

Construction, Property & Real Estate

Economic uncertainty has taken its toll on the construction, property and real estate sector. However, it is encouraging to see that we are reading the signs correctly and that the majority of survey respondents concur with our analysis on future outcomes.

Europe, agrees two-thirds of respondents, is likely to become the target for inbound investment due to the current stability of its real estate market. Nevertheless, they are not complacent. They are equally mindful that a squeeze on rental rates and property values is likely if companies rationalize their services or reduce headcount to cut costs.

To some extent, fund managers have carried the can for the sub-optimal performance of real estate investments during the financial crisis. To regain favour with investors, 77 percent of respondents believe fund managers will need to extend their knowledge of the global real estate market and back their decisions with greater transparency and more robust reporting.

Looking ahead, investors will expect fund managers to not only understand home and international markets but will want explanations for the flow of capital from one country to another and more robust rationale on which to base their investment decisions.

Frankly, I am surprised that anyone disagrees with the need to recycle capital to fund new real estate investment. That is exactly what is happening in the market right now. With the debt market so severely squeezed, and with property owners facing debt restructuring and refinancing issues, they need to shore up their equity base with sustainable and healthily financed properties.

One option is to off-load existing assets with steady income streams, which are currently in high demand and attracting good prices. Another is to enter into partial sale agreements with globally-acting institutional property investors looking for co-investments. To me, these are the common-sense solutions to a debt-funding shortage.

Despite consensus on most of our hypotheses, one-fifth of respondents is not convinced that real estate companies will

have to look overseas to satisfy investor demand due to the unavailability of prime assets in domestic markets. In my view, this is a short-term reaction to the firming up of certain markets, notably the London market, which might lull some companies into believing that there is still plenty of opportunity at home.

My concern is that the pick-up may not be sustainable. Those companies that do not fortify their businesses with the requisite expertise in international regulation, tax, commerce and cross-border investment could find themselves unable to compete in a more international and, inevitably, more complex sector.

Contacts

Stephen Pfister Sector Head

T: +41 44 249 26 67

Jeremy Kay
Theme Contact for
Sustainable Cost Efficiencies
T: +44 (0) 207 694 4540

Andrew Ashby
Theme Contact for
Cash & Working Capital
T: +44 (0) 207 694 3231

John Kelly
Theme Contact for Growth
through Transactions
T: +44 (0) 207 694 3528

Andrew Underwood
Theme Contact for Revisiting
the Organisation
T: +44 (0) 121 232 3886

Ian Forbes
Theme contact for Turning
Risk to Advantage
T: +44 (0) 207 311 6465

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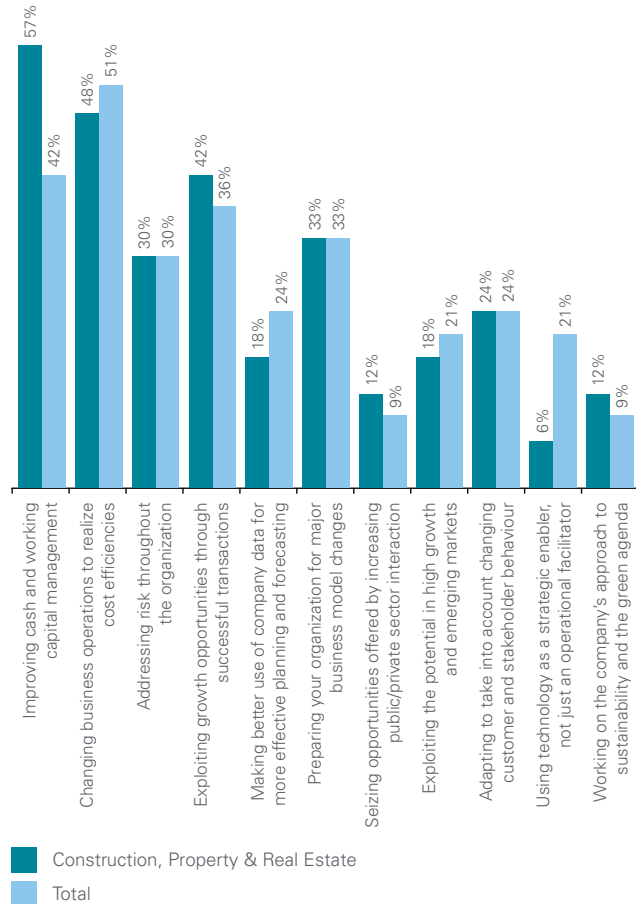
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& Real Estate

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Construction, Property & Real Estate – Sector Results

Comparison of top business issues for Construction, Property & Real Estate with total results



Percentage add up to 300 percent as all respondents had three votes.

Hypothesis 1:

Due to the unrest and upheaval elsewhere in the world, the relative stability of the European real estate market will make it an attractive target for inbound investment flows. However, that same uncertainty may also force big corporates to rethink their cost base once again, to focus on core services and even to reduce headcount, thereby putting pressure on rental rates and property values.

Hypothesis 2:

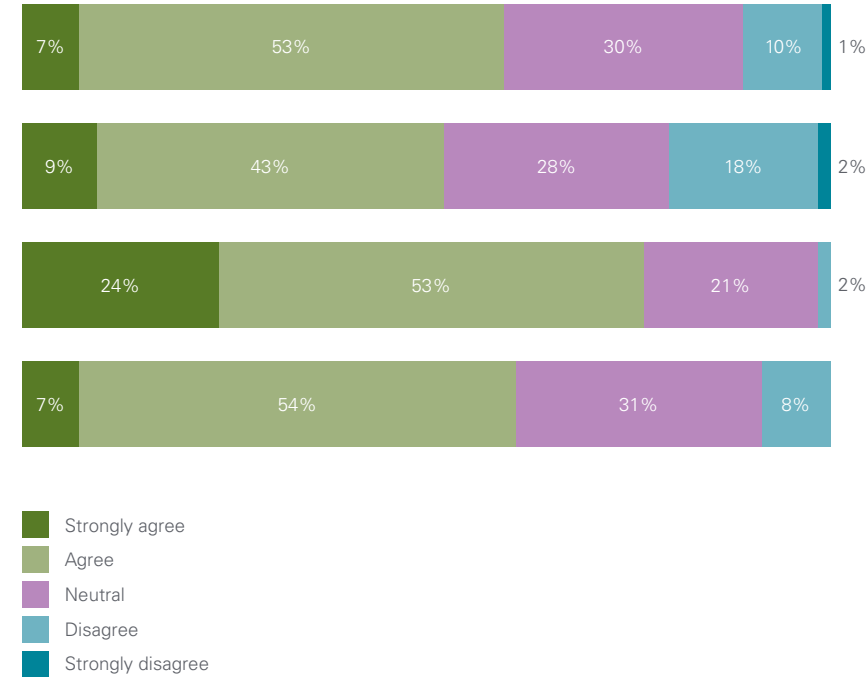
The scarce availability of local prime real estate assets will force more investors to operate outside of their own domestic markets. This will require a far greater knowledge of local markets and underlying commercial parameters, foreign tax and regulatory requirements as well as of the vehicles required to make such cross-border investments. This will drive far greater complexity into the real estate sector.

Hypothesis 3:

Fund managers will have to deliver increased transparency, more robust reporting mechanisms and a global understanding of property markets with more regular strategy updates if they are to rebuild trust with investors, many of whom believe that fund managers' decisions were partially responsible for funds' sub-optimal performance during the crisis.

Hypothesis 4:

With the traditional debt market for real estate investments having reduced considerably, funds will have to recycle capital to raise cash for new investments. This will typically entail disposing of real estate assets with stabilised income or striking a joint venture by selling majority stakes in an asset to institutional investors.



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Stefan Pfister

Further info

The SiCW Business Leaders survey Exec Summary is available at: www.kpmg.eu/businessagenda

A suite of videos and kitcards, on the top themes is available online. This includes Jeremy Kay outlining what the Board is thinking about in terms of changing their business operations to realise cost efficiencies; and Andrew Ashby on how companies can improve cash and working capital management. To view the information please go to: www.kpmg.eu/businessagenda