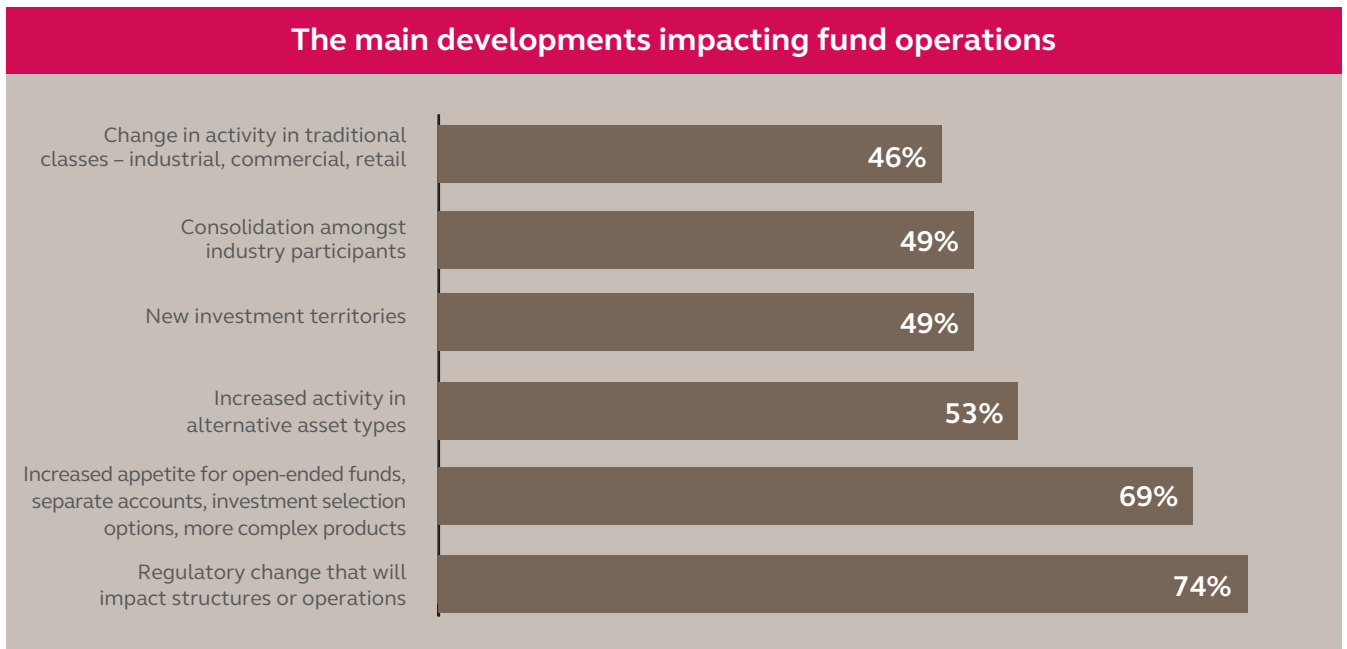
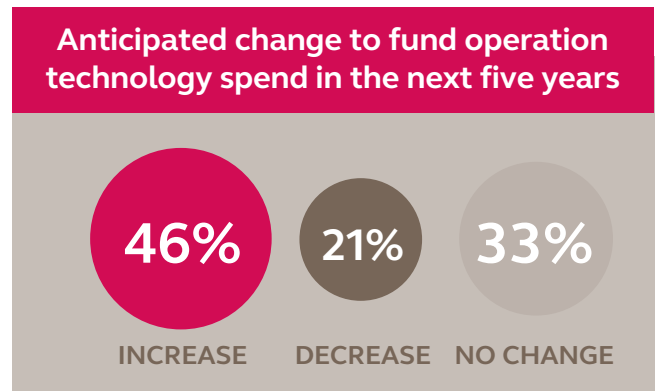
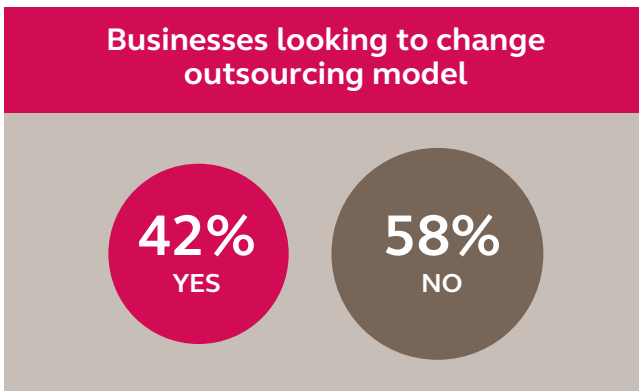
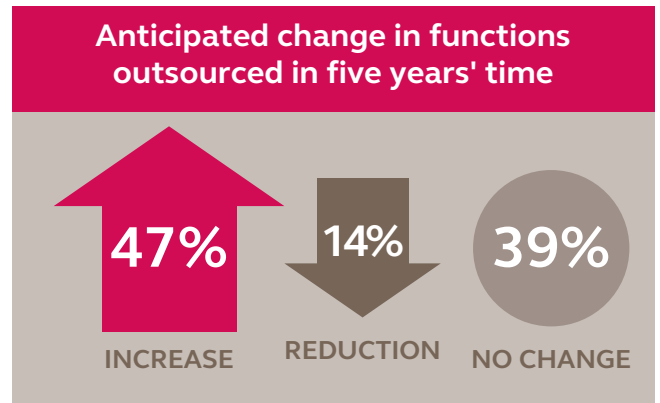
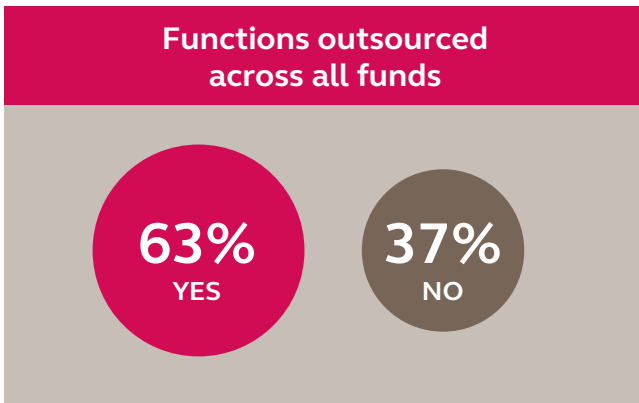


Real Estate Fund Operations Have They Reached An Inflection Point?



100% of CEOs surveyed named regulation as a major development having an impact on their operations.

Technology spend seems likely to continue to be a significant budgetary item for RE funds over the next five years.

Executive Summary

This report focuses on the global non-listed real estate (RE) industry. It is a market that has changed significantly during the last 25 years and continues to evolve. It has become democratised to the extent that it is now a sub-asset class on the radar of a much broader range of investors.

Operationally, the RE fund industry is changing quite dynamically and one of the principle drivers is post-financial crisis regulation. This is leading to greater transparency, efficiency and effectiveness. For this and for other reasons that we explore, the RE industry seems to have reached an inflection point and business models may need to change. A result of this is consolidation among firms across the industry and a close examination as to how their various operational functions are carried out.

This report focuses on four main areas as outlined below. In order to learn about these we spoke to senior executives of real estate Asset Managers (AMs) and Sovereign Wealth Funds (SWFs).

1. Factors affecting business operations

Regulation is by far the main factor impacting these businesses. Others include: changing investor appetites, especially increased interest in alternative asset classes; the development of offerings related to new geographical territories; and consolidation among industry participants.

However, while these trends emerged in the course of our research, there are geographical differences in the impacts of these factors. Also, executives with different responsibilities within their firms often hold differing opinions as to the extent of these impacts.

2. The operational model: insourcing vs outsourcing

We queried respondents on the extent to which their businesses outsourced particular functions. We found that in the majority of cases, over half of those functions were retained internally, although, in principle, it would have been possible to outsource a higher proportion.

The picture, however, was mixed across all functions and geographies. Some firms

outsourced functions because of how critical they were to their business. Others kept them in-house for the same reason. Therefore, the use of outsourcing appears to be subjective to individual businesses and, moreover, is a changing picture. Functions retained today may be outsourced at a later date.

3. The outsourced model: what is driving change?

Where respondents thought it was likely that they would outsource in the future, we wanted to explore their approach to decision-making. Would they do so on a fund-by-fund basis? Would they use preferred providers for particular functions or for a number of operations? And would their outsourcing choices be made on a country-by-country basis?

The conclusion we reached was that both AMs and SWFs adopt a matrix approach to outsourcing and to their choice of providers. The matrix could include cost-saving, changes in legislation or government policy, a drive to centralised procurement within their firms and also the characteristics of their potential provider, i.e. whether it would be 'a good fit'.

4. Technology: now and in the future

In the context of increasingly complex data requirements, often driven by compliance requirements and reporting duties, IT expenditure is important for both AMs and SWFs. Seventy-nine per cent of respondents believe that their IT spend will remain the same or increase in the next five years. They would also prefer the IT they need to be provided internally rather than outsourced for key functions such as company secretarial work and performance analysis. At the same time, they recognise that they are working in an industry that is evolving and remain agnostic as to whether or not to outsource their IT in the future.