REAL ESTATE ASSET MANAGEMENT STRATEGIES

The classification of real estate asset management within other management disciplines, its setup, investment styles and strategies

Diploma Thesis

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Abstract

The term asset management becomes more and more famous in Germany. Not least because of the influence and activity of the Anglo-Saxon investors in the past.

Unfortunately there is no clear definition for asset management or what objective targets or tasks should be included. Also the science and the practical experience do not provide an incomprehensible classification between the different management disciplines within real estate investments.

Against the background of high investment volumes of foreign investors in the past and the ongoing professionalizing is Germany still an attractive investment market. Due to this are the different investment styles and the asset management strategies to ensure appreciations of real estate very important.

Catchwords: **Real Estate**
Asset Management Strategies
Investment Style
Management classifications
Assets

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List of Abbreviations

AM	Asset Management
CEO	Chief Executive Officer
Cp.	Compare
CREM	Corporate Real Estate Management
DIN e.V.	Deutsches Institut für Normung e.V.
e.g.	for example
FM	Facilities Management
gif	Gesellschaft für Immobilienwirtschaftliche Forschung e.V.
INREV	European Association for Investors in Non-listed Real Estate Vehicles
INVESCO	INVESCO Real Estate Germany L.P.
IRE|BS	International Real Estate Business School
IRR	Internal Rate of Return
LTV	Loan to Value
m	meter
n.u.	Name unknown
NCREIF	National Council of Real Estate Investment Fiduciaries
NPL	non-performing loans
p.a.	per annum
PM	Property Management
PREM	Public Real Estate Management
RE	Real Estate
REAM	Real Estate Asset Management
REFM	Real Estate Facilities Management
REIM	Real Estate Investment Management
REM	Real Estate Management
REPM	Real Estate Portfolio Management
sq.	square
USP	Unique Selling Point
vs.	versus

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1. Introduction in Real Estate Asset Management

There have been days where properties were administrated and managed themselves. Lease payments, dunning process, statement of utility cost and maintenance were the formerly tasks of real estate administrators.
But caused by always shorter contract durations, higher vacancy rates and new credit guidelines gains “Real Estate Management” (REM) and for this reason particularly “Real Estate Asset Management” (REAM) in importance.
In addition to this the markets become more global and foreign investors invest their capital in countries all over the world. Many investors do not have the required understanding of “Real Estate” (RE) to act successfully. Therefore regional asset managers as translators with a huge market specific knowledge are indispensable.[1]

In the course of the already mentioned professionalization of real estate especially within the implementation of different management disciplines consistently various definitions and understandings appear. The term “Asset Management” (AM) in particular is interpreted differently by companies for example what kind of objective targets and strategies are relevant or which tasks should be included.[2]

The theoretical and practical importance of this thesis is becoming clear by referring to the specifications, which are given by a German association of property research (“Gesellschaft für Immobilienwirtschaftliche Forschung e.V.” [gif]). They identified within their Real Estate Investment Management guideline, definition and performance catalogue, a basic principle for both the science and the practice for the different targets, tasks and strategies.

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1 Cp. Wagner, T.: investor and manager, 2006, p. 60.
2 Cp. Ruge, K.: what is what, 2007, p. 56.

1.1 Profile of Content and Motivation

This scholarly paper ought to illustrate that the significance of real estate asset management with its objective targets, tasks and therewith strategies is becoming more and more important.

This begins with the professionalizing of the real estate markets, especially in Germany, and the ability of real estate for the capital markets as an asset.

Furthermore this paper is supposed to classify the different real estate related management disciplines and especially in the context of real estate asset management. Between the practical experience and theory are still big differences, even between countries and companies rule different definitions and understandings.

At the same time this thesis ought to provide an overview about real estate asset management relevant strategies on a portfolio level and on a property level.

To describe these circumstances in the best possible way many books and articles of professional journals have been integrated, as well as guidelines, an interview and other meaningful materials.

1.2 Thesis Methodology

This diploma thesis is divided into seven chapters. The first chapter introduces the following content by providing an introduction in real estate asset management and a profile of this thesis.

An overview about assets and what assets can be is explained in the second chapter, different definitions explain the variety of possibilities of investing capital.

What investors drive to invest especially in real estate, like security, profitability is going to be explained in chapter no. three. At the same time different investment types are described and the important real estate characteristics are mentioned.

Afterwards the main focus is on real estate asset management. Different definitions of real estate asset management, management itself and asset management introduce chapter four. For a better understanding is it also very important to classify real estate asset management with its objective targets and tasks between other real estate relating management disciplines. The asset management market with its consumers and providers of asset management services is another part of chapter four, just as well as the more deepening explanations of the asset manager role and the widened understanding of the term REAM.

Chapter five is about strategies, which stay in connection with real estate asset management, which means either on an overlapping level (portfolio) or on a property level. Thereby not all possible strategies are described. The focus is on important strategies as redevelopment or sale and lease back and so on.

After the previously described chapters follows the practical relevance and examples of use. Along the content of the structure of the thesis an expert interview was realized. Thus the connection and relevance of theory and practical implementations could be presented.

The last chapter summarized the entire work and provides an outlook about the situation of real estate asset management in the future.

All this is graphically supported by 15 figures and three tables, as well as by an expert survey with a professional who uses these theoretical explanations every day. Thereby the connection between both science and practical experience is guaranteed.

2. Fundamental Overview of Assets

The following paragraphs explain different assets and definitions for each mentioned asset.

The literature gives serveral definitions about what assets could be and how to divide them. Because of that only a few examples are provided, like:

2.1 Stocks

A stock is a share in the ownership of a company. It represents a claim on the company's earnings and assets. If you buy more stock, your ownership holding in the company becomes greater.[3] "Stocks are the workhorse of your investment portfolio"[4] and they have three functions:

- Fraction of the equity capital
- Commercial paper
- Certified membership right[5]

Buying high-quality stocks and holding them for the long-term can produce substantial returns to a portfolio.[6]

2.2 Options

Options are contracts that confer on its purchaser the right to sell or purchase an asset on a specific future date and at an already known price.[7]

These possibilities are known as the "call-option" to buy and the "put-option" to sell an option. There are two different option types, the American and the European. The purchaser of an American option has the right to perform its right at any time, whereas the European holder has to wait until the end of the duration.[8]

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3 Cp. Thommen, J. / Achleitner, A.: business studies, 2003, p. 69 et seq.
4 Anderson, J. A.: build your portfolio, 2004, p. 36.
5 Cp. Vahs, D. / Schäfer-Kunz, J.: stocks, 2005, p. 104.
6 Cp. Brown, C. M. / Hall A. D.: high-quality stocks, 2002, p. 66 et seqq.
7 Cp. Esch, L. / Kieffer, R. / Lopez, T.: bonds, 2005, p. 149.
8 Cp. Gresser, U.: investment style, 2005, p. 29.

2.3 Bonds

A bond is a financial asset and can be issued by a public institution or a private company. It corresponds to a loan that confers the right for interest payments (also known as coupons) and needs to be repaid upon maturity. A bond is a negotiable security and its issue price, coupon total, life span and redemption value are generally known and fixed beforehand.[9]

Bonds steady a portfolio. They give investors regular and stable income and protect the investment.[10]

2.4 Real Estate

Investing in real estate is unlike investing in financial assets such as stocks or bonds. There are four main differences between buying and selling real estate, stocks or bonds.

- Costs of selling and buying homes are materially greater than the costs of trading stocks or bonds
- Housing is a capital good that must be maintained and it depreciates
- Housing is a necessity that must be owned or rented. Stocks or bonds are instead purely investments
- In contrast to stocks and bonds is housing typically a highly leveraged investment

Due to these reasons residential investments are slower to divest when better investment opportunities are perceived or prices fall than investments in financial assets.[11]

Another difference is that investing in real estate requires very often a long-term outlook, so it is necessary that investors are well informed and willing to hold the investment.[12]

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[9] Cp. Esch, L. / Kieffer, R. / Lopez, T.: bonds, 2005, p. 115.
[10] Cp. Anderson, J. A.: build your portfolio, 2004, p. 36.
[11] Cp. Retsinas, N. P. / Belsky, E. S.: building assets, 2005, p. 14.
[12] Cp. Schumacher, D. T.: long-term, 1994, p. 3.

There are several alternative methods of investing in real estate, real estate investment trusts (REITs) are just one, but a convenient way. Home ownership provides both a place to live and potential earnings.[13]
Other possibilities of investing in real estate are purchasing land, residential and / or commercial properties or lend money directly to others for the purchase of real estate. Also debt securities, which include real estate holdings, are another possibility.[14]

But the significance of real estate is situated in a change for the future. In mature markets need the properties to be adjusted to the users' diversified needs and claims. This implicates a steady change of the properties, for example (e.g.) rebuilding or modernizations to generate a sustainable long-term cash flow.[15]

3. Intentions of investing in Real Estate

Real estate investments are as a result of stable rental receipts and a big potential in rising values an important component of an investor's productive investment.
The company "Feri Rating & Research" did a survey with 143 institutional investors, like insurances, banks, retirement arrangement facilities, industrial companies, churches and donations. The result is that 77 percent want to raise the real estate rate in their portfolios.
Just to name a few reasons:

- More diversification
- Stable returns
- Attractive returns compared to other fixed-income securities[16]

There are a lot of other reasons for investing in real estate. The following figure will give a first overview, which is explained more detailed in the next paragraphs.

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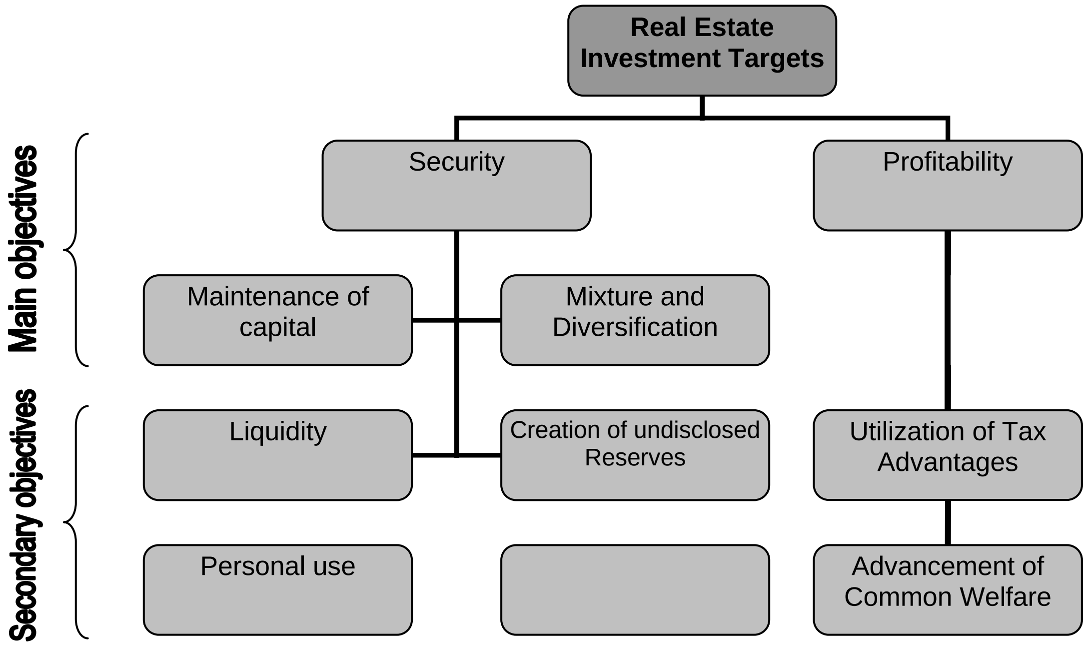
13 Cp. Ferri, R. A.: asset allocation, 2006, p. 155.
14 Cp. Haight, G. T. / Morrell, S. O.: real estate investments, 1997, p. 93.
15 Cp. Brauer, K.-U.: basics, 2006, p. 60.
16 Cp. Schultz, P.: investment reasons, 2007, p. 36.

Figure 1: Real Estate Investment Decision



Source: Own design according to: Walbröhl, Victoria: Die Immobilienanlageentscheidung im Rahmen des Kapitalanlagemanagements institutioneller Anleger, in: Schulte, Karl-Werner (ed.): Schriften zur Immobilienökonomie, volume 15, Köln: Immobilien Informationsverlag Rudolf Müller, 2001, pp. 8-12.

Real estate investors are generally in good mood and have an optimistic foresight. The European basic conditions have clearly improved for institutional investors, so every other investor announced more real estate investments for the future.[17]

3.1 Security

Objective targets and motivations of investing in real estate are very different. But in the majority of cases real estate investments are for a long period of time. Properties generate continuous and stable returns what represents security for every investor.[18]

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[17] Cp. n.u.: good mood, 2006, p. 28.
[18] Cp. Rebitzer, D.: security, 2005, p. 1.

Real estate and therewith real estate investments have always been considered as safe and value stable investments embossed of moderate but steady growth.[19]

Unlike other goods real estate specifies through its durability and long-life cycle. This means that almost every real estate will be purchased and sold several times. This generates a competition between new and existing buildings, but the market of existing properties plays here a dominating role.[20]

Properties seen as material assets provide long-term security, inflation hedge and stability of value. Additionally tax advantages are possible and land value limits the risk of loss in Germany. However, real estate investments are not very fungible assets connected with high transaction and administration costs. Furthermore real estate possesses of a low correlation with other assets, like stocks or bonds and debentures. For that reason real estate investments improve the risk to income return ratio dramatically.[21]

3.2 Profitability or Income Return vs. Risk

Every situation of creating value includes any kind of risks. As soon as an investor has defined its individual performance target comes the risk along with it. In general is the performance of real estate the entire growth and contains lease payments and development of the current market value.[22]

The premises for a successful real estate investment depend on the particular property type and the general factors of success, like:

- Location
- Timing
- Purchase price
- Tenants

19 Cp. Boutonnet, B.: future, 2006, p. 26.
20 Cp. Brauer, K.-U.: basics, 2006, p. 28.
21 Cp. Rebitzer, D.: security, 2005, p. 2.
22 Cp. Thomas, M.: profitability, 1997, p. 2.

- Development of the market
- Possibility of third party utilization[23]

There are two different risk categories, on the one hand systematic and on the other hand unsystematic risks. For real estate investments is this determination important, because properties are always affected with both. The unsystematic risks are property and location specific risks. The market only rewards unavoidable risks with higher income returns, because each investor can diversify the already mentioned unsystematic risks.[24]

3.3 Embodiment

There are different methods for classifying real estate. One the hand the real estate investment types with different property types and on the other hand geographical aspects.

3.3.1 Real Estate Investment Types

To name a few common real estate investment types:

- Direct investment
- Open-ended fund
- Closed-end investment company
- Real estate incorporation
- Real estate investment trusts[25]

3.3.2 Property types

Every market has different requirements to the management methods and approaches. To name the four most important property types:

23 Cp. Rebitzer, D.: security, 2005, p. 2.
24 Cp. Sanders, A. / Pagliari, J. / Webb, J.: concepts, 1995, p. 129 et seqq.
25 Cp. Schultz, P.: investment reasons, 2007, p. 36 et seq.

- *Office*

  Office buildings are basically buildings or parts of buildings where company providing services with every kind of office work is performed.

  There are two fundamental characteristics what distinguish office buildings from other real estate types:

  1. The office building represents a closed entity.
  2. Office buildings are marketable.[26]

- *Industrial*

  Industry buildings are complex of buildings, which are used for industrial purposes, like fabrication, assembling, transportation services, stock holding and quality check.

  Important indicators are a good transport connection and a market with well qualified employees.[27]

- *Retail*

  Retail buildings are basically buildings or parts of buildings where predominantly business concerns practice merchandizing.

  Closer is a classification of two groups possible:

  1. Retail trade, which means to trade with end users.
  2. Whole sale, which is trading with distributors.[28]

  Especially retail is growing fast and needs the business areas acquisition and asset management to satisfy the consumers.[29]

- *Residential*

  To the residential investment properties count every kind of habitation, like apartments, one-family and multi-family houses as well as condominiums etc.[30]

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[26] Cp. Falk, B.: specialist lexicon, 2004, p. 184 et seq.
[27] Cp. Falk, B.: specialist lexicon, 2004, p. 474.
[28] Cp. Falk, B.: specialist lexicon, 2004, p. 411.
[29] Cp. Werth, H.-J.: revival, 2006, p. 53.
[30] Cp. Hermes, M. / Feigl, P.: residential, 2005, p. 223.

3.3.3 Geographical Market

The national and international focus is in line with real estate investments part of the basic orientation. This is vitally important, because every other city, state or country can and does possess different real estate risks and of course chances. One reason is that geographical spread properties are situated in different life cycles.

A diversification strategy will be successful for the geographical consideration, if the investor invests in areas with different basic conditions and their own economic structure.[31]

3.3.3.1 National Diversification

The intention of a successful diversification can already be achieved within a national focus.

A national diversification suggests itself to be divided into metropolitan areas, e.g. federal states, to cover the structural disparities of each region. Very important criteria for a metropolitan area analysis should be the economic base of the investor's target region. Furthermore elements, like size, liquidity of the real estate market and its growth prospects play an important role.[32]

Despite the size and diversity of the international markets investors are often not willing to cross the border of their home country. This tendency can have different reasons, like the unknown foreign culture and markets, little experience with cross boarder investments and the foreign basic conditions.

In addition to this there are frequently other currencies, languages and time zones. The result is that foreign real estate markets are seen as more risky. To counterbalance this lack of information are indirect investments a good possibility.[33]

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[31] Cp. Solnik, B. / McLeavey, D.: international investments, 2000, p. 138 et seq.
[32] Cp. Solnik, B. / McLeavey, D.: international investments, 2000, p. 138 et seq.
[33] Cp. Schulte, K.-W. / Holzmann, C.: orientation, 2005, p. 40.

3.3.3.2 International Diversification

There are two main reasons for investors to invest abroad. First of all is diversification the driving force and second the permanent search for higher returns, which becomes within the professionalization more and more important.

To achieve success by cross boarder investments an investor or its asset managers have to deal with a series of problems:

- Legal aspects
- Tax aspects
- Market transparency
- Currency risks
- Political risks

Complex analyses are necessary to avoid these risks and problems for the diversity of possible real estate investment markets.[34]

“LaSalle” formulated within their “Investment Management Annual Report of 2003” five main focuses:

1. *Choice of appropriate countries:*
   Will the chosen properties earn the expected return or is the investment too risky.
2. *Definition of the desired portfolio size:*
   It is important not to execute too big single investments in the same areas.
3. *Prognosis of expected returns and risk analysis:*
   Different countries will be compared with their particular returns and afterwards selected the best specifications and targets for the investor.
4. *Deduction of premium for risk and necessary returns:*
   Not every city holds enough information for a safe investment, because of this are so called premium for risk calculated.
5. *Tactical weight:*

[34] Cp. Schulte, K.-W. / Holzmann, C.: orientation, 2005, p. 40 et seq.

Depending if the returns are higher or lower as the average needed returns, the asset manager can balance this with a strategic weight.[35]

3.4 Characteristics

Real estate assets basically differ from other capital assets. In particular other mobile assets show characteristics of essential differences, which are very important for the practice and the science.

The fundamental differences are:

1. *Immobility*

   The immobility is the central characteristic of a property and it cannot be avoided. The location is very important and indispensable for its utilization. It is hard and often impossible to undo a wrong made decision.

2. *Heterogeneity*

   The characteristic of being linked to the location implied the specialty of the economic asset real estate. The result is that every real estate is unique and an individual asset, because of the fact that every location differs from each other.

3. *Duration of the developing process*

   Developing a property starting with the project idea and land acquisition to the point of completion of the building and handing over to the user takes about two to five years.

   The reactivity and acclimatization or flexibility of real estate supply due to demand fluctuations results from the tediousness of the production process.

4. *Level of the investment amount*

   Not everybody is in the position of buying real estate it requires a high and permanent initial investment. The investment amount of direct investments can be replaced through indirect types of investments.

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[35] Cp. Schulte, K.-W. / Holzmann, C.: orientation, 2005, p. 41 et seq.

5. *Transaction costs*

   A fundamental component of every real estate investment is the high transaction costs. The transfer of ownership within direct investments includes tax on acquisition of real estate, cadastral register and notary fees. Because of the low market transparency, information and searching costs as well as broker's commission accrue.
6. *Length of the life cycle*

   Real estate is counted among the most long-lasting economic assets. The technical lifetime beats regularly the economic expected useful life, because of the rapidly changing user demands.
7. *Limited substitutability*

   As well as housing is a necessity for people, the commercial requirements are indispensable for corporate existence.[36]

4. Real Estate Asset Management

What asset management and what real estate asset management is to this day not clear and every country and even company defines these terms differently. The next paragraphs will first provide some fundamental definitions.

4.1 Definitions

The next chapters define the terms real estate asset management, management and asset management to get a better understanding for each term. This can also be seen as an introduction for the paragraph "4.2 Classification of the different REM terms".

4.1.1 Real Estate Asset Management

"The general process of managing all aspects of real estate assets, including acquisition and disposition, devising management strategies, management of

[36] Cp. Bone-Winkel, S. / Schulte, K.-W. / Focke, C.: economics, 2005, p. 16 et seqq.

building / facility operations, financial management, and all aspects of accounting and reporting on real estate held."[37]

Each time real estate is called an asset class, the term management ineluctably follows. By now, there are so many different forms of management that everybody who deals in any kind of real estate becomes a manager. This includes all terms, like facilities management (FM), property management (PM), portfolio management or asset management. The meaning of each is in the majority of cases unclear.[38]

Asset management starts right at the consistent utilization. Every hidden reserve and still unused income chances with the goal to build a long-term strategy for the portfolio and to maximize its income.[39]

Of course is this definition an introduction of the business area real estate asset management, but it is just an abstract of all existing definitions. Because of these obscurities the most important management terms and so the term real estate asset management will be classified and explained in chapter 4.2 more specifically.

4.1.2 Management

For the terminology management exist a lot of different definitions and it is used in a variety of areas. Today it is basically used in two types:

- *Management in a functional meaning:*
  Description of processes and functions in an organization,[40] like planning, operating and controlling[41]
- Management in an institutional meaning:
  Description of persons who have managing tasks, like functions and roles[42]

37 Seldin, M.: real estate handbook, 1980, p. 5.
38 Cp. Bosak, A. / Mayer, B. / Vögel, H.: REAM, 2007, p. 13.
39 Cp. Maidment, R. F. / Lorenz, G. / Reinert, M.: performance optimization, 1998, p. 11.
40 Cp. Staehle, W. H.: management, 1999, p. 71.
41 Cp. Hungenberg, H.: management breakdown, 2006, p. 22.
42 Cp. Staehle, W. H.: management, 1999, p. 71.

According to the “St. Galler Management-Modell” of the 1960s defines management as a function that is the summary of a system of tasks such as configuration, navigation and enhancement object oriented organizations and companies.[43]

4.1.3 Asset Management

The expression “Asset Management” was developed in the real estate business in the late 1960s. The new discipline of real estate management established as soon as institutional investors recognized that the present management services were not sufficient enough.[44]
Asset management means to manage the financial aspects of the total portfolio in a way to benefit the organization as a whole.[45]

The following quotation is a definition for asset management, which describes its concept:
“Asset management […] is defined as the process of maximizing value to a property or portfolio of properties from acquisition to disposition within the objectives defined by the owner. This concept uses strategic planning, which includes investment analysis and operation and marketing analysis, as well as the positioning of a property in the marketplace in accordance with market trends and conditions.”[46]

4.2 Classification of different REM Terms

Real estate changes more and more to a capital asset coming along with volatile appreciations in the different real estate markets. Thus real estate management receives a greater extend in professionalizing.[47]

“The terms for managing real estate are almost as numerous as the number of managed properties. While some refer to «real estate asset management»

[43] Cp. Rüegg-Stürm, J.: St. Galler Management-Modell, 2003 / 2005, p. 22.
[44] Cp. Dubben, N. / Sayce, S.: asset management, 1991, p. 84.
[45] Cp. Evers, F. / van der Schaaf, P. / Dewulf, G.: portfolio, 2002, p. 56.
[46] Dubben, N. / Sayce, S.: asset management, 1991, p. 83.
[47] Cp. Brauer, K.-U.: basics, 2006, p. 677.

or «real estate investment management», others use the terms «real estate management» or «real estate portfolio management». Others talk about «property management» or «facility management». These terms, in part, correspond to each other, some of them more or less overlap, and sometimes they are used in a certain order. Depending on the user's perspective, the order can be from strategic to operative, from general to specific hierarchical from top to bottom."[48]

Particularly in the business practice, but also in the science exist no consistent understanding how to define the scope of the different management terms.

As regards to a determination of content it is important to classify the terms "real estate investment management" (REIM), "corporate real estate management" (CREM), "public real estate management" (PREM), "real estate facilities management" (REFM), "property management", "real estate portfolio management" (REPM) and finally "real estate asset management".
The following paragraphs will describe the different terms, mainly after the definition of the organization "Gesellschaft für Immobilienwirtschaftliche Forschung e.V." and the "International Real Estate Business School" (IRE|BS).

Real estate investment management is used by institutional investors for the general management of real estate, whereby after capital investment aspects the performance optimization is in the foreground.[49]

In this context will be the term real estate management used for the general meaning of managing real estate.

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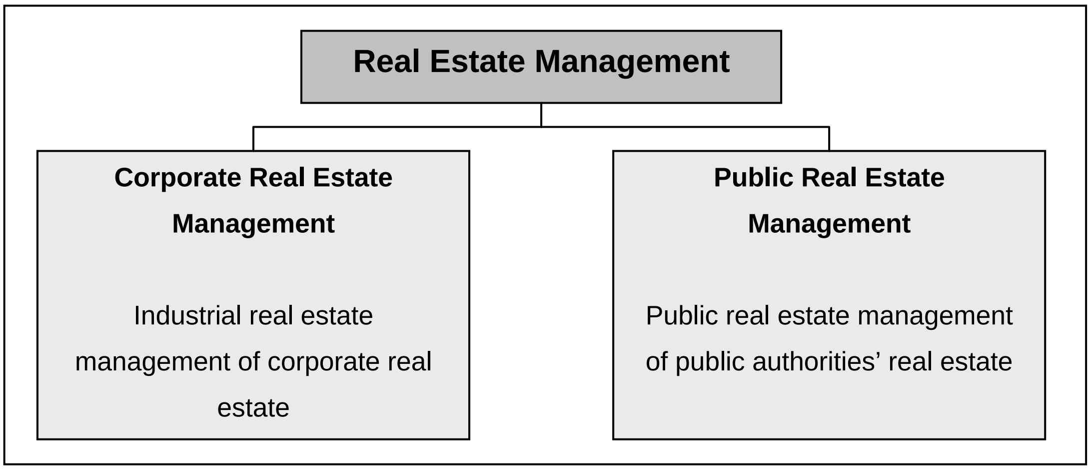
48 Bosak, A. / Mayer, B. / Vögel, H.: REAM, 2007, p. 55.
49 Cp. gif Gesellschaft für Immobilienwirtschaftliche Forschung e.V. (ed.): gif definition, 2004, p 5.

4.2.1 Real Estate Management

Real estate management is used as an umbrella term for every real estate activity in private companies, public authorities or private households. Accordingly to real estate management can, as an umbrella term, be differed into corporate and public real estate management.[50]

Figure 2: Classification of Real Estate Management



Source: Own design according to: Teichmann, Sven A.: Determination and Classification of Management Disciplines in the Context of Real Estate and Facilities Management, in: Schulte, Karl-Werner (ed.): German Journal of Property Research, Wiesbaden: Gesellschaft für Immobilienwirtschaftliche Forschung e.V. (gif), volume 2/2007, p. 11.

4.2.2 Corporate Real Estate Management

Corporate real estate is all owned buildings of non-property-companies, which can be mission-critical and non-mission-critical real estate as well as leasing.[51] The economic impact of corporate real estate is very important in respect of the business success and capital effectivity. The meaning of corporate real estate and its active management grows increasingly. Therefore is a professional management indispensable.[52]

According to the definition of "Schäfers" and "Gier" is corporate real estate management the active, goal-oriented, strategic and functional management

50 Cp. Schäfers, W. / Gier, S.: CREM, 2005, p. 843.
51 Cp. Gier, S.: allocation and disinvestment, 2006, p. 15.
52 Cp. Schäfers, W. / Gier, S.: CREM, 2005, p. 851.

of non-mission-critical corporate properties. Because of the individual business strategy it is geared to non-property-companies with an extensive real estate portfolio.[53]

CREM provides through systematical planning, managing and monitoring a sustainable contribution to the company's competitive ability.[54]

The real estate strategies derived from CREM define guidelines for the real estate portfolio management, real estate asset management, facilities management and property management as well as for the transaction management. Real estate investment management can be seen as a part of CREM, provided that the properties are exclusively managed after capital investment aspects.[55]

The objective of CREM is the identification and exploitation of corporate real estate for a sustainable strengthening of the company's competitiveness in its core business. Properties are strategic resources and not only factors of production.[56]

Additional tasks of CREM on the basis of the historical sequel are listed below:

- *Generation of bases for decision-making processes* (research; generation of transparency; identification and realizing of return, capital and cost cutting potentials)
- *Development of a strategic target framework* (producing the optimal connection between corporate and real estate strategy)
- *Implementation of strategic options in the real estate management* (development of basis strategies)
- *Choice, management and monitoring of service providers*
- *Real estate controlling and risk management on corporate level*
- *Owner reporting*

53 Cp. Schäfers, W. / Gier, S.: CREM, 2005, p. 852.
54 Cp. Schäfers, W.: strategy, 1997, p. 81.
55 Cp. Teichmann, S. A.: property research, 2007, p. 12.
56 Cp. Teichmann, S. A.: property research, 2007, p. 13.

- *Individual tasks*[57, 58]

According to an integration of CREM into a life cycle oriented view basically the supply, the management and the utilization of real estate are the main causes where strategies result from.[59]

Examples for each period and its strategies are:

- *Supply strategies of real estate:* Project development, purchase or leasing.
- *Management strategies:* Providing standards for the sourcing, mainly of the facilities and the property management. Main focus is on the optimal ratio of personal contributions and external services.
- *Utilization strategies:* Property outsourcing through sale and lease-back transactions, leasing or sale as well as redevelopment.[60]

4.2.3 Public Real Estate Management

The current stressed budgetary position in Germany reduces enormously the public authorities' ability of act.[61] The PREM professionalized a lot and there were a lot of positive improvements in the last years.[62]

The already professionalized CREM is very useful for the development and implementation of concepts for the PREM. A fundamental orientation after the CREM methods and instruments makes sense.[63, 64, 65]

According to the definition of "Schulte", "Pöll", "Amon" and "Schäfers" is public real estate management the strategic master concept for the public real estate sector under consideration of optimal political management tasks.

57 Cp. Schäfers, W. / Gier, S.: CREM, 2005, p. 854 et seqq.
58 Cp. Schäfers, W.: strategy, 1997, p. 94 et seqq.
59 Cp. Schäfers, W. / Gier, S.: CREM, 2005, p. 862 et seqq.
60 Cp. Schäfers, W.: strategy, 1997, p. 94 et seqq.
61 Cp. Brockhoff, P. / Zimmermann, M.: PREM, 2005, p. 902 et seqq.
62 Cp. Amon, M. / Soboll, M. / Teichmann, S. A.: facilities management, 2006, p. 110.
63 Cp. Schulte, K.-W. / Schäfers, W.: modern management, 2004, p. 31.
64 Cp. Falk, B.: specialist lexicon, 2004, p. 700.
65 Cp. Schulte, K.-W. / Schäfers, W. / Pöll, E. / Amon, M.: basics PREM, 2006, p. 25.

In short PREM is the systematic planning, management and monitoring of all real estate related activities.
According to this is PREM the optimization of real estate assets that is the generated real estate appreciation of public authorities.[66]

Compared to the private sector that is geared to profit maximization is the goal of public administration the generation of a sustainable public service.[67]

The objective target is to identification and exploitation of real estate as a potential of success and resources, whereas properties are strategic resources and not only factors of production.[68]

Tasks of public real estate management are in accordance with the ones from corporate real estate management listed above.[69, 70]

4.2.4 Real Estate Investment Management

The organization gif defined within systematization of the different concepts and according to the Anglo-Saxon literature the term “Real Estate Investment Management”. It is part of an overlapping capital management, which decides the optimal capital investment structure in different asset categories, such as stocks, bonds or real estate.[71]

Real estate investment management is the wide ownership representation for real properties oriented towards investors’ capital investment aspects. This can include direct real estate investments and indirect real estate investments as well as third party users and owner occupants or properties with no primary realization of profit.[72]

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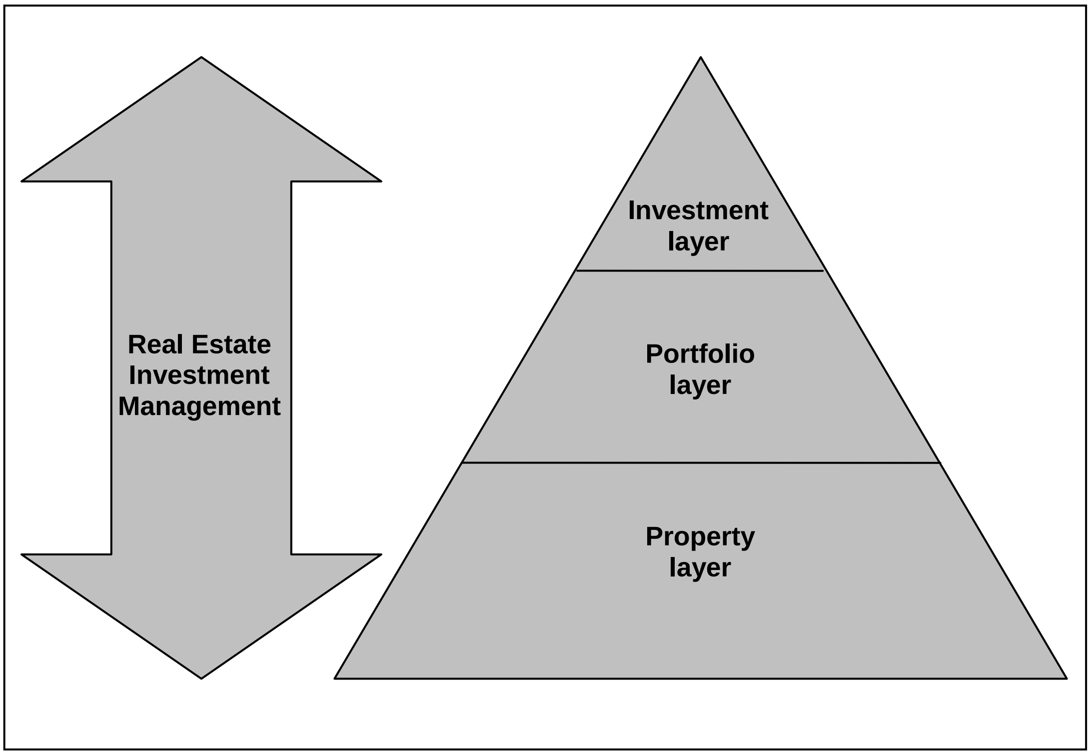
66 Cp. Schulte, K.-W. / Schäfers, W. / Pöll, E. / Amon, M.: basics PREM, 2006, p. 25.
67 Cp. Schulte, K.-W. / Schäfers, W. / Pöll, E. / Amon, M.: basics PREM, 2006, p. 26.
68 Cp. Teichmann, S. A.: property research, 2007, p. 14.
69 Cp. Schäfers, W. / Gier, S.: CREM, 2005, p. 854 et seqq.
70 Cp. Schäfers, W.: strategy, 1997, p. 94 et seqq.
71 Cp. gif Gesellschaft für Immobilienwirtschaftliche Forschung e.V. (ed.): gif definition, 2004, p 3 et seqq.
72 Cp. gif Gesellschaft für Immobilienwirtschaftliche Forschung e.V. (ed.): gif definition, 2004, p 3.

Along the lines of corporate real estate management is REIM an overlapping management master concept. With a real estate strategy deduced from the investors' guidelines for the real estate portfolio management, the real estate asset management, the property management and the facilities management.[73, 74]

The objective target of REIM is the management of real estate under consideration of capital investment aspects to achieve an improvement in performance and a maximum income return for the investors.[75]

Tasks of REIM can be broke down into three different layers, which are defined by the organization gif as shown in the figure below.

Figure 3: Function of Real Estate Investment Management



Source: Own design according to: Gesellschaft für Immobilienwirtschaftliche Forschung e.V. (gif) (ed.): Richtlinie – Definition und Leistungskatalog Real Estate Investment Management, 2004, p. 3.

73 Cp. Schäfers, W. / Gier, S.: CREM, 2005, p. 854 et seqq.
74 Cp. Schäfers, W.: strategy, 1997, p. 94 et seqq.
75 Cp. Teichmann, S. A.: property research, 2007, p. 15.

The following tasks have been defined by gif and are situated in the investment layer. It contains classic real estate tasks and accordingly fund management tasks.[76, 77]

- *Formulation of the investment strategy* (defining the objectives; inventory control and "as is" analysis; strategy proposals and updating of the investment strategy)
- *Financial engineering* (familiarization, adjustment and implementation of legal, fiscal and financing structure; process organization)
- *Choice, managing and monitoring of real estate portfolio managers*
- *Real estate controlling and risk management on investment level*
- *Research on investment level*
- *Investor reporting*
- *Individual tasks*[78]

The disciplines real estate asset management, property management and facilities management describe tasks of the portfolio and property layer and will be explained in the next paragraphs more detailed.[79]

4.2.5 Real Estate Facilities Management

Especially for the term facilities management exist no explicit term and service understanding.[80] Even the writing is unclear, for example write the Americans and the Germans "Facility Management" whereas in Great Britain the term "Facilities Management" dominates.

In this context is the British form used, because the plural of facilities shows that facilities management is more than only managing one facility. It deals

[76] Cp. gif Gesellschaft für Immobilienwirtschaftliche Forschung e.V. (ed.): gif definition, 2004, p 9 et seqq.

[77] Cp. Maidment, R. F. / Lorenz, G. / Reinert, M. / Wever, R. / Meincke, M.: REIM tasks, 1998, p. 9.

[78] Cp. gif Gesellschaft für Immobilienwirtschaftliche Forschung e.V. (ed.): gif definition, 2004, p 9 et seqq.

[79] Cp. gif Gesellschaft für Immobilienwirtschaftliche Forschung e.V. (ed.): gif definition, 2004, p 3 et seq.

[80] Cp. Erbslöh, F. D.: service understanding, 2000, p. 1.

with an entire infrastructure of a company or with an investor's complete real estate portfolio.[81, 82]

Oftentimes is FM reduced to buildings and constructions and at the best is it seen as operating real estate under consideration of the whole life cycle. But this is for the leading concept FM too short and not correct. In a broader sense refers facilities management to the entire infrastructure of a company.
According to this is FM the management of secondary processes and resources to provide an optimal support and improvement of the core business in terms of appreciation. Thereby facilities management includes every real estate related service such as management services on a normative, strategic and operative level as well as operative services.[83]

The objective target of FM is in general the optimal support and improvement of the users' core business and through this the optimization of creation of value and performance in the particular company. Prime requirement is the fundamental economic efficiency relating to the organization of the company's operations and the usage of real estate, spaces and employment.[84]

Facilities management is an instrument for the value-oriented management within the real estate asset management.[85]

A common classification of facilities management is commercial, technical and infrastructural services. This classic breakdown is very easy to understand and clearly, but in respect of different tasks is a definite classification of single services hard. Therefore are in dependence on the norm of the German institute for standardization ("Deutsches Institut für Normung e.V." [DIN e.V.]) DIN EN 15221 the basic tasks of FM classified,

81 Cp. Schulte, K.-W. / Pierschke, B.: term and content, 2000, p. 34.
82 Cp. Pierschke, B.: organizational composition, 2001, p. 18 et seq.
83 Cp. Teichmann, S. A.: property research, 2007, p. 21 et seq.
84 Cp. Pelzeter, A. / Pierschke, B.: FM target, 2005, p. 346 et seq.
85 Cp. Teichmann, S. A.: property research, 2007, p. 23.

basically after the three management services mentioned before[86], supplemented through comprehensive tasks of all layers.[87]

Normative level of FM (mostly internal activities)

Fundamental realizing of facilities management services in a company's decision-making processes

- *Formulation and monitoring of the implementation of the general FM strategies to achieve an optimal improvement of core business*
- *Initiation and supervision of regulations for the strategy pursuit and implementation as well as Service Level Agreements*
- *Make-or-Buy decisions*
- *Managing of FM relevant key data*

Strategic level of FM

Provision of tools and instruments to optimize business processes and advantages in competition

- *Monitoring the implementation of the general facilities management strategy*
- *Location comprehensive analysis, decisions and concepts*
- *Value- and exploitation-oriented managing of facilities in connection with the real estate asset management and property management*
- *Regulation supervision*
- *Choice, managing and monitoring of service providers*

Operative level of FM

Support for the user

- *Supervision and implementation of the general facilities management strategy*
- *Coordination and administration of the FM team*
- *Management of facilities through commercial, technical and infrastructural services*

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[86] Cp. Burnham, J. M.: integrative facility management, 1984, p. 5 et seqq.
[87] Cp. DIN e.V. (ed.): FM tasks, 2007, p. 9 et seq.

- *Measurement, analysis and optimization of the operative implementation*

Comprehensive tasks of every level

- *Planning, managing and monitoring of the resources usage*
- *Controlling, risk and quality management*
- *Relationship management with significant stakeholders*
- *Individual tasks*[88]

4.2.6 Property Management

On the German market is property management a very young management discipline, both in the practical experience and in the science. There are no clear definitions, so it is on the one hand simply a new-fashioned term for facilities management and on the other hand only a commercial or commercial-technical building management.[89, 90]

Property management is the integral fundament of a strategic, results-oriented and operative cultivation as well as the provision and utilization of properties and real estate portfolios under consideration of the investors' or owners' target-settings. The commercial management consists mostly of internal activities and the technical and infrastructural of external services.
Property management takes the fiduciary owner function and is contact person for users and tenants of the affected property.[91]

Primarily is this management discipline with extended commercial and real estate related services directed to institutional investors with extensive third party users and diversified property types.[92]

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88 Cp. Teichmann, S. A.: property research, 2007, p. 24.
89 Cp. Gräber, M.: property management, 2006, p. 3.
90 Cp. Heublein, J. F. trend, 2006, p. 36.
91 Cp. Teichmann, S. A.: property research, 2007, p. 19.
92 Cp. Heublein, J. F. / Karaduman, A. / Priggemeyer, O.: AM and PM, 2006, p. 1.

The objective target of PM is the fiduciary ownership representation near the management of real estate under consideration of economy efficiency. Characteristically are hereby the cash flow and performance management[93] as well as the value management of all properties. Within the scope of a results-oriented operating of real estate is the goal to achieve an optimal cost-performance ratio of all real estate related services. That means to manage the property under current object and user requirements.[94]

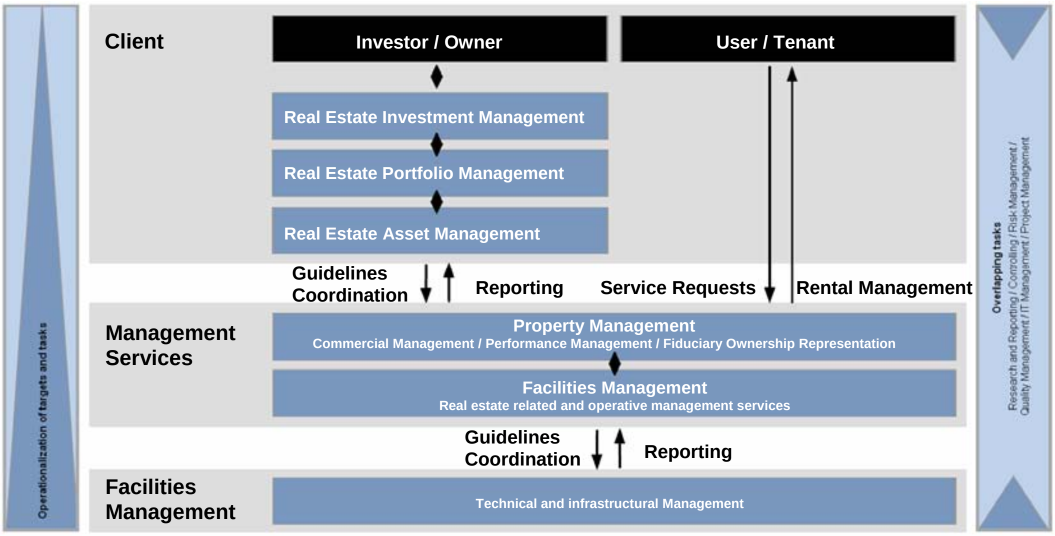
The following property management tasks have been defined by gif and are situated in the property layer.[95]

- *Implementation of real estate and property strategies*
- *Support and implementation of measures of the value-oriented planning, managing and monitoring of real estate on property and portfolio level*
- *Fiduciary ownership representation in collaboration with the real estate asset management*
- *Implementation of measures of the transaction management* (acquisition, exit and rental management)
- *Leading the operative real estate utilization* (Technical and infrastructural building management usually with external services; commercial building management usually with internal activities)
- *Choice, managing and monitoring of building and property managers*
- *Real estate controlling and risk management on property and portfolio level*
- *Real estate marketing*
- *Research, especially on property and portfolio level*
- *Reporting, especially to the real estate asset management*
- *Individual tasks*[96]

93 Cp. Soens, M. A. / Brown, R. K.: executive strategies, 1994, p. 277 et seqq.
94 Cp. Teichmann, S. A.: property research, 2007, p. 20.
95 Cp. gif Gesellschaft für Immobilienwirtschaftliche Forschung e.V. (ed.): gif definition, 2004, p 22 et seqq.
96 Cp. Teichmann, S. A.: property research, 2007, p. 20.

Within the real estate investment management act the management disciplines real estate portfolio, asset, property and facilities management altogether, as shown in the figure below. In this case is the property management the connection between the investors or owners, who provide the requirements and targets, and the real estate asset management as well as the users and tenants.[97, 98]

Figure 4: Interaction of the different Management Disciplines



Source: Own design according to: Teichmann, Sven A.: Determination and Classification of Management Disciplines in the Context of Real Estate and Facilities Management, in: Schulte, K.-W. (ed.): German Journal of Property Research, Wiesbaden: Gesellschaft für Immobilienwirtschaftliche Forschung e.V. (gif), volume 2/2007, p. 21.

4.2.7 Real Estate Portfolio Management

Portfolio management is the general leading concept to define the optimal portfolio composition. The very beginning is caused by "Harry M. Markowitz" and the fundamental idea is to diversify. The diversification of fixed assets should preferably be done in varying income return and risk profiles.[99, 100]

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97 Cp. Heublein, J. F. trend, 2006, p. 37.
98 Cp. Von Hassell, J. / Rickes, S.: connection, 2005, p. 28 et seqq.
99 Cp. n.u.: encyclopedia, 1997, p. 367.
100 Cp. n.u.: economic lexicon, 1997, p. 3017 et seqq.

There are as a matter of principle two different portfolio management types:

1) *Multi asset portfolio:*

   A multi asset portfolio is about long-term assets, which include besides real estate other assets, like: stocks, bonds, options etc. The main area of business is to optimize the proportion of the different assets within the portfolio.

2) *Single asset portfolio:*

   A single asset portfolio is about long-term assets, which include exclusively real estate assets. Main business is the optimal structure where diversification is very important. Examples for criteria of diversification are: property types, national and international spreading, investment volume etc.

   This is called real estate portfolio management.[101, 102]

The main focus of REPM is on the updating and the formulation of the portfolio strategy or investment policy of the affected portfolio. This has to be consistent with the business objective and corporate or public strategy.[103]

Real estate portfolio management and real estate asset management are two management disciplines, which are connected with each other. REAM looks at single properties whereas REPM is focused on multiple real estate assets. That is why the term real estate portfolio management can be seen as the summation of asset management.[104]

The general objective target of REPM is to optimize and structure a real estate portfolio. But this differs very often from user to user. Institutional investors want a perfect proportion between income return and risk for their whole portfolio. Corporate or public consumers of real estate portfolio management want an optimal portfolio in terms of operating aspects.[105]

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101 Cp. Bone-Winkel, S.: REPM, 2000, p. 768 et seq.
102 Cp. Bone-Winkel, S.: open-ended funds, 1994, p. 171 et seqq.
103 Cp. Bone-Winkel, S. / Thomas, M. / Allendorf, G. J. / Walbröhl, V. / Kurzrock, B.-M.: strategic aspects, 2005, p. 781.
104 Cp. Maidment, R. F. / Lorenz, G. / Reinert, M. / Wever, R. / Meincke, M.: REIM tasks, 1998, p. 9.
105 Cp. Teichmann, S. A.: property research, 2007, p. 17.

The following points are tasks of REPM and in this context of the REIM portfolio layer.

- *Formulation of the portfolio strategy* (analysis of the current situation; suggestion of different strategies particularly definition of target structure, portfolio planning and financing; decision-making on the portfolio layer in close collaboration with the REAM to decide about transactions, project developments, basic structural measures, re-letting or changes, budget; updating the portfolio strategy)
- *Value-based planning, managing and monitoring of real estate portfolios*
- *Choice, managing and monitoring of service providers on property level*
- *Real estate controlling and risk management on portfolio level*
- *Research on portfolio level*
- *Reporting to investment and corporate layer*
- *Individual tasks* [106]

4.2.8 Real Estate Asset Management

The word “asset” describes an investment according to that is real estate asset management the general leading concept for the administration of investments or assets.[107]

Caused by the increase in direct and indirect investments in the German real estate market of foreign investors and through fundamental changes of the understanding of professional asset management becomes the specific asset management more important.[108]

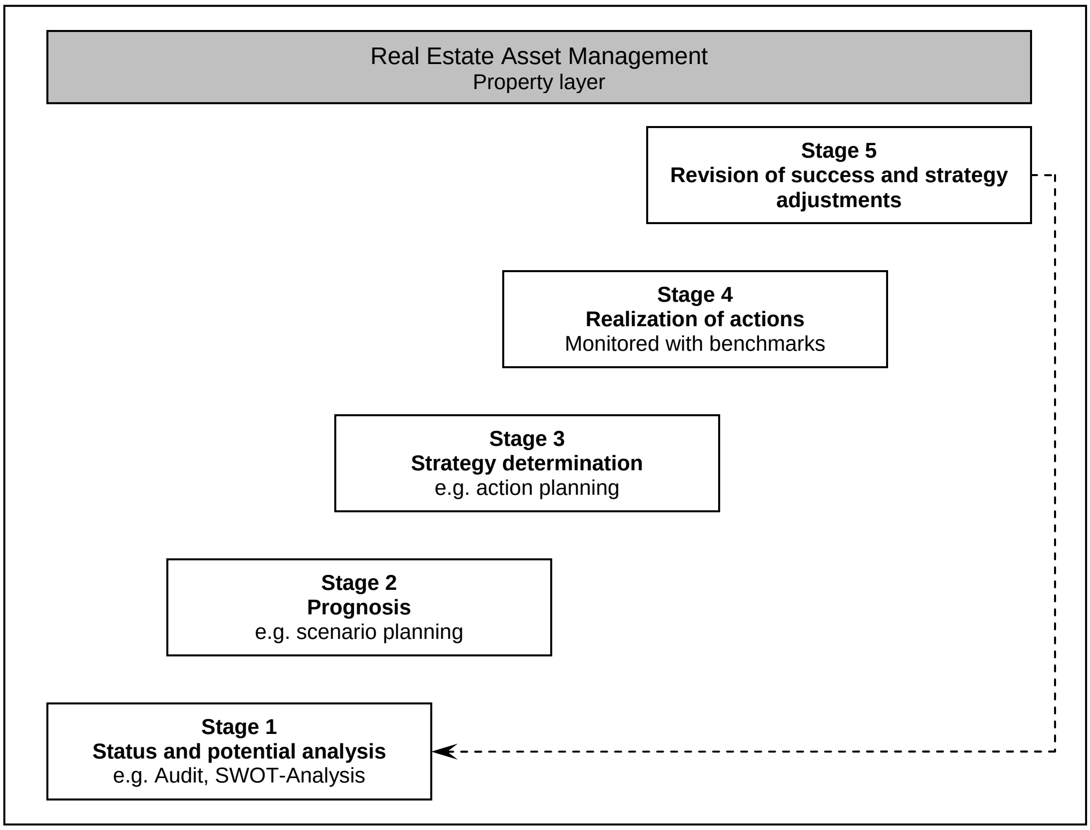
The main task of REAM is the development and implementation of value-based real estate strategies whereas an operationalization of appreciation

[106] Cp. gif Gesellschaft für Immobilienwirtschaftliche Forschung e.V. (ed.): gif definition, 2004, p 16 et seqq.
[107] Cp. Schulte, K.-W. / Lee, A. / Paul, E.: dictionary, 2005, p. 37.
[108] Cp. Teichmann, S. A.: property research, 2007, p. 17.

and cost-cutting activities occurs within the facilities and property management.[109, 110, 111]

There are five stages in what real estate asset management can be divided.

Figure 5: Stages and Process of REAM



Source: Own design according to: Jones Lang Wootton, Maidment, Richard F. / Lorenz, Gerd / Reinert, Markus / Wever, Rudolf / Meincke, Michael: Performance Optimierung durch Asset Management – Entwicklung der langfristig optimalen Erfolgsstrategie, in: Immobilien Zeitung, 03/26/1998, p. 11.

In the long run a qualified REAM makes it possible to have success in the performance optimization. Both a sustainable increase in current market value and a decrease in operating and additional costs can be achieved in a double-digit percentage.[112]

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109 Cp. Soens, M. A. / Brown, R. K.: executive strategies, 1994, p. 15 et seqq. and p. 42.
110 Cp. Wiemer, L.: real estate manager, 2006, p. 36 et seqq.
111 Cp. Corgel, J. B. / Ling, D. C. / Smith, H. C.: real estate perspective, 2001, p. 173 et seqq.
112 Cp. Maidment, R. F. / Lorenz, G. / Reinert, M. / Wever, R.: performance optimization, 1998, p. 11.

4.3 REAM Objectives

The real estate asset management objective target is to optimize the real estate performance and the exploitation of potentials to increase a property's value.[113]

4.4 REAM Tasks

Subsequent are the different REAM tasks listed after the gif definition as a part of the real estate investment management.[114] The asset management discipline is in the real estate sector very young and thus no clear classification is available. The following paragraphs include and explain some of them.

- *Fiduciary ownership representation in collaboration with the property management*
- *Formulation of the real estate and property strategies* (performance management; real estate investments and financing; identification and exploitation of potentials; creation of real estate related business plans; value management and performance; etc.)
- *Location and market studies*
- *Project development and management* (identification, initiation and coordination of qualified project developments, redevelopments and refurbishments)
- *Transaction management* (acquisition, exit and rental management; initiation, management and accomplishment of due diligences and real estate valuations)
- *Value-oriented planning, management and monitoring of all properties on the property layer*
- *Real estate marketing*
- *Strategic guidelines*
- *Choice, managing and monitoring of real estate property managers*
- *Real estate controlling and risk management on property level*
- *Research, especially on property level*

[113] Cp. Falk, B.: specialist lexicon, 2004, p. 55.
[114] Cp. Heublein, J. F. / Karaduman, A. / Priggemeyer, O.: AM and PM, 2006, p. 1.

- *Reporting to the portfolio level*
- *Individual tasks*[115]

4.5 Consumers and Providers of Asset Management Services

In this paragraph will be the different market participants introduced both consumers, like private investors, institutional investors or other consumers and providers of asset management services.

4.5.1 Consumers

Consumers are every economic entity, which invest or hold real estate. In the majority of cases is surely the rate of return in the front. There are two categories, the private and the institutional investors.[116]

4.5.2 Private investors

Most people who invested in their own house or apartment are already private investors. There exist no restrictions for the real estate type they are allowed to purchase, but private investors mostly do not have sufficient money to buy huge, in particular commercial real estate.
In the majority of cases private investors purchase real estate, like small properties with lower quality from execution sales, with a high leveraged financing as a result of tax purposes to gain return through a good management and revitalization. Other possibilities could be investments in smaller apartment houses or business houses as well as shareholding of open-ended and closed-end funds.
In comparison to institutional investors are the private investors mostly not that professional organized and have difficulties to detect market opportunities. To compensate this deficit they unionize in small groups

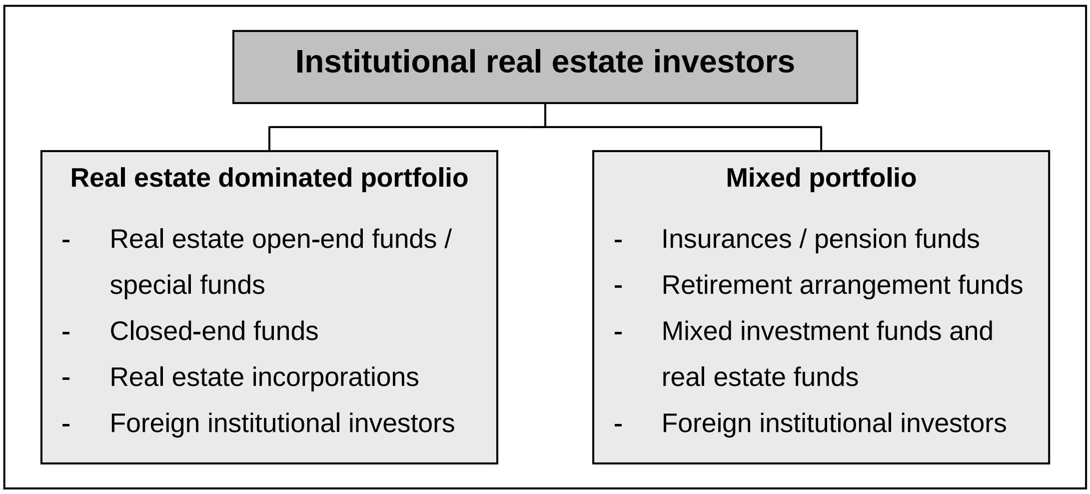
[115] Cp. Teichmann, S. A.: property research, 2007, p. 18 et seq.
[116] Cp. Schulte, K.-W. / Holzmann, C.: orientation, 2005, p. 24 et seq.

without being bounded by any restrictions what makes it easier to react unlike institutional investors.[117]

4.5.2.1 Institutional Investors

Institutional investors are mainly defined as legal persons who collect money of third parties and invest it professionally. The difference to private investors is that they do not invest as natural persons on their own bill. There are a lot of institutional investors on the real estate market, e.g. insurances who invest their premiums or pension funds who invest their collected capital contributions.[118] But there are also capital investment companies as open-ended funds, public authorities, banks or for example closed-end funds. The following figure divides the institutional investors into their entire real estate portfolio rate.[119]

Figure 6: Institutional Investors



Source: Own design according to: Bone-Winkel, Stefan: Immobilienanlageprodukte in Deutschland, in: Die Bank, o. Jg., no. 11, 1996, p. 671; Bone-Winkel, Stefan / Schulte, Karl-Werner / Sotelo, Ramon: Beurteilung indirekter Immobilienanlagen, p. 687-710.

On the one hand there are investors whose main focus are on investments in real estate and on the other hand is real estate just a part of the whole

[117] Cp. Schulte, K.-W. / Holzmann, C.: orientation, 2005, p. 25 et seq.
[118] Cp. Schulte, K.-W. / Holzmann, C.: orientation, 2005, p. 26.
[119] Cp. Walbröhl, V.: decision, 2001, p. 8 et seqq.

investment portfolio. These different investment policies result from fiscal and supervisory regulations.[120]

Institutional investors exchange direct real estate investments against indirectly invested assets, e.g. open-ended funds, where a high diversification by simultaneously low investment amounts is possible.[121]

4.5.2.2 Other Consumers

Real estate investments are no result of their activities for third parties, but more of their typical business activity, like social housing institutions, non-property companies, churches or donations and so on.[122]

4.5.3 Providers

Till this day have the real estate assets been managed by the institutional investors themselves. But active regulation and income return optimization strategies were very rarely existent.

Through the investment activity of Anglo-Saxon investors and purchases as the case may be sales became Germany's asset management market more professional in the last two years. Especially value-added and opportunistic investors were interested in performance enhancements and particularly in local partners with German market knowledge to guarantee business success.

Performance oriented asset management includes:

- Development of property specialized business plans
- Technical and commercial property management, including vacancy management
- Coordination and steering external service provider

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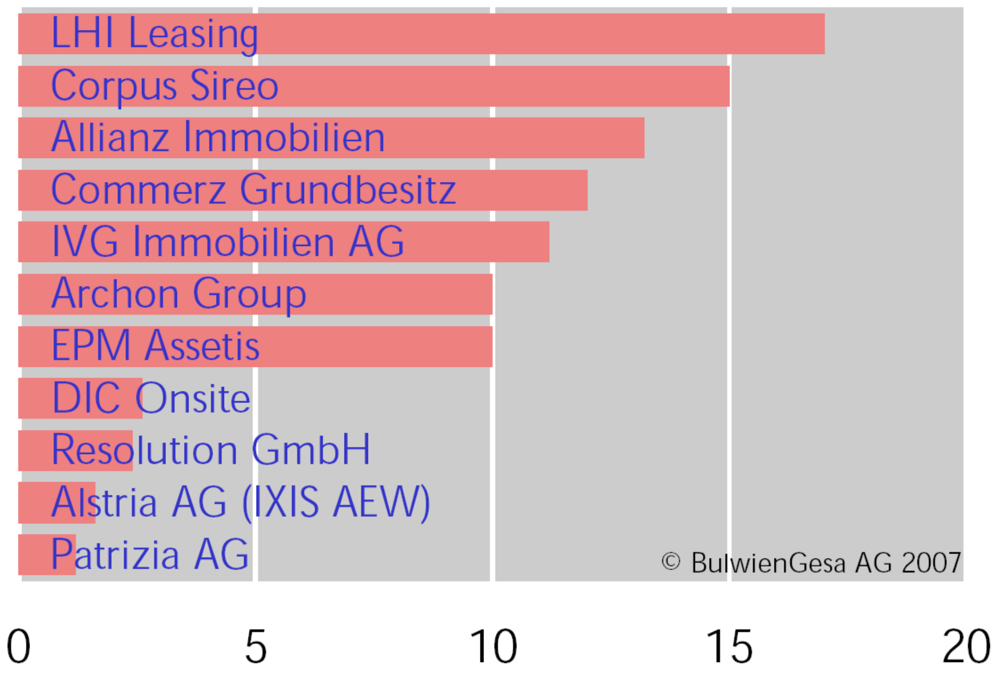
[120] Cp. Rottke, N. B. / Schlump, P.: portfolio management, 2007, p. 42.
[121] Cp. Schultz, P.: investment reasons, 2007, p. 36.
[122] Cp. Schulte, K.-W. / Holzmann, C.: orientation, 2005, p. 26.

The research company BulwienGesa AG made a primary data collection and listed the biggest asset managers after properties under management in the following graphic.[123]

Figure 7: Biggest Asset Managers in Germany
(Sorted by portfolio value in billion EURO, May 2007)



Source: BulwienGesa AG (ed.): Asset Management Markt – Professionalisierung wird vorangetrieben, BulwienGesa AG – research, analyse, consulting, Quarterly edition: September, 2007.

4.6 The Asset Manager between Investor and User

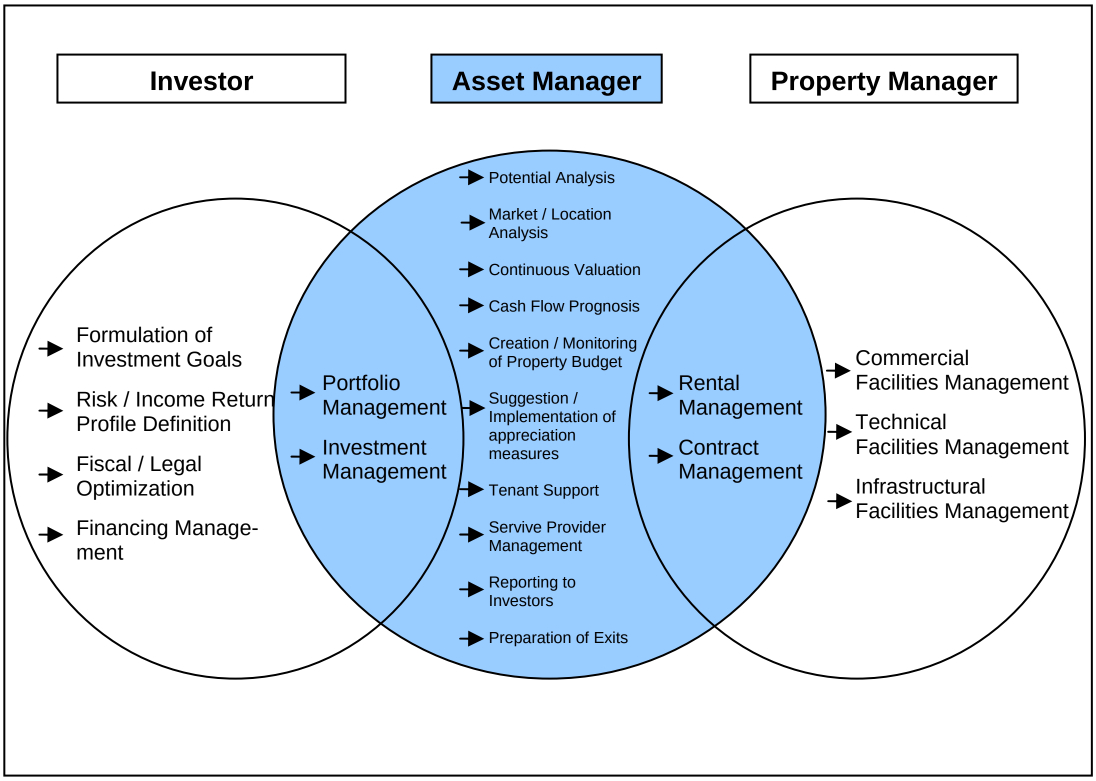
Permanently shorter contract durations and higher vacancy rates are just a few consequences of the structural crisis in Germany. With the implementation of the “Basel II” credit guidelines got the German market in the focus of international investors.

These changes in the general conditions defined real estate as an asset in a new way. Not the real value of the building is important for those investors more the existence of leases and the potential of rising the rents. The target of their investment strategy is not part of the buy-and-hold philosophy, but more the exploitation of market cycles by buying and selling as the case may

[123] Cp. BulwienGesa AG (ed.): research, 2007, p. 1.

be development. This means that the role of real estate management has changed completely and the asset manager is now the connection between investor and property manager.[124]

Figure 8: The Asset Manager as Connector



Source: Own design according to: Wagner, Thomas: Was ist Asset Management? – Der Asset Manager – Übersetzer zwischen Investor und Verwalter, in: Immobilienwirtschaft, edition 04, 2006, p. 60.

Real estate asset management, as an organizational unit, has to be involved in all processes, starting with the decision to buy a particular property or project. In the acquisition process the asset manager has to choose the right investment to guarantee the investors and tenants long-term needs – as low transactions costs as possible, the right price, in the ideal tax configuration, at the right time in the right market. All these important aspects have to be noticed and realized by the asset manager.[125]

[124] Cp. Wagner, T.: investor and manager, 2006, p. 60.
[125] Cp. Bosak, A. / Mayer, B. / Vögel, H.: REAM, 2007, p. 13.

Being active to the right time and in the right market is a big challenge for an investor. Therefore play asset managers an intermediary role between investors and users. It is important to represent the users' as well as the investors' needs and interests, since the rise and fall of a property depends not only on the yield, but also how long a property can find the users' needs. In the case that users are dissatisfied with the building or the management is leaving the building just one result, image damage would be more painful. A successful investment depends on the management quality and how satisfied the users are.[126]

Holding a good relationship with the tenants, maintaining the buildings and continually adapting the financing and tax structure are part of the asset manager's tasks. They must structure and optimize income and costs during the utilization period. Every country or even city differs from each other. Because of this asset management cannot be performed from a single location for all diversified investments. Actually different property types need individual solutions.[127] "The statement «all business is local» is still true for real estate, even in the times of globalization. Successful asset management requires «keeping your eyes and ears open to the market»."[128]

4.7 Widened Real Estate Asset Management

Real estate asset management is a strategic instrument and necessary for every property in its total life cycle and value chain. Asset managers and their knowledge and skills are indispensable for every single investment, whether it is an operated property, a new acquired, change in usage or just if the asset should be sold or kept. Regardless in what investment phase the property is the asset manager has to and must be involved in these processes. Marketability as regards to the market segment and the users is just one characteristic to describe the role of an asset manager. But asset

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126 Cp. Bosak, A. / Mayer, B. / Vögel, H.: REAM, 2007, p. 14.
127 Cp. Bosak, A. / Mayer, B. / Vögel, H.: REAM, 2007, p. 14.
128 Bosak, A. / Mayer, B. / Vögel, H.: REAM, 2007, p. 14.

managers have to keep their own goals in mind, too because after all they will have to deal with this investment.

Additionally to the paragraph 4.4 are here some widened asset management tasks:

- Choosing a marketable and sustainable product
- Risk diversification (national / regional, usage type and life cycle time)
- Financing
- Managing the buildings in operation
- Keeping the buildings fresh and state-of-the-art
- Cost and income optimization
- Holding good client relations
- Internal and legal reporting[129]

5. Strategies

It is necessary that asset managers work together with the investor and include them into every step of developing the investment strategy. The managers have to advise the investor about possible investment targets (properties) and competition in the market as well as about the developed strategies, which are going to be implemented in the particular market. Being close to the market is according to this essentially, first and foremost to maintain the given project and to handle difficult market situations.

Immature markets are with this the real challenge for asset managers, because immature markets are covered poorly by advisors and analysts. Investors often base their strategic idea on old and outdated data and to avoid such fatal decision asset managers have to provide them with the needed market information, e.g. the general and especially current market situation. To be successful in hardly covered markets is a great deal of flexibility needed and mostly an opportunistic strategy.[130]

[129] Cp. Bosak, A. / Mayer, B. / Vögel, H.: REAM, 2007, p. 14 et seq.
[130] Cp. Bosak, A. / Mayer, B. / Vögel, H.: REAM, 2007, p. 19 et seq.

The following paragraphs will show what kind of strategies are possible and needed to have success in the real estate business. The definition will provide an understanding about what a strategy is, whereas the other paragraphs deal with different strategies for an entire portfolio and for individual properties.

5.1 Definition of Strategy

Strategy is the direction and scope of an organization over the long-term, which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations.[131]

Or as the author Fraser-Sampson defines:

A strategy is ‘an action plan designed to achieve specific objectives’ and it must have a tactical result in mind, which in turn is a means to achieving its objective over a period of time.[132]

5.2 Real Estate Investment Portfolio Strategies and Risk Profiles

An investor must understand and be comfortable with taking risks to be successful. The goal of making investments is to create wealth, and therefore is risk the power that drives investment returns in the long run.

Every investor’s tolerance of taking risk is limited, because risk specifies the probability and size of possible losses, and these can be very painful. Each investor has a certain margin of accepting losses, even though risk is the power that runs returns.

But risk itself cannot be avoided completely, that is why the first task in providing advice for an investor is to determine the individual risk tolerance.[133]

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[131] Cp. Johnson, G. / Scholes, K.: corporate strategy, 2001, p. 15.
[132] Cp. Fraser-Sampson, G.: investment strategy, 2006, p. 1.
[133] Cp. Litterman, R.: modern investment, 2003, p. 7 et seqq.

Returns are very often compared to indices where the asset managers measure their success or failure. But the comparison to the general market does not show the real success or failure, because it does not show with what risk the particular return was achieved.[134]

The organization "European Association for Investors in Non-listed Real Estate Vehicles" (INREV) does not classify between "Core" and "Core plus" for example, because the only difference is the higher or lower leverage whereas the properties show the same characteristic.
A closer determination than "core", "value-added" and "opportunistic" will not be undertaken, but pursued the suggestion of "National Council of Real Estate Investment Fiduciaries" (NCREIF) and INREV at this point.[135]

To make the different investment styles distinguishable from each other and not only by real estate type, geographical spread, size, value, vacancy rates or year of construction have the following criteria been invented, which are shown in the following figure.[136]

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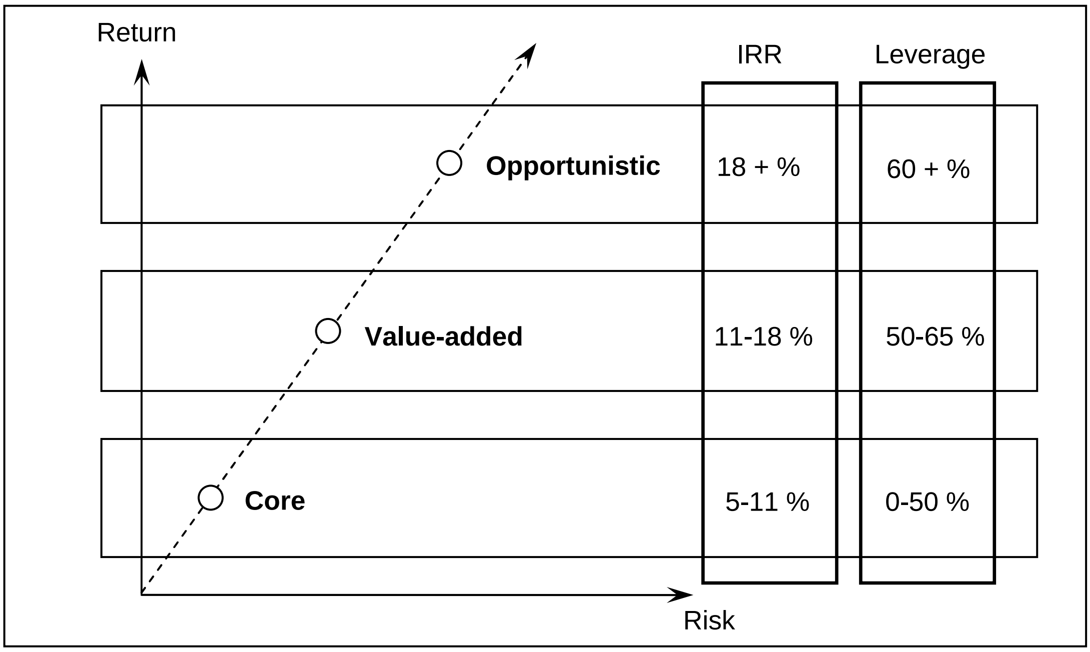
[134] Cp. Baczewski, J. / Hands, K. / Lathem, C. R.: styles, 2003, p. 4.
[135] Cp. Rottke, N. B. / Schlump, P.: strategy development, 2007, p. 47.
[136] Cp. Rottke, N. B.: risk profiles, 2005, p. 43 et seqq.

Figure 9: Real Estate Investment Styles



Source: Own design according to: Åström, A. / Alvarez, A.: Fee Structures in Pan-European Real Estate Investment Vehicles, paper presented at the IPD / INREV European Property Investment Conference, Wien, 2004, p. 5.

To make the characterization more objective and easier to classify investments into their particular risk-group were the following criteria by NCREIF and INREV defined:

- Forecasted equity yield rate
- Types and physical characteristics
- Life cycle and construction level
- Leasing conditions
- Holding period
- Market conditions
- Income and sales profit
- Capital structure
- Owner competence
- Risk
- Portfolio level[137, 138]

[137] Cp. Rottke, N. B. / Schlump, P.: strategy development, 2007, p. 48.
[138] Cp. Schulte, K.-W. / Holzmann, C.: orientation, 2005, p. 31.

Emanating from the figure above, are the Internal Rate of Return (IRR) and the external finance (leverage) the best criteria to classify the following investment strategies.[139] But first will be the Capital Asset Pricing Model introduced and how investments with individual risk characteristics should be diversified.

5.2.1 Markowitz Theory and Diversification

The phenomenon of diversification for example the spreading of the investment volume on different assets pursues almost every investor. This observation or detection was the cause for "Harry M. Markowitz" (born in 1927) that every investor has its own code of conduct.[140]

"Harry M. Markowitz" said in his work "Portfolio Selection" from 1952 that a good portfolio is more than a long list of security papers. It is a balanced entity that gives the investor good chances and coverage under consideration of different trends. Due to that the investor should try to build an integrated portfolio, which accommodates for its demands.[141]

Until that day was for an investor just the expected income return of a security paper decisive for its investment. During an empirical study "Markowitz" recognized that not every investor bought the security paper with the highest expected income return, but rather a combination of different stocks and different asset classes.[142]

"Markowitz" was the first who proved theoretically that the risk of a security paper portfolio can be reduced by diversification.

There are three possibilities:

- Same return with lower risk
- Same risk with higher return

139 Cp. Rottke, N. B.: risk profiles, 2005, p. 43 et seqq.
140 Cp. Markowitz, H. M.: Journal of Finance, 1952, p. 77.
141 Cp. Markowitz, Harry M.: portfolio selection, 1971, p. 3 et seqq.
142 Cp. Markowitz, H. M.: Journal of Finance, 1952, p. 77.

- Both a higher return and lower risk[143]

"Markowitz" worked out mathematic methods to calculate the risks and returns of investing on the stock market. He verified that the risk of an efficient portfolio is less than the average risk of individual papers and pointed out that the risks can be reduced or even eliminated by building a portfolio.[144] But there are more than only individual risks. The market risk for example cannot be suppressed through diversification.[145]

To design such an efficient portfolio "Markowitz" developed complex calculation methods. With these methods investors are able to manage their capital by taking returns and possible risks into account. That is because rational acting investors do not only invest exclusively towards good returns but also towards risks.[146]

The body of thought is basically on the real estate management transferable. As stock investors diversify their portfolio through different countries and branches, spread real estate investors their portfolio on regions and property types.[147]

Diversification strategies for real estate investors:

- Vertical diversification (offer existing products in new markets)
- Horizontal diversification (developing new products in existing markets)
- Lateral diversification (new products in new markets)[148]

An efficient portfolio is characterized by the fact that there is no other portfolio with the same expected return and lower risk and accordingly with the same

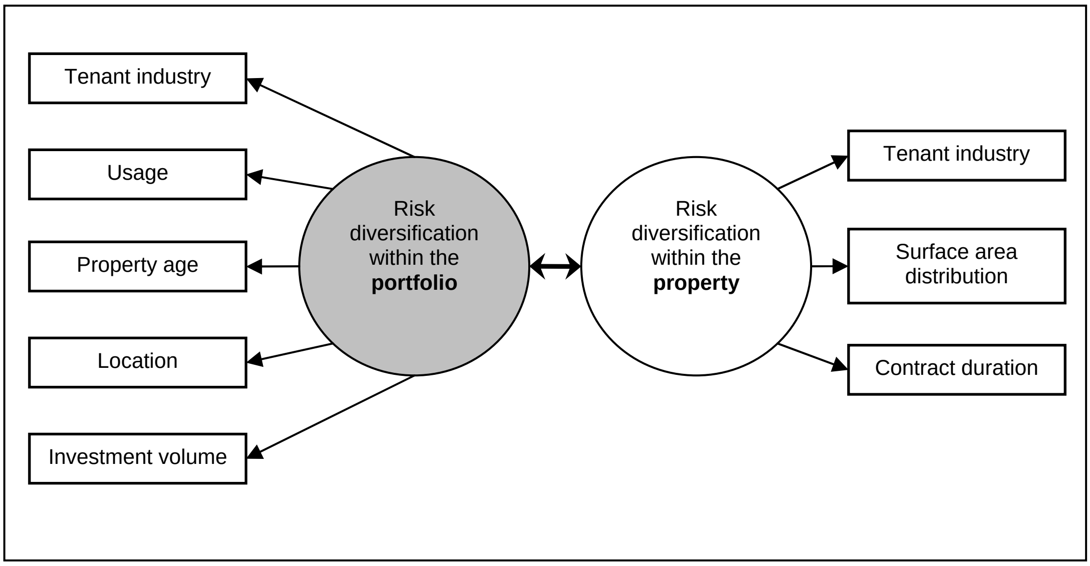
143 Cp. Achleitner, A.-K.: diversification, 2002, p. 698 et seq.
144 Cp. Aulibauer, A. G. / Thießen, F.: portfolio theory, 2002, p. 74 et seqq.
145 Cp. Rottke, N. B. / Wernecke, M.: risks, 2001, p. 14.
146 Cp. Aulibauer, A. G. / Thießen, F.: portfolio theory, 2002, p. 74 et seqq.
147 Cp. Fehr, P.: real estate basics, 1999, p. 11.
148 Cp. Bone-Winkel, S.: strategic management, 2005, p. 523.

expected risk at a higher return.[149] Modern portfolios are computer optimized and are in case of a market crisis superior to other portfolio strategies.[150]

The intention is always to get the highest return in consideration of the individual risks.[151]

There are several ways for spreading risk within a portfolio or a property. The following graphic gives an overview.[152]

Figure 10: Criteria of Risk Diversification within a Real Estate Portfolio



Source: Own design according to: Bone-Winkel, Stephan: Strategisches Portfoliomanagement, in: Schulte, Karl-Werner (ed.) / Bone-Winkel, Stephan (ed.) / Thomas, Matthias (ed.), Handbuch Immobilien-Investition, 2005, p. 524.

5.2.2 Capital Asset Pricing Model

The “Capital Asset Pricing Model” (CAPM) was developed by “Jack Treynor”, “John Lintner”, “Jan Mossin” and “William F. Sharpe” in the 1960s. This was an important milestone in the development of modern portfolio theory. This scientific, mathematical model tries to capture the world’s aspects around us,

149 Cp. Achleitner, A.-K.: diversification, 2002, p. 699.
150 Cp. Heimann, J.: international diversification, 2005, p. 21.
151 Cp. Brauer, K.-U.: processes, 2002, p. 24.
152 Cp. Bone-Winkel, S.: strategic management, 2005, p. 523.

but more than this it is seen as a framework for thinking about investments.[153]

The whole model is based on two assumptions:

1. It is assumed that every market participant wants to build efficient portfolios and
2. that there is market equilibrium.

That is why this model is part of the capital market equilibrium models. Furthermore all assumptions of the portfolio selection theory are echoed here.[154]

The “Capital Asset Pricing Model” asks what happens, in the simplest possible world, with efficient markets; all investors have the same information and want to maximize their expected return in their portfolio by simultaneously minimizing the volatility. The model analyses what levels of expected returns for all investors are to be satisfied by a given market capitalization. The conclusion out of this is a useful intuition about the expected returns of each asset in view of a long-term run. It does not give us a perfect solution for every question, but it does provide a basis. For example how much return should an investment with a given equity provide and how the returns of different investments should differ in the meaning of the right diversification concerning of their individual risk characteristics.[155]

5.2.3 Core-Strategy

The height of the “Internal Rate of Return” (IRR) and the “Loan to Value” (LTV) are important indicators for the present strategy, because the equity yield rate compensates the taken risk of each investment.[156] Therefore raises the IRR with an augmenting risk, to configure an attractive investment for an investor. The IRR refers to the equity yield rate after taxes, before deduction

153 Cp. Litterman, R.: modern investment, 2003, p. 36.
154 Cp. Grunert, C.: institutional investors, 2006, p. 49.
155 Cp. Litterman, R.: modern investment, 2003, p. 36 et seq.
156 Cp. Schulte, K.-W. / Holzmann, C.: orientation, 2005, p. 31.

of possibly management fees and bearing in mind of the external financing.[157]

A core-strategy stands for long lasting investments with stable returns in liquid markets, a relative low risk profile with high-quality properties. Further criteria for core-investments are besides a very low or nonexistent leverage the also low equity yield rate. The real estate portfolios consist of office buildings, residential or retail, which are situated in excellent locations with almost no risk. Additionally is the investor in the majority of cases the only owner, where joint-venture structures describe an exemption. Thus are the investors or their asset managers able to manage the properties independently and control the incoming cash flow themselves.[158]

Table 1: Characteristics of a Core-Strategy

Forecasted equity yield rate	▪ On a European basis is the average yield rate for core-investments max. 11 % (in Germany rather 5 %)
Types and physical characteristics	▪ High geographical and typological diversification ▪ Conventional buildings with competition standard (office, residential, industry, retail, logistics)
Life cycle and construction level	▪ Mostly on an operation level (no construction, leasing or revitalization) ▪ Properties are in a very good condition
Leasing conditions (Quality and duration)	▪ Many tenants with good credit history ▪ High tenant diversification ▪ Staggered leases ▪ Low vacancy and long-lasting leases (10–15 years)
Holding period	▪ Long-term
Market conditions	▪ Nationwide real estate markets ▪ Regional markets with “Unique Selling Point” (USP) characteristics for certain properties ▪ High liquidity ▪ Prime locations, e.g. downtown
Income and sales profit	▪ Substantial income, low appreciation: 80/20 ▪ Low volatility

157 Cp. Rottke, N. B. / Schlump, P.: strategy development, 2007, p. 49.
158 Cp. Rottke, N. B. / Schlump, P.: strategy development, 2007, p. 49 et seq.

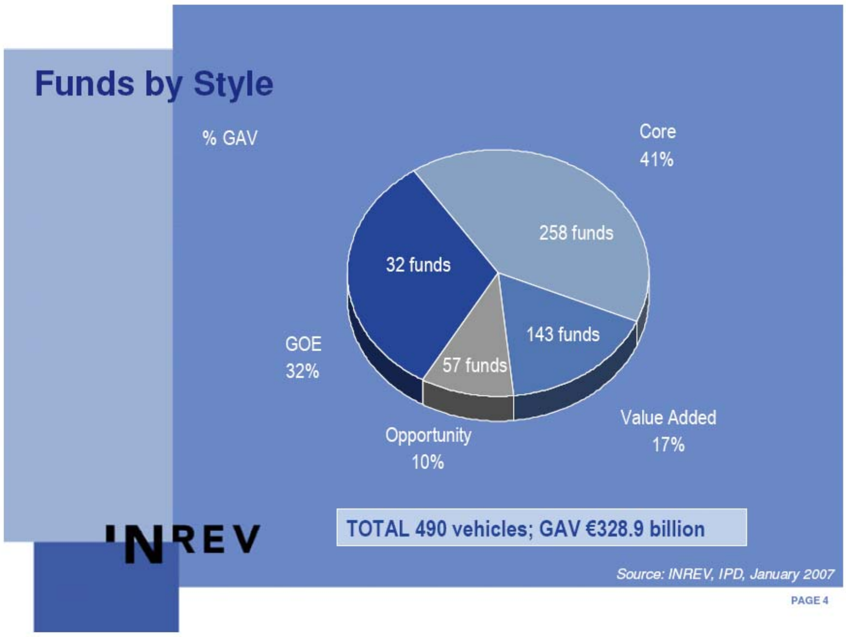
Capital structure	▪ 0-60 % leverage ▪ Capital structure allows almost boundless control
Owner competence (Management and leasing)	▪ Mostly possession of the owner ▪ High leasing experience
Risk	▪ Very low risk profile due to high returns and location ▪ Positive and stable market conditions
Portfolio level	▪ Mainly core investments ▪ Low part of non-core properties ▪ Overall low external financing and stable tenants ▪ Substantial income, appreciation and low volatility

Source: Own design according to: Rottke, Nico B. / Schlump, Patrick: Strategieentwicklung, in: Schulte, Karl-Werner (ed.) / Thomas, Matthias (ed.): Handbuch Immobilien-Portfoliomanagement, Köln: Immobilien Manager Verlag, 2007, p. 50; Schulte, Karl-Werner / Holzmann, Christoph: Investition in Immobilien, in: Schulte, Karl-Werner (ed.) / Bone-Winkel, Stephan / Thomas, Matthias (ed.): Handbuch Immobilien-Investition, Köln: Immobilien Informationsverlag Rudolf Müller, 2005, p. 32.

These assumptions are meant for single properties. Core-portfolios are defined after NCREIF as a real estate portfolio, which includes predominantly properties after the above mentioned attributes. The portfolio as a whole should have a marginal leasing risk and a low external financing rate. But it is also possible to have some properties with other risk profiles, non-core, in the entire portfolio. Because of this the majority of return results from a steady earning and just a low appreciation.[159]

[159] Cp. Baczewski, J. / Hands, K. / Lathem, C. R.: styles, 2003, p. 16.

Figure 11: Strategies of European Vehicles



Source: INREV (ed.): INREV Vehicles Database Analysis, February 2007, p. 4.

Corresponding to the database of INREV pursue 41 % out of 490 European vehicles a core-strategy. But hereby are all open-ended funds seen as a single segment with another 32 %. Open-ended funds pursue as a general rule core strategies.[160]

5.2.4 Value-Added-Strategy

According to NCREIF result the generated returns of value-added-investments mostly due to appreciation and only in parts from continuous income. Another characteristic is for example the moderate volatility. Hence investments follow in fraught with risk properties, which can be financial, constructional or management risks. Additionally to the property types, like retail, office or residential come along with a value-added-strategy also special types of properties, like retirement homes, logistics or hotels. The buildings are mostly situated in good, but not prime locations to scoop the appreciation potentials.[161]

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[160] Cp. INREV (ed.): Vehicles Database Analysis, 2007, p. 4.
[161] Cp. Baczewski, J. / Hands, K. / Lathem, C. R.: styles, 2003, p. 15.

Other risks are caused by the low geographical and typological diversification. Those cluster risks can result from the same duration of several leases and the vacancy rates. The leverage is sometimes up to 70 % and conceals in combination with a low liquidity of the properties a further risk.[162]

The following table 2 describes all important criteria within a value-added-strategy:

Table 2: Characteristics of a Value-Added-Strategy

Forecasted equity yield rate	▪ In connection with value-added-investments is the due IRR on a European basis between 11 % and 18 %
Types and physical characteristics	▪ Additionally to core: hotels, retirement homes, logistics ▪ Environmental clean-up costs necessary ▪ Low typological and geographical diversification
Life cycle and construction level	▪ Normally the buildings are situated in an early or late stage of the life cycle ▪ Often leasing or revitalization necessary
Leasing conditions (Quality and duration)	▪ Low number of tenants, but good credit history ▪ Cluster risks in lease terms and tenants ▪ Leases over market level ▪ Short-term till medium-term leases (5-10 years)
Holding period	▪ Lower holding periods, because of appreciations, which can only be realized at the end
Market conditions	▪ Good locations in national markets ▪ Prime locations in mid-sized regional markets ▪ Markets with regenerating imbalances ▪ Low Liquidity
Income and sales profit	▪ Lower income and higher appreciation: 40/60 ▪ Moderate volatility
Capital structure	▪ 30-70 % leverage ▪ Substantial heteronomy by third parties: banks, etc.
Owner competence (Management and leasing)	▪ Primarily joint-ventures ▪ Experience in the turnaround-area ▪ Motivated management with incentive contracts
Risk	▪ Higher risk, because of lower income and worse location

[162] Cp. Rottke, N. B. / Schlump, P.: strategy development, 2007, p. 51 et seq.

Portfolio level	▪ Core properties mixed up with non-core properties ▪ Overall weaker tenants and a significant external financing

Source: Own design according to: Rottke, Nico B. / Schlump, Patrick: Strategieentwicklung, in: Schulte, Karl-Werner (ed.) / Thomas, Matthias (ed.): Handbuch Immobilien-Portfoliomanagement, Köln: Immobilien Manager Verlag, 2007, p. 52; Schulte, Karl-Werner / Holzmann, Christoph: Investition in Immobilien, in: Schulte, Karl-Werner (ed.) / Bone-Winkel, Stephan / Thomas, Matthias (ed.): Handbuch Immobilien-Investition, Köln: Immobilien Informationsverlag Rudolf Müller, 2005, p. 34.

Consequently are the returns of value-added-investments higher than from core-investments, because of the higher risk what has to be compensated. But it is possible to mix core-properties together with properties, which do not have a steady return on a value-added-fund portfolio level. Due to a certain amount of leasing risk comes the majority income from the properties' enhancement of value.[163]

Again corresponding to the database of INREV, pursue 17 % out of 490 European vehicles a value-added-strategy (figure 11).[164] But especially the institutional investors are going to raise their investment proportion of value-added-investments.[165]

5.2.5 Opportunistic-Strategy

Compared to core-investments and value-added-investments exploit opportunistic-strategies market inefficiencies, life cycles or other circumstances. This enables very often a low purchase price for the chosen properties.[166]

The reflux of capital within an opportunistic-investment consists basically of appreciations or has a high volatility. Real estate project developments,

163 Cp. Leykam, M.: institutional, 2004, p. 3.
164 Cp. INREV (ed.): Vehicles Database Analysis, 2007, p. 4.
165 Cp. Leykam, M.: institutional, 2004, p. 3.
166 Cp. Humphrey, M.: opportunistic, 2005, p. 2.

leasing risks or a very high external financing could be reasons that a steady income cannot be guaranteed.[167]

Diversification is for this investment type marginal and will not be considered. Indeed can every type of real estate be part of an opportunistic-investment, but they have mostly huge investment delays, which require clean up expenditures to get the properties back on market level. The quality of tenants and particularly their credit history is below a value-added-investment standard. The properties have mostly high vacancy rates and are situated in suboptimal locations with no predictable trends. Due to a bad tenant basis is the reflux of capital insignificant and the income arises from the realized appreciation at the end of the holding period. In many cases opportunistic-strategies are joint-ventures or just an external financing rate with over 75 %.[168]

Table 3 shows a summary of some important facts about opportunistic-strategies:

Table 3: Characteristics of an Opportunistic-Strategy

Forecasted equity yield rate	▪ Due to high risks is a return of more than 18 % necessary and normally is it in the majority of cases more than 20 %
Types and physical characteristics	▪ Basically every type of real estate is possible ▪ Normally high capital improvements needed, high clean-up requirement to bring properties back to market level ▪ Diversification is no major factor for these investments
Life cycle and construction level	▪ Properties are situated in problematical periods of the life cycle, either it is in construction or revitalization
Leasing conditions (Quality and duration)	▪ Many tenants with a lower credit history ▪ High cluster risks in lease terms and tenants ▪ Leases substantial over market level ▪ Short-term leases (0-5 years) ▪ Complex leases (extraordinary termination rights, indexations, options)
Holding period	▪ Very short holding period

[167] Cp. Rottke, N. B.: risk profiles, 2005, p. 55.
[168] Cp. Rottke, N. B. / Schlump, P.: strategy development, 2007, p. 52 et seq.

Market conditions	▪ Good and not so good locations in national real estate markets ▪ Middle-rated locations in mid-sized regional markets ▪ Market with hardly recognizable imbalances ▪ Low liquidity
Income and sales profit	▪ Marginal returns and high appreciation: 15/85 ▪ IRR p.a. > 20 %
Capital structure	▪ More than 75 % leverage ▪ Very high heteronomy by third parties: banks, partner, etc.
Owner competence (Management and leasing)	▪ Primarily joint-venture constructions ▪ Motivated management with incentive contracts ▪ High and detected experience in the turnaround-area
Risk	▪ (Very) high risks, because of low income
Portfolio level	▪ Mainly non-core properties ▪ Appreciation as leading factor for the return ▪ High volatility due to a high external financing, leasing risks or project development

Source: Own design according to: Rottke, Nico B. / Schlump, Patrick: Strategieentwicklung, in: Schulte, Karl-Werner (ed.) / Thomas, Matthias (ed.): Handbuch Immobilien-Portfoliomanagement, Köln: Immobilien Manager Verlag, 2007, p. 54; Schulte, Karl-Werner / Holzmann, Christoph: Investition in Immobilien, in: Schulte, Karl-Werner (ed.) / Bone-Winkel, Stephan / Thomas, Matthias (ed.): Handbuch Immobilien-Investition, Köln: Immobilien Informationsverlag Rudolf Müller, 2005, p. 36.

Opportunistic funds hold a portfolio mainly consisting of non-core properties. The return results applicable from appreciation of value with a forecast uncertainty. A high leverage in combination with leasing risks and project development risks hide high insecurities for an investor. All in all is this kind of strategy destined for relative short-term investments.[169] Opportunistic funds claim a share of 10 % in the INREV analysis from February 2007.[170]

5.3 Property Strategies

After the real estate investment portfolio strategies and risk profiles will now the next paragraphs describe different strategies on property level. Of course

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[169] Cp. Rottke, N. B. / Schlump, P.: strategy development, 2007, p. 53.

[170] Cp. INREV (ed.): Vehicles Database Analysis, 2007, p. 4.

is a fully let property and so a best possible leasing situation of each property aspired anytime. But the leasing process or leasing strategies have no greater matter in the ongoing description.
For asset managers are the hereby following strategies important, because of their meaning for appreciation.

5.3.1 Life Cycle Costs

The sale and purchase of a property precede complex decision-making processes. Life cycle costs play an important role at this.[171]
According to "Wübbenhorst" life cycle costs are the complete costs of a system during his whole life time. This is also true for life cycle costs of properties.[172]

Real estate life cycles have a lot of causes. They can roughly be divided into endogenous and exogenous mechanisms.

5.3.1.1 Endogenous Mechanisms

Along the endogenous mechanisms is market imperfection through time-lags the biggest and most likely factor.
To understand the process of understatement and overstatement it is necessary to have a closer view on the following three types:

- Price mechanism lag
- Decision maker lag
- Construction lag[173]

5.3.1.2 Exogenous Mechanisms

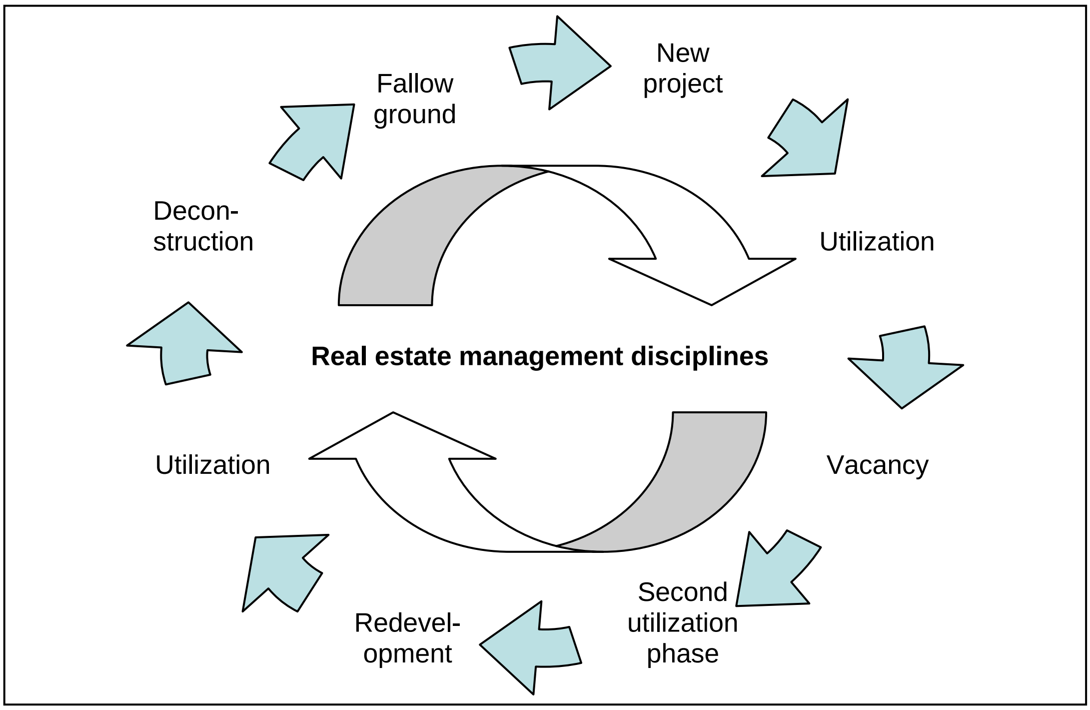
Exogenous influences are medium-term economic or long-term structure changing factors. A medium-term economic factor could be influences from

[171] Cp. Baldauf, M.: life cycle costs, 2006, p. 1.
[172] Cp. Wübbenhorst, K. L.: life cycle definition, 2006, p. 474.
[173] Cp. Rottke, N. B.: life cycles in Germany, 2001, p. 20.

outside, like growth of the country and its local markets.[174]

The term "real estate life cycle" contains the return of life or better useful life for every cycle. With this it is meant the progression from constructing the property over utilization and the deconstruction. Thereby can be times of utilization and vacancy disconnected, this is sometimes coming along with renovations, rebuilding or redevelopment. As shown in the figure below are the different management disciplines very important during the whole life cycle. Every phase is special and has differing management requirements. Thus the real estate management becomes more and more specialized with its own management area.[175]

Figure 12: Real Estate Management Disciplines during the Life Cycle



Source: Own design according to: Rottke, Nico B. / Wernecke, Martin: Lebenszyklus von Immobilien, in: Schulte, Karl-Werner (ed.), Immobilienökonomie – Betriebswirtschaftliche Grundlagen, München: Oldenbourg Wissenschaftsverlag GmbH, 2005, p. 211.

[174] Cp. Rottke, N. B.: exogenous mechanisms, 2007, p. 341.
[175] Cp. Rottke, N. B. / Wernecke, M.: real estate life cycle, 2005, p. 211 et seq.

Besides the term “life cycle costs” synonyms exist, like “total costs”, “entire life cycle costs” and “entire project costs”. Along the lines of “Wübbenhorst’s” definition all concepts have something in common: the first costs (investment costs, cost of production, building costs) and follow-up costs (utilization costs) are seen combined as one entity. The period under consideration is limited by the life cycle costs or economic life-time of the property. Differences exist especially for the question, when does the life cycle ends exactly. There are a variety of opinions about the end of a life cycle. Either the end is with the change of original utilization or with the property’s physical existence.[176]

The analysis of life cycle costs is the basis for a long-term economical building management and hence secure returns. Consequently it is an integrated review of the property.[177]
Through the information resulting from life cycle costs, investors are able to assure their budget and liquidity planning. Thus risks can be minimized and single actions targeted on each other.[178]

The three stages of life cycle costs are:

- Manufacturing (conception, planning, building)
- Utilization (modernization, refurbishment)
- Deconstruction[179]

Companies possess databases and data pools with experience values regarding maintenance costs and building costs as well as the temporal development of their values. Thus a well-founded valuation of properties can take place and a method to determine a strategy can be deduced out of it.[180]

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176 Cp. Pelzeter, A.: economic life, 2006, p. 32 et seq.
177 Cp. Baldauf, M.: life cycle costs, 2006, p. 1.
178 Cp. Baldauf, M.: life cycle costs, 2006, p. 1.
179 Cp. Rottke, N. B. / Wernecke, M.: phase, 2005, p. 211 et seqq.
180 Cp. Baldauf, M.: life cycle costs, 2006, p. 1.

The intention of calculating real estate life cycle costs is to provide a basis for the most cost-effective alternative.[181] The calculation shows on a long-term view every saving potential for each property. Afterwards the results are used to generate a ranking order.
For this reason are life cycle costs very useful especially for strategic management decisions about executing investments. Very important for an investor or its asset manager is that costs after finishing the construction will be included as well. Even if an investor tries to exit as soon as possible, building or purchasing a sustainable economical property has influence on the future sales price. [182]

The approach of life cycle costs cannot be seen as an own strategy but the analysis founds the basic requirement of an economical successful strategy determination.

5.3.2 Redevelopment

Building in a neighborhood with already existing buildings contains every kind of building measures, like reconstruction, expansion, extension, recreation, modernization, adaptation, strengthening, reconditioning, maintenance, attendance and many more.[183, 184]

Revitalization is the process of bringing an old property or whole urban area technically and economically back on market level.[185] This includes fundamental interventions in a building's construction and basic fabric. Through revitalization become unused, vacant or future vacant properties technically functional, constructive and optical overhauled. It describes the revival or further development of an existing building throughout structural measures by retaining the original property type.[186]

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181 Cp. Barringer, H. P. / Weber D. P.: life cycle calculation, 1996, p. 2.
182 Cp. Pelzeter, A.: economic life, 2006, p. 98 et seq.
183 Cp. Ebner, T.: inventory, 2002, p. 7.
184 Cp. Budelmann, H. / Falkner, H.: building, 2003, p. 1.
185 Cp. Kastner, R. R.: revitalization, 1983, p. 1.
186 Cp. Ebner, T.: inventory, 2002, p. 9.

Redevelopment describes unlike revitalization the process of giving a property a new type of use. With this change accompany basic structural alterations, because as a general rule the static and technical requirements of a building need to be changed.[187]

Both revitalization and the change of use are elements of the topic redevelopment and represent a new positioning of the property in the market.[188]

Modernization is a basic characteristic of both the revitalization and the redevelopment process. The project developer tries to achieve an appreciation in value of the building.

The figure 12 shows a property's life cycle, including the stage redevelopment to get a better understanding of the chronology. The goal of redeveloping a building is the improvement and the extension of the economic expected useful life.[189]

5.3.2.1 Potential of Redevelopment

80 % of all German properties are older than 25 years and the average useful life is approximately between 80 and 100 years. In the meantime more than half of all building investments are used for renovations. In light of the decreasing need for new buildings the existing buildings form the investors' future market.[190]

Additionally there are many institutional investors with a high company's own stock, where the vacancies are spreading. Furthermore the marketability suffers from neglecting the modernization of the properties and all these factors strengthen the redevelopment market.[191]

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[187] Cp. Arendt, C.: retrofit, 1993, p. 19.
[188] Cp. Leibfried, J.: creation of meaning, 2004, p. 10 et seq.
[189] Cp. Ringel, J. / Harlfinger, T.: redevelopment, 2007, p. 34.
[190] Cp. Höller, U.: private equity, 2006, p. 436.
[191] Cp. Leykam, M.: investors, 2005, p. 3.

Redevelopment is the revaluation of property through:

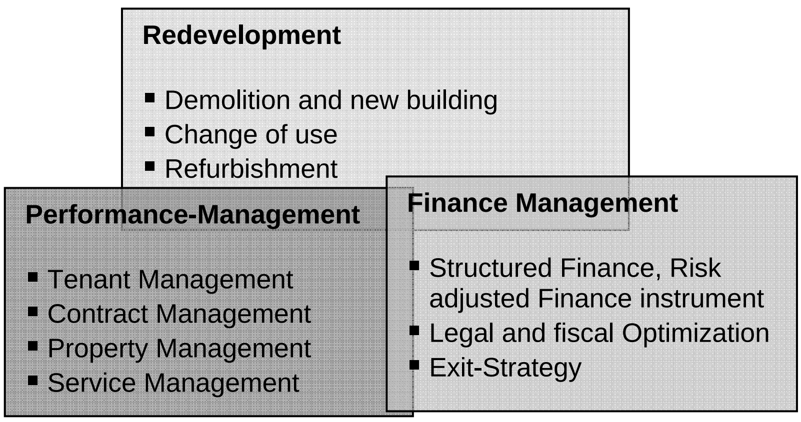
- Structural alteration
- Changing the use
- Refurbishment of furnishing and infrastructure

The focus is here on so called “problem-properties” with the goal to enhance the income significantly. The property will be redeveloped, if it does not match the current market requirements. In any other position as owner it would be very certain to consider, as an investor for example to buy the property and increase the rent by decreasing the vacancy. The result would be that the whole property price will rise.

The factors location and existing property will be connected with a new project idea, know-how and capital. The redevelopment process gets split into different sub-processes and afterwards integrated in the asset management.[192]

The practical experience showed that performance management and finance management are always linked to the redevelopment as the figure number 13 illustrates.[193]

Figure 13: Redevelopment within different Fields of Management



Source: Own design according to: Höller, Ulrich: Redevelopment vor dem Hintergrund opportunistischer Investments, in: Rottke, Nico B. / Rebitzer, Dieter W.: Handbuch Real Estate Private Equity, 2006, p. 434.

192 Cp. Höller, U.: private equity, 2006, p. 433 et seq.
193 Cp. Höller, U.: private equity, 2006, p. 434.

The profit of every project depends on how quick a new fitting user can be found. But there are also risks: The longer the time between the idea and marketing the property the higher the risk. Project development or redevelopment is a long-term undertaking[194] […] and the market conditions could have changed in the meantime. As a result: It would be very hard to achieve the beforehand calculated returns.[195]

5.3.2.2 Typical Market for Redevelopment

The assumption that redevelopment is a typical instrument for low business activity seems very obviously. But this is not only a periodical phenomenon, failings with reference to layout, divisibility or configuration depends not on the market. There is even revitalization potential for buildings with high future turnovers and not only for properties with high vacancies.[196]

The stability of value and adding value through redevelopment is consequently a policy not a business activity oriented method. Also in the economy's heyday can redevelopment stretch the buildings life cycle.[197]

5.3.2.3 Causes of Redevelopment

There are different exogenous and endogenous reasons for redeveloping a property.

Exogenous reasons:

- Emerging attractive competition properties
- Discontinuation of the original use
- Type and largeness do not fit the tenant or tenants anymore

Endogenous reasons:

- Non-sustainable concept
- Problematic tenant combination

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194 Cp. Bone-Winkel, S.: project development, 2002, p. 440 et seqq.
195 Cp. Brauer, K.-U.: basics, 2006, p. 631.
196 Cp. Höller, U.: private equity, 2006, p. 436 et seq.
197 Cp. Peiser, R. B. / Frej, A. B.: professional development, 2003, p. 303.

- Inflexibility[198]

5.3.2.4 Examples

- **Historical building in downtown**
    - Very good location
    - Bad basic fabric
    - Monument protection
- **Old administration building**
    - Good / very good location
    - Old equipment
    - Development potentialities
- **Property with special usage**
    - Only one use possible
    - Maybe good infrastructure
    - A lot marketing necessary[199]

The focus of adding value in the real estate market is on already existing buildings. Redevelopment becomes more and more important, because of the rapid change of the tenants' requirements and little space in the urban centers. Thereby are high returns possible within short investment cycles.[200]

5.3.2.5 Redeveloping Office Space into Residential Units

The company "Resolution GmbH", a subsidiary of "Colonia Real Estate AG", is specialized on redeveloping properties. Especially vacant office properties are redeveloped in residential units. For example, "Resolution GmbH" converted an office building in "Düsseldorf" in the borough of "Oberkassel" into apartments. The office building possesses 8 storys and around 15.000 sq. m. including 155 underground parking spaces. It was built in 1973 and was vacant for a longer time. 80 apartments were planned, with a size

[198] Cp. Höller, U.: private equity, 2006, p. 439 et seqq.
[199] Cp. Höller, U.: private equity, 2006, p. 439 et seqq.
[200] Cp. Höller, U.: private equity, 2006, p. 439 et seqq.

between 70 and 185 sq. m. The costs for the conversion were approximately € 20 Million.

A reconstruction into residential space is not suitable for every office building. Hereby is the location of the building important. It is necessary that the office is situated in a residential area with the required infrastructure and that there is no oversupply of residential space.[201]

5.3.3 Sale and lease-back

These days you find the term "leasing" almost everywhere in your daily life. Also companies use the tool of sale and lease-back to get more liquidity.[202]

Leasing is the process of letting capital assets to a third party, such as real estate, through financing institutions and other companies, which are doing this business commercially.[203]

This instrument serves a company the possibility to raise the so called hidden reserves and gives them the chance to concentrate on their main business.[204]

The procedure of selling a property and renting it again afterwards is called "sale and lease-back".[205]

Two German companies, the "Deutsche Telekom" and the "Deutsche Bank", did big sale and lease-back-transactions in the past. These kinds of transactions are characterized by selling the properties directly (asset deal) or in parts to companies (share deal).[206]

There are two different forms of appearance, which can be distinguished by their contract period.[207]

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201 Cp. Wiktorin, A.: practical example, 2006, p. 87.
202 Cp. Müller, R.: new financing tools, 2006, p. 38.
203 Cp. Gabele, E. / Dannenberg, J. / Kroll, M.: property leasing, 2001, p. 2.
204 Cp. Werning, A.: strategic financing, 2006, p. 1.
205 Cp. Gabele, E. / Dannenberg, J. / Kroll, M.: property leasing, 2001, p. 76.
206 Cp. Kessler, H. T.: sale and lease-back, 2004, p. 11.
207 Cp. Kühn, F.: taxes, 1999, p. 31.

5.3.3.1 Finance Lease

The finance lease is characterized by the pre-financing of the lessor to the lessee. The lessor has of course big interest in amortizing his costs plus a gain from the lessee who sells and rents the property afterwards. A guarantee is the long leasing term, which is written down in the leasing contract.[208]

5.3.3.2 Operating Leasing

The opposite of finance lease is operating leasing, the short-term leasing. Within this lease the tenant has the possibility to terminate his lease at short notice. Then is the only possibility to amortize the lessor’s costs and gain to get following tenants. That is why the operating leasing is described as the “normal lease”.[209]

From an investor’s or buyer’s view is the creditworthiness of the seller and thus future tenant very important. Also the condition and the configuration of the property have an impact on an investor’s decision.[210]

6. Practical Relevance

This chapter ought to show the relevance between theory and practical experience. The now following interview was exactly done in connection with the composition of this work. That means that all answers move along the content of this work and provide thereby an overview how significant the achievements of scientific work are.

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[208] Cp. Kalkschmid, C.: forms of leasing, 2001, p. 9 et seqq.
[209] Cp. Kalkschmid, C.: forms of leasing, 2001, p. 9 et seqq.
[210] Cp. Kessler, H. T.: sale and lease-back, 2004, p. 11.

6.1 Results of an Expert Survey

Interview with "Alexander Becker" (Portfolio Analyst) of "INVESCO Real Estate Germany L.P." (INVESCO) based in "New York" was made on December, 14th 2007.

"Alexander Becker" works for "INVESCO Real Estate Germany L.P.", which serves institutional investors indirect real estate investments in the USA. Besides this "INVESCO" provides asset management services for German Syndicators.

From "Mr. Becker's" point of view it is very important for investors to invest with a well experienced real estate advisor. The market knowledge is indispensable and brings a great advantage. Especially because investors expect a certain return and this makes the importance of a good asset management clear.
The main asset management tasks include according to "Mr. Becker" the following tasks:

- Selection and coordination of Property Managers
- Selection and coordination of leasing agents
- Negotiations for new leases and renewals
- Ownership representation
- Decisions about Capital Improvements
- Reporting to Portfolio Management

Some core duties of a portfolio analyst are the analyzing of existing portfolios, providing hold and sell analysis and calculating pro forma portfolios. But even portfolio analysts need to work closely together with the asset managers, because the information chain on all real estate levels is very important.

Within the company "INVESCO" is asset management seen as the link between property level and portfolio level. Therefore the asset management team deals with tasks of both areas and is included in strategic decisions both portfolio and property specific.

Diversification both over the entire financial portfolio that means within different asset classes and geographical diversification is very important to “INVESCO’s” clients. “Mr. Becker” says “[…] most investors have continent allocations (e.g. 35 % Europe, 35 % North America, 20 % Asia and 10 % Australia) to diversify within the asset class” real estate.
A diversification within the product really depends on the economic outlook for all product types. Every product type changes because of other external influences, like disposal income growth, job growth or manufacturing growth. But for German investors is the product type office the most interesting, because of its high and relative secure cash flow.
The third level or layer of diversification is within each property itself. The best way for a stable income return is to diversify the tenant industries and have no industry concentration, which means tenants of different branches.

There are different products with respect on their strategy for those clients who are interested in investments abroad. At the moment INVESCO has closed-end funds with a core-investment strategy and a few value-added components. The cash flow is not the only important thing, long and stable returns are fundamental investment criteria. Also are properties with cash flow increasing possibilities very attractive to invest in.

6.2 Strategy development and selection

Every investor has different target-settings and the combination and characteristics of them give a diversity of investment products. According to a survey of FERI Institutional Management among institutional investors could be different paradigms localized.[211]

The specific complex of problems by creating a new real estate portfolio is that a wide range has to be considered. First of all need investors to give

[211] Cp. FERI Institutional Management GmbH (ed.): survey, 2004, p. 110 et seqq.

equity for properties, which will be bought in the future. The challenge is to identify strategy compliant properties and purchase them within the bounds of economic possibility.[212]

The following paragraphs will provide for each investment form or groups their investment strategies, especially the development, selection and diversification.

6.2.1 Open-ended Funds

Similar to insurance companies are open-ended funds subject to legal regulations, like the "Investmentgesetz (InvG)" in Germany. Because of this are German open-ended funds committed to diversify their portfolio after the so-called 'policy of risk diversification'.[213]

The regulatory framework does not prevent every kind of opportunistic real estate investments. But through the multitude of regulations and specifications results for the majority of open-ended funds a less risky portfolio strategy. The external financing ratio is for example limited with 50 %, which is basically not possible for exclusive opportunistic investments. The outcome of the obligation to take back is that a portfolio with marketable properties is very wise and reduces dramatically possible problems or delays during the sales process. The result of these criteria for open-ended real estate funds is a core-strategy, but a few opportunistic properties can be included.[214]

Indeed have German open-ended funds the possibility to invest their capital abroad, but most of them stay in Europe as the figure no. 14 of INREV illustrates.

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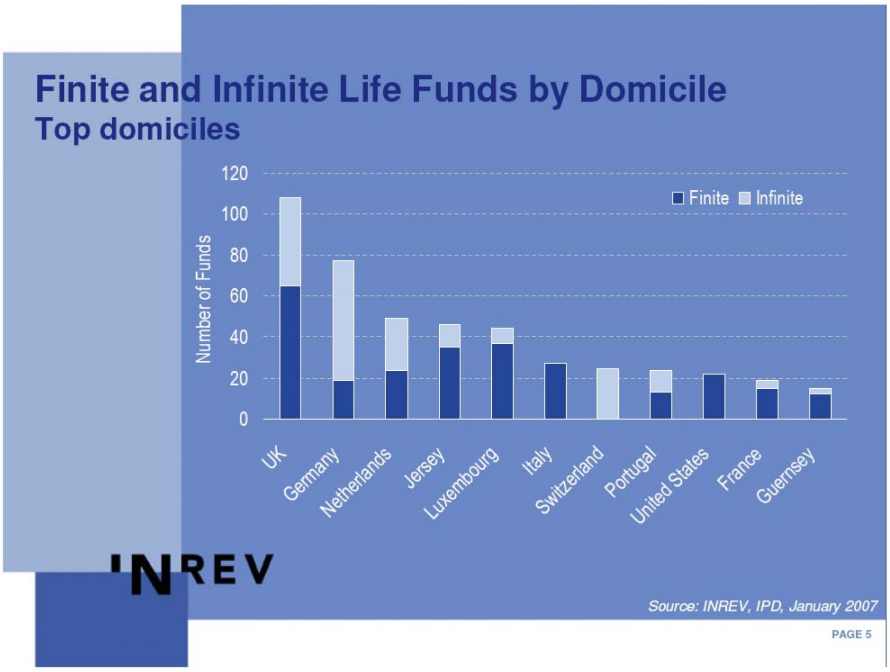
[212] Cp. Klöppelt, H. / Kulke, M.: development and selection, 2005, p. 71.
[213] Cp. Rottke, N. B. / Schlump, P.: portfolio management, 2007, p. 44.
[214] Cp. Rohmert, W.: open-ended framework, 2004, p. 30.

Figure 14: Finite and infinite Life Funds by Domicile



Source: INREV (ed.): INREV Vehicles Database Analysis, February 2007, p. 5.

The typological diversification ranges over all common or standard properties. Investments in the office sector dominate the spectrum, because their investment volume and core-characteristics fit very well into the investor's target-settings.[215]

6.2.2 Open-ended Real Estate Restricted Funds

Due to the fact that open-ended real estate restricted funds have a limited number of investor is it possible to construct an investor specific vehicle. That means after his individual requirements and strategies. This type of vehicle is used especially by insurances and pension funds. They use it to concentrate on their core business by being simultaneously invested into real estate.[216] Through the restriction to legal persons, e.g. institutional investors, is no need for a minimum liquidity. Hence the majority of properties correspond to a core-strategy with a low, but stable income return.[217]

215 Cp. Billand, F.: open-ended diversification, 2005, p. 44 et seqq.
216 Cp. FERI Institutional Management GmbH (ed.), survey, 2004, p. 20 et seq.
217 Cp. FERI Institutional Management GmbH (ed.), survey, 2004, p. 191 et seqq.

Most investments concentrate on the European market, whereas Germany has the biggest part of it. There are sometimes geographical diversifications within individual portfolios. Equal to open-ended funds dominates the office investments followed from retail and residential. The investment strategy is located in the core-investment area, but some pursuit value-added strategies.[218]

6.2.3 Closed-end Investment Companies

There are a lot of different closed-end investment companies in Germany. As they have certain regulations or restrictions, like open-ended funds, is it easier to pursuit the investor's strategy and investment goals. Not least because of the fixed number of investors and investment volume. The spectrum can include every kind of risk and return possibilities.[219]

Funds with an opportunistic background do not compete against most other investment types, because they invest in good and not so good locations to achieve maybe better, but more risky income returns.[220]

Most of those German funds diversify within Germany, but it is allowed and also practiced to invest abroad to achieve better results. A diversification inside a fund is problematic or just not practicable, because of the investment volume. Often consist these very specialist funds of single properties what excludes a diversification.
Due to that pursues the investment strategy to the institutional investors, which is mostly in the value-added-area.[221]

6.2.4 Real Estate Incorporations

On the stock exchange are listed and non-listed real estate incorporations. Both listed and non-listed incorporations need to follow the German

[218] Cp. Rottke, N. B. / Schlump, P.: portfolio management, 2007, p. 56 et seqq.
[219] Cp. Loipfinger, S.: investment company, 2007, p. 3.
[220] Cp. Rottke, N. B. / Schlump, P.: portfolio management, 2007, p. 57.
[221] Cp. Bone-Winkel, S. / Schulte, K.-W. / Sotelo, R.: indirect investment review, p. 687 et seqq.

“Aktiengesetz (AktG)”. This regulations allows risk oriented and with it profit-yielding investments. Depending on the target-settings have real estate incorporations a diversity of different strategies and can do project developments for example.[222]

As already mentioned are real estate incorporations not limited within their investment possibilities and financial sources.[223] On this account are the strategies very diversified and can have besides direct and indirect investments participations in other real estate companies as well as investments in other branches.[224] Especially listed real estate incorporations have through the connection to the stock market a higher volatility than non-listed incorporations. Predominantly are there no specializations in certain investment groups, like institutional grade or private investors, because of the sometimes second or third-class properties.[225]

The risk level depends on the particular incorporation’s strategy and therefore is no precise conclusion possible. But the majority is arranged in the value-added-area.[226]

German real estate incorporations are broader positioned than “US-REITs” for example, but without showing any geographical or typological specializations.[227]

6.2.5 Opportunity Funds

Opportunity funds belong to the group of foreign closed-end investment companies and are often part of financing institutions or administrations of assets. The intention is to invest in risky investments to achieve high income returns.[228]

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[222] Cp. Bone-Winkel, S. / Becker, M.: real estate banking, 2005, p. 40 et seqq.
[223] Cp. Bone-Winkel, S. / Schulte, K.-W. / Sotelo, R.: indirect investment review, p. 691.
[224] Cp. Walbröhl, V.: decision, 2001, p. 178 et seqq.
[225] Cp. Bone-Winkel, S. / Becker, M.: real estate banking, 2005, p. 41.
[226] Cp. Bone-Winkel, S. / Becker, M.: real estate banking, 2005, p. 41.
[227] Cp. Bone-Winkel, S. / Schulte, K.-W. / Sotelo, R.: indirect investment review, p. 693.
[228] Cp. Rottke, N. B.: risk profiles, 2005, p. 55.

These kinds of funds often work with a high external financing what causes the above-mentioned high risk level and at the same time high income returns. Also there are no restrictions or the creation of investment strategies of opportunity funds. This is the reason why the strategies reach from existing real estate projects over “non-performing loans” (NPL) to housing companies.[229]

Properties with the potential of creating value are very important for opportunity funds, because of their short investment periods. Both single properties and portfolio investments are possible. Mostly it is about investment in niche-markets, which are for core- or value-added-funds not relevant or interesting.[230]

Indeed belong opportunity funds the high risk segment with an opportunistic strategy, but that does not mean bad quality of real estates. Reasons for this are often high income return volatility and extreme external financing.[231]

In comparison to core funds, which typically operate on a single country strategy, have opportunity funds less restrictions and search investments on a multi-country basis. But more than 50 % of them focus on Western Europe. So most opportunistic vehicles have diversified strategies, whereas core- and value-added-funds invest more specialized.[232]

6.2.6 Insurances and Pension Funds

Insurances and pension funds satisfy their needs of capital investments through a small part of real estate investments. As in “6.2.1 Open-ended funds” already indicated are insurances and pension funds subject to legal regulations, the “Versicherungsaufsichtsgesetz (VAG)”. This law defines in Germany roughly the investment strategy, thereafter is a preferably high

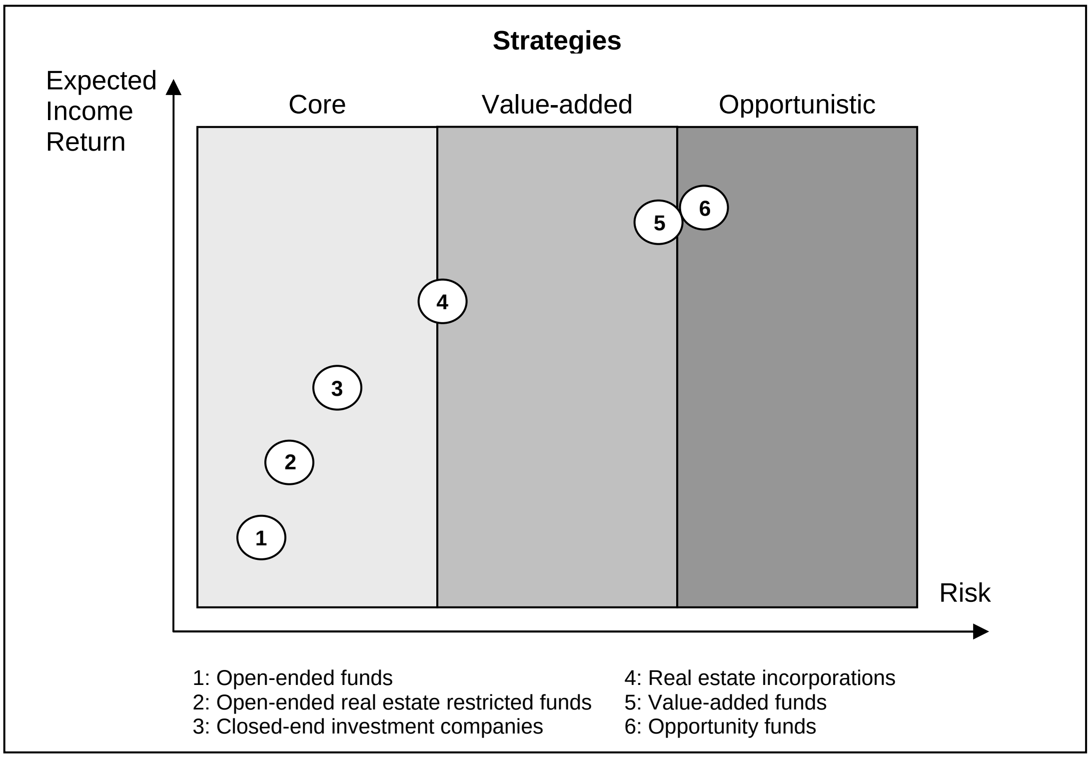
[229] Cp. Atisreal (ed.): market report, 2005, p. 11.
[230] Cp. Humphrey, M.: opportunistic, 2005, p. 2.
[231] Cp. Rottke, N. B. / Schlump, P.: portfolio management, 2007, p. 59.
[232] Cp. Raitio, V.: structure, 2006, p. 99.

security and efficiency with an anytime liquidity necessary or just a requirement.[233]

The investment strategy is of long duration, therefore can only core- and value-added-investment strategies be considered. But in the way to diversify the portfolio is it also possible to invest in opportunity vehicles and optimize the strategy through a sophisticated diversification.[234]

Geographical diversification is mostly in domestic and partially in West Europe, what represents the risk-averse strategy of insurances and pension funds.[235]

Figure 15: Strategy Selection of different RE Vehicles



Source: Own design according to: Rottke, Nico B.: Investitionen mit Real Estate Private Equity, in: Schulte, Karl-Werner (ed.): Schriften zur Immobilienökonomie, volume 29, Köln: Immobilien Informationsverlag Rudolf Müller, 2005, p. 48.

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233 Cp. Gesamtverband der deutschen Versicherungswirtschaft e.V. (GDV) (ed.): year book, 2005, p. 136.

234 Cp. FERI Institutional Management GmbH (ed.), survey, 2004, p. 20 et seq.

235 Cp. FERI Institutional Management GmbH (ed.), survey, 2004, p. 74 et seq.

The provided strategies and strategy choices are not clear for each investment form, but they are indicators how institutional investors and especially their asset managers decide to diversify their portfolio. That means depending on what strategy the asset manager decides is best are several possibilities available. The figure no. 15 shows what kind of strategy the individual investment types pursue.

7. Conclusion and Outlook

This scholarly paper illustrated the significance of real estate as an individual asset. Therefore a summary of different assets was provided and in this context the asset “Real Estate” was introduced and explained. Thereby it is important to consider the variety of real estate specific aspects. What makes real estate investments interesting and what kinds of possibilities does an investor have? Security and profitability are keywords for an investors’ intension of investing in real estate. One major aspect is the hedge against inflation, which applies for different real estate investments vehicles. Some real estate investment types, as well as property types were described. At the same time it is very important to keep the individual real estate characteristics in mind. The asset “Real Estate” does not have the same investment criteria as other capital market products. Especially immobility, along developing process, heterogeneity and long investment durations separate real estate from other asset classes.

Within the paper real estate asset management plays with its objective targets, tasks and strategies an important role. Between the theory and the practical experience are still big differences within the understanding and implementation in a company’s business. Even between countries and companies rule different definitions and understandings. That is why this work first provided a classification of different real estate related management disciplines. Thus were the relevance and the interconnection between all management terms shown, particularly in real estate. In doing so the market participants were explained, who are consumers and providers, to guarantee reference to the practical experience and the current market situation.

After this an overview was provided about possible real estate asset management strategies on a portfolio level and on a property level.
The “Portfolio Theory” of “Markowitz” and the “Capital Asset Pricing Model” describe important milestones for the development and particularly the implementation and the combination of the given portfolio strategies, like the core-strategy, the value-added strategy and the opportunistic-strategy. Every strategy has its own characteristic, which were described comparably. Simultaneously the reference to the European market was integrated, which was provided by the organization “European Association for Investors in Non-listed Real Estate Vehicles”.
Afterwards relevant strategies on a property level were elucidated within a property’s life cycle. Different endogenous and exogenous mechanisms influence an asset manager’s behavior. Depending on which part of the life cycle the individual property is located different acts and hence strategies are necessary. The possibilities reach from demolition of the property to sale and lease-back transactions for the companies’ real estate, to focus on their core business. There is no limit of possible and particularly individual strategies.

The relevance of theory to practical experience were guaranteed through the integration of an expert survey, as well as through the strategy implementations of different investment types, like open-ended funds, real estate incorporations and so on. Thereby the individual targets and possible regulations and strategies for each vehicle were described.

To give an outlook on the current market situation “Hieronymus Hager” “Chief Executive Officer” (CEO) of “Jones Lang LaSalle Asset Management GmbH” summarized the annual expert congress “Real Estate Asset 07” about the situation and risks of real estate asset management in Germany.

German properties have been an established asset class among other financial investments, but the “US Subprime Crisis” had a negative effect on its standing. An important question is hereby which strategy is the right one to be successful?

Even for real estate experts prognoses are difficult to give and are precarious. Through the interdependence between real estate and the financial world experts are afraid of the future changes. For the first time movements on the financial markets have instantaneous impact on the real estate market in Germany.

But now the challenge is to realize those performance targets, which were given before the crisis to obtain the positive real estate economy. These development trends become essential for the real estate asset management in the future. For an investor the only adjusting possibility is a property’s cash flow. The general interest level and the market growth are factors outside its direct sphere of influence.

After “Hieronymus Hager” the active asset management is with immediate effect responsible for the performance and so for the income return, because properties keep their potentials and work even if stock exchanges fluctuate. Every investor who recognizes these characteristics, who is willing to take pains and who is prepared for possible appreciations and value-preservation will participate with the next investment boom.

The asset management service, which is able to position itself successfully in the market, needs to offer investors an active management performance, particularly for the appreciation of real estate.

From the perspective of “Jones Lang LaSalle Asset Management GmbH” real estate asset management services will be successful, if they have the right strategies, a good preparation, are able to handle second and third rated locations and possess of a good team.[236]

The presented diploma thesis dealt with the necessity of asset management and showed its inalienability. In the future this topic will for all parties hereto gain in importance. The market’s reaction on increasing demand of diets and congresses is more supply, like the already mentioned annual expert congress “Real Estate Asset 07”. Also many companies react by integrating

[236] Cp. Hager, H.: REAM outlook, 2007, p. 1 et seq

and implementing new asset management departments, for example the company "CORPUS SIREO" could take advantage of the "US Subprime Crisis" and thus synergy effects result with other commercial lines.[237]

Also the always ongoing optimization of individual processes makes it possible that special asset management computer programs appear on the market and support the professional management of real estate. Active and particularly qualitative asset management enables properties' increased transparency. In terms of decision-making processes this is another invaluable advantage and especially thereby can tap the full potentials. But for all that it is fundamental to "hold eyes and ears wide open". The question which is the right strategy cannot be answered across-the-board. Finally every project or task needs its own and particularly individual decision, in what every possible aspect is considered.

The final argumentation is that an active asset management can detect and tap the full potentials, particularly for the appreciation of real estate, which are for every involved person big advantages and oftentimes main objective. Asset management will contribute a huge piece to the factors of success.

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[237] Cp. CORPUS SIREO (ed.): press release, 2007, p. 1 et seq

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9. Statutory Declaration

I hereby declare that the content of this work is my own work and no other aid was used than quoted. The takeovers of literal quotations as well as the thoughts of other authors are indicated. This scholarly paper was not presented at any other exams. I am conscious that a false declaration could have legal consequences.

Date Daniel Rappoldt