

“We have redefined our value-added chain”



Reinhard Kutscher, chairman of the management board of Union Investment Real Estate AG since June 2007, spoke to Places & spaces – the real estate magazine of Union Investment - about the company’s international realignment, the reform of the German Investment Act, and the prospects for open-ended real estate funds

Places & spaces: Union Investment is positioning itself as a real estate investment manager. Is this realignment also reflected in the new management organisation?

Reinhard Kutscher: Through the development of property into an asset class and the rising demand for indirect product vehicles, there are, as with bonds, new demands as to product management. In recent months, we’ve redefined our value-added chain. Besides the optimisation of our assets, we’re now paying greater attention to identifying new market segments and investment products. To boost this potential we’ve gathered all our product-related activities – portfolio strategy, fund management, marketing, finance and shareholding – together in a new area of responsibility overseen by the chairman of the management board. Additionally, in future we will be active in the market with six specialised asset management units, whereas previously we had three. The increasing globalisation of the investment market requires this differentiation and specific sector know-how, for example in the hotel or retail branch.

Places & spaces: But Union Investment has also realigned itself internationally.

Kutscher: Our realignment shows where we see potential for growth. For our strategically important international business, we’ve expanded the management board, creating a fourth management unit. The International Business Unit will be headed by Michael Montebaur. Responsibility for all our international transaction management as well as control of property management for our assets abroad is included in his business unit, with the exception of shopping centres, for which my board colleague Frank Billand is now responsible for internationally.

Places & spaces: The demands of the market have become more complex and good, profitable properties are scarce. How are you handling market development?

Kutscher: Asset management is local business – when it comes to acquisitions, a lot is decided locally. That's why the new International Business unit is subdivided into three regional asset management areas: the Core Markets unit, which is responsible for European and American core markets; the Asset Management Asia/Pacific unit; and the Asset Management Emerging Markets unit, responsible for Central and Eastern European markets as well as South America. It's a formation that allows us to act more effectively in global markets. To reach our growth goals abroad, we're also building up, for example, our staff both in Hamburg and at our foreign subsidiaries.

Places & spaces: Of what significance is risk management in this configuration?

Kutscher: Roles such as risk management are growing in importance as we internationalise our activities, because, of course, we also need to take care of the riskier aspects of the more complex international real estate business. The significance of risk and structural aspects increases, in a way, with each additional investment in real estate companies. At present, our portfolio includes around 50 investments in real estate companies of various sizes, but the trend is definitely upwards. Today, no large real estate investor can circumvent the need to improve their risk management system, both on the investment and on the portfolio level.

Places & spaces: To what extent will the reform of the German Investment Act help you?

Kutscher: The sector went through a difficult phase in the years from 2004 to 2006. But it's learned from that and accepted the consequences. Some of our reform recommendations are reflected in the proposed legislation for the Investment Act, even if not all our recommendations could be taken into account. At any rate, the general framework for open-ended funds has been improved significantly. The product will be more secure and easier to control. But the flexibility in investment policy will also increase, and that will help improve our competitive position internationally.

Places & spaces: What exactly is going to change?

Kutscher: In the proposed legislation, there is, for example, the intention to liberalise investment limits. That would mean that, in future, we could invest more in special purpose vehicles, something that is both normal and also necessary for tax purposes in the international investment business. Additionally, the so-called "three property limit" will no longer apply. That means open-ended funds could in future invest in companies that own more than three properties. Something that still needs to be improved, on the other hand, is the area of double-decker structures. For example, a holding in Luxembourg invests in a property company in France. As a sector, we're hoping that, as regards this, the policy makers will allow the international standard.

Places & spaces: Does that mean that the future prospects for open-ended real estate funds are good?

Kutscher: More so than ever. The demand for indirect, risk-diversified real estate investment products is big, both among institutional and private investors. The open-ended real estate fund model fulfils an important function in this respect, and it is just beginning to become more widespread internationally.

Reinhard Kutscher has been the chairman of the management board of Union Investment Real Estate AG since June 2007. He has been a member of the management board since 1999.

Interview by Fabian Hellbusch and Nikolaus von Raggamby