

# REflexions

A Biannual digest for the real estate investment management industry | Issue 8 | EMEA | 2018

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Unlocking the potential of digitization

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# Foreword



Dear readers,

Just like the seasons change, the world of real estate is continually evolving and this edition of Reflexions is no different. From interviews with clients to thought provoking insights into the challenges faced by the industry, we hope you enjoy this second edition of 2018.

Much has been written about the appointment and role of independent non-executive directors in real estate. Unfortunately, the specifics of property are such that their role needs to be explored in more detail. Our articles aim to do just that with valuable insights ranging from the self-explanatory to the more complex intricacies of ensuring compliance with local regulations and market practice.

In this edition, we take an in-depth look at China and the results of the opening of the private sector investment in infrastructure, which has resulted in billions of US Dollars in investment. This in turn has caused the construction market to undergo rapid expansion and open the door to multiple investment opportunities from global investors.

Every industry has its own buzzwords and real estate is no different; some words transcend industries – Brexit and BEPS are obvious candidates. However there is another word on the horizon – co-working. A term that many have heard of but what is really behind this phenomenon? Our colleagues will endeavour to demystify and give their visions for the future – who knows maybe one day your company may be sharing office space in a library environment.

As the name of this publication suggests, REflexions is about giving serious thought and consideration to topics, information and challenges that affect your business. Hence, this magazine is not just about us imparting our knowledge to you, it is also the opportunity for you, our esteemed readership to make your voice heard and we look forward to your future contributions.

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**Benjamin Lam**  
EMEA Real Estate Funds Co-Leader

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**David Brown**  
EMEA Real Estate Funds Co-Leader

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# **Real Estate Investment Management Sector**

## **Unlocking the potential of digitization**

**Interview with Jörn Stobbe,  
Board Member of Union Investment**







#### **Jörn Stobbe**

Jörn Stobbe has been a member of the Management Board of Union Investment Real Estate GmbH and of Union Investment Institutional Property GmbH since spring 2017.

As COO, his primary responsibilities are process optimization, strategy and digital transformation.

Jörn Stobbe has 20 years of experience in international real estate transactions and asset management, most recently as managing director at RREEF Management GmbH. Prior to that, he spent ten years as a partner at Clifford Chance.

Digital technologies have significant potential for more efficient processes and new business models. Union Investment works at various levels along the entire value chain to take advantage of their opportunities. In this context, partnerships with innovative startups play a significant role.



**Nina Schrader:**

**When we focus on the topic of digitization in the real estate industry among the large fund and asset managers, we can quickly recognize that your firm has already identified this issue to be essential. You are also personally very active in this field.**

**When did Union Investment Real Estate start dealing with the potential consequences of digitization in the industry in general, as well as for your firm? Did the impulse arise from your parent company or has the real estate segment driven it individually?**

**Jörn Stobbe:**

The topic of digitization has come up in our institution about two and a half years ago, which was clearly initiated by the real estate sector. However, even previously, various topics have been pushed forward by individual teams that could now be seen as belonging to the field of digitization. My favorite example is our digitalized valuation model, for which we won the innovation prize at the ZIA (German Real Estate Association). This project emerged in 2013 more out of necessity, because the quantity of valuations required had driven us to our limits. Our valuation team had set this solution into motion without mentioning or using the word digitization. The pain points we faced during that time was the ultimate trigger to search for a new solution.

We formally brought up the subject of digitization two and a half years ago as part of our "Day of the Future." At that point, we had put together, set up, and defined the areas that required action. Since then the topic has been steadily on track. We have been lucky that we receive enormous support from our supervisory board chairman Jens Wilhelm. As a group executive, he is also responsible for the topic of IT infrastructure, and his doors are always open, which has inspired many of us. We coordinate closely with the parent company, but many of the initiatives actually originate in the real estate sector.

The group has come a long way in the areas of digitization, and we are happy to see a very cooperative collaboration.

**Nina Schrader:**

**Quite often the biggest challenge is to establish digital transformation in the entire organization. Digitization means working and thinking differently (such as agile work, establishment of an error culture, etc.) and it often creates various types of anxieties (job loss through automation, change anxiety). How do you handle this? How did you prepare for this topic and what are your experiences?**

**Jörn Stobbe:**

Unfortunately, at first we had some bad experiences, although we had the clear goal of taking the teams on our side right from the beginning. The fact that the outcome was not successful was largely because we have set very ambitious goals for ourselves. Instead of starting with selected aspects, we wanted to proceed with the digitization of an entire process.

However, if we were to start with a hard and unpleasant sub-process, then nobody would complain, and we would receive a better outcome for team communication and bringing people onboard.

For this reason, we regularly exchange ideas and views with our various teams from Asset Management, Investment Management, and Fund Management, so we can search for pain points together and check whether we can streamline the processes by developing use cases for these selected pain points.

**Nina Schrader:**

**Who do you refer to as "we" in this context?**

**Jörn Stobbe:**

In my area of responsibility, we have a team led by Thomas Müller (Head of Digital Transformation). This team deals exclusively with the complexity of these topics and prepares the structure and layout for the projects to come.

However, if you have this focused unit—with unique digitization ideas—on one side, and analog asset managers on the other side, the situation is not easy. This means we also have to step back a bit and get on the same level in order to see how we should approach the different issues. This is one of the biggest challenges that we are currently facing.

In addition, new ideas are constantly being developed at fairs and through conversations—mainly with inspiration from external sources. Those ideas have to be organized and checked. In this case, we first try to get the co-directors enthusiastic about these topics, so that they, in turn, can provide us with the right people from their department who are, ideally, interested in the subjects.

In general, we have decided to not try to digitize the entire process immediately (which would often make sense), but rather start with small parts and, if necessary, deliberately leave out those that everyone is already accustomed to.



**Nina Schrader:**

**Meanwhile, almost everyone in the industry is dealing with digitization, but with a very different focus (strategy-, process-, or technology-driven). Do you see the effects more in the areas of asset management, investment management, fund management, or in the back office functions, and what are you currently focusing on?**

**Jörn Stobbe:**

Half a year ago, I would have said that the opportunities lie mainly in asset management, also because many sustainability issues are only made possible through digitization. A quarter of a year ago, I would have said that now the internal processes are in focus. However, these are less spectacular, but nevertheless important topics. In the meantime, I see that we have come to a number of fairly good ideas, especially in investment management, where blockchain is becoming an increasingly hot topic. However, we are still at the very early stage, and we must first develop a common enthusiasm, and then a common sense of realism to figure out where we can add value. Internal resistance, which can also throw a wrench in projects, is created when there is the perception that we are pushing the issues forward for advertising purposes only. The actions we take must always have an objective by themselves for all employees to accept them.

Meanwhile, there is probably not a single employee at Union Investment who has not yet dealt with the issue. For example, we have introduced our own Emporio app as part of our digital ecosystem. The background was that we wanted to start being conscious with ourselves. To accomplish this, we launched an idea competition as part of the "Day of the Future," in which we looked at ways to tackle sustainability issues. We then discovered some re-occurring digitization topics.

**Nina Schrader:**

**Is your initial focus only on increasing efficiency through using new technologies? Alternatively, do you also question your existing target operating model as a whole in regards to new partnerships, outsourcing, managed services, or the reduction of players in the value chain?**

**Jörn Stobbe:**

First of all, we definitely have a digitization strategy in place. In addition, there are topics that we have started dealing with, for the reasons mentioned above. We are currently thinking more holistically, for example, with a view to our future ERP system. We no longer want to ask which system is the right one to map our current processes. Instead, we want to gain a broad overview of the common products including the contained core processes, and ask ourselves afterward which of our processes we may no longer need or which we may potentially want to set up differently. In this context, I can imagine that we will have to completely re-think our entire system architecture and process landscape.

However, this takes time, and by that, I don't think in days or weeks, but in months or even longer. We say: Just because we are doing things in a specific way that brings advantages in some cases, it will be nicer to have new releases for less customized products. There are voices that say we don't want to make decisions for the next generation, but to be as flexible as we are with electricity providers in that you can change every two years. Of course, this plug-and-play no longer requires complicated processes, but something more standardized. Therefore, we have concluded that we actually have to renew some processes, as some of them are very outdated.

**Nina Schrader:**

**Are you also considering the option of externalizing some processes?**

**Jörn Stobbe:**

My experience from recent years is that outsourcing in our industry has gone too far. Currently, I do not see this trend for our company because too much knowledge, too much experience, and too much flexibility are being wasted. At the group level, it is not a secret that our company is currently in the process of re-insourcing more IT resources and building up its own expertise. This will make us less dependent on external third parties.

New ideas are constantly being developed at fairs and through conversations—mainly with inspiration from external sources.



**Nina Schrader:**

**Let's have a look at your real estate products. Your property portfolio is broadly diversified. Where do you see the biggest changes?**

**Jörn Stobbe:**

We have initially thought about what actually belongs to digital property. Here, we immediately agreed that the main information such as land registry excerpts, lease agreements, and the like fall under this category. Afterward we questioned whether the 200 sensors of the property indeed belong to this category. The ones who thought they didn't belong were thinking in the direction of sustainability issues and thought of sensors that measure electricity consumption, for instance. However, when we think in the direction of the retail properties, which currently struggle due to competition with online retailing, we can see it differently. The main reason is that the frequencies captured by sensors belong to the main information that I would require for a property of this type. Without this information, we are not in a position to evaluate the various areas and levels of the property and to estimate the rental increase potential.

From that point of view, you have to evaluate the sensor topic also for the office properties, albeit from a different perspective. Given the tendency for shorter-term leases and more flexible demand for space, we can assume that this topic becomes more important in the context of "Real Estate as a Service." In this case, you need the transparency on how the individual spaces are absorbed by the market, in order to take appropriate saturation measures at the property or even at the overall location level. We have a portfolio of over €18 billion AUM in the office sector. The transparency about this portfolio can be a decisive competitive advantage, and we are already at an advanced level here. For instance, we have six office properties in Amsterdam and every tenant has a fictitious pre-letting right. When tenants want to expand, they have a big advantage as existing clients of Union Investment when it comes to getting access to their preferred space for occupancy.

We don't want to copy WeWork here, as we have repeatedly acknowledged that there

is a great demand to which it is difficult to respond when you have an occupancy rate of 97 percent. At this point, and in our capacity as a real estate owner and manager of a big portfolio, we have an enormous advantage compared to firms that offer co-working, and we want to use these chances early enough in the current market phase.

**Nina Schrader:**

**Does this mean that the topic of property strategy is becoming more important?**

**Jörn Stobbe:**

Absolutely, not only at the property level, but also throughout the portfolio. We promote networking with the tenants and the space users. And it makes a lot of fun, too.

**Nina Schrader:**

**The topic of technology has come up, and with Architrave you are a pioneer in the industry. What were your thoughts behind this participation? Are there other technologies that you are counting on or which have significance for you?**

**Jörn Stobbe:**

Short comment on Architrave: Our original intention was not to participate in it, but we saw it as a service provider for our data rooms and our data management. Architrave won the bidding process. Since we were excited with their team and the business idea, and they also found us to be a good match for them, we participated in the firm with a 13 percent share interest, going beyond any dominance. The openness with which we were involved in this topic can be shown by the engagement we recently started together with several big players of the industry, in order to define data standards altogether. There is a lot of potential in that. Short example: when we sell a property to Deka in the future, it will be possible to have all the information stored by Architrave, and we will only have to change the property owner from Union Investment to Deka.

When thinking ahead, with this approach we could also request information from service providers and property agents in a clearly defined way that includes a digital

registration number to avoid confusion.

When the major players participate, then the added value increases together with the willingness of the service providers. We could also put artificial intelligence (which is a very important technology for us) in the systems, to perform an analysis and benchmarking comparison, before the investment managers receive the information:

What are the local market trends? Which properties are the competition? How does the property fit into the internal funds' profiles? Then the investment manager gets an analysis that goes far beyond the exposé from the property agent. We believe in the topic of artificial intelligence and in the increasing importance of blockchain. On these topics, we expect to see fast progress and revolutionary changes.





**Nina Schrader:**

**Where do you see the industry in 10 years, and what do the players have to do, at the individual level or altogether, to rise up as winners?**

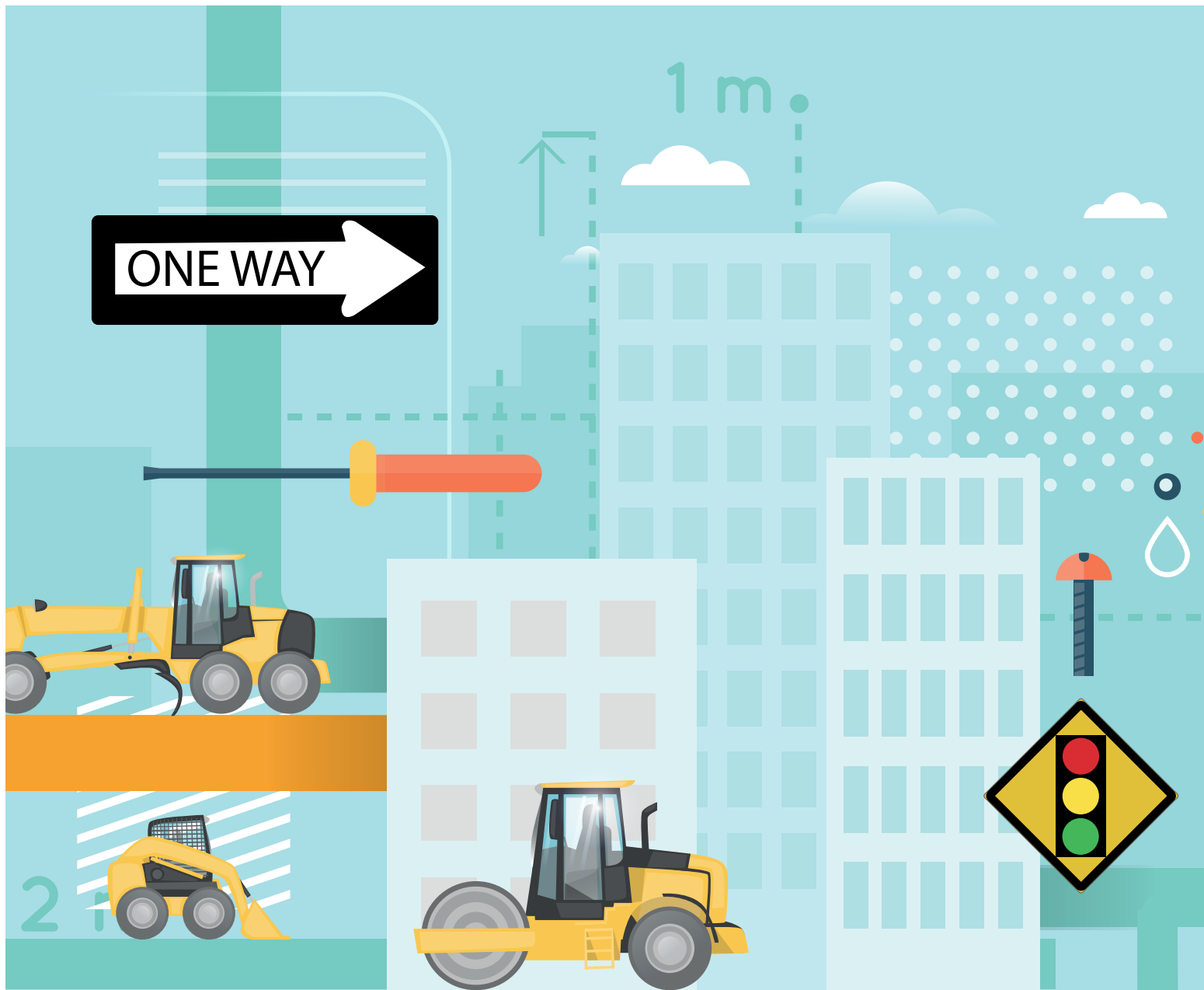
**Jörn Stobbe:**

I am convinced that the Real Estate Industry will look very, very different in 10 years, after looking the same for a long time. There will be significant changes within the next 10 years, maybe even faster. For this reason, you need to consider collaboration from different perspectives instead of focusing on difficulties that the current competitor might cause.

Just a brief glance at the publishing industry: the publishers were busy fighting each other for years and did not notice that others were coming in from the right and left. Nowadays they have already fallen far back in proportion.

I do see rosy days for our industry, but only for those Real Estate Asset and Investment Managers who go along the right path—who are open and agile. Real Estate Assets offer so many opportunities, but you can make many mistakes too. The ones who do not look forward, might disappear.





# 2019 Commercial Real Estate Outlook New rules of the road

**Jim Berry**

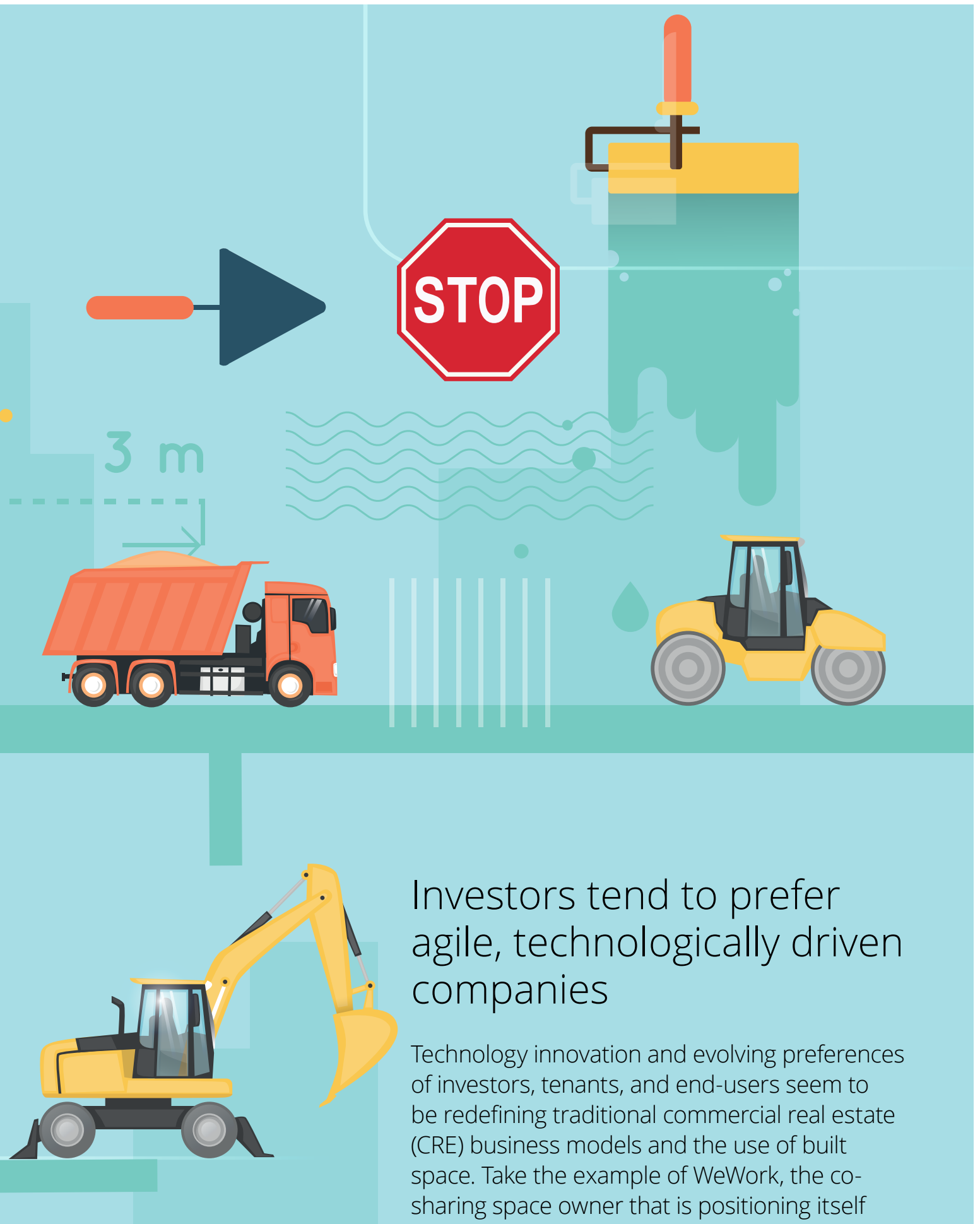
Vice chairman and Partner  
Deloitte US Real Estate leader  
Deloitte & Touche LLP

**Surabhi Kejriwal**

Research Leader, Real Estate  
Deloitte Center for Financial Services  
Deloitte Support Services India Pvt. Ltd.

**Saurabh Mahajan**

Manager, Real Estate  
Deloitte Center for Financial Services  
Deloitte Support Services India Pvt. Ltd.



## Investors tend to prefer agile, technologically driven companies

Technology innovation and evolving preferences of investors, tenants, and end-users seem to be redefining traditional commercial real estate (CRE) business models and the use of built space. Take the example of WeWork, the co-sharing space owner that is positioning itself as a “services” company rather than a property owner-operator. >

Since its inception in 2010, the company has grown from a single space in New York City to 287 physical locations across 77 cities and 23 countries as of August 2018.<sup>1</sup> At US\$20 billion, WeWork is among the highest-valued tech startups, after Uber and Airbnb.<sup>2</sup> The company's growth outstrips that of any traditional CRE company.

What are companies like WeWork doing differently? These change agents are retaining the core ethos of the real estate business—the importance of location—while changing perspectives about how the physical space is consumed. Their value proposition lies in augmenting the user experience through the use of technology. WeWork's goal is to create not just a functional but also a memorable experience through a vibrant ambience, varied open-seating options, amenities, and networking opportunities for the on-the-go millennial and Gen Z workforce.

Change agents like WeWork are repositioning the CRE asset as not just a physical space but a service hub. They are also trying to differentiate themselves with a nimble and flexible business model. Many traditional companies, on the other hand, seem to find it challenging to adapt to the fast-paced change and uncertain environment. It's hard for many to see the appropriate path to transition from property management to augmenting tenant experience.

**Respondents plan to increase their capital commitment to CRE, with the United States, Germany, and Canada leading the way.**

Our 2019 Commercial Real Estate Outlook dives deeper into the preferences of CRE investors to help CRE companies understand the new rules of the road. Our Outlook survey of 500 global investors, which provides insights on factors that are influencing their CRE investment decisions, revealed the following key themes:

1. Respondents plan to increase their **capital commitment** to CRE, with the United States, Germany, and Canada leading the way.
2. **Nontraditional assets such as mixed-use properties** and new business models such as properties with flexible leases and spaces are expected to attract more investment dollars.
3. The surveyed investors expect to **prioritize their investments** in existing and potential investee companies that they believe are responding to business model changes and adopting a variety of technologies to make buildings future-ready.
4. Survey respondents see a significant impact from **technology advancements** on legacy properties in less than three years.

With most investors seemingly committed to investing in newer business models and a tech-enabled ecosystem, how can CRE companies cash in on the gold rush? CRE companies should change how they approach change, remain competitive, and grow.

Let's take a closer look at investor expectations on **CRE capital flows**.

Global CRE investments continue to rise on the back of steady economic and employment growth in key global markets. This is despite concerns about a flattening yield curve, various country tax reform initiatives, and the threat of trade tariffs as well as the yet-to-be-fully-determined

impact of Brexit in Europe.<sup>3</sup> In the first half of 2018, global CRE transaction volume increased 13 percent year over year (YOY) to US\$341 billion.<sup>4</sup> The Americas' volume rose by 9 percent YOY to US\$132 billion, with the United States leading with a volume of US\$122 billion (+11 percent YOY).<sup>5</sup>

The trend is expected to continue, as 97 percent of our survey respondents plan to increase their capital commitment to CRE over the next 18 months (see figure 1). Respondents from the United States plan to increase their capital commitments by 13 percent in this time frame, just ahead of those in Germany (13 percent) and Canada (12 percent). In terms of inbound capital, surveyed respondents said the United States is also the most preferred CRE market globally, followed by Hong Kong and China.

Surveyed executives plan to diversify their portfolios through increased investment in emerging business models and thematic strategies. Over half of them aim to invest or increase investments in properties with flexible leases, and 44 percent plan to do so in flexible spaces. Investors realize that their investments need to connect with the changing nature of work and tenant preferences. As such, the new capital commitment is unlikely to flow entirely into traditional CRE. Survey respondents specializing in mixed-use and nontraditional properties plan to increase their capital commitment by a higher percentage than those focused on traditional properties (see figure 1), especially in data centers and health care (including senior housing) facilities. Nevertheless, investors will likely continue to value traditional properties and longer-term and high-credit-worthy tenants.

1. WeWork website, accessed on August 20, 2018.

2. Steven Bertoni, "WeWork's \$20 Billion Office Party: The Crazy Bet That Could Change How The World Does Business," Forbes, October 2, 2017.

3. Deloitte US Economic Forecast 2nd Quarter 2018.

4. Global Market Perspective, JLL, August 2018.

5. Ibid.



Many traditional companies, on the other hand, seem to find it challenging to adapt to the fast-paced change and uncertain environment. It's hard for many to see the appropriate path to transition from property management to augmenting tenant experience.



Figure 1: The investor pulse: Global capital flows

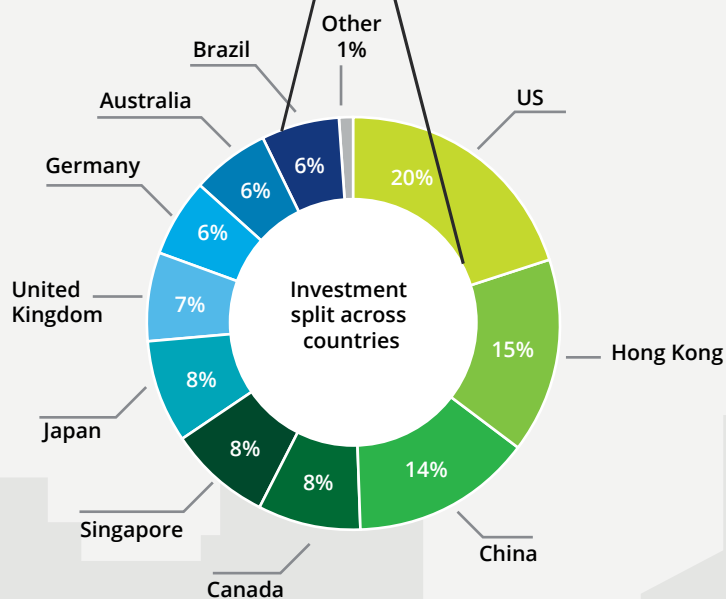
### Investors plan to increase CRE capital commitment in the next 18 months

Top and bottom two respondent types across categories

Property focus	% increase
Mixed-use	14%
Nontraditional	13%
Retail	10%
Hospitality	9%
Geographic focus	
US, Germany	13%
Canada	12%
China, Hong Kong	9%
Japan	8%
Assets under management	
Less than US \$500 million	13%
US \$1.1 billion – US \$5 billion	11%
US \$500 million – US \$1 billion	10%
Above US \$30 billion	10%
Investor category	
REITs or real estate operating companies	14%
Banking or finance companies (asset management divisions)	13%
Private equity, Sovereign wealth funds	10%
Hedge funds, Pension funds	9%

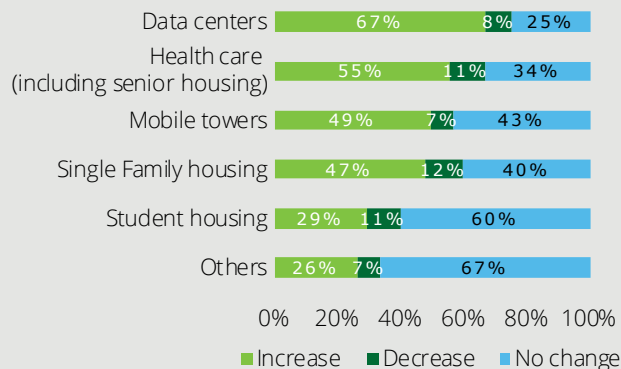
### Globally, US, Hong Kong, and China most favored CRE markets

Investment split across countries



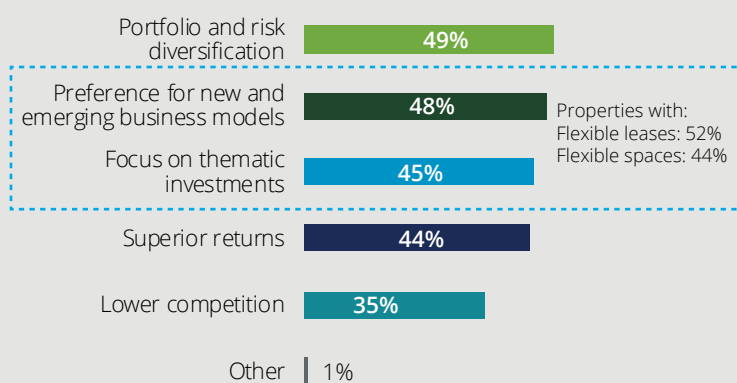
### Most investors prefer data centers and healthcare among nontraditional assets

Percentage of respondents



### Investors interested in newer and emerging business models and thematic investments

Percentage of respondents



## Investors plan to increase investments in mixed-use and nontraditional properties in the next 18 months

### For mixed-use

Top 3 respondent types across categories

Geographic focus	% increase
Canada, Singapore	66%
US, Hong Kong	57%
UK, Germany	55%
Assets under management	
US \$10.1 billion – US \$20 billion	69%
US \$20.1 billion – US \$30 billion	66%
US \$5.1 billion – US \$10 billion	59%
Investor category	
Pension funds	75%
Hedge funds	66%
Sovereign wealth funds	58%

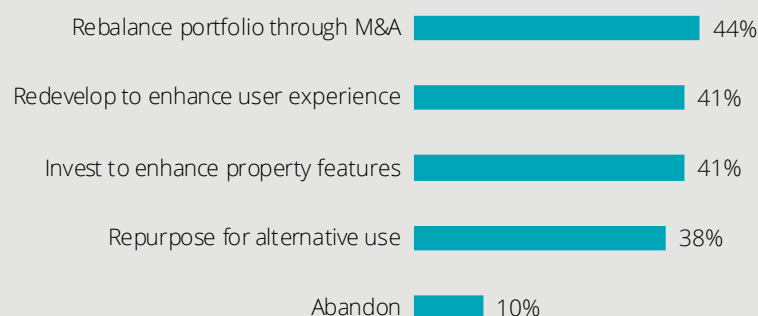
### For nontraditional

Top 3 respondent types across categories

Geographic focus	% increase
Japan	73%
China	70%
Singapore	40%
Assets under management	
US \$10.1 billion – US \$20 billion	50%
US \$20.1 billion – US \$30 billion	44%
US \$5.1 billion – US \$10 billion	41%
Investor category	
Pension funds	48%
Hedge funds	46%
Sovereign wealth funds	40%

## Investors looking to pursue M&A, enhance user experience, and improve property features to generate target returns

Percentage of respondents



Note: The categories highlighted in the graphic tables suggest the following about the survey respondents:

Property focus: Property specialization of investors; Geographic focus: Home country of the investor; Assets under management: Investor size

Source: Deloitte Center for Financial Services Analysis



### What should CRE companies do to be more agile in attracting capital?

To keep up with changing investor preferences, CRE companies should consider rebalancing their property portfolios, focusing on creating memorable tenant experiences and diversifying their investor base to attract higher capital investment.

#### Rebalance property portfolios

Investors' capital commitment plans suggest CRE companies could be at an advantage if they stay close to their core investment strategies and risk alignment, while balancing and diversifying their property portfolios. Even the meaning of "diversification" should be challenged, since properties and portfolios could take different shapes and forms. These could include more flexible, experiential and engaging spaces.

Most traditional property real estate investment trusts (REITs), except industrials and certain classes of nontraditional REITs, are trading at a discount to their net asset values.<sup>7</sup> CRE companies may also be able to take advantage of mergers and acquisitions and joint venture or partnering routes. Companies can use data to revise current market strategies and analyze how expansion into new properties could complement their existing ones. Strategy driven by supporting data can help demonstrate how a single investment could not only present operational synergies but can also evolve the broader portfolio. For instance, retail owners could conduct highest and best-use analysis based on location, surrounding demographics, and other macro factors. The end goal would be to repurpose some of their vacant assets into nontraditional uses such as data centers and senior housing and create new sources of revenue.

#### Increase tenant-centricity

CRE companies should reimagine the tenant experience by weaving technology into their buildings across the entire tenant life cycle. This can help strengthen tenant stickiness and, therefore, valuations. For instance, CRE owners and developers are using mixed reality, which is a combination of augmented (AR) and virtual (VR) reality, to attract tenants. This technology allows potential buyers or tenants to visualize the new property using a 360-degree immersive experience and offer multiple finished site options. This may also expand the reach to potential clients across different geographies. Companies could also leverage technologies such as the Internet of Things (IoT), artificial intelligence (AI), and predictive analytics to (re)develop and tailor existing or new buildings to suit changing tenant preferences and to anticipate tenant needs. This also provides an opportunity for CRE companies to partner with tenants to augment the end-user experience.

Companies should reconsider their existing tenant mix, as physical spaces that offer diverse experiences can also yield higher occupancy and rents. CRE companies should consider using traditional and alternative data, AI, and predictive analytics to reposition tenants for greater portfolio diversity. For example, some retail owners are now offering empty mall space to retail incubators or even co-sharing work spaces, which requires them to target a more diverse tenant pool.<sup>8</sup>

These new arrangements are designed to be beneficial to all stakeholders, even though these new forms of tenants occupy a relatively small portion of the leasable space. Retail incubators get a marketplace to demonstrate their products before they expand their physical presence, and workers using the co-working spaces

get more networking opportunities and more "walkable" options for their eating, shopping, and entertainment needs.<sup>9</sup> Retail owners can benefit by providing a higher-value experience for the entire property due to an attractive tenant mix and increased retention of existing tenants through higher foot traffic.

Companies can also enhance existing lease administration processes to offer short-term leases or a hybrid along with longer-term leases. With increased business uncertainty, traditional tenants are looking at more flexible leases, while the newer form of tenants discussed above thrive on such models.<sup>10</sup> Landlords see a direct benefit to their net operating income as they lease out vacant spaces. Moving from longer-term to short-term leases may require a change in financial forecasting techniques, as it would impact revenue stream predictability.

By revamping the user experience, tenant mix, and lease administration processes, companies can not only reduce tenant risk but also create a differentiated brand.

#### Diversify investor base

Real estate has arrived as a meaningful and strategic long-term play for many investors. REITs can expand and diversify their investor pool because of this increased investor interest. They can take advantage of the separate Global Industry Classification Standard (GICS) of real estate and help generalist investors to better understand the nuances of REIT operations, performance, and valuation. Companies can frame a targeted expansion strategy for generalist investors such as pension, endowment, and foundation funds, which have traditionally under-allocated to REITs but are warming up to REIT investments.<sup>11</sup>

6. S&P Global Market Intelligence, May 31, 2018.

7. Rob Smith, "Mall Operators Turning to Retail Incubators to Fill Empty Space," Costar, August 8, 2018.

8. Daphne Howland, "Coworking spaces may be the answer to retailers' foot traffic problem," Retail Dive, August 13, 2018.

9. "Leases are ending sooner as landlords innovate," ICSC.

10. Allen Kenny, "Maximizing REIT Returns: Research says pension funds are leaving returns on the table by under-allocating to REITs," Nareit, March 14, 2018.



For instance, pension fund respondents to the Deloitte survey plan to increase CRE capital commitment by 9 percent on average in the next 18 months (see figure 1), and a significant portion of this could be directed toward REITs. Smaller REITs (market capitalization of less than US\$1 billion) in particular can gain exposure to more institutional investors, benefiting from investors' plans to expand beyond core markets in search of yield.<sup>12</sup> CREs can also use data insights to diversify geographically by targeting investors from different countries. Survey respondents from Canada (55 percent) are interested more in the Northeast region of the United States, while Chinese respondents (40 percent) focus on the Sunbelt.

The bottom line is that most investors expect CRE companies to reassess property and tenant mix to attract more capital. They also have distinct preferences about the use of technology, cyber risk management, employee experience, and the role of proptechs, which generally influence their CRE investment decisions. Read our '2019 Commercial Real Estate Outlook: Agility is key to winning in the digital era' to gain in-depth insights into investor preferences in each of these areas over the next 18 months.

Companies can use data to revise current market strategies and analyze how expansion into new properties could complement their existing ones.

We recommend reflecting on a few questions that can help you evaluate your agility to navigate these forces of change:

- Do you position your real estate as a service? Is there additional value to capture by prioritizing tenant expectations and experience while selecting, designing, and leasing a location?
- How are you realigning business and talent engagement processes in light of increased technology usage, newer risks such as cyber-attacks, and the advent of proptechs?
- Are you innovating continuously, breaking down silos, and enabling cross-functional collaboration?
- Are you running pilots of new products and services with a "fail early, fail fast, learn faster" approach?
- Are you proactive or reactive to change?

CRE companies should consider using traditional and alternative data, AI, and predictive analytics to reposition tenants for greater portfolio diversity.



11. Sarah Borchersen-Keto, "Green Street Says Smaller REITs Can Take Steps to Attract Institutional Investors," Nareit, January 12, 2018.

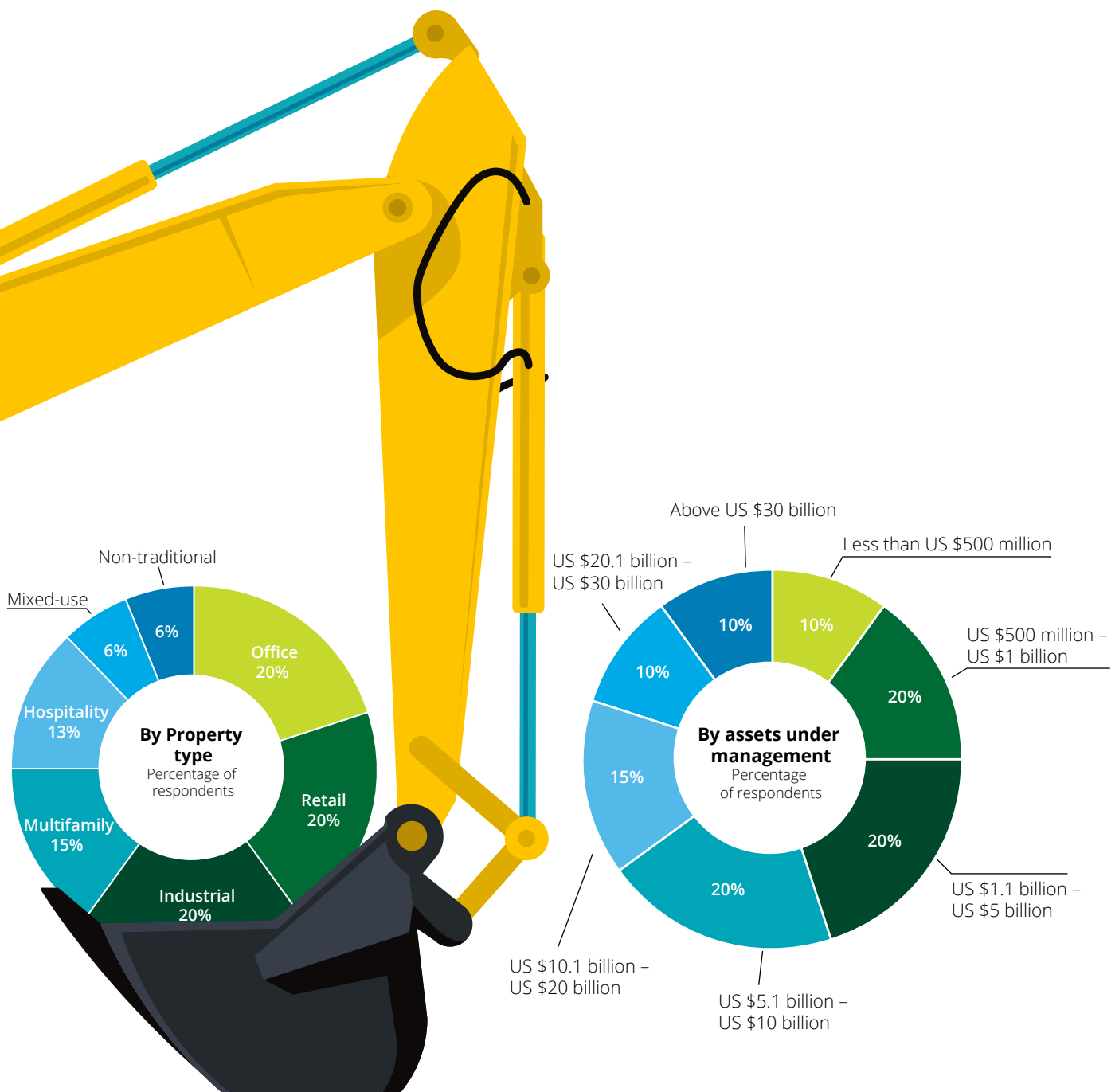
### Survey methodology

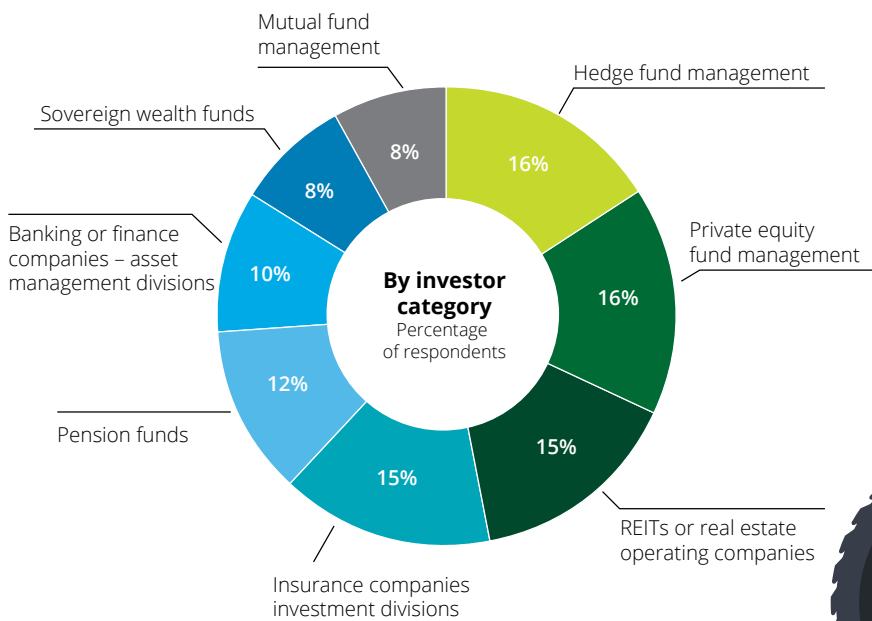
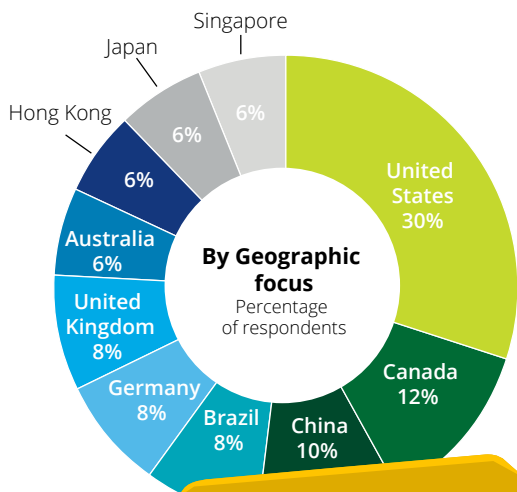
Our survey elicited responses from C-suite executives of 500 real estate institutional investors globally. The survey was conducted in July 2018 and covered investors from 10 countries across the Americas, Europe, and Asia Pacific with assets under management (AUM) ranging from less than US\$500 million to more than US\$30 billion. The investors surveyed include private equity firms, hedge funds, mutual funds, asset management arms of banks and insurance companies, SWFs and

pension funds, and REITs. The survey also included a fair representation of investors focused on a variety of traditional and nontraditional properties.

The respondents were asked questions around themes such as capital flows, influence of technology, cyber risk management, evolution of talent and culture, and the role of proptechs, to understand the factors that are driving their CRE investment decisions.

Our survey elicited responses from C-suite executives of 500 real estate institutional investors globally.





# Spotlight on China's Property Market

## Richard Ho

Partner  
Real Estate Sector Leader  
Deloitte China

### Greater Bay Area development and its impacts on foreign inbound investments

China is the biggest internal market in the world with 1.4 billion people and a real estate industry that has been a significant pillar of the national economy in China. It maintained a relatively rapid growth of approximately 10 percent per annum in the past decade. The construction sector also recorded a high growth rate with fifteen percent, five percent and eight percent in 2016, 2017, and Q1 2018, respectively. The real estate and construction sector has become an important market, attracting foreign investors from across the globe to China.

### The Greater Bay Area expects to be the largest economy among global bay areas by 2020

The development of the "Greater Bay Area" refers to the Chinese government's scheme to link cities in the Pearl River Delta into an integrated economic and business hub. The Greater Bay Area project may provide opportunities for investors on large-scale infrastructure and will create investment opportunities in real estate. The Greater Bay Area in southern China comprises two special administrative regions and nine mainland cities, namely Hong Kong, Macao, and the nine municipalities of Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen, and Zhaoqing in the Guangdong Province. ➤







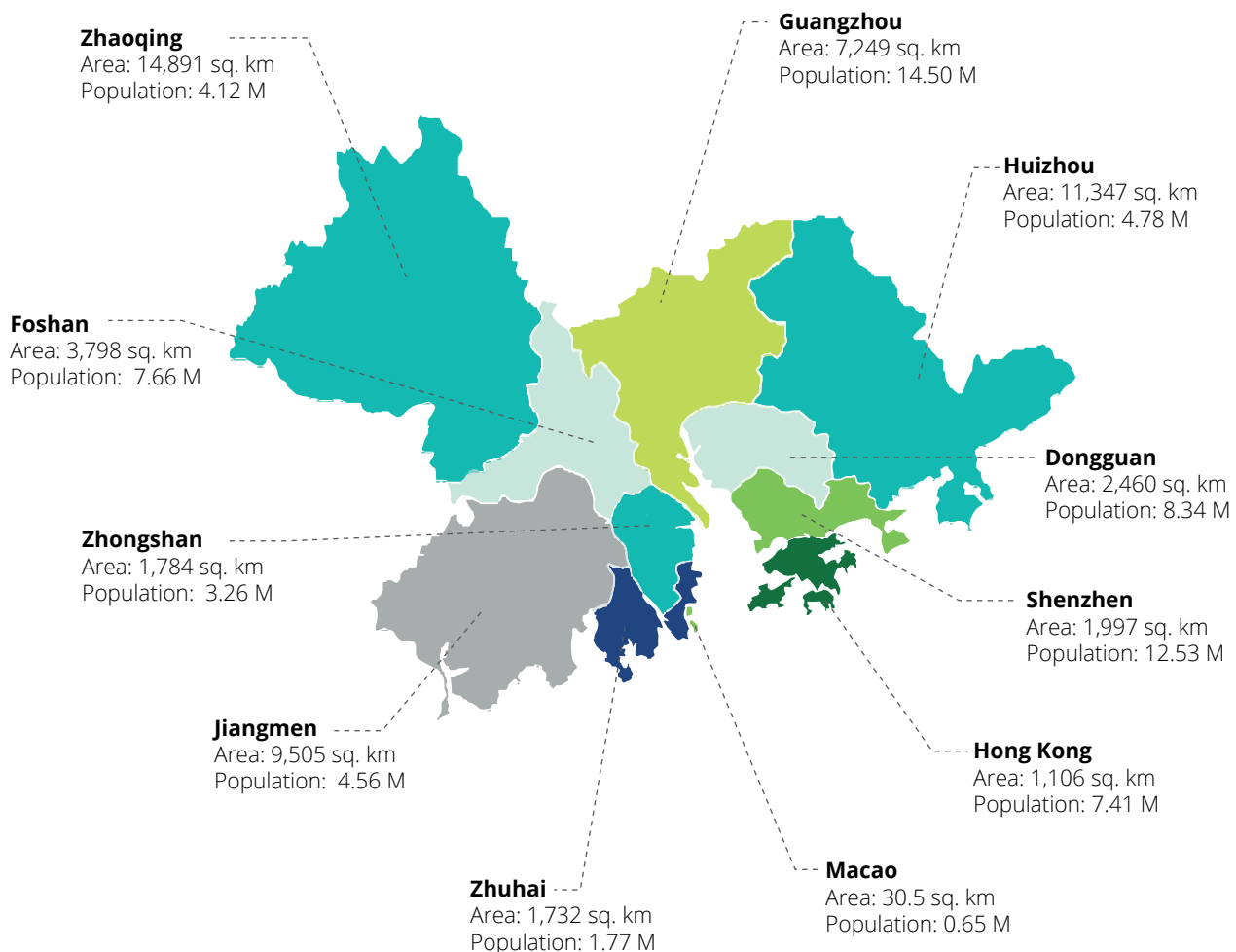
The Greater Bay Area has an estimated population of 70 million, covering an area of 56,000 square kilometers and had a combined GDP of US\$1.58 trillion in 2017. It is considered key to the strategic planning of the country's development blueprint in building a dynamic and internationally competitive bay area and world-class city cluster. The development of the Greater Bay Area will induce a significant increase in investment demand. With the population inflow into these cities, it is believed that there will be a surge of high quality living

environments, with high demand for industrial and commercial properties as well as shopping malls. Additionally, the opening of the Hong Kong–Zhuhai–Macao Bridge by the end of 2018 will further improve the communication within the Greater Bay Area.

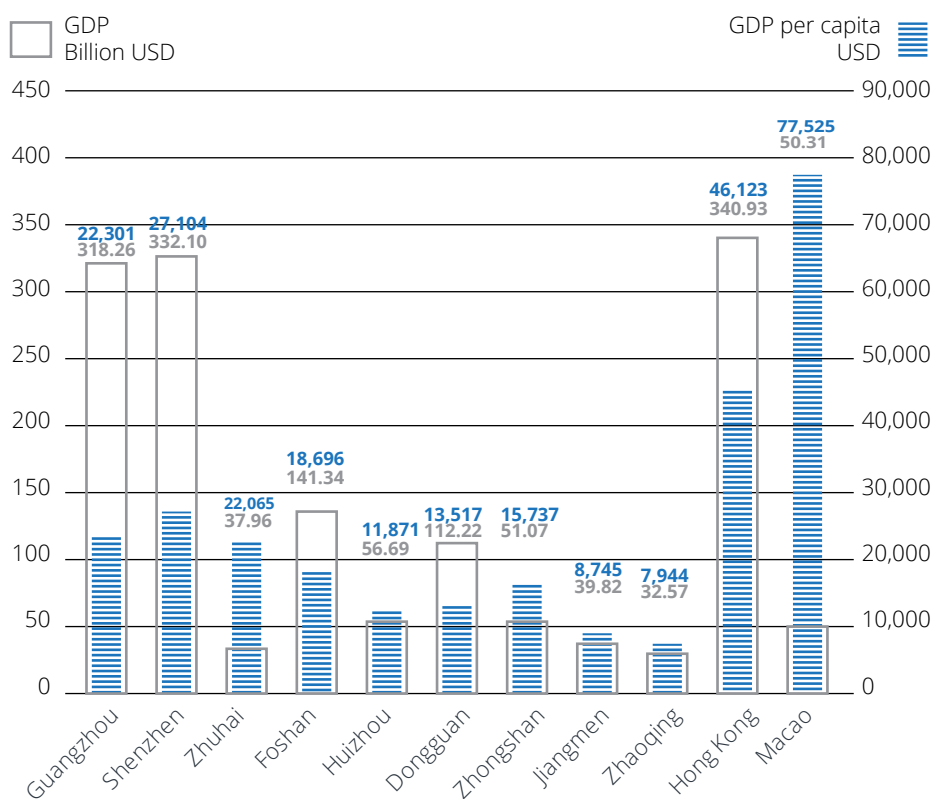
The area is expected to be the largest economy among global bay areas, including Tokyo, New York, and San Francisco, by 2020.

The real estate and construction sector has become an important market, attracting foreign investors from across the globe to China.

### Greater Bay Area cities comparison



### Gross Domestic Product and per-capita Gross Domestic Product by cities in the Guangdong-Hong Kong-Macao Greater Bay Area (2017)



Sources of data: Statistics Bureau of Guangdong Province, Census and Statistics Department of the Government of Hong Kong SAR, and Statistics and Census Service of Macao SAR



#### China's extraordinary economic boom has gone hand-in-hand with urbanization

Urbanization is driving economic development in China. The Chinese central government has attached great importance to the urbanization plan in order to speed up the urbanization process. The percentage of the population living in urban areas was 56.1 percent in April of this year, with a target rate of 60 percent by 2020. There is no doubt that transforming rural residents into urban residents will have a huge impact on the economic well-being for the entire country. To help alleviate the housing needs of residents, municipal governments have allocated underutilized industrial land suitable for habitation for affordable housing. The scale of China's urbanization promises substantial new markets and investment opportunities. This will create opportunities for those cities' properties such as residential buildings, industrial parks, and commercial facilities. If current trends hold, China's urban population will hit the one billion mark by 2030.

#### Widely using the Public-Private Partnership business model

The Chinese central government opened the door to private sector investment in infrastructure several years ago. The government has shown a positive attitude toward encouraging and supporting private investors to participate in infrastructure construction projects, offering large investment opportunities for Public-Private Partnership (PPP) in China. The introduction of institutional PPP is a joint venture established together by a public authority and a private company to raise funds and provide a public service, as well as to construct and operate infrastructure projects. In 2017, there were a total of 14,000 PPP projects and investments, possessing an overall value equal to US\$2,300 billion. These infrastructure projects include toll highways, bridges, elderly care housing, hospitals, and schools. Under PPP development mode, the construction market has undergone rapid growth in the past few years.

#### Lifting the one-child policy restriction enhances the residential real estate market demand

China's population now stands at over 1.4 billion people. In a recent announcement made by the Standing Committee of China's National People's Congress, China is planning to eliminate its child limitation mandate for families, which has been in place for four decades. China enacted a one-child policy in 1979 but relaxed it to two children in 2016. Under the new policy, families would be able to decide for themselves how many children to have. This is good news for both the families and the labor market. A final decision could come in the next few months or in the run-up to 2019. It is expected that the population will grow significantly as a result of the new policy, and with a higher population, it is likely to increase the demand on residential properties.



## Chinese house prices to rise faster in 2018

Home prices and property investment in China are expected to rise more than initially thought this year, as tight controls in big cities continue to push buyers into less-regulated smaller markets. House prices in China, where a near-three-year real estate boom has spilled over from megacities to the hinterland, will rise 5 percent this year and 3.3 percent in the first half of 2019. That outpaces the one percent gain seen in a previous poll in March and would only be marginally lower than the actual increase of 5.4 percent in 2017. Property investment is now expected to grow 8 percent this year, higher than the last poll's 5 percent, as developers look to rebuild their housing inventories and as the construction of public housing accelerates.

## How do firms enter into China's property and infrastructure projects?

The "opening up" policy of China's foreign direct investment attracted foreign investors to invest property-related business in major cities of China. The most popular Tier I cities include Beijing, Shanghai, Guangzhou and Shenzhen. Beijing is the capital of the country and Shanghai holds the largest city population in China, as well as being a commercial and financial center and transportation hub. Guangzhou is the capital city of the Guangdong province and Shenzhen is China's first Special Economic Zone and is a famous IT center in the region. Property price and the investment volume of Tier I cities were sharply increased in the past decade. Investors are now looking for certain hotspot cities under the Tier II cities group, which are Chengdu (in Western China), Xiamen (in Southern China), and Dalian (in Northern China); the land cost is relatively low when compared with Tier I cities and thus will generate higher profitability for development.

It is legally required to incorporate a Chinese company to hold the property and the holding company's shareholders may be a foreign company. It would be better to form a JV partnership with a local firm when you consider an inbound investment

into the country. Currently, most foreign investors are real estate developers and real estate investment funds. Since 2017, China's property market is entering into a new round of adjustments and the government strengthens supervision to ensure sound development of the industry. The relaxation of foreign direct investment aimed to provide a more relaxed policy environment for the real estate industry. This will benefit the high-end property market in the first and second tier cities—the main targets for foreign investors.

## Barriers for foreign investors—tax consideration

Looking back from the year 2006, the Chinese central government was reluctant to open the market to foreign investors, and thus certain "restrictions of foreign investors into China" were introduced. It required that all funds raised in China or overseas must be used as the registered capital of the property holding company incorporated in China, so the fund was entirely blocked. However, the new Chinese Premier revoked this policy in 2015 and there is in fact no barrier for doing business in China for now. Good examples of big name investors are BlackRock and AIA; both companies have substantial funding investments and insurance business in China.

China welcomes foreign direct investment by continually opening up its market toward foreign investors. However, the differences in tax systems may hinder some potential investors' enthusiasm. Subject to Chinese tax laws, Enterprise Income Tax is payable at 25 percent the net taxable income. For the disposal of properties, the holding company has to pay Enterprise Income Tax and Land Appreciation Tax (LAT) too, which is calculated as:

As said, the property holding company's shareholder can be a foreign company. If profit or a management fee is paid to the shareholder, then 10 percent withholding tax is payable by this property holding company to the Chinese tax authority, only if there is a tax treaty entered into between China and the country in which the shareholder is incorporated.

Given that Hong Kong is a special administrative region of China, Hong Kong companies are allowed to have a withholding tax rate of only five percent. Dividends are not subject to Hong Kong Profits Tax and are taxable only when applied to business activities taken place in Hong Kong. In view of this, most of the immediate holding companies of property holding companies are incorporated in Hong Kong.

China's real estate market plays an important role in the local government's revenue and accounts for about 15 percent of the country's GDP. Any slowing down in the real estate market and price drops would have a negative impact on China's economic growth. In view of this, the Chinese central government has switched between tightening and easing measures in different cities to control the price of the properties in the hope to normalize the market demand and avoid a hard landing of its real estate market.

China's first Special Economic Zone and is a famous IT center in the region.

Selling price as a percent of the tax deductible amount	LAT rate
<50%	30%
Between 50% and 100%	40%
Between 100% and 200%	50%
>200%	60%









# Independent Non-Executive Directors in real estate

## Current state and future outlook



**Timothy Fenwick**

Independent Director, Real Estate,  
Luxembourg

**Timothy Fenwick acts as advisor and Independent Executive Director for a number of real estate investment vehicles in Luxembourg.**

**Before moving to his current role, he has been working for Jones Lang in various European countries and, among others, set up their Russia and CIS operations.**

Most European stock markets now require company boards to include Independent Non-Executive Directors (INED), and in some cases, the Directors must comprise a majority of the board.

**T**he position for fund structures is much less clear. In Luxembourg, where so many funds are based, real estate structures are not subject to these requirements. Nonetheless, CSSF, the regulator, is definitely encouraging the appointment of non-executives in Luxembourg, and their appointment is considered to be best practice, so their occurrence is becoming increasingly widespread, but, as yet, by no means universal. This seems to be the case in most other European jurisdictions.

Much has been written about the role of independent directors and their responsibilities. The specifics of property are such that the role of independent directors in real estate structures needs to be explored in more detail.

If companies are being encouraged to have a majority of INEDs on their boards, in the case of real estate fund structures it is very unusual for there to be more than one INED in a structure. This puts a particular responsibility, even strain, upon the INED who in some ways must become a 'Jack of all trades'. If problems should arise, the INED may feel rather lonely and exposed, which is why experience, a robust character, and a certain level of maturity are necessary attributes.

To be successful it is essential for the INED to get to know the organization and the people involved, directly and indirectly, in running it. This should be the basis on which to establish the mutual trust indispensable for the INED to be effective. Although rarely seen in practice in the fund world, proper induction procedures should be a very important step in achieving this.





## Risk monitoring should be a major preoccupation for the directors.

Luxembourg real estate funds have over €50 billion under management. Taking into account underlying SPVs and other structures, there are several tens of thousands real estate rich corporates domiciled in Luxembourg. The Luxembourg 'tool box' contains a veritable cocktail of different corporate animals to cover a wide variety of investment requirements. It is not always appropriate to nominate independent directors. Investors are increasingly expecting them to be in place when they are not directly managing the investment process.

Because the role of the INED in most structures is not defined by any binding legal requirements, job descriptions – if they exist – and expectations vary widely. This can sometimes lead to misunderstandings, or worse. It is therefore essential that these expectations should be clearly defined and agreed at the time of appointment.

It sometimes seems that the main criterion for selection is residency to ensure a majority of "local" directors. While it is important to be able to demonstrate that board decisions are indeed taken in the place of incorporation, the INEDs role goes well beyond this.

Of course, the INED role is specifically one of supervision rather than of execution, but that will involve many different aspects of the investment process. Effective monitoring requires a basis of trust between the parties to ensure open and transparent communication, without which the INED's job is almost impossible.

Efficient boards require timely information. Agendas and board packs need to be distributed in good time to allow for adequate preparation. Only a properly prepared board member can, when appropriate, ask the questions needed to challenge executives' positions.

Most real estate investment structures will not require the committees usually appropriate for quoted companies, such as Remuneration and Nomination committees, and the full board will assume the role of the Audit Committee.

Risk monitoring should be a major preoccupation for the directors. Market and currency risks are common to all investments, and due consideration to AML has become increasingly important.

In considering the suitability of investments for a given fund, apart from the basic criteria laid out in the prospectus, other short and longer terms factors need to be taken into account. This will increasingly include all aspects of ESG characteristics of prospective investment.

Property has a number of more specific areas of risk that require the board's attention. Some of these are more general such as country or market risk. Some are more specific to individual assets such as tenant risk, technical or structural problems, or clarity of title. Financing risks including LTV and interest rate changes leading to problems of debt service provision are of particular concern.

Open-ended fund structures have their own very specific risks.

For smaller structures, it may be necessary to follow quite closely the governance of the structure, including reporting both to investors and to the regulator, property valuations, NAV calculations, and distributions. One particular problem that may arise in Luxembourg is the need for a variety of service providers to be properly coordinated. Small service providers may not always have the necessary skills in-house, whereas larger organizations may not give the right level of attention to smaller “one off” structures.

When the sponsor is a large well-established group with a significant presence on the ground in Luxembourg, basic accounting, reporting, AML functions, etc., should be well covered and the INED will focus on acquisitions and operational aspects. This means ensuring not only that proper due diligence has been carried out and that prospective purchases correspond to the fund's aims as set out in the prospectus, but also that the bases for the pre-acquisition valuations are robust, and that diversified funds should hold sufficiently diverse assets in different locations, to achieve this. Sometimes investment managers can be influenced by the fads and fashions of the investment world. These may be based on genuine economic, technical, demographic or geopolitical trends, which should always be taken into account. Occasionally the justification is only because everyone else is piling into a particular asset class, or location. Then it may well be too late to capture the added value that is forecast.

Previous experience in property is a definite plus for an INED in real estate structures. This first-hand experience may be in investment, development or leasing, as well as investment management or property management.

Many funds hold assets across all the regions of the world so it is impossible to have had this experience in all possible jurisdictions. It will be possible to draw valuable general conclusions having experienced even two or three different markets.

Unless a fund is limited to a single market, it is important that the INED can appreciate how different countries may have very different dynamics and characteristics from his home market. Extrapolation from a narrow base is always a danger.

INSEAD and the Institute of Directors provide excellent groundwork to prepare prospective INEDs for the challenges of their position.

Some jurisdictions suffer from a lack of facilities aimed at maintaining INEDs as fit for their task. Luxembourg is lucky that with ILA and ALFI, directors can benefit from a variety of courses and other events to keep them abreast of the developments in best practice. They also provide an invaluable forum for INEDs to meet and exchange views.

As yet, there is no specific organization for real estate focused INEDs. With growth in the number of larger real estate funds, and the expectation of many investors, this would justify a specific organization for real estate INEDs. ●







# Disruption in the corporate real estate market

**Leveraging the co-working industry to  
rethink corporate real estate strategy**

**Preeti Upadhyia**

Senior Manager  
Deloitte US

**Courtney Johnson**

Senior Consultant  
Deloitte US

**Cleo Cheng**

Consultant  
Deloitte US



### Tech disruption has pushed Corporate Real Estate onto the strategic agenda

Corporate Real Estate (CRE) spend accounts for 12 - 15 percent of an organization's general and administrative expenses and 40 percent of their balance sheet overall. It costs an organization in the US roughly US\$12,000 per year to provision a seat in an office<sup>1</sup> (US\$25,000 per seat in cities like New York), yet office space utilization hovers around 40 percent<sup>2</sup>. Considering the percentage of an organization's expenses that are made up of real estate transactions (second only to compensation), CFOs and CRE executives are seeking solutions to optimize portfolios, increase utilization and lower costs.

One cost reduction solution is digital workplace transformation as a strategic accelerator. Technologies such as occupancy-based sensors and utilization analytics provide executives with insights they've never had access to before.

Another solution to the Corporate Real Estate function's cost optimization objective is employing co-working space. This article explores the benefits and implications that the quickly evolving co-working industry segment presents for Corporate Real Estate decision-makers. ➔

1. Digging Deeper: What Coworking Tells Us About The Future of Commercial Real Estate, Huffington Post, May 2016.  
 2. Bracing for the flexible space revolution, JLL, 2017.

### The steadily growing co-working industry offers stability and flexibility for traditional CRE portfolios

In cities like London, New York, and Chicago, the co-working sector has expanded at an annual rate of 20 percent<sup>3</sup>. In the past five years, shared workspaces have exploded globally, growing by more than 200 percent (with a projected 16 percent annual growth rate<sup>4</sup>).

While the co-working model was initially targeted at startups and freelancers to facilitate the “gig economy,” it has evolved into an attractive option for large enterprise clients looking for a flexible, lower cost option. At WeWork, for example, the percentage of enterprise clients has grown from 8 to 30 percent in the past two years and is expected to exceed 50 percent by 2020<sup>5</sup>. Enterprise customers include not only notable technology companies like Microsoft, Facebook, and Airbnb, but also more traditional corporations such as IBM, UBS, and Verizon that have been historically wary about security infrastructure in non-corporate locations. Enterprise use cases include anything from swing space and satellite offices to innovation centers and regional headquarters, each chosen for different reasons but with shared benefits:

#### 1. Cost reduction through enhanced space utilization

The immediate benefit of leveraging co-working space is cost reduction. Corporations can achieve considerable savings on upfront construction costs by opting for co-working spaces instead of signing a new long-term lease. Co-working membership terms also allow more flexibility than traditional office building or commercial leases. Co-working space saves organizations 25 to 50 percent in operating expenses, while also lowering the square footage required per person from the industry average of 250 sq feet to just 50 sq feet<sup>7</sup>. Utilizing co-working spaces also allows organizations to delegate tracking of space related metrics (i.e. utilization, efficiency) to the co-working space provider, reducing the size of the CRE function within the organization.

#### 2. Digitally enabled workspaces that enable new insights

Utilization metrics that co-working spaces provide allow organizations to tap into powerful usage and efficiency insights. These data-driven takeaways empower executives to make better-informed decisions on real estate investment and improve their space more effectively.

#### 3. Attractive work environment that adapts to changing employee workstyle

For employees, co-working spaces with modern design, rich community culture, and access to the latest disruptive systems and tools are significantly more attractive than a standard cubicle. Co-working spaces offer employees the opportunity to network and collaborate with people outside of the member's immediate organization, elevating employee happiness, wellness, and productivity. Happier employees translates to stronger retention and better recruiting outcomes.

#### 4. Consistency across all global operations

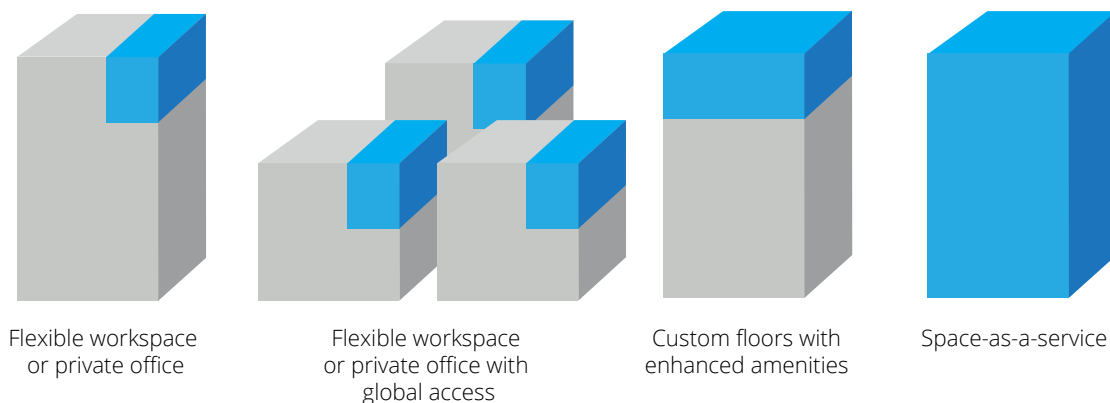
Building a global presence is increasingly critical to an organization's strategy. Utilizing a globally-operated co-working space allows organizations to create a consistent workspace culture and experience across regions. It also allows companies to stand up operations in new markets quickly to accommodate global demand. To date, 22 percent of global Fortune 500 corporations are customers of co-working providers. Nearly 60 percent of global companies believe that by 2020, they will use co-working space for at least part of their office portfolio<sup>8</sup>.

#### 5. Flexible solutions for different strategic goals

There are various adaptations of the co-working model that corporations can leverage (as illustrated in Figure A). An occupancy survey by the commercial brokerage firm CBRE suggests that nearly half (44 percent) of corporations are already using some type of hybrid or flexible office solution<sup>9</sup>. Corporations should select strategically based on short-term and long-term vision for the CRE portfolio footprint. A company that focuses on entering new markets will benefit from co-working private offices with global access, while an established corporation that is looking for a regional headquarters can select the space-as-a-service model to outsource building operations and facilities management.



**Figure A: An array of co-working solutions are available for corporations**



### What is next for co-working?

Over the next decade, as the co-working industry continues to experience significant global growth, so will the number of corporations utilizing the co-working model. As workforce preference shifts away from brick-and-mortar offices and employees embrace a flexible and mobile workstyle, it is critical that corporations consider adding co-working space - in any form - to their CRE portfolio. As fast as enterprises adopt co-working models, these models themselves will evolve and change. Co-working spaces will morph into co-living spaces, combining work, life, wellness, and even education. Space-as-a-service will convert public libraries, restaurants and concert halls into conference rooms and business event

centers. The ability to lease real estate “On Demand” will allow consumer-preference driven corporations to quickly move to or away from the exact geography where demand is ebbing and flowing. Usage analytics based on blockchain will underpin this entire system, creating exponential data and predictive opportunities. Amidst all of this change is the basic idea that co-working brings people together to brainstorm side-by-side in a common location. This fundamental concept will lend itself to potentially the most lucrative opportunity of all: skunkworks-style collaboration between startups, political groups, corporate innovation arms, and academics.

3. 03 Co-working Is the New Normal and These Stats Prove It, AllWork, March 2018.
4. 04 2018 global coworking forecast, gucu.co, December 2017.
5. 05 WeWork’s internal material on Enterprise Solution, 2018.
6. 06 How WeWork Has Perfectly Captured the Millennial Id, The Atlantic, March 2018.
7. 07 WeWork Teardown, CBInsights.
8. 08 The New Corporate Obsession With Co-working, DisruptCRE, 2018.
9. 09 The New Corporate Obsession With Co-working, DisruptCRE, 2018.

# Major changes on the way in the UK

As the UK moves, not smoothly, not inexorably, but tangibly toward Brexit, there is another major change on the horizon for real estate investment in the UK which is due to take effect just eight days after the planned exit date.

## David Brown

EMEA Real Estate  
Funds Co-Leader

## Adam Jobson

UK Real Estate  
Tax Partner

### NRCGT regime

In the UK Budget of November 2017, the Chancellor announced the government's intention to extend the scope of UK capital gains tax to include direct and indirect disposals by non-UK residents of all UK immovable property (i.e. land and buildings), with effect from April 2019. On 6 July 2018, the government published initial draft legislation and a consultation response document in relation to this proposed extension of non-resident capital gains tax ('NRCGT') to all UK property.

The draft legislation contains the core provisions as laid out in the original consultation document, but with some changes following the initial consultation process.

The core principles are relatively easy to explain – a 'direct' charge will apply to all non-residents selling UK real estate directly on any date after 5 April 2019 but historic gains should be effectively left untaxed as

there will be an (optional) rebasing for tax purposes as at that date. Bear in mind that gains on UK residential property, which have been taxable in the UK for several years, will be aligned to the new regime, but not benefit from rebasing.

An 'indirect' charge will apply to the sale of substantial interests in an entity where the underlying value consists, as to 75 percent by market value at the date of disposal, of UK real estate (so-called 'UK property rich' entities). As for the direct charge there will be a rebasing at 5 April. Substantial interests will be those of 25 percent or more of the voting power, including interests held by connected parties, subject to exclusions where the interest held has been substantial for a short period only. There is also a carve-out from the new tax charge where the indirect interest is in a group that holds UK real estate as part of a trade, which is likely to include businesses such as retailers and hotel operators.

### Impact on funds

One key area where there have been substantive discussions with HMRC during the consultation – which are on-going – is in relation to the treatment of funds, and particular in relation to otherwise tax-exempt investors who invest via fund vehicles.

The UK offers exemptions from capital gains tax for overseas pension schemes, sovereign investors and certain other institutions and public bodies. Many of these investors hold UK real estate in collective vehicles or joint ventures, formed offshore in fund domiciles such as Luxembourg and the Channel Islands, where the funds themselves would therefore now find disposals taxable if the rules apply strictly to vehicles regardless of their owners.

There is no draft legislation for funds at this stage. However, HMRC have given some indication of the current direction of







travel in the response document, which is intended to act as a framework for taking the dialogue further.

Deloitte have been party to a number of discussions with HMRC over recent months on the proposals, both directly and via industry bodies. Those discussions are continuing and, based on HMRC's approach to date, it is likely that qualifying funds will be offered the option of electing to be treated as transparent for the purposes of capital gains, or to have the fund be exempt at the cost of all transactions in fund interests, or distributions made out of realized gains, being subject to NRCGT.

#### **Next steps**

This is likely to represent a wholesale change in arrangements for funds and fund managers. Investors should brace themselves to have to start filing tax returns in the UK where none have been required to date. These will be necessary to give HMRC more information about their

own status, including the basis on which exemption is sought, in order to escape a charge to NRCGT on their share of the gain made by a fund on disposal of UK real estate in either regime. Many investors have sought to avoid the inconvenience of local tax filings to date – and feeder or blocker arrangements have been used to this end – but the likelihood is that tax reporting will become more attractive if it is required to secure the benefit of an exemption.

Over time, our suspicion is that we will see simpler fund structures, with fewer feeder entities, where tracing income and gains through to investors for tax purposes does not have to be filtered through the complexity of a multi-tiered fund group. Managers will need to have systems in place to allow investors to meet their filing obligations and financial and tax reporting will need to be significantly closer than it is at present. Existing funds have work to do in order to determine the best route forward.

As the next UK Budget date has recently been set at 29 October, we shall get to see the proposals soon. The effort of determining the impact on fund structures, deciding whether to pursue one of the specific regimes, and putting in place the necessary reporting processes will have to follow very swiftly afterward.

The draft legislation contains the core provisions as laid out in the original consultation document, but with some changes following the initial consultation process.

# Recent thought leadership

Interested in further reading on real estate? Take a look at Deloitte's recent thought leadership.



## **Data is the new gold** – The future of real estate service providers

Real estate service providers can lead the way by working with clients to develop and implement effective strategies around embracing technology, digitalizing buildings and infrastructure, and analyzing user behavior to meet the demands of the future.

Read this report to learn how real estate service providers can realign their business models and services to be successful in the marketplace.

<https://www2.deloitte.com/global/en/pages/real-estate/articles/future-real-estate-data-new-gold.html>



## **Middle East Real Estate Predictions**

Deloitte's fourth Middle East Real Estate Predictions 2018 report examines key industry trends in Dubai's 2017 real estate market, covering the hospitality, residential, retail, office and industrial segments.

<https://www2.deloitte.com/xe/en/pages/real-estate/articles/middle-east-real-estate-predictions.html>





### World Economic Forum – Deloitte Global report

World Economic Forum and Deloitte Global's latest report, *The New Physics of Financial Services: Understanding how artificial intelligence is transforming the financial ecosystem*, studies the strategic, operational, regulatory, and societal implications of AI on the financial services industry to elucidate previously sensationalized debates and help the industry look forward. The report finds that artificial intelligence is changing the physics of financial services, weakening the bonds that have held together the component parts of incumbent financial institutions and opening the door to entirely new operating models.

[https://www2.deloitte.com/global/en/pages/financial-services/articles/artificial-intelligence-transforming-financial-ecosystem-deloitte-fsi.html?id=gx:2em:3int:4WEF\\_AI082018:5awa:6fsi:20180816](https://www2.deloitte.com/global/en/pages/financial-services/articles/artificial-intelligence-transforming-financial-ecosystem-deloitte-fsi.html?id=gx:2em:3int:4WEF_AI082018:5awa:6fsi:20180816)

# Contacts

## Austria



**Alexander Hohendanner**  
Partner  
+431 537 002 700  
ahohendanner@deloitte.at

## Belgium



**Frédéric Sohet**  
Partner  
+32 2 639 49 51  
fsohet@deloitte.com

## Central Europe



**Maciej Krasoń**  
Partner  
+48 601 383 010  
mkrason@deloittece.com



**Miroslav Linhart**  
Partner  
+420 246 042 598  
mlinhart@deloittece.com

## Denmark



**Tinus Bang Christensen**  
Partner  
+45 30 93 44 63  
tbchristensen@deloitte.dk



**Lars Kronow**  
Partner  
+45 22 20 27 86  
lkronow@deloitte.dk

## Finland



**Jan Söderholm**  
Partner  
+358 20 755 5509  
jan.soderholm@deloitte.fi

## France



**Laure Silvestre-Siaz**  
Partner  
+33 1 55 61 21 71  
lsilvestresiaz@deloitte.fr



**Jean Csuka**  
Partner  
+33 1 58 37 95 13  
jcsuka@deloitte.fr



**Sylvain Giraud**  
Partner  
+33 1 40 88 25 15  
sgiraud@deloitte.fr

## Germany



**Michael Müller**  
Partner  
+49 892 903 684 28  
mmueller@deloitte.de



**Jörg von Ditfurth**  
Partner  
+49 211 877 241 60  
jvonditfurth@deloitte.de



**Christof Stadter**  
Partner  
+49 89 29036 8269  
cstadter@deloitte.de

## Greece



**Alexandra Kostara**  
Partner  
+30 210 6781 100  
akostara@deloitte.gr

## Ireland



**Michael Flynn**  
Partner  
+353 1 417 2515  
micflynn@deloitte.ie



**Brian Jackson**  
Partner  
+353 1 417 2975  
brijackson@deloitte.ie

## Italy



**Elena Vistarini**  
Partner  
+390 283 325 122  
evistarini@deloitte.it



**Claudio Tierno**  
Partner  
+390 283 325 078  
ctierno@deloitte.it

## Luxembourg



**Benjamin Lam**  
Partner  
+352 451 452 429  
blam@deloitte.lu



**Lize Griffiths**  
Partner  
+352 451 452 693  
lizgriffiths@deloitte.lu



**Pierre Masset**  
Partner  
+352 451 452 756  
pmasset@deloitte.lu



**Basil Sommerfeld**  
Partner  
+352 451 452 646  
bsommerfeld@deloitte.lu

## Middle East

---



**Robin Williamson**  
Managing Director  
+971 4 506 4738  
rwilliamson@deloitte.com

## Netherlands

---



**Jef Holland**  
Partner  
+31 882 881 991  
jholland@deloitte.nl



**Paul Meulenberg**  
Partner  
+31 88 2881 982  
pmeulenberg@deloitte.nl

## Norway

---



**Thorvald Nyquist**  
Partner  
+47 95 75 31 41  
tnyquist@deloitte.no

## Portugal

---



**Jorge Marrão**  
Partner  
+351 21 042 25 03  
jmarrao@deloitte.pt

## Spain

---



**Javier Parada Pardo**  
Partner  
+349 143 818 06  
japarada@deloitte.es



**Alberto Valls**  
Partner  
+349 143 811 26  
avalls@deloitte.es

## Sweden

---



**Magnus Larsson**  
Partner  
+46 733 97 73 17  
maglarsson@deloitte.se



**Jens Gullfeldt**  
Partner  
+46 70 080 27 90  
jgullfeldt@deloitte.se

## United Kingdom

---



**David Brown**  
Partner  
+44 20 7007 2954  
debrown@deloitte.co.uk



**Nigel Shilton**  
Partner  
+44 20 7007 7934  
nshilton@deloitte.co.uk



**Siobhan Godley**  
Partner  
+44 20 7007 2745  
sgodley@deloitte.co.uk

## US

---



**Robert O'Brien**  
Partner - Global Real Estate  
Sector Leader  
+1 312 486 2717  
robrien@deloitte.com

## Canada

---



**Ciro DeCiantis**  
Partner  
+1 416-601-6237  
cdeciantis@deloitte.ca



**Sheila Botting**  
Partner  
+1 416-601-4686  
sbotting@deloitte.ca



**Anthony Cocuzzo**  
Partner  
1-416-601-6432  
acocuzzo@deloitte.ca



# Contacts

**Robert O'Brien**

Partner - Global Real Estate Sector Leader  
+1 312 486 2717  
robrien@deloitte.com

**Javier Parada Pardo**

Partner - EMEA Real Estate Leader  
+34 914 381 806  
japarada@deloitte.es

**Benjamin Lam**

Partner - EMEA Real Estate Funds Co-Leader  
+352 451 452 429  
blam@deloitte.lu

**David Brown**

Partner - EMEA Real Estate Funds Co-Leader  
+44 20 7007 2954  
debrown@deloitte.uk

Please do not hesitate to  
contact your relevant country  
experts listed in the magazine.

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