

Abstract

Current Trends in Management of Real Estate Investments

Management implications for the new role of the asset class real estate – results based on best-in-class comparison manager

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Changed market conditions lead to new challenges for Real Estate Investment Management

Trends in Real Estate Investment Management

- Increasing relevance of real estate as a core asset class
- Shift from direct investments to indirect vehicles
- New challenges for product development by increasing demand and necessary differentiation
- Rising complexity by an increasing number and typology of vehicles
- Central role of the fund/portfolio manager with increasing orientation on performance and personal top down control
- Increasing importance of financial engineering in addition to fiscal and legal issues

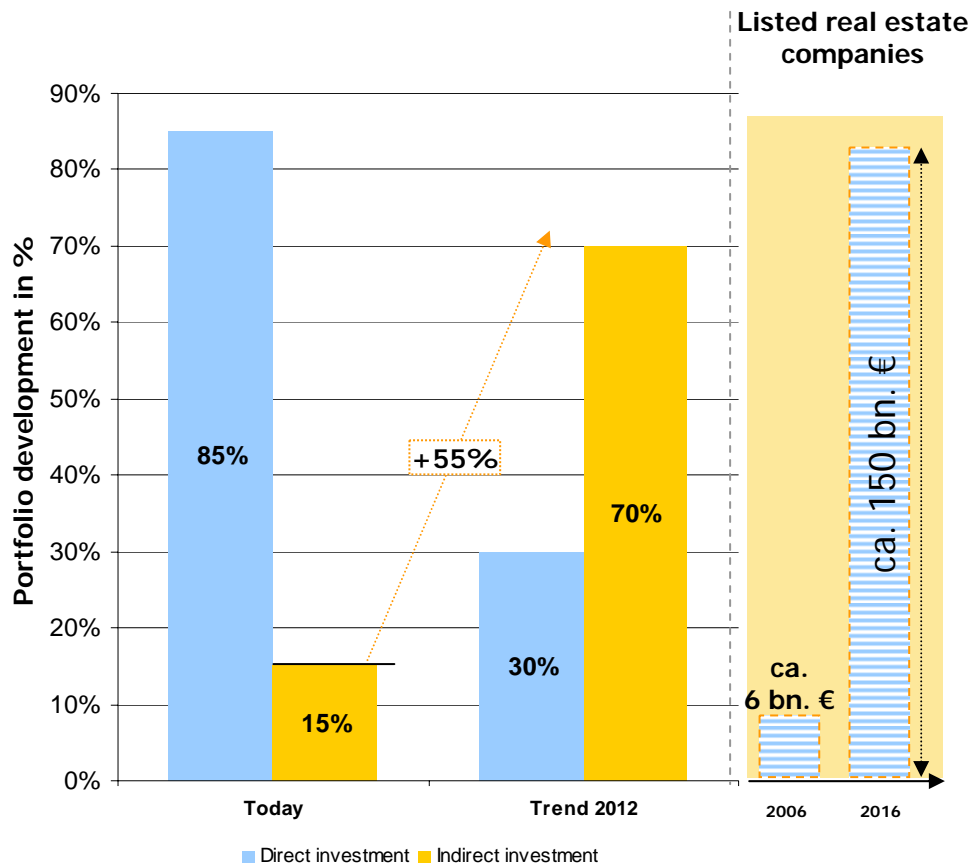
Reactions of best-in-class partners

- Range of products and services
 - Professional approaches in product development processes, synchronized with planning process
 - Integration of cross-functional departments
- Day-to-day management
 - Increasing application of sophisticated and professional approaches in real estate investment management
 - Implementation of performance orientation and top down control by the fund-/portfolio manager
 - Core functions of REIM encompass mainly strategic issues. Operational functions at property level are increasingly outsourced

Trends and developments in Real Estate Investment Management (REIM)

The shift from direct investment towards indirect vehicles has numerous implications for investment managers, especially concerning approaches in product development and continuous product management

Development of real estate investments



Challenges for managers

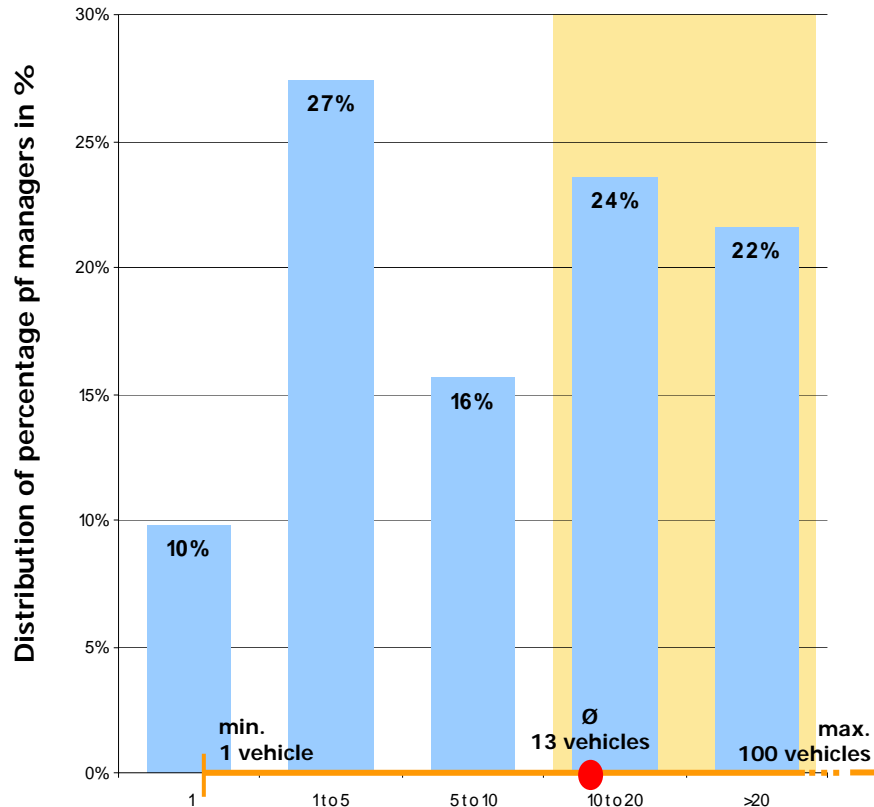
- Growth of indirect real estate investments
- Investor competition and shortage of properties
- Additional assessment criteria through increasing number and variants of indirect investments
- Growing requirements by auditors, formalities and legislation
- Increased globalization of investment markets requires international management know-how
- Higher speed of transactions instead of „buy and hold“
- Manager rating is growing in importance:
 - Leadership quality
 - Process quality
 - Information quality
 - Success and quality of management

Source: I.C.M.E. survey regarding institutional real estate investors 2006/2007–130 international investors were interviewed

Trends and developments in Real Estate Investment Management (REIM)

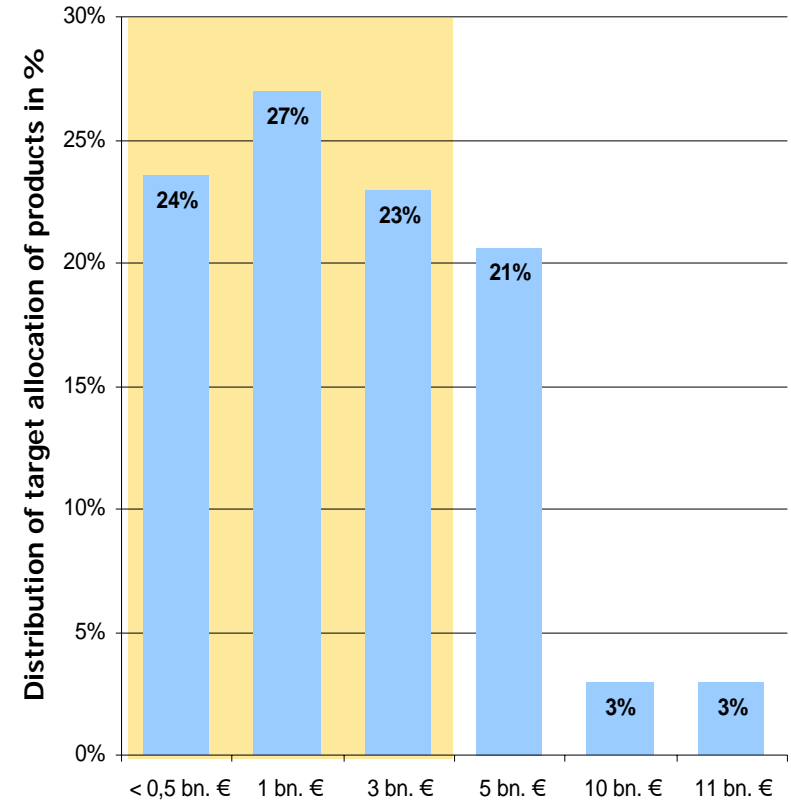
Rising complexity through increasing number of vehicles requires professional approaches in investment management analog to investments in securities. The market indicates a trend towards higher quantity of products with decreasing target volumes

Number of managed products



Almost 50% of investment companies have more than 10 real estate vehicles in their product portfolio with upward trend

Target volume of products



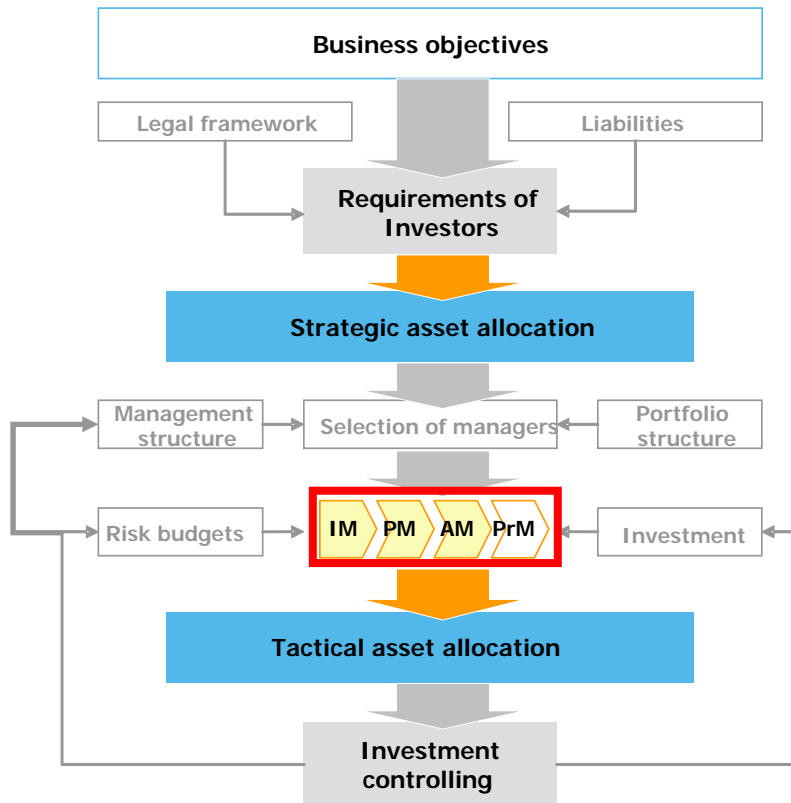
74% of the products possess a target allocation below € 3 bn.

Source: I.C.M.E. research 2007; I.C.M.E. – Best-in-Class REIM-Survey 2007

Management implications and characteristics of REIM

Reorientation of classic investment management functions to heightened consideration of corporate strategic and general management issues

Shift in REIM task profiles

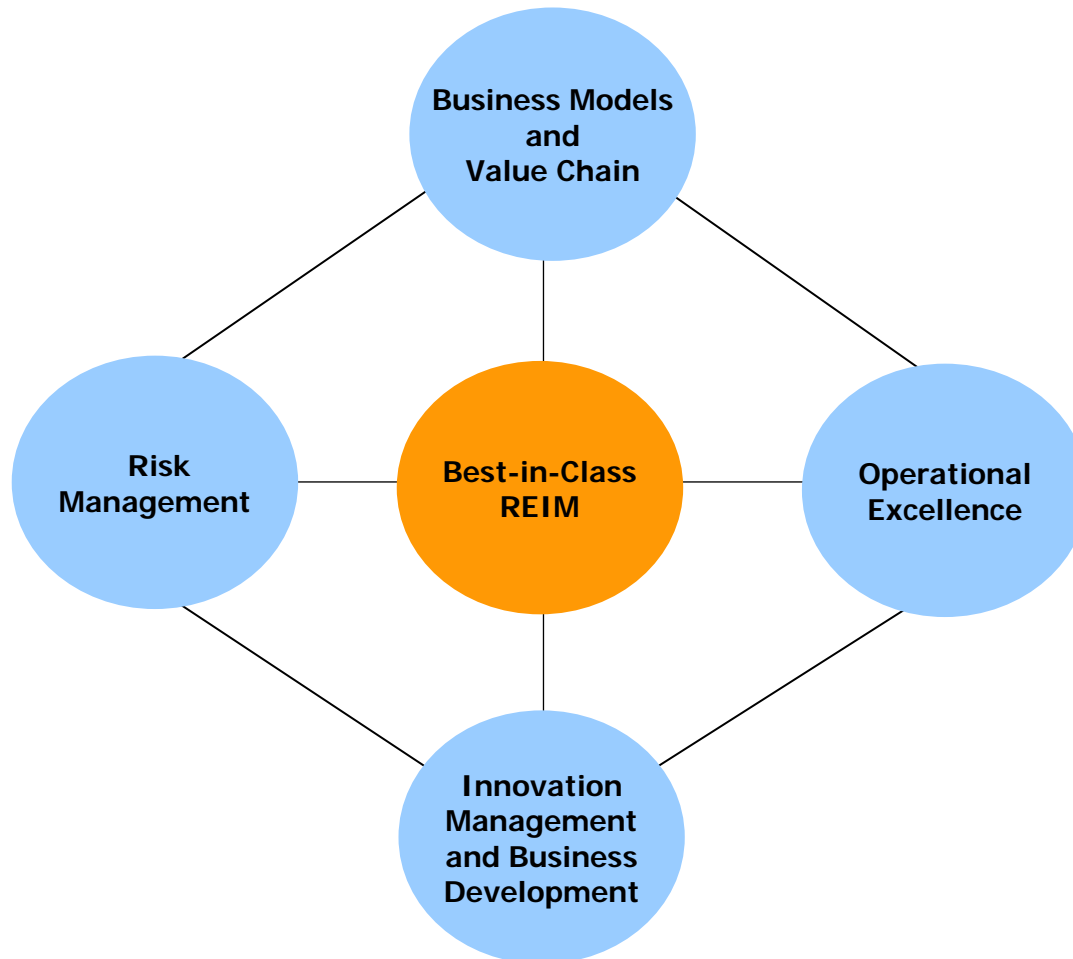


Essential management implications

- **Changes in strategic focus**, driven by profitability objectives, by customer demands and internal core competencies. Core elements of a successful strategy are
 - Clearly defined and communicated business strategy
 - Continuous screening of external market environment
 - Knowledge of individual investor requirements
 - definite strategic planning process implemented throughout the entire organization
- **Operational excellence**
 - Investment process has to be considered within the entire organizational framework
 - The organizational framework provides essential success factors for the functioning of the investment process
 - Thus functions like risk management, business development, controlling etc. as support functions outside of the investment process gain increasing importance
 - Redefinition of the term “regionalism” and respective different models arise for operative implementation
 - Alternatives for realization with potential external service providers need to be assessed

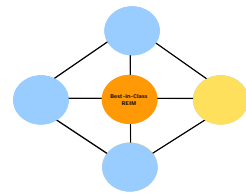
Management implications and characteristics of REIM

Topics and trends in the management of real estate investments



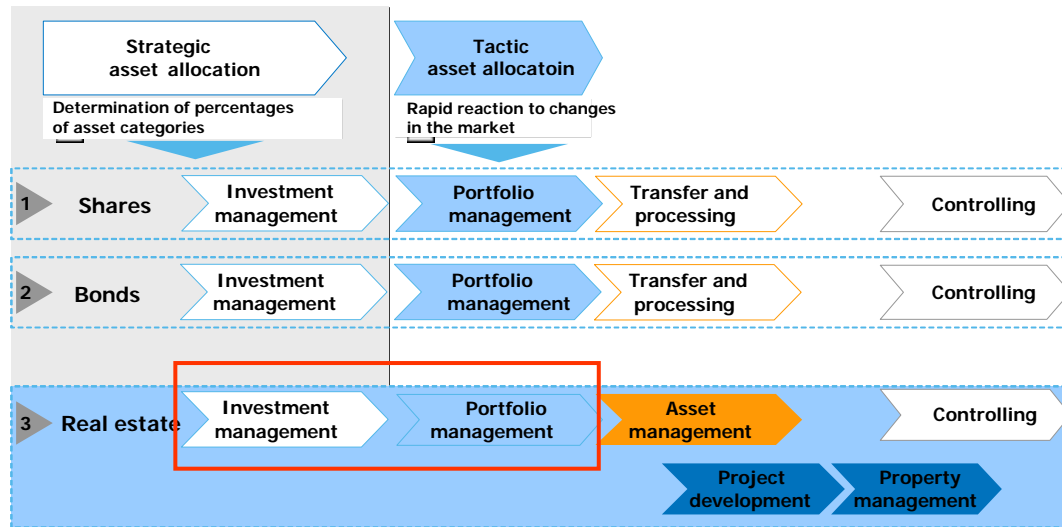
- **Business Model and Value Chain**
Business model in times of increasing complexity in REIM caused by products, contractors and internationalization
- **Operational Excellence**
Realization of absolute return through professional management of the entire investment process and pursuit of excellence on each organizational level
- **Innovation Management and Business Development**
Implementation of defined functions and procedures to invent new products, concepts and vehicles to increase adaptability to market changes
- **Risk Management**
Consideration of risk components at portfolio level and within investment operations

Management implications and characteristics of REIM



Trend towards indirect investment and growth of real estate in portfolios institutional of investors lead to increasing proficiency of the REIM-industry

Standardized definition of the investment process across various asset classes



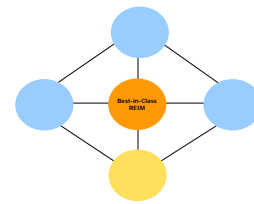
➤ *Reorientation of investment managers by professionalizing the real estate investment process*

➤ *Traditional focus and functions of real estate investment managers so far*

Development of portfolio management approach in asset class real estate

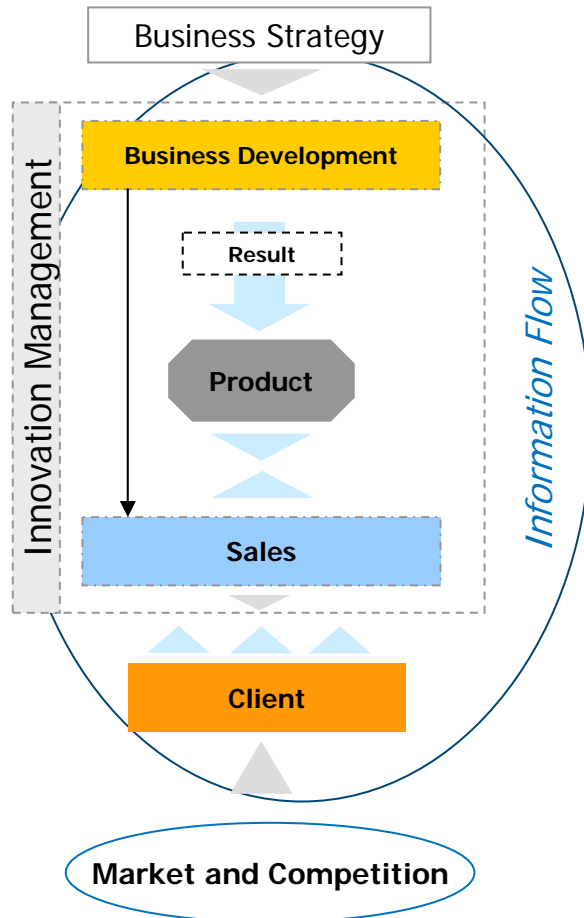
- Increasing complexity and importance of real estate portfolio management requires integration on all stages of the investment process
- Therefore, activities at investment- and portfolio (fund) management level are gaining importance within the real estate investment industry
- Special attention needs to be drawn to tax/fiscal as well as financial aspects for investment vehicles (wrappers)

Management implications and characteristics of REIM



Design of products in accordance to market, investors and sales force, in line with the defined business strategy

Innovation management within REIM



- Structure of BD department according to product, client and sales requirements
- Different models are possible and have to be customized according to background on an individual basis
- Dependencies are given by product portfolio, number of employees, and competencies of employees
- Design of a determined structure and definition of processes in order to
 - prioritize product ideas/topics by an independent unit
 - integrate all relevant internal units
 - collect information about markets, investor, sales as well as aggregate information of internal cross-functional units
- Central unit with initiating role for ongoing innovation management concerning strategic issues as well as operational fields of action within REIM



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