, our asset management group – again, because we are relatively small and because clients are dealing on a daily, if not weekly, basis with the senior people on our teams – prides itself very much on the communication they provide to clients, their reporting, and its monitoring of the different properties we buy, both on an asset and a portfolio basis.

That includes monitoring through valuations, through budget updates, through quarterly reports to annual reviews of properties on, again, a property-by-property and a portfolio basis.

So when you look at what Metzler brings, both in terms of the investment side through the process of buying an asset, from the handover through the ownership and reporting, I think Metzler brings a very focused approach by all its team members with constant communication with its client to make sure they're always aware of what's going on in the process.

I would say that is what differentiates us from the competition.



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