

# Staying in Control of Today's Dynamic Real Estate Market

White paper



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## Introduction

Commercial real estate is certainly taking on growing importance to today's investors, who are in search of higher returns than those offered in a near-zero interest rate environment. Investors who were already active in the sector are buying in greater volumes and also expanding beyond commercial properties into residential assets.

Real estate is also attracting "new" investors from all over the world, raising the bar on competition and driving up prices on prime assets. As the competition grows for properties in the world's gateway cities, secondary regions are also seeing an influx of new investment interest.

All in all, these trends spell good news to sellers, while forcing investors to be more agile than ever in managing every aspect of their portfolio. To stay ahead of the curve, many firms are adopting purpose-driven technology platforms that centralise and facilitate every aspect of portfolio management from fundraising through due diligence, acquisition, asset and contract management, to eventual exit.

In this paper, we will explore the latest worldwide trends related to this extremely dynamic market and how to create a virtual command centre in order to control it.

## Global Development in the Real Estate Market

Based on a trajectory of steadily growing transactional volumes over the past two years, real estate has become a hot sector for a growing audience of investors. Globally, transaction volumes in 2014 involving income-producing real estate rose 9 percent over 2013 to a total of US\$770.2bn<sup>1</sup>, and volumes were again up 9 percent year-on-year in the first quarter of 2015 at US\$155 billion, according to Jones Lang LaSalle.<sup>2</sup>

Real estate assets in the U.S. and Europe are attracting the greatest investment. While the U.S. tops the list with transaction volumes up 24 percent year over year, investment in the European market is also strong. Investors deployed €116 billion of capital into European property markets in 2014, up from €97 billion in 2013 and the highest level of inflows since 2007.<sup>3</sup> Also in 2014, Europe attracted well over half of all cross-border investment.<sup>4</sup>

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This is hardly surprising, considering the huge amount of "dry powder" investors are striving to deploy, and the low interest rates and bond yields available these days. Quite simply, real estate investments have the potential to offer much more attractive returns. As Standard Life Investments noted in its Q2 2015 report, "The weighted-average prime yield for Continental European real estate was 5 percent at the end of Q1 2015. This compares favourably to income from government bond yields, which average less than 1 percent despite recent increases, and BBB rated corporate bond yields, which offer around 1 percent on seven-year notes."<sup>5</sup>

When real estate investments in core markets are yielding double-digit returns, it's clear why volumes are up and the competition for prime assets is growing. Many long-time investors in the market are now increasing their real estate allocations and large funds, such as the Blackstone Group, PIMCO and Lone Star Funds have shown their interest by raising large offerings in the sector in 2014.

Additionally, new entrants – government pension funds, sovereign wealth funds and high net-worth investors have moved into the sector. Investors from the Americas, the Middle East, Africa, Asia and Europe are investing in real estate, as a means to diversify their portfolio with stable, high performing foreign assets. For example, in the past year, Japan's US\$1.1 trillion Government Pension Investment Fund (GPIF), increased its investment in foreign assets, such as real estate, and in March 2015, three additional large Japanese pension funds followed suit. Beyond large funds from Asia and the Americas, investors from all areas are looking at real estate. "As one owner/

1. "Emerging Trends in Real Estate: The Global Outlook for 2015," Urban Land Institute and PwC, 2015. 2. "Investment Markets Continue to Strengthen," Global Market Perspective, Q2 2015, Jones Lang LaSalle, 2015. 3. "Real Estate Market Outlook: Continental Europe," M&G Real Estate, March 2015: 5. 4. "Emerging Trends in Real Estate." 5. "Real Estate Update Q2 2015," Standard Life Investments, 2015.

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operator in New York stated, "Israelis, Koreans, Egyptians, Russians, Mexicans and others have all come to us for a piece of Manhattan."<sup>6</sup>

This influx of interest has resulted in more competition for targets and rising property values that don't necessarily align with occupancy demands. As PwC noted in a recent report, "In many of Europe's main markets, growth in values has far exceeded any rise in occupier activity." Nonetheless, this does not appear to be deterring investors. The "wall" of capital available for investment is driving demand.

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## Investors Expanding into Secondary Geographic Regions and Real Estate Sectors

London, New York and Tokyo continue to be the top cities for commercial property investment, with Los Angeles, San Francisco and Paris also in the top ten destinations. In Europe, London continues to be the primary target of investors, although secondary cities are moving and seeing more activity as investors are showing a willingness to move up the risk curve. As a result, they are more amenable to alternative assets in tertiary cities, such as Dublin, Madrid and Hamburg, in search of more attractively priced properties that will allow them to achieve their desired rates of return.

Secondary cities on the "fringe" of gateway cities are also benefitting. For example, Birmingham in the UK has moved up to 6th place in this year's ranking of city investment prospects, up from 17th place last year. Cities in Southern Europe are also getting attention. Athens has advanced 23 places to 5th place this year.<sup>8</sup>

## Beyond Commercial Office Space

Commercial office space continues to be a primary target, but the following sectors are showing strength and attracting investor interest as well:

- **Industrial property.** Lower energy prices and lower cost financing as a result of quantitative easing measures are positioning industrial companies to grow. Additionally, the online retailing explosion has resulted in a growing demand for new distribution centres in new locations to meet e-commerce delivery windows.
- **Retail property.** Consumer spending is up, fuelling an uptick in retail sales and an increase in demand for retail in some locations and retail sectors. Cities like Dublin and Lisbon are strong targets for retail growth as they recover from the global recession, and the demand for luxury retail properties is up in cities, such as Paris and Milan.
- **Residential property.** Urbanisation is a prime factor driving the demand for more residential space. Increasingly perceived as a solid source of sustainable returns, this sector, which includes luxury properties, senior, student, health care, private house building, and private rental properties, is attracting investors who traditionally focus on commercial real estate. It's interesting to note that in a recent PwC survey of commercial real estate investors, two-thirds of the respondents were also active in residential property and 15 percent of those not already in the sector were considering some form of investment. These respondents felt prospects for residential investment in 2015 were stronger than mainstream commercial property asset classes.<sup>9</sup>

In addition to these opportunities, evolving work and lifestyle changes are presenting new opportunities for real estate investment and development. Continual technology advancements have resulted in a widely mobile workforce that requires less office space and a different kind of space than in the past. Ongoing urbanisation throughout the world is building demand for real estate assets of all types as cities continue to grow.

6. "Emerging Trends in Real Estate." 7. Michael Gerrity, "European Commercial Property Investment Up 44 Percent in Q1," World Property Journal, May 29, 2015.  
8. "Emerging Trends in Real Estate." 9. "Emerging Trends in Real Estate."

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Additionally, aging industrial properties are being refitted to accommodate a young workforce that want to eliminate long commutes and live near their workplace. These trends are opening up new options, such as a value-add investment models in which investors purchase, repurpose, hold for investment and eventually sell their properties for profit.

Although commercial property is most likely to continue to maintain its position as the leading asset class preferred by investors, increasing competition for real estate assets is making all these options more attractive.

## A Global Investment Class That Requires a Global Command Centre

Based on investment activity over the past two years, it appears the real estate sector has gained the confidence of a growing investor base worldwide. Not only are traditional investors increasing their allocation for real estate in their overall portfolio, but the sector is being shopped by a group of new entrants with significant funds to invest and a desire to build international portfolios.

Operating successfully in the competitive real estate market, whether as a buyer or a seller, means having ready access to an immense amount of information in order to be able to capitalise on opportunities. To effectively manage the vast array of documentation and information related to their portfolios, investors need smart, secure purpose-driven technology that controls all aspects of information management for the entire life cycle of their assets.

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Leading firms adopt virtual data room (VDR) technology as a command centre to support each aspect of acquiring, holding, managing, and eventually selling their real estate assets. Today's leading VDR providers offer secure web-based solutions designed to handle everything from real estate acquisitions, divestitures and portfolio management activities.

Over the years, firms have increasingly converted their real estate investment activities to a VDR platform because of the benefits they deliver.

- **Streamline and enhance fundraising.** A VDR makes fund information more accessible, more quickly to potential investors, while addressing compliance and security requirements. Using a secure web browser, potential investors can simply login to the firm's VDR from their own office and view swaths of information from floor plans to financials. This method of sharing information is not only convenient for buyers and sellers; it accelerates the process. Multiple parties can login at the same time and conduct document review in a completely confidential way, unaware of each others' activities.
- **Accelerate due diligence on acquisitions and divestitures.** A VDR can be set up in a fraction of the time it takes to create and assemble a paper data room, or maintain physical files and archives. Sellers can have their VDR up and running within two hours, but then keep that data room open for years; securely housing every document related to a sale or purchase. When executing a transaction, prospective buyers login to the secure web browser at their convenience – anywhere, at any time. Travel time and costs are either completely eliminated or greatly reduced. Sellers can invite multiple bidders to participate concurrently in the due diligence process – and potentially drive up asset valuation.
- **Simple control of portfolio management.** A VDR enables staff in any location to quickly search and access what they need for asset management. A VDR can accommodate a wide range of real estate documents, including legal and financial documents, contracts, large blue prints, architectural documents, environmental studies, etc. that are searchable for easy lookup. The portfolio management process is simplified by providing

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a central dashboard for performance reporting and analysis. Additionally, proactive contract management features ensure deadlines, expiration dates and renewals are never overlooked.

Firms today need a flexible, online communications platform that allows them to reach an audience of investors, which also makes it extremely convenient for all involved to dig deeply into information before investing, and which enables ongoing maintenance of information associated with property portfolios. A VDR solution, hosted by an experienced third-party provider, can give exactly the tools needed to accomplish these goals.

In a global environment where real estate investors and fund managers are facing increased levels of competition, technology should be leveraged to establish a control centre to gain the winning edge in today's dynamic real estate market.

### Contact us

For more information about Merrill DataSite or to request a demonstration of our Virtual Data Room solution, please contact us at [info@datasite.com](mailto:info@datasite.com) or call +44 (0)20 3031 6300.

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## About Merrill DataSite

Merrill DataSite is a secure virtual data room (VDR) solution that optimises the due diligence process by providing a highly efficient and secure method for sharing key business information between multiple parties. Merrill DataSite provides unlimited access for users worldwide, as well as real-time activity reports, site-wide search at the document level, enhanced communications through the Q&A feature and superior project management service—all of which help reduce transaction time and expense. Merrill DataSite's multilingual support staff is available from anywhere in the world, 24/7, and can have your VDR up and running with thousands of pages loaded within 24 hours or less.

With its deep roots in transaction and compliance services, Merrill has a cultural, organisation-wide discipline in the management and processing of confidential content. Merrill DataSite was the first VDR provider to understand customer and industry needs by earning an ISO 27001 certificate of registration—the highest standard for information security—and is currently the world's only VDR certified for operations in the United States, Europe and Asia.

As the leading provider of VDR solutions, Merrill DataSite has empowered more than two million unique visitors to perform electronic due diligence on thousands of transactions totalling trillions of dollars in asset value. Merrill DataSite VDR solution has become an essential tool in an efficient and legally defensible process for completing multiple types of financial transactions.

**Learn more by visiting [www.datasite.com](http://www.datasite.com) today.**

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