

## FIRST WORD

### Asset Managers Shine in **Gloomy Marketplace**

**J**ohn Combs is the happiest person at industry cocktail parties these days, and for good reason. RiverRock Real Estate Group, the asset management services firm he founded just over five years ago, is on a roll. Combs launched Santa Ana, Calif.-based RiverRock using \$1.5 million of his own money before he ever landed a single account.

In the last six months, the company's revenues and total square footage under management have grown by 25%. RiverRock now manages a portfolio of 10 million sq. ft. and operates nine offices, three of which opened in the past six months. During that time, the company has hired 10 people.

"For the first time in three years, I don't take sleeping pills anymore," says Combs. His mind is at ease. But with the commercial real estate industry mired in quicksand as owners struggle to refinance their properties and the U.S. economy continues to suffer steep job losses, how can it be that RiverRock is expanding?

#### Back to basics

A growing number of investors struggling with how to create value and generate cash flow for their real estate assets

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are searching for answers. "It's clearly the time of the asset manager," insists Combs. "The guys who were flying in jets and doing the transactions — it's not their time right now. It will come back."

In October, nimble RiverRock was one of the first service providers out of the gate to launch a value maximization unit to assist private capital buyers, real estate owners and government with at-risk assets under the \$700 billion Troubled Asset Relief Program (TARP). The new unit is specifically designed to help stabilize distressed assets.

While it remains unclear if the U.S. Treasury will allocate TARP funds to the troubled commercial real estate industry — which is lobbying the government for access to a special credit facility — the strategy behind the value maximization model is a smart one that could apply to any asset. "Today it's all about how to create cash flow, focusing on getting the expenses down and keeping the building occupancy full," says Combs.

Much like a heart attack, a distressed asset can strike suddenly given the short supply of credit tenants today. One of

Comb's clients, an owner of three big-box retail sites in California, is scrambling to fill the 80,000 sq. ft. stores

after a national retailer went dark and rejected the leases in bankruptcy proceedings. The owner acquired the properties through a 1031 tax-deferred exchange, and the assets are part of his retirement fund.

RiverRock was hired to formulate an asset plan that includes identifying potential replacement tenants for the retail sites to prevent the bank from foreclosing on the properties. "The owner is out of state," explains Combs. "He needs people on the ground to help him develop asset plans that the bank would gain confidence in to keep the assets, and get them cash flowing again."

The commercial real estate industry is only in the third inning of a nine-inning game in this down cycle, with a wave of workouts and foreclosures to come, Combs predicts. But he definitely sees a silver lining. "What is so exciting is that through this horrible meltdown there is going to be a major new world order in commercial real estate. There is going to be a whole new set of major owners of properties. It's going to drive huge opportunities for everybody."

#### Entrepreneurial spirit

It's only fitting that Combs find opportunity amid a crisis because that's exactly what he did when he launched RiverRock in August 2003. Earlier that same year he was serving as president of U.S. property services for Insignia/ESG, specializing in leasing and management, when CB Richard Ellis merged with Insignia/ESG.

Recognizing that there wasn't a comparable job for him in the newly combined company, he left before the merger was complete. After consulting with his business coach, Combs made the big transition from powerful corporate executive to small business owner, and he never looked back.

But not everything has gone according to plan. His objective was to amass a management portfolio of 30 million sq. ft. within three years, but he only recently reached the 10 million sq. ft. milestone after five years. While he acknowledges that growth in the early years occurred at a much slower pace than anticipated, he is proud of the service platform that he has developed. "I built this company to last and to grow." And now it's his day in the sun.

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