The real estate investment management industry Looking ahead

Deloitte Partner Paul Meulenberg meets Pieter Hendrikse, CEO & Chairman of CBRE Global Investors, EMEA region.

Pieter Hendrikse led the European Real Estate Investment Management activities of ING Real Estate for a number of years until they were taken over by CBRE Global Investors in 2011. ING Real Estate was one of the biggest real estate companies in the world, with investment management, finance and development activities on the global real estate market. Pieter assumed the role of CEO and Chairman of CBRE GI for the EMEA when the acquisition took place. He also sits on the global executive board of CBRE GI.

Deloitte: ING Real Estate Investment Management joined CBRE Global Investors in November 2011. How did the integration go?

Pieter Hendrikse

ING Real Estate, which was developed on the back of their insurance company at the time, was one of the world's leading real estate companies. ING Real Estate's expertise and 'art of real estate' were key factors in attracting talent. Fortunately, CBRE was able to continue that spirit and philosophy when the ING team was transferred to CBRE and eventually merged into CBRE Global Investors.

What we have today is a real estate investment management company seeking to be one of Europe's leading investment managers without any financial or pension fund and insurance company back-up. We are now fully independent from any financial institution, which is quite a novelty. The combination of ING's spirit and talent with the independence and overall infrastructure of CBRE Global Investors is a perfect match. Another big advantage gained from the merger was that client overlap stood at only 4 to 5%, meaning there was no turbulence, shake out or diversification problems. Our strategies also differed: CBRE came up with more value-added investment strategies, whereas ING had a more of a core investment strategy.

When we acquire a property, a sustainability check is an important part of our due diligence procedures

Deloitte: How have clients and investors responded to the merger?

Pieter Hendrikse

As the process began in the midst of the 2010/2011 financial crisis, feelings were initially mixed, and ranged from understanding the reasoning of ING's decision to concern about losing their management. Clients and investors therefore followed the situation very closely, and we gave their concerns and our responsibilities towards them our full attention.

We identified three important stakeholders, focusing on the seller or owner, as well as the new owner, while maintaining complete commitment to our clients and our people. We have succeeded in preserving this very tight circle.

We had also consulted clients to seek their approval for this move. An initial agreement between the seller (ING) and buyer (CBRE) was reached in December-January 2010/2011, but it took ten months to fully accommodate the different stakeholders, such as investors, the different banks, works councils, etc. Ultimately, we came out of this process in a good position. Clients responded very positively, but it took time. It was a very intense project, but we always kept our goal in sight.

Deloitte: Where do you stand today?

Pieter Hendrikse

To explain where we stand today, I would like to broaden the scope a bit. We launched a lot of businesses and funds in the early 2000s. All of these businesses launched between 2000 and 2005 had a life cycle of ten years. Our merger in 2011, industry changes brought about by the financial crisis and the funds reaching the end of their lives meant we had to take action.

We had to really take responsibility for our clients, which meant that we had to make very serious decisions to not only try to continue with these funds, but also to control fund termination and liquidation. The structure of the investment programme, rather than the quality of the underlying assets, occasionally forced us to sell. Investors also learnt a lot about the effects of leverage and consolidation in the pension fund and asset management worlds.

As a result, they also see their levering partners in the same vehicle as a different kind of partner than in the past, when setting up the fund together. We had many changes to deal with and many decisions to take. But the benefits of such a merger, and of a new culture/DNA, along with a strategic review of the business with the right kind of decision making and the right new leadership has led to the very healthy situation we find ourselves in today.

Deloitte: What are the major challenges you are facing for the years to come?

Pieter Hendrikse

The challenges are first of all to accommodate the capital available for investing in real estate. We all saw the wall of money available between 2004 and 2007, of which a large part came from debt opportunities, highly sponsored by banks. Today, we talk about 'real' real estate investors, focusing on a long-term investment strategy (finding the right investments with the capital available) rather than on short-term strategies (such as trading with real estate). What the real estate sector has done extremely well is to become transparent and accessible.

It has the right dimensions and tools to be considered as a professional asset class in Europe in addition to bonds, equities and maybe alternatives such as infrastructure. Now the challenge the industry is facing is that there might not be enough high-quality investable real estate to match liabilities. In my opinion, the job of today's investment manager is to ask where the best real estate is and which asset or building is going to stand out. This is quite a challenge.

Deloitte: How do you stand out from your competitors in the real estate investment industry?

Pieter Hendrikse

First of all, by our local presence. We have offices in every European capital, each staffed by a team of 30-40 people. We use our local relationships to be number one for off- and on-market deals. We have local acquisition people, who focus exclusively on acquisitions, and a management team to take responsibility for the investment. And we do not buy just for the sake of it; we know what kind of property we would like to buy in line with our clients' investment strategy. How do you decide what represents a good or a bad deal for a client? How do you choose which deals to start working on and which to avoid? Well, firstly you need to know your client to know exactly what they want. This means keeping the dialogue completely open; you should not just throw assets at the client and let them decide. You are being asked to invest, and you have to have the skills and expertise to know what they want and bring that to the table.

This means we make a number of deals every day. We made more than €3 billion of acquisitions last year, but also recorded sales of €2.5 billion.

A transaction level of €5.5 billion represents almost 20% of the total asset base of €30 billion we hold as a European company.

Deloitte: How is the real estate investment management market going to develop over the next 5-15 years?

Pieter Hendrikse

I believe that all the new rules in the banking and insurance industries, the Volcker rules and the fact that financial institutions will eventually decide that real estate investment management is no longer a core activity will trigger more strategic moves such as ours. In Germany, the Netherlands, the UK and the Americas, people are going to take a truly strategic approach to deciding what to do with their in-house real estate investment management activities.

I would not call it a shake-out because that has negative connotations, but see it more as a strategic repositioning on the current owner and management side. I also think we will see consolidation between investment managers, meaning that the number of real estate investment managers will eventually decrease. This is going to throw up some questions from allocators and investors, as they are happy with the various options and opportunities currently available when choosing an investment manager. This is something to keep in mind for the future. In addition, we also see those who have learnt the trade over the last few years starting their own niche boutique management platforms.

As a result, investors will finally be able to choose to go for a perfect alignment with the owner of a specialist management platform instead of an investment house like us. However, execution on the ground is going to be crucial. This is what investors will seek, meaning that an investment manager in real estate must be able to demonstrate executional and operational excellence on the ground to perform and deliver excellent returns to investors.

Deloitte: Returning to the topic of consolidation, in the future, do you expect there to be fewer real estate investment managers than there are now? If investors have less choice, could they increasingly begin investing themselves and you do separate account business for them?

Pieter Hendrikse

We should remember that we have seen consolidation among investors themselves too. Allocators are also merging and building investment management activities servicing their pension funds — there are several examples of this. The question is whether they will set up their own specialised real estate investment management organisation. If not, they will stay as an allocator and will simply find their real estate investments listed and non-listed. For non-listed real estate investments they will select external managers.

Alternatively, if they do start building up their own real estate expertise, they, as a manager, will want to be treated as a separate account with CBRE. This is nothing new, and has been around for years. However, as a manager you have to customise and organise this accordingly. In fact, if the amount of capital to be invested is sizeable, you could treat it as a fund. Whatever strategy comes with the account, you have to have dedication, a line of interest and also the commitment of the respective managers.

We do not buy just for the sake of it; we know what kind of property we would like to buy in line with our clients' investment strategy

Deloitte: You have €30 billion in assets under management, part of which is separate accounts, part of which is funds. How is this division going to change and would you expect more separate accounts instead of funds in the future?

Pieter Hendrikse
Back in 2010 the split between funds and separate accounts was 90/10, while it might be 70/30 in 2015 and move towards 50/50. Although the volume of funds will decrease, they are here to stay. With all the funds launched from 2000 to 2005 coming to an end, investors were not comfortable with the concept of funds and wanted to get out. Funds are too complicated, they do not have proper governance, there are no likeminded investors, investors feel they have no adequate voting power, the manager has differing interests to those of the investors, etc.

That being said, join ventures and co-investments are also very complicated, meaning that they are not a good alternative to funds. Does this make separate accounts a good alternative? For some the answer is yes, as they feature extended governance and a direct relationship with investment managers, allowing you to be in full control of your destiny. However, we are also seeing more investors coming to Europe and wanting to team up with other like-minded investors, leading to a club deal, or back to a fund. Other investors have also learnt their lessons. They prefer to club together with other investors, putting an increasing amount of money into one basket without excessive leverage like in the past.

They aim for a common strategy, and already have the right managers. This will result in a balance between investments via funds and separate accounts.

Five years from now, more international separate accounts from non-regional allocators will invest in the European region as a separate account. In fact, we already have examples of this in the form of Asian, American and Middle Eastern investors. They want to invest by themselves, with the support of a local manager, as this is what they are doing on their domestic markets.

Deloitte: When being part of ING, you could start an investment fund on the back of ING insurance funding and then attract additional outside investors. As CBRE, how do you initiate a fund without the availability of seed capital?

Pieter Hendrikse
Indeed, we now initiate funds without a sponsor putting in substantial seed capital. However, in selected cases we do obtain smaller co-investment sponsorship from CBRE Corporate. These days, if we launch new products we obtain co investment from the group first, and also have co-investment from the fund management team and European leadership. Most importantly, we are able to sell the product thanks to our track record and performance in general. Then it all comes down to knowing how to organise, acquire, manage, perform, report, really stand out from the competition, and finally, deliver.

Deloitte: There is increasing competition amongst international real estate investment managers. The European real estate markets are shaping up, and if an investment opportunity appears, you need to act swiftly. How is CBRE prepared for that?

Pieter Hendrikse
We are indeed prepared. In fact, every other day we have an Europe-wide conference call to talk about market opportunities, ensuring we consider every single one. We are perceived to be an active investor, so are regularly asked by third parties to come up with an investment solution to help them out. We know exactly how to organise our decision making and there are strong connections between the small number of management layers. The beauty of this company is that we focus on doing business in the interest of our clients. We have never lost a deal because of timing or internal obstacles.

Deloitte: Where do you want to stand in 2020 in terms of volume of assets under management and organisation?

Pieter Hendrikse
I am convinced we have what it takes to be successful over the next five years leading up to 2020. However, we should remember that this is a completely new situation for many, and we have made a number of organisational changes. We have a lot of new leaders, a lot of new strategies and a new organisational and business model. We have a more global approach to our clients, and a much deeper organisational model on a local level on the property markets. It is our job to bring that capital to the local property markets and vice versa. Our objectives are to have a more diversified client base and a more local client base in Europe, to outperform the applicable benchmarks and to have hired the best people in the period to 2020.

We want to manage difficult situations into solutions. In 2020, we also would like to look back at growth, not only of the organic kind, but also gained through acquiring new business when needed and appropriate. Ultimately, we want to be the best investment manager in Europe, but not necessarily the biggest.

Deloitte: Before we conclude this interview, are there any other messages you would like to share?

Pieter Hendrikse
Yes, a very important one, in fact. Responsible investing and sustainability is going to be very, very important for real estate investments in the future. It is something that I think will fall under the spotlight of leadership or different stakeholders like pension funds, boardrooms, investment managers, property developers, traders, but also users.

The responsibility of using space on the planet is a truly high priority for all of us. I lead our internal global sustainability programme, in a way I am the leader of the CBRE Green Team. I have included sustainability targets and measurements in CBRE's investment strategies across the globe. This means that when we acquire a property, a sustainability check is an important part of our due diligence procedures.

”