VISTRA

Global Real Estate Trends
A Vistra Perspective

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"The real estate sector continues to evolve rapidly and in ways that some of us may not have predicted a mere 12 months ago."

The Changing Face of Global Real Estate

As we enter Q4 2019, it seems an appropriate time to take stock of some of the key trends and issues affecting the real estate sector and examine what has happened in the year so far, and what we can expect in 2020

Michael Sheahan
Global Sector Lead – Real Estate

It's fair to say that we live in very interesting and somewhat uncertain times. Whether through a US-China tariff war or the broader uncertainties surrounding Brexit, a challenging geo-political landscape is having a far-reaching impact on the global economy.

At the same time, technology is pushing businesses to new heights – and to new limits. Not only is it changing the way in which we shop and ship goods, but the sheer weight of data being created is helping us make more effective decisions than ever before.

Sitting at the heart of this is the real estate sector, which continues to evolve rapidly and in ways that some of us may not have predicted a mere 12 months ago.

As the industry prepares to gather at EXPO REAL in Munich on 7-9 October – celebrating the 21st anniversary of Europe's largest real estate and investment trade fair – we felt the timing was right to examine some of the more significant developments in the real estate sector in Europe and beyond.

At Vistra, we canvassed opinion on some of the major issues and trends that we have observed and those that we think will have an impact going forward. And we have put them together in this publication for your consideration.

My Singapore-based colleague Caroline Baker and I deep-dive into the rise of Asian investment into Europe – looking at the key drivers and trends, as well as considering whether this will continue in the coming years.

We also take a close look at the growing student accommodation sector across Europe and question whether the UK – a global leader in this area – will soon be outstripped by Continental Europe.

As many real estate professionals are critically aware, tax implications play a large role in the decision-making and ongoing administration of our industry. So we focus on a number of issues that particularly face Poland and Germany from a tax perspective.

And as Brexit looms – the UK is due to leave the EU on 31 October – we consider whether the Netherlands is destined to be one of the biggest beneficiaries of what has been a dramatic time for the continent as a whole.

We hope you enjoy the insights in this magazine and that they provide you with much food for thought.

Michael Sheahan,
Global Sector Lead – Real Estate

What's Inside

Asian Investors Make the Move Into Europe

Vistra's Caroline Baker and Michael Sheahan examine why Asian investors are increasingly targeting European real estate markets, the countries and property types they are focusing on, and the drivers behind this significant shift towards the West

Caroline Baker
Managing Director,
Vistra Asia

Michael Sheahan
Global Sector Lead –
Real Estate

What is the current state of play for Asian investors looking at Europe? Are they targeting particular types of assets?

Michael Sheahan. Right now, there is a real focus on logistics for Asian investors – although that's also true of real estate investors generally. Logistics is the hot area that has been growing significantly and being chased quite aggressively, and this is probably reflective of the shift in the way people shop. Second to logistics would be office space, which remains attractive.

In alternative real estate, there's definite interest in student housing and co-working space – these are getting more attention from investors generally and Asian investors in particular.

Caroline Baker. I'd second everything that Mike has highlighted. From our position in Singapore, we're definitely seeing logistics as a preferred type of asset. What's more, the global logistics market is set to expand, so Asian investors are likely to remain very interested in properties in this sector.

Alongside that, commercial property remains a core element of their investment programmes, and we have also seen movement in student accommodation. Indeed, we currently have one fund that is completely focused on student accommodation. While it's certainly nowhere near the majority, it's an increasing percentage of what we are looking at.

On the flipside, have any asset types fallen out of favour recently?

MS. Retail is an area that is getting less focus than it has historically, and it's interesting to note that this is happening at the same time as there is increased interest in logistics.

One particular trend we're seeing in that space is more diversification of asset use – for example, adding or increasing residential components to complement large retail developments. We think that's a trend that will gain more momentum.

Are any European countries of particular interest to Asian investors?

CB. It does depend on the type of fund – whether they're core or opportunistic. The opportunistic funds are tending to look more at developing Europe. In places like Central and Eastern Europe [CEE], Warsaw is a very big investment destination. Meanwhile, some of the more established funds are looking at 'second-tier' cities, such as Amsterdam, Madrid, Helsinki, Lisbon and so on.

A lot of this boils down to what investment appetites are like and where there are deals to be had. We have seen a number of deals go into the UK property market, but they tend to be smaller deals than they were previously. I would say that core investments have shifted out of the UK, predominantly to Germany and Paris.

MS. Like Caroline, we still see capital going into the UK, but there is some wariness as a result of Brexit and currency fluctuations between sterling and the euro. I'd agree that there is plenty of activity in Continental Europe, while there is also a lot of confidence and activity specifically in CEE.

What are the drivers behind Asian investors looking at Europe?

MS. There are a variety of factors, such as currency trends and availability of stock. Take Korea, for instance – the won trend has been encouraging Korean investors to look abroad right now. This is combined with market maturation in the region, so they are looking further abroad than they have done historically – away from Asian stock into European stock.

CB. Valuations in Asia are higher than they have been in the past 10 years. There is a lot of investment focused on Asia coming from investors outside of the region, so that is driving up valuations in some of the core markets. And competition is getting higher, so even to get into some of these deals is more difficult – you need to have readily available cash because there can be a bidding war for some of these assets.

MS. When it comes to stock, availability in Asia varies across the region. Take markets like Australia, where Asian managers might have looked to in the past – they are very mature markets and pricing is comparatively high as yields are low. So perhaps it's not surprising that we are seeing more activity in locations such as CEE, where yields are potentially more attractive.

> "Asian asset managers are becoming more sophisticated and are looking globally. Because they aren't able to get deals locally, they're looking to diversify their holdings and are willing to take a step into Europe, where they may not have been previously."

CB. Another consideration is that Asian asset managers are becoming more sophisticated and are looking globally. So, because they aren't able to get deals locally, they're looking to diversify their holdings and are willing to take a step into Europe, where they may not have been previously. It's also worth noting the increasing pool of capital that is coming from funds in Asia, which needs to go somewhere.

So exactly who are these investors and are they coming from particular countries?

CB. From my experience, the number one investor into Europe is Singapore, while South Korea and Hong Kong also have a significant presence. I understand that Singapore outweighs China in terms of capital, which is outstanding when you compare the size of the two. But those are the main ones that we see – and then, from a broader Asia-Pacific perspective, Australia has a lot of pension money invested in Europe.

On the subject of China, that is definitely one to watch. It has historically been difficult to get money out of China, but that is changing, so I do expect to see Chinese capital growing in Europe, albeit slowly to begin with.

MS. We're certainly seeing a lot of activity in Europe from Korean investors. We actually hosted a delegation from the Korea Financial Investment Association in our Amsterdam office in September. And, as Caroline points out, although Australian managers have historically been quite active, we have seen increased activity from them in the last couple of years.

As for the way investors access real estate, we're seeing more direct investment activity – institutional investors are increasingly acquiring assets directly, with European managers sourcing specific types of assets on their behalf. That's certainly one trend we're seeing.

CB. I would say that around 95% of Asian investors are from a typical investment base – pension funds and so on – but there have been a few interesting areas of note. For instance, we have seen an increase in family money looking at doing smaller opportunistic deals – we have one fund that is family money with a mandate to invest in the UK.

MS. It's also worth noting how Asian-based managers are maturing as well – take a Singapore-based business such as Mapletree, for instance. Whereas multi-jurisdictional fund managers have tended to be based predominantly in the US or Europe, we now see larger managers emerging from Asia.

> "Right now, there is a real focus on logistics for Asian investors. What's more, the global logistics market is set to expand, so Asian investors are likely to remain very interested in properties in that sector."

of investment in CEE in 2018 came from Asia

Can you put a figure on the increase of Asian investors getting into Europe recently?

CB. Anecdotally, we know that more work is being done. We are doing more business with Asian investors in Europe and have a number of European-focused real estate funds. In the past, most of the activity was intra-Asian investment, with only a small percentage of our funds portfolio going to Europe, but that is changing.

If you look at the statistics from Colliers International, Asian investment in the CEE accounted for around 9% of the total for the region in 2018, compared with a practically negligible amount recorded only as recently as 2015.

What about headwinds? Is there anything that is likely to put a brake on Asian investment into Europe?

MS. It's very easy to focus on Brexit right now [at the time of writing, the 31 October deadline wasn't far off]. But the reality is that we are looking at it from a commercial point of view, as we would with any jurisdiction that has regulatory change taking place.

Admittedly, in terms of capital flows, I think there is less investment going into the UK as a consequence of Brexit – not just from Asian investors – but there is still activity going on. It all comes down to how appealing the UK is as an investment jurisdiction, and where you have a currency that has been deteriorating, it becomes less attractive.

Where there may be a shift is in where managers choose to structure their holdings or the jurisdictions they invest into. So, we see Luxembourg as benefiting significantly from Brexit, for instance. But that really has more of an impact on how investors access UK assets and structure their holdings. In terms of holding structures or the way Asian investors access those UK assets, I don't think that will necessarily differ from investors from other regions.

CB. The reality is that things are constantly shifting – regulation changes and currencies fluctuate, it's part of everyday life in global real estate. It's just that Brexit is something of an extreme, uncertain and complex example.

Right now, the Korean won is in a strong position and the euro has been quite stable, so Continental Europe and CEE at the very least remain attractive for Asian investors. The key, as always, is understanding the local market, not going in blind, and making sure you work with local partners.

You mentioned earlier how investment into Asia had affected valuations in the region – is there a danger that all this Asian money coming into Europe might do the same?

MS. It certainly can't be ruled out. People talk about yield compression, and that has been going on since the global financial crisis and the implementation of quantitative easing. This, combined with constantly increasing pools of cash that need to be placed by institutional investors, means that real estate has become much more of a mainstream asset class.

So, with Asian money coming into Europe, we're seeing large amounts of capital being raised, and that just increases the pressure on yield – hence them moving into what were secondary markets such as CEE, hunting for yield. But exactly the same issues come up – with a finite amount of stock, more and more investors are chasing assets, which drives down yield.

You also touched on Asian investors shifting away from the US – is that a trend you expect to continue?

CB. To be honest, I think the shift is something of a blip. The US is one of the world's biggest economies and that is likely to remain the case for quite some time, so I do think there is a lot of potential there.

It comes down to the nature of the funds again. In terms of finding opportunistic investment, it's understandable that there has been a shift to Europe, especially some of the more developing countries. But when you consider core funds, I think that people will shift back to the US eventually. It's just that there is a measure of political uncertainty right now, not least with China.

Finally, how do you anticipate Asian investment in Europe to play out in the next 24 months?

MS. I don't think there are likely to be any significant changes, and I anticipate continued interest from Korea, Australia and Singapore managers in particular. In terms of markets, I think the UK clearly carries risk and may be a less interesting market for a time, depending on the outcome of Brexit.

As for Continental Europe, most notably CEE, I do certainly think there will be continued interest there.

CB. I agree with Mike that Europe is going to remain an attractive proposition, particularly some of the smaller European countries. I think core commercial is still a very important component, particularly for pension funds that are generally risk averse. However, we also have a number of seven-year, closed-ended real estate funds that are looking at opportunities, as they have to get in and get out. So, it really depends on the type of investor you are and the investment strategy you want to implement.

Despite having noted that there has been a move away from Asia, I think that Asian investors are going to start looking inwards again. I believe there will be a shift to look at some of the more developing Asian countries – we are seeing Vietnam, Cambodia, Myanmar and the Philippines becoming interesting for some real estate investors.

With a growing middle class here in Asia, and a constantly changing global real estate market, how and where Asian investors place their money is going to remain an interesting sector to watch. ■

Co-working in Asia: Five Top Trends

Usman Tariq, a Director at Vistra in Singapore, examines how and why co-working has boomed in Asia and how it is reshaping not only the workplace but real estate investing

Usman Tariq
Director, Fund Services, Vistra Singapore

1. Asia has played catch-up in a big way

Co-working may have been around in other regions since 2005, but it wasn't until 2014 that a shift towards co-working spaces in Asia became really noticeable. And the region has quickly gone on to occupy a large part of the global market. Figures indicate that Asia-Pacific now has the largest number of co-working spaces – almost twice that of EMEA, which comes a distant second.

And it's a trend that looks set to continue. By 2022, China is forecast to have 5,000 spaces, making it one of the largest markets. Likewise, India is expected to be one of the fastest-growing markets, not least because of the large number of start-ups in the country.

In China, growth is being supported by government policies to promote entrepreneurship – with Shanghai, for example, now home to over 100 co-working centres. In India, leasing activity by shared office operators tripled between 2014 and 2016.

2. Co-working is going corporate

While the evolution was spurred by start-ups and freelancers, corporates are increasingly getting into this space. That's because co-working offers negligible capex requirements, efficient space usage and flexibility in contract terms. Demand from corporates has been the biggest expansion driver in several Asian cities in the last two years. Growing demand for flexibility, collaboration and culture that a shared working environment brings are encouraging corporate occupiers to actively consider it.

Indeed, Asia leads the way in having a predominantly corporate base, with more than half of co-working members being corporate employees.

This is having an interesting impact on the space taken up by operators in the last few years within the Asia-Pacific region. Initially, operators were targeting Grade B office buildings, attracted by the lower cost base and often trendier space. This fit well within the earlier target audience of start-ups and freelancers.

However, with the focus of medium to large corporates in this space, operators have taken up more Grade A office space and even pre-leased space in upcoming office developments.

3. Millennials are driving change

Demographics are playing a role in the co-working boom. In Asia-Pacific, millennials (those born between 1980 and 2000) now make up the largest part of the workforce – something that is expected to continue as more enter employment.

Millennials have specific requirements as far as their work environment is concerned. Figures for those in Asia show that 71% are willing to give up benefits such as location and travel time for better office design, while more than 60% value flexibility and have a strong desire for amenities and wellness – features that co-working spaces prioritise.

4. Spaces are becoming in-house innovation hubs

The lifespan of a conventional large corporate organisation is getting shorter every year – the average tenure of companies on the S&P 500 narrowed to 24 years by 2016. Modern companies, with their constant hunger for innovation and new products, are partnering with entrepreneurial organisations, networking, sponsoring and supporting innovation to stay ahead of the curve.

This fits in with the co-working concept, as start-up communities and co-working spaces have a positive impact on local economies by creating a variety of jobs. Some corporations are starting their own co-working facilities to innovate and experiment through in-house collaboration using incubators and accelerator programmes for start-ups.

5. Co-working is growing as a real estate asset class

The evolution of co-working spaces is changing the DNA of real estate investing. In Asia, real estate funds are noticeably increasing their allocations towards the co-working/co-living sector.

In Asia's ultra-high-cost residential environment, there is huge appeal and growing demand for these types of spaces. This is prompting a more tech-edge to the conventional serviced office sector, which is also promising better yields for landlords. ■

China is forecast to have
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"Demand from corporates has been the biggest expansion driver in several Asian cities in the last two years."

Polish Real Estate: the Impact of Withholding Tax Rules

Sylwia Toczyska at Vistra in Poland looks at the withholding tax rules in the country, examines how further clarification is needed and the action that companies may need to take

Sylwia Toczyska
Director, Client Services, Vistra Poland

Real estate investment in Central and Eastern Europe (CEE) continues to break records. Investment volume across the region in 2018 amounted to €13bn, which represents an 11% increase on the previous year and a record for the third year running.

Poland remains the dominant CEE investment market, with 54% of the total volume recorded – equating to €7.02bn. And with more than 100 transactions completed, 2018 was another record year for the country.

Based on the forecast for 2019, the strong interest in real estate assets in Poland looks set to continue. However, despite the optimism around the sector, domestic and international tax developments are having an impact on the structure of real estate transactions and must not be overlooked.

Indeed, any tax analysis of transactions should focus on recent changes to withholding tax (WHT), the General Anti-Avoidance Rule (GAAR), Mandatory Disclosure Rules (MDR) and others, which may significantly change the return rate of the investment.

The need for clarification

It has been the new WHT rules that have arguably caused many concerns. On 1 January 2019, an obligation for Polish payers to maintain due care when making international payments was introduced – including interest, royalties, dividends and payments for intangible services.

On 19 June, the Polish Ministry of Finance published clarifications concerning the application of provisions regarding the newly implemented WHT rules.

In these clarifications, the Ministry stated its position regarding the new definition of beneficial owner; due diligence requirements at verification of requirements for a lower tax rate, tax exemption or not withholding tax; as well as points regarding WHT refunds and calculations of the statutory threshold of PLN 2 million (approximately €465,000).

Unfortunately, the Ministry's announcement did not bring as much clarity as hoped, owing to the general nature of the explanation of some topics, which left doubts over how they should be interpreted.

More challenges to come

Additionally, a further set of unfavourable changes with regard to WHT will come into force on 1 January 2020 (the initial deadline was 1 July 2019). The new procedure, which will apply to foreign payments above PLN 2 million per year, means that, in many cases, the Polish company making the payment will have to bear the tax burden in Poland (19% or 20%).

There is the possibility of applying for a refund from the tax authorities, but a 60-day deadline applies and the refund can only be made after submission of the specific application in electronic form, along with a wide list of attachments.

Thankfully, it isn't all bad news, as the legislation provides the possibility of mitigating these tax burdens by submitting an appropriate statement signed by board members, which confirms that the remitter's entity possesses relevant documents and knowledge entitling it to preferential rates or exemption. However, such a sign-off may not be possible in every case.

Importantly, the Polish regulations provide for a very wide scope of fiscal penal liability of board members resulting from making a false statement or inaccurate verification of the contractor or conditions for applying reduced tax rates or exemptions.

Bearing in mind the above, it is highly recommended that efforts be put in place which ensure that changes to the law on WHT do not affect a company's cash flow and still guarantee the desirable return rate of investment. In order to be able to apply a lower tax rate, tax exemption or not withholding tax at all, a proper due diligence process will be required. ■

> "On 1 January 2019, an obligation for Polish payers to maintain due care when making international payments was introduced."

Steven Guttman
Lawyer,
Vistra Germany

German Cross-border Tax Reporting Requirements: Urgent Need for Action

Steven Guttman at Vistra in Germany examines how EU cross-border tax rules are being transposed into German law, and the impact they are having on reporting obligations in the country

Although the new notification rules for 'cross-border tax arrangements subject to reporting requirements' come into force next year, there is an urgent need for action right now.

With the enactment of the EU Directive 2018/822 (DAC 6 Official Assistance Directive) on 25 June 2018, the reporting obligations became binding under EU law. The German legislator is obliged to transpose the concrete requirements of the EU Directive into German law by 31 December 2019 at the latest.

The Directive requires that for all structures which have been implemented since 25 June 2018, documentation from tax, legal and business advisers is needed, and a report must be submitted by 31 August 2020.

The German implementation draft bill

In September 2018, a first draft discussion on the German bill became public. On 30 January 2019, the Federal Ministry of Finance submitted a draft for further revision and implementation in the relevant government departments. The provisions of the DAC 6 Official Assistance Directive are implemented by the German draft, in particular in the new paragraphs 138d to 138f of the German Fiscal Code, or Abgabenordnung (AO).

To a large extent, the implementation of the EU requirements has been set at a 1:1 ratio, which in principle stipulates a 'reporting obligation' (according to the German implementation draft) if a tax structure is cross-border and fulfils one of the so-called 'hallmarks', which will be addressed later.

National structures

Currently, the German implementation draft from January envisages an obligation to report national tax structures that goes beyond EU requirements. Accordingly, § 138j AO is to be introduced in the Fiscal Code, whereby certain domestic tax arrangements must also be reported. If a national structuring fulfils a so-called hallmark, the national reporting obligation is triggered similar to the reporting obligation for cross-border structuring.

There are seven instead of 16 hallmarks provided for these national structures. Most of these are identical to those for cross-border designs.

Requirements for the reporting obligation

The reporting obligation for cross-border design exists concurrently according to the DAC 6 Assistance Directive, as well as according to the German implementation draft if:

- A tax category covered is affected
- A structuring is used
- This structuring is cross-border, and
- This structuring fulfils at least one of the hallmarks (listed in Annex IV of the DAC 6 Assistance Directive or in the draft transposition), if necessary with additional consideration of the 'main benefit'/'relevance' test

If all of the above criteria are met (type of tax, form, cross-border reference, hallmark), then the cross-border design is subject to mandatory reporting.

> "If one of the characteristics of the specific hallmarks is fulfilled, the legislator automatically classifies the situation as a tax-avoidance strategy."

All direct taxes such as income tax, corporation tax, inheritance tax and gift tax are affected by the reporting obligation. Import VAT, on the other hand, is excluded as an indirect tax. The same applies to consumer taxes, customs duties and social insurance contributions.

Generic and specific hallmarks

The hallmarks are central to the DAC 6 Assistance Directive. The reporting obligation stands or falls with them – so understandably these cause the most work and most inconsistencies for its users. The hallmarks are divided into generic and specific classifications.

The **generic hallmarks** are:

- The agreement of a confidentiality clause or a performance-related remuneration
- The standardised documentation or structure of tax planning
- One of a total of five structuring variants described in more detail (use of losses, reclassification of income, circular transactions, inclusion of tax havens, use of preferential tax regimes)

The **specific hallmarks** are defined as structures:

- That in particular take advantage of the residence of payees in non-cooperating jurisdictions
- Which have as their objective the multiple deduction of depreciation or the generation of 'white income'
- Which undermine reporting obligations for financial accounts
- With which beneficial owners are disguised, and
- Have certain transfer pricing arrangements

If one of the characteristics of the second group is fulfilled, there is no possibility of proof to the contrary, and the legislator automatically classifies the situation as a tax-avoidance strategy. This does not apply to generic hallmarks, which is why the so-called 'main benefit test' must also be fulfilled for them.

Main benefit test

The main benefit test asks whether the structuring is used to achieve a tax advantage as 'one of the essential advantages' of the structuring.

The test is reminiscent of the proof of considerable extra-tax reasons for the choice of a form in § 42 AO. It has been made somewhat more concrete in the

German implementation draft (tax advantage not provided for by law, § 138d (3) AO-E).

The 'main benefit' test assumes that the tax benefits are weighed against those of the other financial and non-financial benefits. The main benefit test asks the following questions:

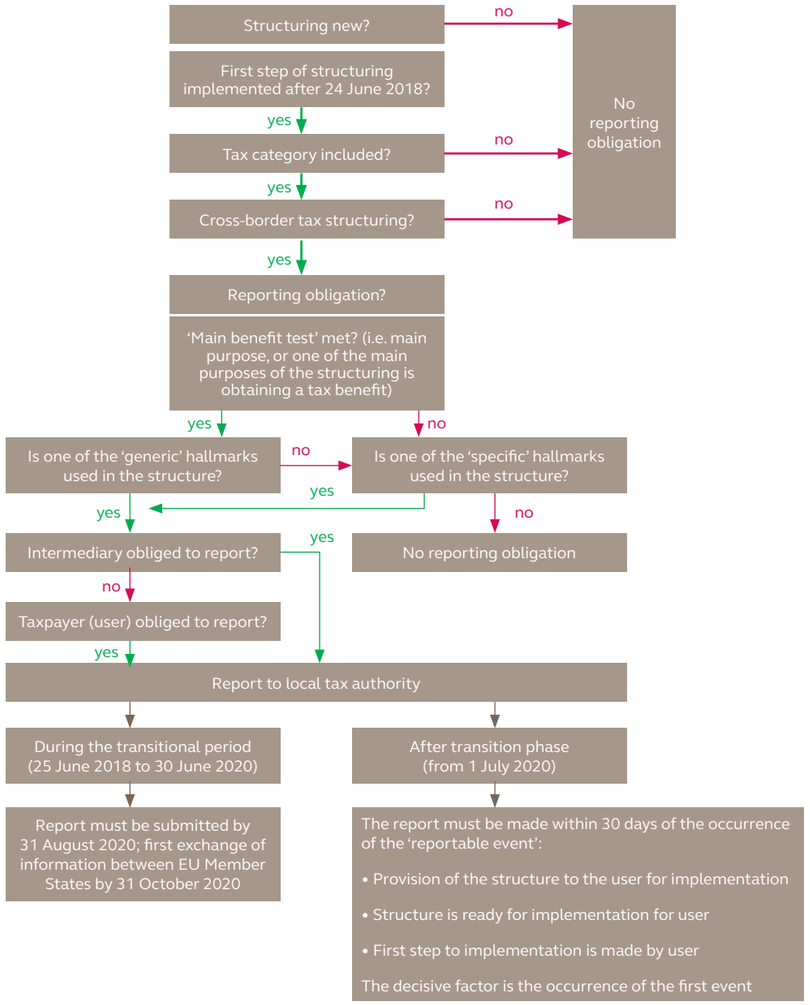
- Is there a tax advantage?
- Is the tax benefit the only benefit or one of the main benefits?

The tax advantage can be the avoidance/reduction of taxation, a tax allowance or an increase in tax losses. These can be either temporary or definitive (for example, tax deferral or deferred tax refunds).

The way ahead

The draft bill makes it clear that the criticism of practitioners has not been taken in and that the duty of reporting for national structures is to be maintained. The national implementation in Germany has not yet been completed, which must be done by the end of this year. Whether clarity will then prevail or whether even more question marks will be raised among those affected remains to be seen. ■

Reporting obligations: when reporting is required



German Real Property Tax Reform: the Future Now

Nico Dorenkamp
Managing Director,
Vistra Germany

As real property tax in Germany undergoes its most significant reform in decades, Vistra's Nico Dorenkamp examines what the changes entail, who will be affected and how there is still some way to go before implementation

What is the real property tax?

Real property tax is assessed on real property – land and buildings – and, in principle, is paid by the owners. In the case of leasing, it is possible to allocate the real property tax to lessees via the operating costs. Residential land, commercially used land, and areas used for agriculture and forestry are all subject to real property tax.

Why is the real property tax significant?

The revenues arising from real property tax currently total over €14bn annually. These flow exclusively to the cities and municipalities. Real property tax is one of the most important sources of revenue for municipal entities, which use these funds to, among other things, finance schools, daycare centres, swimming pools and bookstores, and make important investments in local infrastructure, such as roads, bike paths and bridges.

Why does the real property tax have to be re-regulated?

The tax authorities have, until now, calculated real property tax with the help of rateable values that originated from 1964 in the old federal states and 1935 in the new federal states. In April 2018, the Federal Constitutional Court declared this unconstitutional and demanded a new statutory regulation by the end of 2019. The fact that the underlying values no longer adequately reflect the actual development of value was the critical factor for the decision.

How will the real property tax be calculated in the future?

It will be calculated using three factors: **value** multiplied by **base rate for tax purposes** multiplied by **leverage factor**.

1. Calculation of the real property value. Substantial factors here are the respective value of the land and the

amount of the statistically determined net base rent, which depends, among other things, on the so-called 'rent level' of the respective municipality – the higher the rent level, the higher the rent in a municipality tends to be. The land area, real property type and age of the building are additional factors.

The classification of the municipalities with regard to rent levels is carried out by the Federal Finance Ministry based on data from the Federal Office of Statistics concerning the average rents in all 16 federal states. For the majority of the federal states, the individual factors can be inspected via the so-called BORIS system (for example, for North Rhine-Westphalia, www.boris.nrw.de).

2. Base rate for tax purposes. This involves balancing the value increases that have arisen based on the comparison of the current values and the values that have not been updated since 1935 or 1964, as the case may be. For this purpose, the base rate for tax purposes is reduced to about one-tenth of the previous value, from 0.35% to 0.034%. In addition, it is intended that social housing construction, as well as municipal and cooperative housing, continue to be promoted, including through the real property tax.

Therefore, an additional reduction of 25% in the base rate for tax purposes, which will have a tax-reducing effect, is planned for companies that make inexpensive housing possible.

3. Adjustment of the leverage factors by the municipal entities. If the real property tax volume changes in individual municipal entities due to the revaluation, the municipal entities have the opportunity to adjust their leverage factors to ensure that they don't collect more real property tax in total than prior to the reform.

In the chart (below), an illustrative calculation from the Federal Finance Ministry shows how the value of a piece of property (of identical size) affects the real property tax that is payable – more valuable real property means higher real property tax payments. The adjustment of the leverage factor by the municipal entity is assumed, such that its real property tax volume won't change in the course of the reform.

How real property tax may be calculated

	Single-family house, 120m², Neustadt **centre**, land value €400	Single-family house, 120m², Neustadt **peripheral** location, land value €200
Valuation of real property (area, statistical net base rent, land value)	€310,100	€217,200
Base rate for tax purposes (sharply reduced, additionally reduced for social housing)	x0.034%	x0.034%
Leverage factor, municipal entities (certain municipal entities, balancing of increased/reduced revenues)	x421%	x421%
Cost	€443.87 per year	€310.90 per year

For illustration purposes, the Federal Finance Ministry assumes a single-family house in a municipality in Hessen; year of construction 1960; living space 120m²; land area 1,000m²; existing leverage factor of the municipality 480%; rent level of the municipality 4. The municipality has reduced its leverage factor from 480% to 421% in order to keep its revenues constant.

When does the new regulation take effect?

The states have the opportunity, until 31 December 2024, to prepare provisions that deviate from federal law. The new regulations on the real property tax – either federal or state law – will then be effective from 1 January 2025. The existing law will continue to apply until then.

Real property tax return

In the future, it's intended that only a few, easily determined parameters will be used to calculate the real property tax. The determination for residential land will involve the following five factors:

- Land value
- Age of the building
- Real estate type
- Land area
- Rent level

In determining the tax for commercial land, it's intended that the number of details that have to be declared by the taxpayers will decline from currently more than 30 to a maximum of eight.

Impact on owners and tenants

There is reason to fear that the tax burden will increase for owners. Politicians have announced that increases would be offset by the adjustment of the leverage factors by the municipal entities and that, as a result, only insubstantial additional burdens would result, if any. It remains unclear, however, whether the municipal entities will actually implement it in this way.

It must be assumed that owners will allocate increased real property taxes to the tenants through ancillary costs, which would ultimately lead to rent increases.

Exemption clause for federal states

It's intended that federal states will have the ability to introduce their own real property tax model in the future. Bavaria and Saxony have already announced that they want a so-called 'value-independent model' for their municipalities. In Bavaria, the intention is to use the size of the land as the determining factor for the calculation of the real property tax.

Peculiarities in the case of business land

In contrast to residential land, no statistical data that could be used for the valuation will be collected for leased business land. The intention here is that the real property tax be oriented to the simplified asset value method, which, for purposes of value determination, focuses on the usual production costs for the respective building type and land value.

"Real property tax is among the most important sources of revenue for municipal entities."

New real property tax C

In future, it's intended that municipalities be able to set a higher leverage factor for land that is building-ready, but undeveloped, if development doesn't take place on it. Real property tax C will make speculation on the appreciation of land more expensive and thereby create a financial incentive to actually build on land that is ready for it.

This affects undeveloped land, inside and outside the plan area, that is subject to real property taxation but isn't used for construction in spite of its building-readiness.

Conclusion

Following a long period of uncertainty, a reform was adopted that will lead to non-uniform implementations as a result of the exemption clause compelled by Bavaria. How the individual states concretely calculate the real property tax in the future remains to be seen, since they have until 31 December 2024 to prepare regulations that deviate from federal law.

It also remains to be seen whether the necessary reform resulting from the decision of the Federal Constitutional Court will actually lead to additional burdens. ■

Construction Project Management: From Start to Finish

Oliver Oser at Vistra in Germany highlights the services offered by the construction project management team and the importance of having a holistic perspective

Oliver Oser
Managing Director,
Property Management,
Vistra Germany

At Vistra, we firmly believe in using the most appropriate people for the job in hand. That may seem rather simplistic, but by using specialists, we are best able to serve our clients' specific requirements. This is especially true when it comes to property development and management.

For instance, it wouldn't be efficient for a property management department – whose expertise lies in operational management of a real estate property – to simultaneously project manage complex tenant fitouts and renovation work. In our experience, the management of large construction projects and the planning of extensive tenant improvements requires specific competence and skills.

We meet this demand through the deployment of our construction project management department, which is separate to our technical property management team and consists of specialised architects and engineers.

Our construction project management experts are able to examine and appraise existing structures, develop possible concepts, and realise them in close collaboration with planners, municipalities, owners and tenants of the real property. At the same time, unutilised potential is analysed with respect to its attractiveness and value appreciation.

In a comprehensive feasibility analysis, we examine the condition of a property with respect to the building structures and technical facilities – while being mindful of the available budget – and make technical recommendations based on this.

Following adoption of the budget and the beginning of any project, it is incumbent on our construction project management team to keep costs and deadlines under control in each phase of the construction. This involves ongoing cost updates for each skilled trade, so that countermeasures, where necessary, can be made in a timely manner in line with the budget and deadlines that have been set.

Another service that we offer within construction project management is the management of complex actions, namely architectural, static or structural measures, as well as work undertaken in tight spaces.

What's more, we evaluate infrastructural topics, line disconnections or consumption measurements. These are factors that any buyer of real property must consider, because it involves ongoing costs that aren't directly visible. We can also advise on both the buying and selling process.

Above and beyond

Our construction project management team doesn't just take on management services. We are also able to render planning services and are authorised to draft and submit building documents. So, even during the planning stage, we already have in mind the possible challenges that might arise during the management of the project, as well as the subsequent management of the property.

As a result of our being able to work through the construction lifecycle in this way, we make construction recommendations that factor in future effective and inexpensive management. Irrespective of this, clients can engage our construction project management team at any time without the associated property management services.

"Our construction project management experts are able to examine and appraise existing structures, develop possible concepts, and realise them in close collaboration with other parties."

That said, in our experience, it often proves to be highly effective when construction project management works alongside operational tenant support. So at Vistra, we are able to offer the best of both worlds.

When both teams are working in tandem, our construction project management team receives access to all relevant information arising from operational support, while communication with the tenants is also seamlessly conducted by a single provider.

As a result, our construction project management team doesn't just work on a project-oriented basis, but, together with our technical property management team, assumes responsibility for tenant satisfaction. ■

If you would like to know more about the services our construction project management team provides, contact Oliver Oser at oliver.oser@vistra.com or +49 2921-7007-151

Our construction project management team can offer:

- Integration of highly specialised architects and engineers
- A suite of planning services, reducing the number of service providers
- Assumption of cost and deadline responsibility
- Holistic approach and advice

We also work seamlessly with our tenant support services team, meaning clients only have to engage one provider.

Going Dutch: the Attraction of Netherlands Real Estate

Jan-Willem Sterk, Djonie Spreeuwers and Peter Van Opstal at Vistra in the Netherlands explain how a strong financial history and robust economy are providing fertile ground for the real estate sector in the country

Jan-Willem Sterk
Director, Real Estate,
Vistra Netherlands

Djonie Spreeuwers
Director, Real Estate,
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Commercial Director,
Vistra Netherlands

When asked to name something that symbolises the Netherlands, most people, perhaps predictably, will mention tulips, canals, bicycles and kilometre after kilometre of flat countryside. Ask a business professional, however, and the response is likely to be rather different.

For many years, the Netherlands has been recognised as a centre of finance and business excellence, with many foreign companies viewing the country as a highly attractive destination for investment.

Logistically speaking, the Netherlands has a number of key strengths – not least Schiphol airport, which acts as a hub for European and global air travel, and the port of Rotterdam, which is a major shipping entry point to the continent. The country also has high-speed rail links to France, Belgium and Germany. When it comes to finance, however, Amsterdam is the jewel in the Dutch crown.

The city has a long and prestigious history as a financial centre – being home to the world's first official stock exchange, as well as the Bank of Amsterdam, which is largely considered to be the first model of a central bank. These days, its residents include around 50 international banks and more than 20 major insurance companies.

There are a whole host of reasons why the Netherlands is an attractive place to do business. Not only does it have a stable political structure, it also has a low rate of inflation and sound government finances. The quality of the education system within the country ensures that there is a considerable pool of talent for businesses to draw upon.

Real estate on the rise

The real estate sector has been one area to benefit from this robust landscape, with a significantly noticeable uptick in activity in recent years. And this is playing out in two key areas – direct investment in Dutch real estate, and the use of Dutch structures and fund administration businesses for the holding and management of global property portfolios.

Indeed, capital flows from international investors into the domestic real estate market accounted for more than half of total investment flows across all asset classes into the country over the past five years. After a record year in 2017, the Dutch real estate market saw investment volumes drop slightly in 2018 to €20.7bn, but historically this is still very high.

Transaction levels were strong across all sectors, with investors interested in office buildings and residential real estate, logistics/storage, hospitality and specialty asset types such as senior housing, education and healthcare.

And prospects for the near future appear promising. According to research from Bouwinvest, institutional investors are expected to continue to drive capital inflows into the Dutch real estate sector over the next three years unless interest rates rise significantly, which they believe is unlikely in the short term.

With investment coming from a variety of sources – including investment funds and institutional investors, privately held property companies, private equity firms and real estate investment trusts – and with money coming from the Netherlands, Europe, the UK and US, and increasingly from the Middle East and Asia-Pacific, the diversity of the investment landscape bodes well.

> "Institutional investors are expected to continue to drive capital inflows into the Dutch real estate sector over the next three years."

A professional services boom

Alongside this interest in Dutch real estate lies a significant increase in fund sponsors and asset managers using Dutch structures and fund administration businesses for the holding and management of global property portfolios. The Dutch legal, tax and regulatory framework is very advantageous for structuring investment funds and there has been a noticeable increase in activity in the last two years.

Not only have we seen existing players expanding their local asset management and investment teams with new roles such as financial management, we are also seeing first-time entrants establishing local asset management and investment management capabilities.

There is now considerable breadth and depth in the real estate offering from businesses operating in the Netherlands, with firms supporting clients with fund structuring, communicating with investors, complying with regulations and distributing returns.

Services include everything from fund administration, loan administration and monitoring, and corporate and secretarial services, to investor anti-money laundering and Know Your Customer requirements, and regulatory support on AIFMD depositary, FATCA and CRS.

Day-to-day comprehensive operations include fund administration, cash management, fund accounting, net asset value calculations, management and performance fee computations, financial and management reporting, IFRS accounting, transfer agent, and full secretarial and audit support.

The Netherlands: key attractions

- The country has a favourable business environment – it is part of the EU, with a stable legal, economic and political framework.
- Digitally well connected, it has a high-quality, well-educated workforce.
- Infrastructure, office space and accessibility from other European and global cities are major plus points.
- Establishing a local in-house team may ease the coordination and organisation of a client's wider European operations.

€20.7bn

Dutch real estate investment volume in 2018

Practitioners in the Netherlands, including Vistra's Real Estate Services team, are currently providing services to investment managers, sovereign wealth funds and other institutional investors related to the fund formation, back and mid-office accounting and reporting, investor services and regulatory support of their investments in global real estate portfolios.

To outsource or not

This new wealth of service providers in the real estate space in the Netherlands is providing businesses with a number of choices when it comes to outsourcing – not least the extent to which they should outsource if they choose to go down that route at all.

Operators may well need to decide between a best-of-breed provider for individual functions as opposed to a single one-stop-shop provider. The first option may well be the best fit for niche investments/operations, while the latter will likely reduce coordination time, and opens the possibility for global framework agreements and pricing, tech solutions and building partnerships.

When looking at the results from our real estate survey, 'Real Estate Fund Operations: Have They Reached An Inflection Point', published in November 2018, 47% of respondents said that they foresaw an increase in the functions outsourced and 51% anticipated an increase in the volume of activity outsourced.

If that increase materialises, those providers that offer their services in multiple jurisdictions could benefit from the one-stop-shop approach, and we would expect more service provider EU alliances as a result.

The road ahead

It is very easy to look at all of the above and be optimistic – and some would argue that the Netherlands may also be a beneficiary of the uncertainty caused by Brexit and the UK's potential departure from the EU [the 31 October deadline was approaching at the time of writing]. It is, however, always worth taking time for a quick reality check.

While the Netherlands currently enjoys a position as a centre of business excellence, there is a possibility that the labour market will become more pressured as firms expand or move into the market. So, finding the best staff to run your business could become challenging.

And while low interest rates are favourable in some ways, it begs the question whether that might start to put pressure on real estate yields.

Despite this, however, the outlook for real estate in the Netherlands looks pretty positive for the time being. ■

How Vistra can help

Our Dutch real estate team is dedicated to the sector like no other service provider in the fund administration industry. Historically part of Whitehall Management Services, we serve all real estate asset classes with both simple and complex investment structures. Our global platform gives our clients an integrated and consistent set of services and deliverables, no matter where they raise or deploy capital globally.

We can offer services that are complementary to a client's Dutch platform for their Netherlands operations, so they can continue to focus on their main asset/investment management activities, as well as supporting clients while they strengthen or build their Dutch and wider EU platform.

US Real Estate: Land of Opportunity?

As US Opportunity Zones approach a landmark date, Gulsey Torenli at Vistra in New York, examines how they have been received, the uptake of Qualified Opportunity Funds, and issues around the legislation itself

Gulsey Torenli
Director,
Vistra New York

When Opportunity Zones were added to the tax code by the US Federal Tax Cuts and Jobs Act in December 2017, the intention was to spur economic development and job creation in distressed communities across the country.

From a financial perspective, they were created to enable investors to allocate capital gains to qualified investments in opportunity zones in order to gain access to a number of tax incentives, including temporary tax deferral, tax reductions and exemptions.

In the summer of 2018, the US Department of the Treasury certified 8,766 individual census tracts as Opportunity Zones across the US . These communities were chosen by governors on the basis that they demonstrated higher levels of distress across nearly every available social and economic measure.

Under the Opportunity Zones programme, US taxpayers who have or will have capital gains from selling investments in real estate, securities or other appreciated assets, can defer taxes until as late as 31 December 2026 by investing in a Qualified Opportunity Fund (QOF).

The longer they hold the investment in the QOF, the greater their benefit.

After five years, 10% of the deferred gain is excluded from taxes. After a total of seven years, another 5% is excluded. While 15% is the maximum amount that can be excluded, if a taxpayer holds the investment for

a total of 10 years or more, none of the gains earned from the QOF will be taxed.

So, as we approach the end of 2019 and, therefore, the closing of the seven-year window, exactly how have Opportunity Zones, and QOFs in particular, been received and what have we seen here at Vistra?

QOF interest on the rise

According to the Opportunity Zones Database, as at 27 August 2019, a total of 109 funds had listed as QOFs, accounting for a total investment capacity of $37.4bn. While this performance may not necessarily be perceived as stellar, it is perhaps understandable – especially when considering the fact that the federal government only issued its first set of legislation during October 2018, and its second set in April 2019.

It is that second round of legislation that provided a lot more clarification. A large percentage of asset managers and developers, as well as auditors, tax advisers and legal counsel, had concerns about – and a measure of confusion around – the first set. So there may well have been some reluctance to consider QOFs until that clarity was provided.

In recent months, we have noticed an uptick in the interest in QOFs – indeed, we have been increasingly talking to clients and prospects who are considering or are already embarking on an investment. Whether that is as a result of the latest legislation or the approaching end-of-year 'deadline' isn't quantifiable, but we are anticipating a definite surge in business towards 31 December.

And, of course, action leads to action. As investors see an increase in the number of QOFs and become more familiar with the tax benefits, as well as the ability to have a social impact, the more we expect the interest in QOFs to rise.

The need for reporting

While Opportunity Zones and their associated funds were created with the intention of spurring economic development and job creation in distressed communities, the programme has had its fair share of detractors.

As recently as August this year, the *New York Times* published a damning article questioning whether they were being used as intended, or if the programme was 'fuelling a wave of developments financed by and built for the wealthiest Americans'.

It is hoped that the new guidance released in April will help clarify the necessary qualifications for a QOF. It also highlights a request for information on data collection from QOFs, specifically related to job creation, poverty reduction and new business start-ups, to demonstrate that they are complying with the intended purpose. Gathering this information and correlating it to QOFs may be a challenge, however.

As an industry, real estate funds are used to complex and demanding reporting rules, so we will have to see how the recording process for QOFs plays out, along with the filing process with the IRS and the data that the funds must provide to the treasury department. Understandably, we haven't yet seen those outputs, so the next two years should be particularly interesting.

Expertise meets social impact

When it comes to the areas that we are actually able to measure, or at least talk about anecdotally, one of the most interesting observations we have made is around the type of real estate development that is being undertaken.

From our own observations, as well as taking into account our clients who are actively involved in QOFs, there is a clear tendency to focus on the sectors in which they already operate. So, for instance, an asset manager who has expertise in healthcare will actively seek out potential healthcare opportunities within the zones.

What's more, there is a real sense among the clients and prospects with whom we work of doing something for the greater good, despite any cynicism that might exist around Opportunity Zones. Take those asset managers with expertise in healthcare – if they see an impoverished healthcare facility within that area, they can go in and make the improvements on it. So, not only do you have improved facilities for residents, but that also leads to businesses opening up for people in that area too.

> "On the surface, QOFs are a compelling proposition – tax benefits allied with social good. However, as with any financial structure, the devil is in the detail."

109
Qualified Opportunity Funds were worth
$37.4bn
at 27 August 2019

And it's worth noting that these are sizeable investments. From our standpoint, and the asset managers we are talking to, investments are ranging from $100 million up to $250 million.

It's also gratifying that these asset managers are genuinely focusing on areas that really do need the investment. We are seeing that Utah, North Carolina, parts of the South and the Midwest are favoured. And it's also interesting to note that many asset managers are staying close to home – for instance, one Utah-based asset manager is investing predominantly in Utah and North Carolina.

Work yet to be done

On the surface, QOFs are a compelling proposition – tax benefits allied with social good. However, as with any financial structure, the devil is in the detail. The legislation introduced in April 2019 has certainly provided some clarity in a number of important areas, but there are still certain parts that could benefit from additional clarification.

As a new offering, QOFs haven't yet been robustly tested – and that is something that will only be done once statistically significant reporting has taken place. QOFs, for example, have to keep 90% of their assets in Opportunity Zone properties – but what will the penalty be should they fail to comply? Will they have to pay all taxes and penalties from day one? Exactly what will the IRS put into place?

It is something of a balancing act. The need to incentivise investors has to be offset with stringent regulation and reporting, without putting people off.

There is political pressure to rigorously measure initiatives such as the Opportunity Zones programme, and it's true that social programmes are often short on intensive data collection. Still, a capital-based investment in disadvantaged areas, and one that could keep the capital working for at least a decade, has a good chance of showing positive results for both investors and the affected communities. ■

What constitutes an Opportunity Zone?

The US government has outlined certain Opportunity Zones, or low-income areas, in need of real estate investment. Qualifying areas have an individual poverty rate of at least 20% and a median family income of no greater than 80% of the area median.

At least 50% of the gross income of a business created with Qualified Opportunity Funds (QOFs) must be derived from operations in a qualified Opportunity Zone. This requirement was meant to control abuses, but it also limited the types of possible business to exclusively local ones.

Recent changes to the legislation include three safe harbour provisions and other tests that a business can use to qualify. These changes also allow for expanding opportunities for internet, export and service businesses.

Investments that qualify for tax breaks are intended to encourage job creation. So-called 'sin-oriented' businesses, such as casinos and liquor stores, are ineligible to qualify as Opportunity Zone businesses.

Student Accommodation: Will Europe Overtake the UK?

Vistra's Onno Bouwmeister examines the state of play in student accommodation across Europe, and questions whether the UK is set to lose its leading role to its continental neighbour

Onno Bouwmeister
Global Sector Lead - Private Equity

Depending on your experience, the words 'student accommodation' may conjure up all sorts of memories. For some, it's a small boxroom in the university's halls of residence; for others it's a six-bed house share with a queue for the bathroom every morning.

These days, however, student accommodation has come to mean something else altogether: large-scale, purpose-built apartment blocks, delivered with corporate sheen (and, in some cases in the US at least, free Starbucks coffee).

It's also a rather lucrative investment opportunity. Real Capital Analytics says the global volume of student housing investment in 2018 hit $17.1bn, with volumes 425% higher than where they were a decade before.

And in the UK, the largest student accommodation market in Europe, the total value of purpose-built student housing is expected to reach £50bn this year, according to real estate consultant Knight Frank.

But while this once-niche asset class has made its way into the mainstream, there are signs that the UK, Europe's star student, may be about to lose its seat at the head of the class to its continental counterpart.

Supply vs demand

Several important factors drive the popularity of student accommodation as an investment. For starters, there's vast potential for growth, because supply lags so far behind demand. Student numbers are on the up around the world, and the number of internationally mobile students in particular is striking, having grown by 64% between 2007 and 2017 to over five million, according to UNESCO. That figure is forecast to reach eight million by 2025.

Supply has absolutely failed to keep up. Knight Frank reports that student numbers in the UK outweigh available beds by three to one. And universities are outsourcing this aspect of their operation to the private sector. Private developers are expected to provide three-quarters of beds due for completion in the UK by 2020, and 84% of the beds ready for the 2018-19 academic year.

In the eyes of the institutional investor seeking to diversify its real estate portfolio and increase its exposure to alternative assets, this is enticing. Not only is the underlying real estate generally found in central urban locations, but the students tend to be reliable rent payers, and the returns are strong. Yields on prime student housing in the Netherlands, for example, are 4.75% – compared with less than 1% on Dutch 10-year government bonds.

But the big draw is that student accommodation seems recession-proof – when there's a downturn in the economy, the demand for these beds only goes up. Students are waiting longer before tackling the job market, and those suddenly out of work often choose to return to their studies while they wait for employment prospects to improve.

Laying the foundations

None of this was widely recognised back in the early 2000s, when GIC, the Singapore sovereign wealth fund, launched into the student accommodation sector in a 70/30 joint venture with Unite, a linchpin of UK development. GIC had clearly done its homework – it saw in student accommodation the promise of defensive cash flows, very attractive yield premiums and a long-term positive outlook, resilient throughout economic cycles.

GIC's faith was repaid. Knight Frank says the sector has been one of only a few asset classes to deliver positive rental growth every year for the past decade. In that time, GIC has entered into a number of joint ventures across the globe, and built a strong presence in the UK. In 2016, it teamed up with Dubai-based Global Student Accommodation Group to buy a UK student housing portfolio from Oaktree Capital Management, for an estimated price of £430 million. A year later it sank £227 million into a joint venture buying a student housing complex in Birmingham.

While GIC is still often cited as the world's most active investor, it is no longer in a class of its own. UK deals in 2017 totalled €5bn; the rest of Europe €2.9bn. Singaporean players alone have invested over £1bn in UK student housing assets since 2016, buying up properties everywhere from Bristol and Brighton to Huddersfield, Sheffield and Leeds.

> "Student accommodation has been one of only a few asset classes to deliver positive rental growth every year for the past decade."

Brookfield, Greystar, PSP Investments and Allianz have also been busy. In 2018, KKR made its first European student housing deal, teaming up with Roundhill Capital to acquire a dilapidated hospital building in Utrecht to convert to student lets. And when the likes of Goldman Sachs arrive at the table to start building and buying up portfolios, you know it's no longer a niche concern – this is now a mature asset class.

There's a critical factor in all this – student housing serves as a gateway to further diversification. Many institutional investors are running a longer-term development strategy – to invest in student housing before spreading into other flexible residential assets that are similar in how they're designed and run. And anyone versed in operating these properties can readily move into short-term rentals for ex-pats or the elderly, or run niche co-living and micro-living properties.

So, while there was a time when developers would create their own units and keep them as a long-term investment, that's changed. You now see institutional investors buying these finished developments for their portfolios, as well as building their own.

Challenge to the UK

Yet if all of this seems relentlessly positive, there may be change ahead. Not least in the relative fortunes of the UK and Europe. Currently, EU students don't need a visa to study in the UK, and there are no limits on the number of EU students allowed to enter. Hence the UK is able to play on its legacy of high-quality education – and its omnipotent native language – to draw young people in. And to get them to pay a premium.

$17.1bn

the global volume of student housing investment in 2018

That may be about to change. Brexit may play a part, but no one yet knows for sure what impact the cultural and bureaucratic upheaval will come to have on young people's appetite for living in Britain. Indeed, early signs from the Universities and Colleges Admissions Service suggest the number of applications for courses is actually increasing.

But Europe does present other concrete opportunities. The UK market is overcrowded (provision is around 34%, compared to only 10% in Australia, for example). And when it comes to the all-important supply-demand equation, the European market – which many put at as much as 10-12 years behind the UK – seems far more potent. Europe boasts a much larger landmass and population, and students can move fluidly across borders with certainty.

Most importantly, however, European universities have caught on to the value of offering courses taught in English – often at a lower cost than studying in the UK.

Yet even in the oversaturated UK market, the supply-demand ratio remains enticing. The UK needs to bring more beds to the market, just as the vast majority of Europe does. And if these countries are keen to attract international students, who can be more demanding of high standards than domestic students, that opens up scope for stratification and specialisation in the sector, with premium units and longer-term lets for the coveted overseas tenants.

However it plays out, the institutional investors looking to crack a new market would be wise to follow the GIC example – do your homework. ■

Regions for further study

Specialist student housing isn't just for the main markets of the US, UK and Australia. The investment opportunity has now spread to areas that would have been off the map just a few years ago. Here are three countries that catch the eye.

Japan

There are already three million further education students in Japan, which has seen the highest enrolment growth of any OECD nation. And now the famously insular country is on a mission to internationalise its higher education, with a strong presence at international education fairs. Until relatively recently, however, no one was providing housing that catered to international students. That changed in 2017, when a joint venture between GSA and Star Asia, a boutique investment management group specialising in Japanese real estate, set out to give the country next-level accommodation.

Poland

The number of international students in Poland is flourishing and will hit 100,000 by 2021, according to Statistics Poland. Of these, 60% come from the country's two nearest eastern neighbours, Ukraine and Belarus. Currently only 15% of Poland's students can be housed in student residences, and many of these are outdated public dormitories – a world away from the comforts that modern students demand.

China

If this is a story of the globalisation of further education, then China, which is synonymous with the growth of the global middle class, has to feature. It's already home to 500,000 international students, with many Western universities building a presence there. Investment in student housing is expected to hit double-digit growth in the next three-to-five years, according to Savills Beijing. The signs are there – GSA recently opened its first offering of managed student housing in China, as part of a deal with Tsinghua University in Beijing.

Technology and Real Estate: Faster, Quicker, More

Vistra's Scott Kraemer examines how investor demands for data and the need for flexible reporting are having an impact on technology in the real estate sector

Scott Kraemer
Managing Director,
Vistra North America

We live in an era where insight (aka well-structured data) is king. From enabling organisations to analyse our online habits and bombard us with advertising, to so-called 'big data' that can reveal trends and patterns in human behaviour, a growing mass of data is helping inform all sorts of business decisions – and that includes in the real estate sector.

Data availability is at the top of the list for many real estate asset managers, limited partners (LPs), property managers and CFOs. The ability to access a whole range of data at speed is paramount, not only for the sake of reporting to investors, but also to make strategic decisions about a property, portfolio or distribution. Likewise, the need for accurate and flexible reporting in a heavily regulated environment is essential.

The need for particular types of data isn't markedly different now than it has been in the past – covering everything from portfolio analysis, portfolio construction and transaction data, to regulatory compliance. It is the number of specific data elements and the speed at which data delivery is expected that have changed dramatically.

What asset managers are asking for is quick access to and navigation of insightful information online in a secure way – what they don't want are data dumps and basic file transfers.

The reality is that speedier access to data can simplify decision-making. Being first to a deal isn't a bad thing. And being able to provide data on a property, to dice and slice specific information so that you are able to take insightful and up-to-date information to a property deal, is key.

Investor data demands

This need for swift access to data is being driven, in large part, by the investors themselves. Institutional investors want data immediately. Typically, they expect a pitch on the investment and information on returns provided electronically, sometimes on a daily basis. Conversely, there are very wealthy individuals who may be more passive investors and want quarterly data documents sent to their homes.

These disparate desires on how to receive and consume data demonstrate the need for flexibility in the way that data is constructed and delivered.

Likewise, asset managers must be able to provide data quickly to sophisticated investors when they demand it – especially the increasing number of single managed accounts and co-investors whose timing on reporting requirements might be more exacting. Again, it's about being flexible on delivery depending on the demands.

It's not surprising that the evolution of fintech, apps and online portals and dashboards has led to investors increasingly wanting data at their fingertips, and this is creating a shift in the way the data is being delivered.

When considering the way we handle data at Vistra, secure online information isn't quite real-time at the moment, but we are progressing towards that objective. The data we offer tends to be in a PDF file or Microsoft Excel workbook from which investors can immediately draw the details they need. During 2020, we aim to have interactive dashboards available so that managers and investors can drill down further to see every portfolio activity, including valuation updates, sector/region overviews and a breakdown of real estate asset types (office, hotel, retail, industrial and residential).

There is no doubt that the speed and accuracy of data reporting is something that will continue to evolve. If you go back just two years, the level of data freely accessed now by investors and managers was simply not available.

Tech costs and the arrival of AI

If technology is the great facilitator, it doesn't come without a cost. In order to be successful in the fund administration space, it has been estimated that most companies need to put 20% or more of their investments into technology and process-automation capabilities.

However, these investments could be offset by a reduction in human resource costs, especially if data is made instantly available in a usable format that doesn't require subsequent interpretation or manipulation by the recipients.

As for artificial intelligence (AI), the industry is well aware of the potential cost and time savings this can offer. Consider, for example, the possible benefits of optical character recognition (OCR), which can electronically convert typed, handwritten or printed text into a form that a computer can process, edit, display online and store compactly. It's an area in which there has been real progress in recent years.

The reality is, however, that the use of AI in the real estate investment lifecycle in general is still in its infancy and requires significant investment before end-to-end industry and wider-scale benefits can be appreciated.

So, balancing the fact that technology will undoubtedly play an increased role in the real estate sector against the reality that budgets aren't infinite, those holding the purse strings have to consider where best to spend their tech dollars – and that may boil down to the size and nature of the business in question.

On the portfolio side, there is undoubtedly a major incentive across the board to invest in technology. From a fund administration perspective, there is a pressure, yes, but less so for boutique asset managers where the volume and breadth of investments are not as high.

Our real estate survey, 'Real Estate Fund Operations: Have They Reached An Inflection Point', which was published in November 2018, stated that: 'The complexity and data demands of regulatory compliance are forcing the pace at which new and more powerful technology is being developed in the RE funds industry'. It also revealed that 46% of respondents expected their tech spend to increase over the next five years.

For many companies, fund administration brings significant challenges, which is why outsourcing is a consideration. Indeed, the trend for outsourcing administration is growing, partly due to fee pressures on asset managers. Over the next two years, the global trend to outsource will gather pace as any reservations regarding loss of control will be countered by the need for technology solutions and cost savings.

> "There is no doubt that the speed and accuracy of data reporting is something that will continue to evolve. If you go back just two years, the level of data freely accessed now by investors and managers was simply not available."

46%

of respondents in Vistra's 2018 RE survey expected their tech spend to increase over the next five years

Regulatory pressures

There's no escaping the fact that constantly shifting regulation has had, and will continue to have, an impact on the real estate sector. Indeed, in our real estate survey, nearly three-quarters of respondents (74%) stated that regulatory change has had the biggest impact on their businesses. This increased focus on regulation is as much about enforcement as it is about change.

Regulatory requirements such as the concepts of Know Your Customer (KYC) and anti-money laundering were ramped up in the aftermath of the financial crisis. The difference now is that companies must prove they are complying, rather than just stating that they are, and that is having an impact on the need for more efficient reporting.

Ultimately, what asset managers and CFOs want is for the administration side to work smoothly, to quickly see all the investments and legal entities in their real estate investment portfolio, and the related statutory requirements. How can they respond quickly to regulators and auditors around these entities? And can the fund administrator provide this data in a secure, usable online format within the right kind of reports?

It's an area we've focused considerable energy on in recent years at Vistra – and we continue to invest in capabilities around these demands, notably with two products – the online portal capability MyFunds, and a system called Overseas Connect.

Overseas Connect provides global oversight – therefore if a fund is invested in 15 countries, the interactive application shows in tabular form what entities are held in each one. It can also show what has been done and what needs to be done in each region in online dashboard format, with all related documents being shared between key parties. The same can be done for regulatory compliance worldwide, and when a company's operations are in multiple countries, issues such as payroll could be considered across all markets in a more standard way.

Similarly, MyFunds makes data sharing safer and more efficient. It is about centralising documents through a whole process – from KYC to the liquidation and sale of an asset in a secure environment, for example, rather than via the exchange of emails and/or 'snail mail'.

The emphasis is on speed of reaction to regulatory change. An example of this is Opportunity Zone funds in the US and the regulatory reporting these clearly require following recent regulatory announcements. As a point of focus for Vistra's US Fund Administration team and for all involved parties, it is necessary to respond quickly to these market changes and trends and to expediently develop cutting-edge solutions in order to stay relevant and demonstrate both market knowledge and expertise.

The way forward

It's clear that there have been significant changes in the data and reporting spaces, to which technology is intrinsically linked, but there is still some way to go.

There will continue to be price pressures, and in response, tech solutions and AI in related pragmatic applications will continue to improve. The essential point is that it's not about getting more data, it's about accessing good-quality, insightful data as efficiently as possible, something that is an ongoing challenge for the industry as a whole. ■

Vistra: Experts in Real Estate

With a global real estate portfolio and a diverse range of funds, you're looking for an experienced fund administrator and property manager. We offer support for every level of your fund's activity – establishing the fund, managing it on a day-to-day basis, incorporating and running property holding vehicles, and supplying property management services.

Whether you manage opportunistic funds, debt and core funds, real estate investment trusts or property authorised investment funds, we have the experience to match. And we understand the varying needs of different asset classes, from office, hotel and retail to industrial and residential.

Real Estate Fund Formation and Administration

We'll work with your team and your other professional advisers to guarantee the smooth and efficient launch of your fund. Once it's operational, we ensure regulatory compliance, maintain partnership and shareholder registers, produce financial statements and liaise with investors.

Property Holding Vehicle Incorporation and Administration

Relying on our local knowledge and expertise, and through our extensive network of offices, you can establish a wide range of property vehicles around the world. We can advise you on the optimal type of vehicle for your purposes and provide you with ongoing management services.

Property Management Services

Your real estate investments are in good hands with our property management services. We currently manage over 1.5 million m^2 of commercial and residential floor space and with over 30 years in the sector, we have deep expertise in property management.

Our service includes managing:

- Incoming and outgoing payments for a property, deadlines and arrears
- Budgets and costings
- All accounting and reporting requirements
- Tax and regulatory compliance, and liaising with tax advisers
- Rent agreements and other contracts
- Insurance claims
- Due diligence for real estate or portfolio transactions

Your Vistra Real Estate Advisers

We believe a deep understanding of the real estate industry is essential to delivering the best possible service. Our staff are experienced property specialists, qualified lawyers and accountants, with professional backgrounds in the real estate sector. Collectively, we bring a broad base of skills and expertise, enabling us to become a valued part of your team.

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