6 growing challenges for real estate funds

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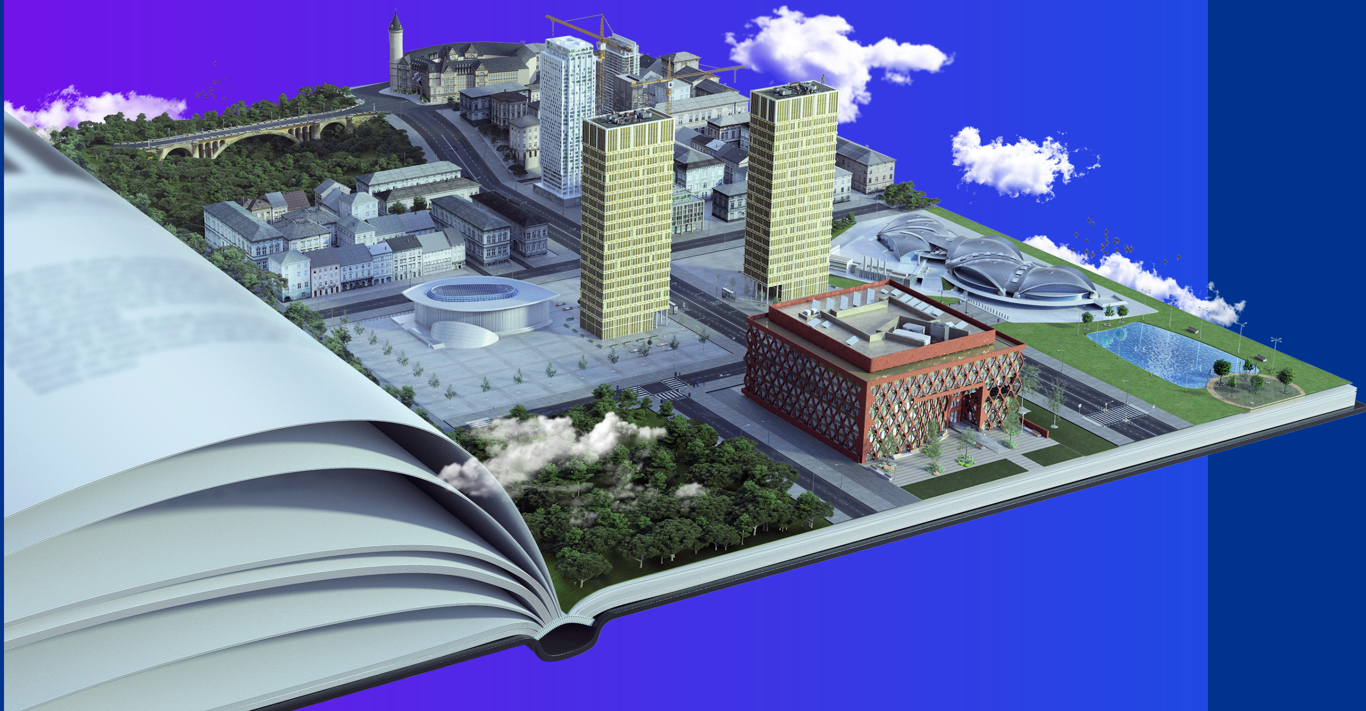


6 growing challenges for real estate funds

The Luxembourg alternative fund sector is booming. Fund numbers continue to increase, while fund structures, the range of strategies and the investor base evolve, in part down to EU regulatory changes. With investors worldwide looking for alternative sources of returns to diversify their assets, as well as demanding that their portfolios advance sustainability goals, real estate has become one of the most dynamic segments of the market.

Growth is good – but it also raises questions about the best way to service real estate investments, and highlights the potential benefits of outsourcing and automating fund administration processes.

The sector's growth means more choice for investors, who also come to Luxembourg for the assurances offered by its solid regulatory base. The industry supervisor CSSF ensures enforcement of EU legislation, including MiFID and the AIFMD, to protect investors, providing a consistent long-term environment for asset managers launching and operating funds in the grand duchy.

However, the market is intensely competitive and increased regulation means more demands on human resources and skills. With experienced fund administration specialists increasingly hard to recruit and retain, Luxembourg's fund ecosystem has embraced outsourcing of non-core but vital tasks and processes to deliver the most efficient and cost-effective services.

The challenges funds face: rising costs, pressure on resources and operational flexibility

A strong operational model is key to overcoming six of the most common challenges faced by fund firms. Funds that are growing fast need scaled-up back-office services, without businesses being distracted from investment strategy decisions and putting excessive pressure on in-house staff; investors are more demanding about the data they receive, while regulatory disclosure requirements are increasing too.

1. Diversifying to maintain growth

Few industries are more heavily affected by rising interest rates than real estate. Formulating, launching and running a real estate fund under optimal market conditions is already complex. The additional strain caused by rising interest rates leads to additional complexity as funds diversify and pursue additional strategies to maintain growth. As investments grow and different types of assets are brought in, an additional level of compliance, tax, and accounting complexity is to be expected. Many in-house workforces cannot always keep up, in terms of numbers, experience and skills. Managing and maintaining in-house administrative systems and departments may no longer make sense as assets under management and product ranges grow.

When chief financial officers factor in the cost of training and development, IT support and integration with in-house accounting platforms, increasingly they may find that the numbers just don't add up. From the smallest boutique fund to bigger managers, the case for outsourcing is a powerful one.

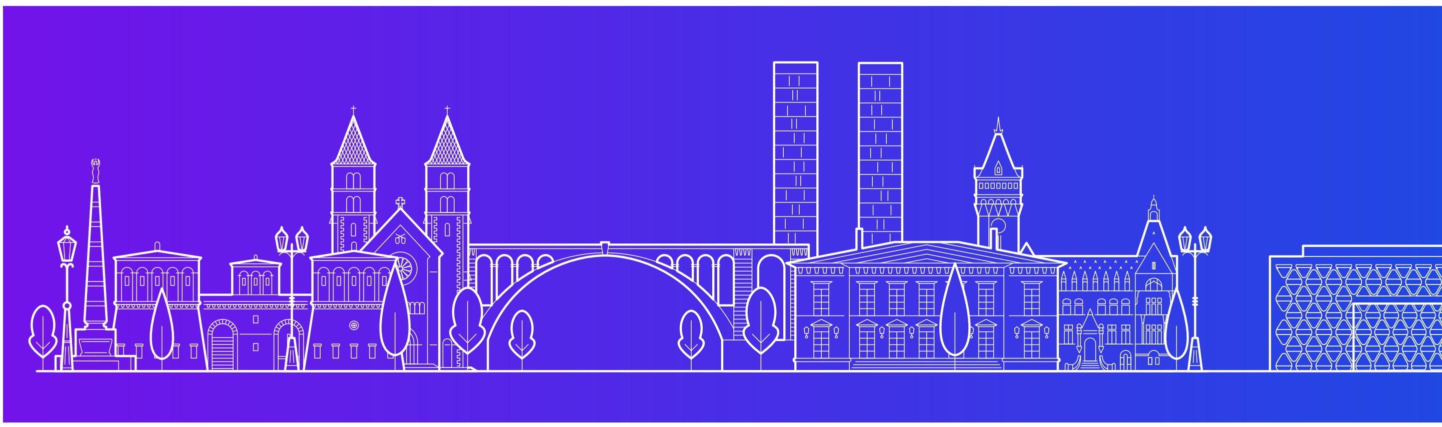
There is also an opportunity cost. When CFOs and other executives are focused on operational nuts and bolts, they may be distracted at the expense of focusing on future investment and strategy opportunities, raising new capital and maintaining relationships with existing investors.

2. Meeting ever-greater data demands

Institutional clients need reliable, timely and comparable data on which to judge funds' performance and report to their own stakeholders. Larger investors are increasingly demanding more granular data, and their due diligence questionnaires and subsequent discussions often focus on operational efficiency.

That is understandable, since they also have regulatory compliance and client requirements to meet, and need the assurance that administration quality will not dip as the funds they invest in grow.

Regulatory data requirements are getting tighter, too. Luxembourg service providers must be authorized by the CSSF; not only investors, but tax authorities and supervisors also depend on the data they deliver on aspects such as fees, expenses and investor distributions, as well as broader metrics used in assessing financial stability.



3. Luxembourg's talent squeeze

Back-office staff work hard to deliver timely and accurate data and reporting to multiple stakeholders, from the board to every investor. In a tight job market, demand for experienced staff is rocketing – and so are salaries.

A key to better retention of staff and improved operational efficiency is to minimize stress. Cutting back on pressure on staff to perform routine back-office functions will enable them to focus on more rewarding tasks and play more fulfilling roles in the business.

4. Competing in the data age

More than 600 real estate and other alternative investment funds have chosen Luxembourg as their domicile. Staying ahead of the competition means adding value, and in the current environment, that entails maximizing the benefits of technological solutions.

Investment teams increasingly employ machine learning and data analytics software to store and evaluate the ever-increasing range of market data, from asset pricing and tenancy data to property location and vacancy rate information. The challenge lies in harnessing skilled human resources to derive valuable insights from the data and pinpoint business opportunities.

5. A complex ecosystem

Property is a diverse and often complex asset class, especially given the cross-border strategies in which Luxembourg funds often specialize. Ensuring the right structure and close relationships with other key service providers such as depositories are essential elements in ensuring that a fund's operations and growth progress smoothly.

Meanwhile, managers are being called upon to navigate not just traditional real estate asset management responsibilities, such as ensuring the upkeep of buildings to maintain their value and managing tenants to safeguard a steady income stream, but issues that embrace both sustainability requirements and cost-effectiveness – including energy efficiency and circularity.

6. Reporting requirements of green regulations

From office blocks and warehouses to housing, public buildings and infrastructure, the EU's target of cutting greenhouse gas emissions from property by more than half by 2030 and to net zero by 2050 will have a major impact on investment. This will involve not just green construction processes but also refurbishing and repurposing existing buildings, encouraging tenants to save on energy and other resources, and being able to track and report progress.

The EU's Green Taxonomy, Sustainable Finance Disclosure Regulation (SFDR) and the forthcoming Corporate Sustainable Reporting Directive all point in the same direction: asset owners will find themselves required to collate and track real estate ESG data. Right now, there are many data gaps, and closing them is certain to be an arduous and long-term task.

Speed, quality and compliance

These issues are among the factors persuading many asset managers to outsource administration functions to specialist providers whose dedicated focus on back-office functions and economies of scale enable them to shoulder the increasing responsibilities and requirements that the sector must manage.

Drawing on the resources of third-party providers can ensure optimum time to market for new funds and safeguard workflow efficiency, guaranteeing that tasks are always completed in a timely and accurate manner. At KPMG Real Estate Fund Administration, we keep abreast of current and future Luxembourg and EU regulatory requirements, to ensure your operations and deliveries are always compliant.

The international reach of KPMG's network puts us in an ideal position to stay up to speed in areas such as tax, affecting both US and other international clients as well as the assets held in the fund portfolio, whatever the jurisdiction in question.

This is an important aspect of ensuring that our offering is future-proofed. We draw on our sector expertise to prepare for the ongoing expansion of disclosure requirements demanded by domestic and European supervisors. We can also help clients looking to capitalize on new regulatory developments such as revision of the European Long-Term Investment Fund regime that will open up alternative strategies to individual investors.

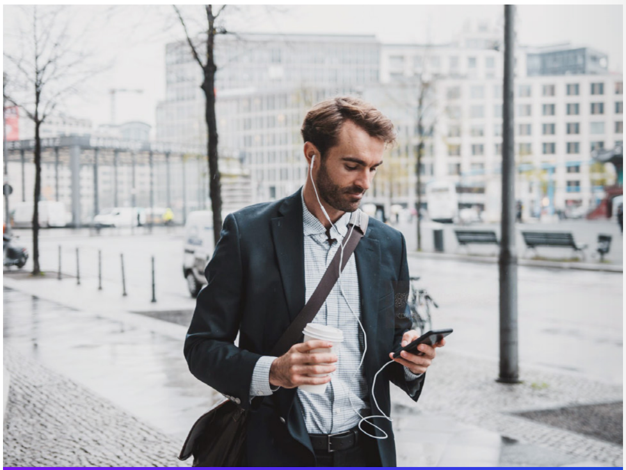
From the outset, we help assess your and your stakeholders' data needs, pulling together information from multiple and in-house systems to ensure the greatest possible operational excellence and resilience, and to retain the full confidence of investors and regulators.

KPMG is closely focused on the evolution of regulatory reporting and other requirements stemming from the transition to a greener European economy. ESG is a priority across all our service lines, ensuring we stay ahead of the rules and reporting requirements that will become standard in the emerging regulatory environment.

Daily and detailed support

The KPMG Real Estate Fund Administration team consists of industry experts with decades of experience. We know the issues you can face in the strategic choices that arise from the decision to launch or domicile a fund in Luxembourg, and in the daily management of data, documentation and other filings.

We take our time to get to know you, your staff and your goals. That's the starting point from which we propose technological solutions, developed on the basis of best practice through our global and local teams, that can best fit around you and your business, not the other way round.



Let's talk about you

We'd love to talk to you about your real estate fund, your team and your business development vision for the future. We will have plenty to share on how we can help make it happen.

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