

Editorial

The Growing Role of IT in Real Estate Asset Management – The Appraisal Process as a Master Sample

Heiko Beck

Valuation of office buildings, shopping centers and hotel worth billions of EUR and IT? Until recently there was little imagination in which manner IT solutions can support the important process of real estate asset management of open-ended real estate funds (OIF) in Germany.

Typical for many changes in financial services since the “financial crisis”, regulation was the trigger. In 2011, the German Investment Act (§§ 77, 79) was amended with new rules changing the valuation cycle of retail OIF from an annual to a quarterly sequence becoming effective as of January 1st, 2013. In case of OIF, the valuation of assets must be undertaken by independent external surveyors which are acting for the regulated asset management company. The asset values are reflected in the daily calculated and published issue price of the fund, thus the valuation process is also a core process for the overall fund management.

The appraisals are not done by a single surveyor, but by a Committee of at least three experts (CoE). In addition to the quarterly valuation cycles, the term of the individual surveyor has been limited to 5 years. All in all, the number of valuations was

increased by 200%, not to mention more committee meetings and onsite visits of the CoE. Union Investment Real Estate has 325 assets in 24 investment countries with a value of 21 billion EUR. Thus, it was very clear from the outset that the new requirements could not be met without significant enhancements to processes and IT tools.

In 2012, Union Investment Real Estate started a project to develop a cost-efficient appraisal scheme compliant to the new rules, e.g. ensuring the independence of the surveyor. The goal was to cut the process as short as possible, keep process costs minimal and multiply the output. Compatibility with all other fund planning, controlling and accounting systems was also required.

As a first step, the project undertook an analysis of the existing appraisal process in order to identify the potential for optimization.

The process starts with the provision of all relevant information to the external CoE and ends with a final appraisal report by the CoE. All results are checked for plausibility by the fund manager in order to clarify any discrepancies in the assess-



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ment of the value of the property investment. The former appraisal process took almost three months from preparation of documents to the final appraisal report. It included different calculation variants, meetings with the CoE, multiple data preparation and redundant data storage.

Consequently, it turned out that selected procedural adjustments would not be sufficient, a comprehensive automation of the process that is applied was inevitable.

The challenge was to provide optimized workflows, efficient and secure data handling. Therefore, Union Investment Real Estate moved to an integrated standard software solution consisting of the following components:

- **Standard Application** – providing workflows, calculation engine, report generator, storage of relevant real estate asset data and distribution to the experts, administration.
- **Secure Data Room** – including document storage for unstructured data that has to be made available to the experts (e.g., tenancy agreements) and is integrated via link into the application’s user interface.

- **Webbased Cloud** – allowing collaboration with experts (data storage and exchange), who must have exclusive access to the data which is provided in a specific cloud linked to the application.

This set up ensures stringent process handling and high data quality and integrity. The Standard Application serves as a “single source of truth” for appraisal purposes and the determined property value is automatically available for the fund manager’s accounting and controlling.

Due to highly standardized and automated processes and the consistent use of data, process time could be reduced to four weeks and additional regulatory costs were still significant but could be limited. The implemented IT solution is – with some further enhancements – also ready to address the upcoming new requirements resulting from the German Kapitalanlagegesetzbuch (KAGB), which will require two valuations for each asset worth more than 50 Mio. EUR on a quarterly basis from July 2014 onwards, thus almost doubling the number of appraisals once more.