COMPETENCE CENTER
PROCESS MANAGEMENT
REAL ESTATE

PMRE MONITOR 2012

Process Management Real Estate Monitor

Opportunities and risks in the real estate market

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Management Summary
Risks: Identify, Assess and Control.

Looking back on the financial crisis, it becomes clear which factors are increasingly gaining in importance: risk management. Both in investment, asset and property and in facility management, managers are increasingly dealing with the measurement and monitoring of risks and the analysis of loss potential.

The occurrence of a risk is understood as a negative deviation from the corporate objectives. On the positive side, however, risks may also give rise to opportunities. Which direction a development might take depends on various influencing parameters, which are based not only on real estate but also on market and company internal factors. However, companies are not completely helpless in the face of these influencing factors. They can actively counteract risks. Risk control and securing of opportunities is achieved by implementing risk management measures.

The PMRE Monitor 2012 shows the risks to which companies are currently exposed and the risks that they fear. However, it also shows what opportunities are created and how risks can be prevented or minimised. These results are based on the participation of 117 companies in the German speaking real estate market. The asset management sector is better represented than the property, facility and investment management sectors. The mostly private sector oriented companies typically manage a real estate portfolio worth € 1 to 5 billion.

As regards our key question “Which objectives in the real estate market were met and which were not”, the market participants seemed to be cautiously optimistic. Positive statements were made about the company-related objectives, which include the company’s financial income and customer satisfaction. Quite contrary to current market sentiments, achievement of financing objectives was also rated as positive. This result is surprising when considering the current refinancing needs and the difficulties in obtaining reasonable financing terms. Looking to the future, the greatest fear is of restrictions imposed on the real estate market by legal and regulatory requirements. The study also reveals that the market underestimates the potential financing risks for the equity capital that arise from legal and/or regulatory requirements.

Difficulties in achieving objectives are experienced in the leasing and transactions activity. In view of the stagnating transaction market in the past few years, it is not surprising that purchasing volumes in particular fall short of expectations. Despite the positive assessment of the contractual rents, the other leasing objectives and the lease-related cash flow are evaluated rather negatively. There is reason to assume that the promising contractual rents have been purchased at too high a price as a result of substantial concessions being made to the lessees.

Positive elements include the effects generated from building project management, the approach to sustainability, and the occupancy rate. The question whether sustainability positively affects the achievement of objectives, can be answered with an emphatic “yes”. At the top of the list of negative factors is the foreign business activity. Much work remains to be done in the alignment of quality standards, monetary and tax matters and also in relation to the harmonisation of system interfaces.

To provide protection against risks and to safeguard the corporate objectives, different risk management tools and methods are used in the market. In practice, these are mainly process related components such as structured early risk detection or systematic risk identification, assessment and control. However, risk management components for use in systems and for reporting are found to perform inadequately. Regardless of whether they are used to generate risk management reports, as part of the system equipment, or to ensure the data quality, system-related components will in general need to be developed further.

In connection with our question whether the preferred measures can lead to suc-

cess and the neglected components can actually be safely omitted, process-related components are occasionally found to positively impact the safeguarding of the corporate objectives and the minimisation of risks. The effect of measures in strategic or structural risk management is rather limited. By contrast, the use of risk management measures in IT systems and reporting is actually much more effective. This category of measures accounts for the greatest contribution to risk minimisation. Against the background of this substantial contribution to risk control and the simultaneously low level of implementation in the market, investments can be made in effective risk management systems and a high quality data base. It is an opportunity to exploit opportunities.

Herausgeber

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