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Why Cubs, real estate are the same: Moneyball but on a different field

THE REal DEAL

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It was a chilly fall evening back on Oct. 28, 2013. For diehard Chicago Cubs fans such as me, we had just finished an utterly painful season whereby our beloved Cubbies finished with a record of 66-96 and last place in the National League Central.

At the time, it had been 105 years since the Cubs won a World Series title and, after this utterly dismal season, it was difficult for Cubs fans to embrace any notion that a championship title was coming anytime soon.

It was on this evening that Tom Ricketts, the Cubs chairman, and Theo Epstein, the operations president, were guest speakers for the Economic Club of Chicago, in front of hundreds of antsy Cubs fans, including myself.

For Theo, this night was just two weeks following his second anniversary with this downtrodden but beloved and cherished organization. After the 2013 season, the outside perspective was that this could not have been a speaking engagement either of these gentlemen was looking forward to.

Once past the formal niceties and introductions, Theo and Tom's presentations took more the form of a college statistics and economics class rather than an interpretation for a frustrated black-tie audience as to how the new management of this adored ball team was different from what it was in years past.

It was a discussion centered on the principles of "strategy" and "execution." For an hour, the audience closely observed spreadsheets, graphs, bell curves, discussions of the "value" of homegrown players, paying for "future" performance rather than paying for "past" performance and other mathematically based explanations. They took these numbers and spoon-fed the audience with real-life applications.

They showed us statistics and highlights about young, recently drafted and relatively unknown prospects in the farm system such as Kris Bryant and Javier Baez. They explained to us all how this mind-numbing and complicated mathematical analysis would indeed be a key part in achieving the ultimate success in this business — winning a World Series title.

And it worked. It made sense to us all.

We walked out of that ballroom after that abysmal 2013 season feeling like we were on top of the world, like a World Series title was right around the corner if we were all patient and let them do what they were hired to do — rely on their strategy and let them execute it. And here we are, four years later, and the 2016 World Series champions.

Had there been some luck involved in achieving the holy grail of baseball last year? Of course, and most baseball professionals would agree that the mathematical and statistical analysis employed by Tom, Theo and the management team provided the clear pathway to success.

There are some great lessons a real estate investor can take away from the Cubs' recent success — lessons which have been discussed in previous articles in this column but ones that always ring true and deserve constant reinforcement.

First and foremost, a real estate investor should never make a decision to purchase, hold or sell a property based on pure emotion. The Cubs are in the business of winning baseball games. A real estate investor is in the business of making money.

Acquiring a big-name free agent by the Cubs may, at times, put people in the seats at Wrigley, however, if that player costs more than his future value warrants, this new Cubs organization has proven that it will not pay a price that is not in line with its detailed analysis and future goals.

Likewise, as a real estate investor, it is imperative that the investor completes their own detailed financial analysis on any property being targeted for purchase.

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Before the Cubs purchase a player, they may review numbers such as batting average on balls in play (BABIP), defensive runs saved (DRS) or on-base plus slugging (OPS). Likewise, before buying any real estate asset, a savvy investor should closely analyze a target's net operating income (NOI), cash flow after taxes (CFAT) or internal rate of return (IRR), for example.

Additionally, just as the Cubs organization has hundreds of people assisting with efforts to make it successful, a real estate investor should rely on their own team of professionals to help achieve their goals.

Property analysis, contract negotiation, due diligence analysis, loan underwriting and closing activities all require the discerning eye of various real estate professionals — brokers, attorneys, accountants and lenders alike — to achieve the target goals of a real estate investment.

The Chicago Cubs were certainly not guaranteed success by the strategies applied by Tom, Theo and their team.

There was obviously a certain amount of luck involved. With small exception, the players they acquired certainly lived up to the "numbers" expected of them and calculated by the organization during their "due diligence" of each prospect.

There were few unexpected injuries or other unforeseen factors which took their well-laid plans off track. Likewise, as a real estate investor, perfectly prepared financial analysis and planning does not guarantee success. Unforeseen circumstances such as latent construction defects, unknown environmental issues or changing market conditions are always risks that cannot be necessarily underwritten in advance.

However, like the Cubs, relying on solid, unbiased and unemotional financial analysis on the front-end of any acquisition greatly increases one's likelihood of success.

When armed with such information, and with a little luck, you too can hopefully be a champion with each real estate investment.