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Paul Daneshrad on Why Details Matter: The Success/Failure Differential

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As an investor, you already know that some investment opportunities succeed while many fail. Are there common causes that turn a deal sour? Are there "deal killers" that prospective investors tend to overlook?

Taking it one step further, what should investors look for in the investment firm that offers these deals?

We put these and related questions to Paul Daneshrad, CEO of StarPoint Properties, the billion-dollar investment firm located in California but serving a nationwide market. Daneshrad is a recognized expert and pre-eminent thought leader in commercial real estate investment.

Paul, in your experience, what's the number one reason so many real estate investments do not measure up to their perceived potential?
Daneshrad: That's easy: poor underwriting and risk assessment. I've seen so many deals in the past 25 years that looked really promising at first glance. But then we examined them closer, much closer, and found major reasons to pass on the opportunity. One of the major mistakes investors make is not understanding that some of the most critical risks are not always apparent, and that the potential for rewards takes a lot of work and foresight. They don't understand how to minimize or eliminate risks, or how to maximize the potential for high returns. So many investors fall in love with a project and plow ahead, only to uncover major problems down the road. If you practice the principle of asymmetrical returns, as we do, you protect yourself from nasty issues that can kill a deal.
Why are some real estate investors more successful than others?
Daneshrad: We already talked about the importance of underwriting and in-depth risk assessment. Those are critical elements many investors overlook. But another major component of investment success is great management. You need managers who are not

only masters of their trade but also know how to motivate staff, build effective teams, install procedures and initiate follow-through with both clients and coworkers. These are unique individuals and quite rare. In the end, though, great management teams deliver greater success.

What does your company do to identify and track critical investment details that can make or break a deal?

Daneshrad: First, there's what we don't do: We don't let our emotions or excitement make decisions for us. No matter how great a project looks initially, we take a totally objective, highly detailed approach. Over the past quarter century, we developed our own proprietary systems, underwriting, due diligence requirements and risk assessment processes that weed out 99% of all the bad assets. We look at 100's of transactions before one passes our requirements.

Can you share some instances where attention to detail has helped your firm avoid financial disaster and turn a project into an overwhelming success?

Daneshrad: We have many, but one that comes to mind is a building we purchased in California that was 40% vacant due to improper management. It was in a market where our financial forecasts indicated we were going to see significant rent growth over the following 5 years. We leased the building to 98% and, as we had forecast, rents grew by over 40%. Ultimately, that building we purchased for $10m in equity grew to $44m in equity over 5 years.

What should investors look for in a real estate investment firm? How do you separate the "good guys" (those who know what they're doing) from the "not-so-good guys" (those with spotty records of success)?

Daneshrad: I always recommend looking at the firm's results over a long period of time and comparing them to their peer competitors and various other investments. A stand-out firm delivering asymmetrical returns should beat alternative investments and competitors by a significant margin. For example, our historical returns at StarPoint Properties show a 30% annual rate of return, far in excess of those posted by our competitors. Measuring long term results versus short term tells you more about a company and their performance capabilities than any sales literature or fancy presentation ever could.

Are some details in a project so unpredictable that there's no way to prepare for them? What about disruptions from nature: floods, earthquakes, tornados or hurricanes?

Daneshrad: Naturally, there will always be factors that cannot be predicted or prepared for. One great example is a worldwide pandemic. Who could have predicted Covid or the enormous impact it has had upon every aspect of our economy?
The good news is, however, that proper insurance, maintenance and risk mitigation can prevent or insure against 95% of all potential risks. When you have competent managers, all of these elements will be in place and protecting you when you need them most.
Bottom Line: Details Matter.

Developing an eye for details and painstakingly analyzing both problems and opportunities could well be the key to short and long term success in real estate investment.

According to Paul Daneshrad, you can never be too careful.

“For every opportunity we buy into,” he says in conclusion, “we turn down hundreds of others. That’s how important details are and how careful you should be, as well.”