Business Guides

INTERVIEW WITH PAUL DANESHRAD ON ASYMMETRICAL RETURNS: HOW DO YOU MASTER RISKS VS RETURNS?

Jan 13, 2021, 11:51 am 0

As a potential investor, you face a delicate balancing act every time you consider a real estate project. It's called the principle of asymmetrical returns: controlling risks on the one hand while ensuring high returns on the other. At billion-dollar-plus companies like Paul Daneshrad's StarPoint Properties in Los Angeles, it's the way successful businesses operate day in and day out.

[REIT]

What should you know about asymmetrical returns and how can you use it to your advantage?

We put that and other questions to Paul Daneshrad, a nationally-recognized leader in commercial real estate, to uncover an insider's view of balancing risk against rewards in commercial real estate investments. His firm specializes in acquiring under-performing, mismanaged assets and dramatically increasing their value through repositioning, strategic leasing, rehabilitation and professional management.

How does he know when a project is a good one for him and his clients? We asked him:

As you assess a potential investment, what kinds of criteria do you use to gauge the amount of risk involved versus the potential return? Do you have a formula, proprietary or otherwise?

Daneshrad: Yes, we have a collection of proven formulas built over our 25 years in business. Our proprietary scoring and grading systems look at 22 different metrics that gauge the risks in any potential project. Some of the metrics are mission critical and will give a failing grade to any opportunity that fails to meet our strict criteria.

What are the most common mistakes you see investors making as they consider real estate investments—and what could they do to protect themselves in the future?

Daneshrad: The most common mistakes we see over and over are lack of understanding and discipline when it comes to underwriting and evaluating risk. Investing in real estate is complex and the variables involved need to be properly evaluated, stress tested, weighed and underwritten. Too many people look at the presumed returns and not the overall fundamentals. So how do you protect yourself? Look deep into the details of the deal. Understand every risk. Learn everything you can about how that risk could negatively impact your returns. And finally, don't be in a hurry. Take time to do it right.

Is the concept of asymmetrical returns pertinent only before an investment, or does it apply after the sale in some form of active risk management program?

Daneshrad: You can't forget about asymmetrical returns just because you've closed what looks like an exceptional deal. Delivering above-market and asymmetrical returns requires active management and strong property level execution for as long as you own the property. This means delivering aggressive risk management, proper customer service, constantly leasing and being in the market, and proper preventative maintenance to reduce operating costs over time. These are just a few of the many operational requirements that are required to deliver the results you first envisioned before you closed the deal. Once you begin, the process never stops.

We hear real estate investment firms talk about asymmetrical returns in their marketing and other communications. How can we as investors determine whether those firms practice what they preach…and that their research protocols are authentic, in-depth and on-target?

Daneshrad: I would suggest you look at results. A firm's results over a long period of time, benchmarked against other investments and their peer competitors, should tell you everything you need to know. A stand-out firm delivering asymmetrical returns should be able to beat most alternative investments and industry competitors by a significant margin. For example, our historical returns at StarPoint Properties show a 30% annual rate of return, far in excess of what many of our competitors have been able to achieve.

How have risks changed during these times when more employees are working remotely and more consumers are buying online?

Daneshrad: Undeniably, this pandemic has had a large influence on real estate. It's been a trend accelerator for on-line shopping which supports industrial and multi-family asset types while putting pressure on retail and office assets. Has it affected us strategically? Absolutely. For example, we have red lined all office investments for a minimum of 3 years.

Paul Daneshrad’s Final Word: It’s all in the details.

Whatever commercial real estate project you’re considering, Daneshrad contends, you absolutely must pay attention to details. Successful investing requires a relentless commitment to minimizing risks while maximizing rewards.

The more skeptical you are about returns and the more cautious you are about risks, the more successful you will be.