



THE NEW VALUE CREATION OF REAL ESTATE ASSET & PROPERTY MANAGEMENT

Asset performance through controlled quality and transparency. Shaping the boundaries of value creation between the tasks of asset and property management in the sense of the organisational excellence of the partner model - cooperation 2.0.

STATUS QUO OF THE SECTOR

Due to many topics and questions of our clients, we continue to experience a high level of dissatisfaction in asset & property management. Understanding the reasons is the key to the solution.

The real estate sector has a great need for further development in terms of "production process orientation and standardisation"

Especially for the functions of asset and property management and the associated interface, the industry has not yet succeeded in "living" a sustainable performance and cooperation model.

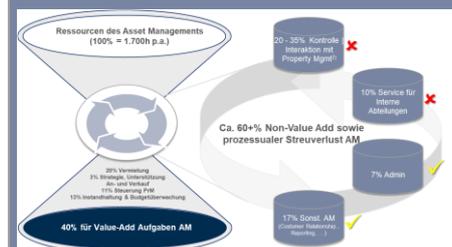
Neither insourcing nor outsourcing of the conventional kind have led to a satisfactory result in the market.

Property management suffers in particular from ruinous competition and yield problems, in some cases not covering margins, while at the same time the requirements of asset managers are increasing (e.g., quality and speed of service delivery, digitalisation, ESG, new service specifications, bonus-malus, ...).

The complexity of the individual handling of a multitude of small-scale, centralised, and decentralised tasks (commercial | technical property management, service charges management & reconciliation, property accounting, etc.) is additionally increased by frequently changing clients

(investment | asset managers) with individual requirements and the fluctuation of expensive and scarce well-trained staff.

Asset Management: 60% of resources for "non-value driving" activities¹.



The asset management (AM) ⇔ property management (PrM) interface consumes a great deal of effort on both sides.

Challenges:

- High degree of individuality in organisation and processes means additional workloads
- Centralised and decentralised tasks | large number of activities | small-scale and strategic tasks | number of employees in the AM and PrM area
- No efficient or even effective structures with different qualities and

On the other hand, the increasing professionalisation of the industry and the enormous dynamics in the real estate market with significantly lower acquisition yields as well as the new challenges posed by Covid-19 are forcing the asset management to improve service delivery, increase speed with regard to time-to-market and

focus more on value-creating activities. However, the high internal effort for controlling and quality assurance of service providers as well as troubleshooting | rework directly results in a waste of resources of up to >30%¹.

This inefficient "production process" is based on low standardisation and low "automation" through IT | workflows | digitalisation and needs to be solved across the industry.

TWO SECTORS IN CHANGE WITH A COMMON GOAL

The value added per capita of investment managers is highest in the area of overall fund management (product development, fund administration and portfolio management).

Nevertheless, this core value creation is only possible through the contribution of asset management and property management. Fund performance through asset returns means that cost efficiency with increasing professionalism will continue to be a critical factor for success in the future.

A significant contribution to increased effectiveness and efficient processes is made by the best possible cooperation of asset and property management in accordance with an innovative, sustainable performance and cooperation model.

¹ Industry value | Bottom-up analyses by TME in the context of various organizational projects



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A current comprehensive and representative market sounding by TME among leading property managers demonstrates a clear willingness to explore new paths for the benefit of operational excellence.

The aim is to establish quality leadership within property management in order to counteract price pressure, while asset management focuses on fulfilling strategic and value-driving core tasks. The main factors driving future efficiency gains are therefore:

- More capacity for increasing demands on asset management
- Creation and use of economies of scale and synergies
- Pro-active portfolio management with consistent performance orientation
- High relevance of tenant loyalty and customer care
- Demand for constant further development and professionalisation
- Increasing quality of data & information | Digitalisation

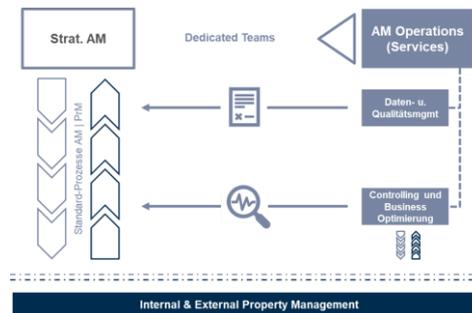
To achieve these goals, TME Associates sees great potential in optimizing both areas and the interface between asset and property management. Only through a high degree of organisation, uniformity, standardization and full use of the tools (e.g. fully developed IT solutions with uniform master data logics throughout the company) can a sustainably successful, high-quality and profitable business be achieved.

FOCUS ASSET MANAGEMENT

On part of the investment | asset managers, the further development of the asset management organisation can create essential prerequisites. By separating traditional asset management into strategy and operations (services), internal processes and responsibilities can be organised and made much more efficient.

Strategic asset management continues to be responsible for the asset itself, performance and returns. In fulfilling this role, the asset strategy is developed, and strategic and value-creating measures are implemented. Value creation at the property-level is ensured through, among other factors:

- Strategic asset optimisation
- Value enhancement of the asset
- Risk management for the assets
- Key account management
- Letting strategies



In this model, the centrally organized Operations (services) unit assumes four essential functions:

- 1) Responsibility for data and quality management by centralising and assuming overall responsibility for data procurement.
- 2) Ensuring a uniform procurement strategy and control of the service providers, in particular the property management through framework agreements, tendering processes, management & outsourcing controlling of external partners.
- 3) Asset-focused, asset-related controlling as an essential enabler for the strategic asset managers through monitoring of service charges, lease contract terms and evaluations of asset- and portfolio-related key figures
- 4) Business optimisation through process responsibility and business analyses for the further development of internal and interface processes.

Strategic asset management and operations (services) work together as a dedicated team with the common goal of achieving the best possible asset performance. For this it is not mandatory that operations are an organisational part of the asset management, rather this function can also be located in IT or with the COO.

The implementation of these concepts at well-known clients by TME has already shown that quality and added value can be significantly improved without a significant increase in resources (FTE), but through a clear responsibility for content and control structure.

But how do asset and property management work together in the best way possible?

THE TME PARTNER MODEL

The partner model according to TME means the harmonisation and further development of service provision between asset and property management.

Performance and operational excellence through managed quality and transparency

The aim is to achieve efficient, transparent, and risk-mitigated asset performance as well as mutual increases in turnover and returns through a joint setup with investments in structures, automation, and continuous improvement of the cooperation model.

Comparable to other industries - e.g., aerospace, automotive - influence is to be exerted on structures, processes, and standards at the external partner and thus "production process structures" are to be enforced on the property management side, among other things through committees with equal representation and the joint design of the production and roadmap.

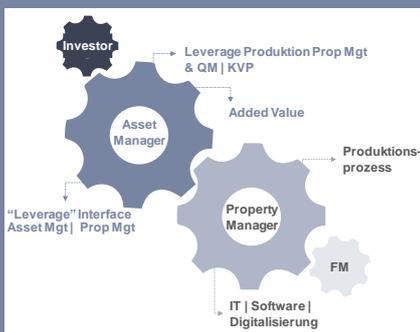
IT solutions and digitalisation are the basis of this model. A permanent willingness to innovate is linked to achieving faster success from digitisation activities.



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As a result, the cooperation thrives on active, forward-looking process controlling using state-of-the-art controlling tools (e.g., process KPIs for early indication), instead of downstream, reactive results controlling (e.g., vacancy process key figures).

Win-Win for Investment | Asset Manager and Property Manager



The Partner Model:

- **Transparency** of services provided, quality and performance
- Increase of asset performance
→ **Investor satisfaction**
- Increase of process and data quality
→ **Asset performance**
- Standardisation of processes and systems
→ **Quality**
- Increased productivity in property and asset management
→ **Profitability**
- Common and coordinated production processes
→ **Productivity**
- Long-term (according to regulation) contract commitment with a large portfolio for PrM
→ **Planning reliability**

The partner model is a "win-win" for investment | asset and property managers through the sustainable and joint development of performance, turnover and returns. In this way, the partner model finally brings the industry into the modern age.

DIGITALISATION AS PART OF THE SOLUTION & CHALLENGE

Digitalisation in the partner model stands for quality and performance enhancement through innovative process support by means of new IT solutions available on the market.

Digitalisation will displace the boundaries between asset and property management

Through workflows, document management systems (DMS) and process automation, a stronger integration of asset and property management can be achieved.

Currently, a very high proportion of purely controlling, monitoring, and supervising tasks are included in the service specifications for asset management.

In the future, these fragmented operative service components must be digitalised, among other things in the form of process-controlling systems in the area of property management, so that the service delivery can be better controlled, but also reported, and monitored.

In the future setup, data and process management will play a key role from the facility to the property and operational asset manager.

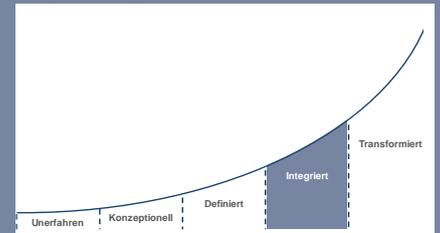
This is particularly relevant as new business models and strategic partnerships potentially threaten traditional property management.

One of the main challenges for the individual market participants is the considerable financial expenditure and investment for the (further) development of the IT landscape against the background of non-uniform standards, working methods and individual requirements of each individual customer. However, these compelling investments require significant increases in efficiency and creative approaches to solutions in order not to endanger the company.

A NEW SETUP OF THE AWARDING PROCESS

The tender process considers various organisational characteristics and pursues the objective of developing a common and joint roadmap including continuous improvement process structures (CIP structures) for the organisation and the IT landscape | digitisation in each case. Critical to success in this process is an in-depth analysis and evaluation of the potential partner.

Degree of Digitization of the Property Manager



Maturity level:

- **Inexperienced:** Neither concept nor implementation exist
- **Conceptual:** A concept exists, but this has not yet been agreed or even implemented
- **Defined:** The concept has been decided and initial practical experience already exists (e.g., through a pilot)
- **Integrated:** Implementation is fully integrated into existing business processes
- **Transformed:** Digitization has been implemented throughout the entire company and is a fixed component

As part of the tendering process, the future property management partners are evaluated via a self-assessment with regard to organisational quality and IT. Subsequently, as part of a newly developed due diligence process, the internal structures, the organisation, and the systemic frame-

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work conditions - the engine room - are assessed directly on site and evaluated with regard to the integrability and homogenisation of the key clients on the partner structures.

Consequently, the concept of the level of digitalisation of the organisation, the maturity model based on a decision matrix was developed specifically for this purpose by TME.

The partner model requires the joint achievement of the 4th maturity level "Integrated" to cover the bilateral tasks and requirements in the best possible way. This level is to be reached over time (roadmap) at the organisational and systemic level.

Only on this basis is it ultimately possible to develop the individual, detailed

roadmap, and the CIP structures and at the same time to avoid individual working practices across customers.

CONCLUSION

The high level of dissatisfaction within the real estate industry, due to the complex problems in operational property management and the challenges of digitalisation, requires consistent professionalization and a new approach to cooperation between asset and property management.

Based on an extensively coordinated process and technological basis, the partner model enables a modern "production process" - comparable to the level of other industries. In this context, asset and property management and their intersection play a special role. The aim is excellence

and permanent optimization of production to achieve object performance and quality

at lower production costs for both partners. At the same time, this ensures the future viability of the property management process and thus also of asset management.

Our process model is

- Tried and tested,
- demonstrably successfully implemented
- „Best practice“ | Know-how

Please feel free to contact us!



Authors

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TME Associates

TME is an international management consultancy focusing on Real Estate Management and Brands & Retail. Founded in 2011, we advise corporates, investment & asset managers, investors, housing companies and service providers along the entire real estate value chain.

Our consulting approach is as sustainable as it is holistic: from strategy to organization to implementation.

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