

- PRESS BRIEFING -

Current Trends in Real Estate Investment Management (REIM)

Management implications for the new role of asset class real estate from a Best-in-Class comparison of leading real estate investment managers.

I.C.M.E.- Global Real Estate Investment Management Survey

Munich, 18. September 2007 – Changed market conditions lead to new challenges for Real Estate Investment Management – current trends can be identified for investment managers in Product Development and in day-to-day Product Management. Best-in-Class comparison of leading property investment managers indicates an increasing professionalisation in Real Estate Investment Management activities as well as a trend towards higher product volumes with decreasing fund sizes. “Property investment managers are more and more turning into fund-warehouses owing to the growing range of vehicles in their product portfolio” states Ralph Siebald, Partner of I.C.M.E.

The management consultants of I.C.M.E. have drawn this conclusion from their survey “Current Trends in Real Estate Investment Management,” which was put together in cooperation with the initiating participant and sponsor Union Investment Real Estate AG. Activities in Product Development and in Product Management require increasingly sophisticated approaches. However, there is still large potential for real investment management companies in regard to their internal structures and processes.

The Best-in-Class comparison of leading real estate investment managers enabled an analysis of the activities in Product Development and current Product Management through a series of interviews. The results infer current and future trends in Real Estate Investment Management (REIM).

Competition in Real Estate Investment Management will continue to increase. Largely responsible for this are new initiators of Real Estate products, as well as the intense competition in real estate investments. Real Estate as an asset class gains greater importance in the portfolio of institutional investors with a portfolio increase of up to 13 percent within the next two years. The “shift” from direct investments to indirect vehicles will have numerous implications on investment managers particularly in Product Development. The increasing complexity due to the rise in the number of products and the growing external requirements on Operation Management demands a professional management approach analogue to security funds. Ralph Siebald quotes, “Where in the past a manageable number of investments with high target allocation used to be managed in the portfolio of many vendors, the trend now seems to be a

larger number of products with decreasing fund sizes." At the best, ICME recommends to build up specific market or branch know-how in order to promote genuine product innovation. The investment universe will continue to grow due to new real estate markets developing on a global scale. Product trends are mainly niche topics concentrating on specific sectors or individual target regions. New challenges at investment level are caused by increasing possibilities due to new product vehicles such as real estate investment trusts and fund of funds, which will become all the more complex through the additional integration of derivatives, share deals etc. Real estate is, as a result, developing increasingly towards a financial product. Precisely, performance leverages on investment and portfolio level need to be emphasised.

Regarding activities in Product Development, a strong need for improvement exists for many vendors

According to the results of the survey, Best-in-Class vendors react to trends and increasing market demand for real estate with professional procedures in Product Development. Constant screening of competitors, of the property market, as well as steady consideration of investor demands guarantee innovation leadership and access to a pool of new inspirations.

Best-in-Class vendors demonstrate integrated approaches for idea generation, decision making and implementation through a clear and structured Product Development process. Separate development units manage procedures and processes as well as internal and external participants. Furthermore leading vendors make use of strictly defined strategic input parameters to ensure the appropriate fit of the product range with the entire strategy. Besides Ralph Siebold states, "Best-in-Class demonstrate shorter development periods in operative implementation. In comparison to those interviewed, the development period for a new product was anything between two and nine months. A difference of seven months is definitely far too long."

Real estate investment managers adapt professional approaches from security funds and apply them to the real estate investment process

In day-to-day Product Management, fund responsible portfolio-/fundmanagers are more and more common market practice. Decisions are basically made by an investment committee, which is composed of different functional members. Portfolio-/Fund Management with its instigating function is normally responsible for the performance of the entire investment process. This performance orientation is always implemented to a large degree with a variable payment schemes, which may make up as much as 50% of the salary.

The key value in REIM today is the strategic management of investments at investment and property level. Increasingly important are critical investment management functions such as Research, Portfolio Control and Financial Engineering.

Purely operative tasks at property level in Asset- and Property Management are increasingly being outsourced.

On portfolio level the conflict of property allocation is often reduced through well-defined fund profiles. In the case of an overlap the allocation is designated according to a rotation principal with to some extent complex mechanisms. Less positive was that only few of those interviewed had an adequate Risk Management System, calculating quantitative key figures (i.e. VaR), performing regular stress tests and being organisationally integrated in the entire organisation with defined risk management roles and processes.

Reorientation of traditional real estate management functions to heightened consideration of corporate strategic issues and general management

The new meaning of the asset class requires increased understanding for the overall management and product environment with the emphasis no longer merely on property. The change from "gut feeling" oriented to information oriented investment necessitates approaches based on capital market theory, forcing necessary changes in the traditional profile of real estate investment managers. The strategy focus in the future will be driven by economics, client demands and an ever more complex property market environment. The investment process in its extended function should be viewed as an element within an adequate and excellent organisational environment. Critical issues in the management of real estate investments in the future are:

- Business model and degree of internal value added of REIM managers, against the background of increasing complexity in REIM as a result of products, vendors, internationalisation
- Achievement of active returns through professional management of the entire investment process, as well as attaining operational excellence within the entire organisational environment
- Implementation of fixed functions and processes in Product Development, to be able to react to increasing competition with new products, subjects and vehicles
- Consideration of risk components on portfolio level and within investment operations for active management of risk parameters

Real Estate Investment Management in comparison to traditional security investment products is characterised by much more complexity. This implies that internal processes and structures must follow transparent and defined principles. Without this

the stringency, transparency and repeatability of processes within internal operations are jeopardized. As a result, the overall risk potential increases and active returns remain unexploited.

The I.C.M.E. survey is based on expert interviews and information from the survey Best-in-Class Real Estate Investment Management Businesses.

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