



# Wind of change Towards a mainstream-like operating model for the real estate industry

**Gérard Lorent**  
Director  
Advisory and Consulting  
Deloitte

**Tobias Piegeler**  
Senior Manager  
Advisory and Consulting  
Deloitte

Regulations are shaping the real estate (RE) world. The industry and the alternative funds market in general are now caught in the regulatory spotlight and have not escaped tighter scrutiny and pressures for transparency from regulators and investors alike.

Following the global transformation of the retail fund industry in recent decades, new operating models spanning from the front-middle to back-office operations of RE asset and investment managers to service providers have emerged. These are not just necessary for adapting to current legal and industry guidelines but are key requirements for business viability, service marketability and expansion.

Major regulations that have pushed essential changes in the asset management industry include the Dodd-Frank Act and FATCA in the US, and the AIFMD and forthcoming PRIPS and BEPS OECD recommendations in Europe. Many of the RE structuring vehicles and investment strategies require compliance under this new wave of laws, directives and their implementation requirements. Investor and industry standard-setting bodies such as INREV are likewise influential in clamouring for industry reforms and standardisation of the highly fragmented, inadequately automated and vastly diversified RE business.

Moreover, the needs of investment managers are constantly changing, with some requiring more streamlined middle to back office, bridge financing, and a single point of contact for a cross-border and multi-jurisdictional service offering.

**An integrated approach is the way forward for asset, portfolio and risk management**

The technology supporting asset and investment managers has changed drastically across the board in the last decade, offering holistic front to back solutions mostly for traditional and regulated funds. An increasing number of alternative asset classes are being supported, with geographic spread and specific local characteristics factored in, while emerging technological innovations such as advanced analytics, digital data extraction of paper contracts, predictive modelling and self-service business intelligence have reached a new level of maturity.

There is no doubt that IT infrastructure – composed of portfolio and risk management, planning or budgeting as well as accounting and administration systems – is at the heart of an investment management firm. RE players are facing an expanding set of challenges linked to these aspects, which are hard to handle without advanced technology. Beyond that, being able to quickly and effortlessly interact with business information is now considered essential to making the best business decisions in accordance with regulatory requirements.

The expanding variety of systems used brings additional issues for RE investment managers relating to the compatibility of data used to evaluate an investment and the common issue of differences linked to variations in calculation methodology. For example, marketing teams, accounting and risk departments can obtain different values for the same investment due to variation in their respective systems’ parameters and a lack of integrated data.

Such issues are clearly best handled by creating a centralised data warehouse able to serve as a control point for enhancing data quality and ensuring the enforcement of company and regulation standards. It also facilitates an organisation’s ability to achieve a ‘single version of the truth’ across the company, while consolidating data from multiple, often heterogeneous and scattered sources.

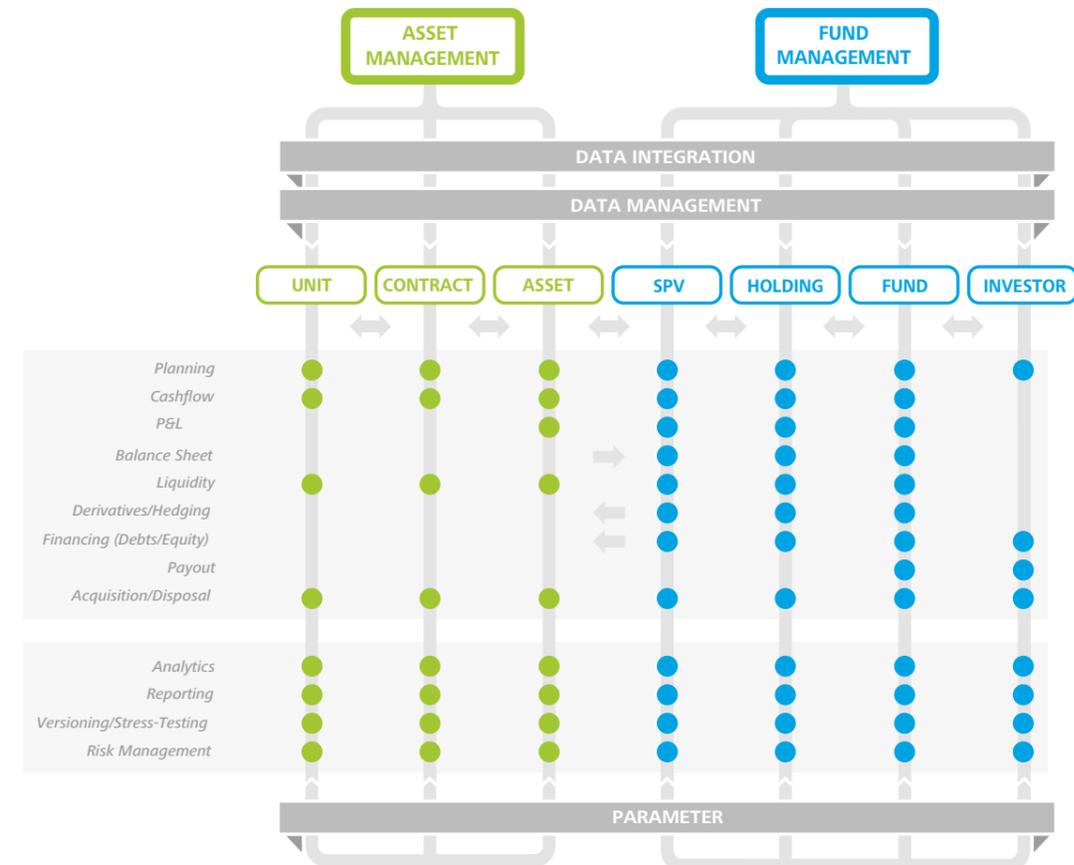
There is no doubt that IT infrastructure— composed of portfolio and risk management, planning or budgeting as well as accounting and administration systems – is at the heart of an asset management firm

A consolidated and unified view provided in a RE investment firm’s reporting to its internal stakeholders, regulators, shareholders and clients is therefore key to reducing confusion and misinterpretation of data between the different parties. Many firms experience the negative effects caused by their systems’ reporting shortfalls, which mainly relate to additional reconciliation workload, a lack of standardisation or missing capabilities for individual ad-hoc reporting. Reporting clarity is another important element, especially considering the multi-layered RE structures and their complex valuation methodology.

**How to turn mountains of data into nuggets of insight**

To compete with all the shifting challenges, a holistic and integrated view throughout all related professional domains is crucial and can be a game-changer in gaining a competitive advantage. In our experience, there are many stand-alone solution offerings that tackle separated domains or modules only (e.g. regulatory reporting, valuation, risk management, accounting or lease planning). This impacts productivity and accuracy, while users also suffer from restricted coverage of needed and crucial capabilities such as full consolidation at fund level in accordance with different local or international accounting rules, integrated look-through reporting or pervasive versioning due to a lack of flexibility of the system and staff.

**Real estate investment management framework**



Painting the big picture: integrated capabilities throughout all professional domains within the real estate investment management framework



Thus, appropriate utilisation and individual leverage of actual technology and software solutions enables investment firms and asset managers to opt for a comprehensive and scalable solution approach that exhausts given application standards and fully covers individual customisation needs (e.g. innosys<sup>1</sup>).

Additional key benefits are faster and tightly aligned budgeting processes, capacity savings in operational work, the provision of accurate, transparent and timely information and support in strategic decision making. In this regard, predictive analytics and what-if analysis help users to review and consider the impact of their potential decisions across all levels and working areas of the framework. Regarding the asset servicing value chain, one of the key requirements of asset managers is investor reporting.

Service provider systems must be able to handle specific investor reporting needs ranging from technical requirements (layouts, file formats and delivery either by post, email or web-access), to data content such as investment positions, performance data, fee and income allocation, and tax related information. However, in the RE industry this is still largely performed on a bespoke, tailor-made basis, as opposed to the more standardised

investor reports for regulated retail funds such as UCITS. But with international standards such as INREV as well as pan-European regulations such as AIFMD and PRIPS, a more standardised reporting format will be achievable in the years to come.

#### RE asset servicers rising up to the challenge

With more RE firms either looking for outsourcing partners or wishing to limit costs while continuing to grow their business in the current business environment, the implications of new regulations and investor demands have cascaded down to service providers. This has triggered operating model changes, IT upgrades and business process optimisation projects to accommodate numerous and increasingly complex client requirements while at the same time managing operational risks.

While mainstream banks having entered RE asset class servicing over the last decade already underwent this kind of changing environment in the UCITS world over the last 15 years or so, pure RE asset servicers are facing these new challenges at a time of local and international growth. RE fund providers are aware that competition is intensifying. The range of core central administration (fund accounting, reporting and transfer agency) and

custody (transaction processing, asset monitoring and reconciliations) services are generally uniform across all the main asset servicers, and with more demanding asset managers and investors, competition is now shifting towards specialised, value-added services, a global service offering spanning international target investment areas, fees and overall service quality.

A survey we recently conducted suggests that while core functions are generally performed in-house, most asset servicers prefer to outsource certain high-volume or repetitive tasks to central operating hubs or third parties. For fund administration services, 25% and 13% of respondents outsource fund accounting and reporting respectively, while for depositary services, 42% and 33% outsource reconciliations and transaction processing.

#### Opportunities and competition between service providers and technology providers

RE service providers recognise that having integrated, multi-functional, flexible and customisable systems is critical to meeting their business requirements, which are in turn aligned with client demands. These range from standard balance sheet, income statements and NAV reports to customised portfolio and risk analytics and supporting exception reports and escalations.

In addition, clients are increasingly opting for online access to web portals for real-time or on-demand reporting on portfolios, cash flows, etc. Such reports are essential for investment managers to properly manage the portfolio, risk and liquidity of their investment funds in a timely manner. The ability of each provider to offer these business solutions using a robust platform is imperative not just for client retention but for business expansion as well, given that systems are one of the key selection criteria for asset managers when scouting for asset servicing partners.

Intensifying business competition along with extensive regulatory reporting requirements have been a challenge and an opportunity for both asset servicers and RE software vendors. Improved data quality and transparent and timely reporting are just a few of the many advances seen in the RE spectrum. With more persistent regulation, investor demands and changing best market practices, such improvements and challenges are not expected to abate anytime soon.

However, this competition is welcomed by market players as pivotal and necessary for the continued development and overall progress of the industry.

#### In conclusion

Uncertain times (worldwide trouble spots, currency risks, oil price under pressure, etc.) are resulting in steadily changing market environments and regulatory guidelines, while investor demands will increase in terms of increased standardisation, supervision and transparency on a cross-boarder basis.

The RE servicing industry seems to be moving towards operating models including competence centres set-up across the globe and unique IT solutions deployed in all operational centres — much like where UCITS fund servicers started decades ago.

In any case, the past evolution of technology standards now enables investment managers to obtain a comprehensive RE performance management solution for process-aligned planning and strategic portfolio steering taking advantage of predictive look-through capabilities, tracking actuals and with consolidated monitoring of performance, all spanning from rental unit to fund level.

<sup>1</sup> Innosys by Deloitte is a Real Estate Performance Management Solution and has a 14-years proven track record in providing comprehensive capabilities for integrated planning, flexible reporting, advanced analytics, risk and data management, while covering the entire life-cycle of investment assets and all of its aligned business processes.