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Deloitte 2015 European real estate investment management survey among asset managers and servicers

Forecast? Mostly sunny, with scattered clouds

Changes in technology, taxation, or the financial market, and particularly regulatory developments, are forces keeping the real estate market in constant transformation, leading to new opportunities, but also stop blocks for real estate players. Both real estate asset managers and asset servicers need to face these changes and adapt their business models accordingly. What are the key priorities of their business today? How do real estate asset managers and servicers prepare their business for future growth and development? How do they deal with regulatory requirements? Deloitte sought answers and took the current temperature of pan-European asset managers and asset servicers in two distinct surveys recently conducted among major players of the industry.

Asset managers survey—key results

Easy access to capital with positive outlook for coming months

Access to capital does not seem to be difficult for real estate asset managers today and is expected to remain easy in the next two years, as confirmed by 50 percent of the respondents.

Investors increased capital allocation to real estate but raised their level of requirements

Not surprisingly, pension funds are the main business feeders of the real estate industry (25 percent), followed by insurance companies (17 percent) and funds of funds (9 percent). In recent years, investors have increased their capital allocation to real estate, while at the same time increasing their requirements: IRR, management fee rate, and risk exposure are the most common requirements during the fundraising phase.

Investors reporting: the next big investment?

89 percent of managers indicated that they receive a multitude of reporting requests from their investors; 53 percent of respondents provide INREV figures in addition to regulatory requirements. Overall, performances (94 percent); transparency (78 percent), and fees (44 percent) are the three key requirements for investors when assessing the managers they work with.

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Operations: capitalizing the investment of AIFMD is a priority alongside simplification

With AIFMD being one of the factors leading real estate asset managers to review their operating model, 17 percent of survey respondents confirmed the need for operational improvements.

However, when being asked about their operational priorities for the next two years, simplification is on top of the agenda, alongside the improvement of efficiency and the increase in size of middle and back office functions to comply with regulatory requirements.

What is on the horizon?

Allocation to real estate is expected to grow across Europe mainly through capital flows from pension funds (+6 percent to 31 percent), insurance companies and sovereign wealth funds (both +7 percent to 19 percent), according to the survey asset managers. This seems to be in line with INREV's Capital Raising Survey 2015 confirming that pension funds have the highest allocations to real estate, followed by the insurance industry. However, wealth managers are expected to decrease their real estate allocation from 14 percent to 6 percent.

In terms of target investments, the market is split into two different classes: Germany, the United Kingdom, and France are by far the top three countries where managers plan to deploy capital, confirming a well-established trend that does not seem to change. The Nordic countries and Spain rank fourth, followed by Poland and Ireland, all with modest appreciation rates compared to the leading three.

Asset servicers survey—key results

For real estate asset servicers, reinforcing staff and investing in technology are on top of the agenda, driven by a sustained and anticipated growth of the industry.

Investment in talent

Real estate asset servicers have already directed their efforts toward recruiting the right profiles as well as creating learning and development opportunities for existing staff, as confirmed by 54 percent of respondents.

IT upgrades to be tackled in coming years

In contrast to asset managers, asset servicers reply on specialized software for their daily operations. Over 50 percent of respondents indicated that they use more than one system for their activities to respond to the variety of requirements, including investors and portfolio reporting, transaction processing, accounting and financial reporting, regulatory reporting, or cash monitoring.

Preparing for growth

Real estate asset servicers strongly believe that their business growth will be fuelled mainly by new clients. Extending their activities with existing clients only comes second. Value-added services are considered as growth opportunities as well as key differentiators.

To be in a position to develop and concentrate on value-added products, it is of paramount importance for asset servicers to invest in technology as well as to focus on operating models and organizational transformation.

Conclusion: favorable winds, despite obligations

The survey shows a very positive outlook for the industry that is equally shared by asset managers and asset servicers, both of which have one common issue to tackle: the target operating model. How can we cope with new business, regulatory and investor pressure, and pan-European presence without costs being an obstacle to growth?

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