

KEYNOTE INTERVIEW

Driven by data



*In the age of big data, technology is becoming an essential tool for service providers and their real estate investment management clients, say experts at **Alter Domus***

Dealing with data is crucial to the work of service providers that look after real estate investment management clients, and technology is at the heart of their offering. Software platforms mean the traditional ‘back office’ functions, which many managers outsource, can be dealt with more efficiently, but big data technology is potentially expanding the scope of the service provider. Managers can harvest more data than ever before, but it means nothing without the capacity to use it. Service providers working across multiple managers and funds can generate the economies of scale needed to invest in the best technology solutions. However, with the business of real estate investment management becoming ever more global and thus more complex, many challenges remain.

Alter Domus leaders Anita Lyse, global head of real estate, Michael Gregori, head of real estate fund administration – North America, and Alex Droste, global real estate platform leader, discuss the key issues, with PERE’s Mark Cooper listening in.

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Outsourcing tech

Anita Lyse: When managers look at their own operating models, one of the things they consider is how much they want to focus on their core activities and outsource what is non-core, thus reducing costs around the non-core activities. We find technology considerations are among the top reasons why many fund managers and investment managers choose to outsource.

Michael Gregori: My background is in investment management accounting and reporting, so this debate is very familiar. The ability to reduce costs and headcount is a crucial part of managers’ decisions regarding outsourcing. A lot of the cost savings and access to greater efficiencies and scale through a service provider are driven by their technology platform. The real estate

industry is looking for solutions from service providers with a need and requirement for purpose-built technology that makes their reporting more efficient. However, we are also in the era of big data, and managers want to be able to make sense of it and additionally use non-financial data to help with front and middle office decision making. Also, managers tend to focus cost savings discussions around headcount, but the systems required to manage data also come at a material cost and it is an ongoing one.

AL: The cost of developing and maintaining good and leading-edge technology is not small, which is why some investment managers have taken the decision to outsource a lot of this. A service provider can naturally have a purpose-built technology platform and has the advantage of being able to spread the cost across multiple clients. Sometimes it just makes more sense for a service provider to go deeper and further into the development of different aspects of a tech platform as it will

need to cater to different client requirements. It is also important to keep in mind that a tech platform is not only about a single system. Most of the time it is a combination of multiple systems, and the performance of the overall platform depends on how you make those systems connect and also the processes in place to optimize the use of it.

Alex Droste: When a manager goes through the process of evaluating its outsourcing strategy, technology is often not the primary focus as they are first looking at reducing costs and head count.

There is also a trend in the market right now where a lot of really high-quality applications and systems are coming down a bit in price. This might make keeping things in-house more attractive but what ends up happening is an unforeseen headcount increase, because of the need to build up the technology group in order to research, and subsequently administer, the applications. This can lead to a technology and reporting environment composed of multiple applications, so an increase in headcount is needed to support that. Often it is a huge challenge for a manager to support such a platform, whereas for an administrator like us, it is a prerequisite to make sure we have an environment which will support our entire client base.

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ANITA LYSE

AL: Our strategy is to work with a global accounting system, which sits as the overall backbone for the technology platform, but which needs to be able to link with other systems in order to accommodate the needs of different clients and jurisdictions. There is no such thing as a silver bullet solution in the market today. As to the importance of our tech platform to our clients, we get all kinds of levels of interest. For some, as long as we have something that works, that is fine. Some of our other clients, in particular the bigger or more global ones, will take more interest in our technology platform and perform a much deeper review of it as part of the selection process. Of course, it comes back to what you can deliver and at what cost.

MG: All service providers have access to the same external software providers, but what really creates a differentiator is how you implement a system. What services do you want to provide and where do you want to fit in the marketplace, and then how you use the applications that you choose to build your platform with. Then accessing your in-house tech talent to build tools to strengthen and enhance your platform for your clients.



AD: As a service provider, the key investments are in the right technology and the right talent to best utilize the technology platform.

Security checks

AL: Cybersecurity is a perennial hot topic for all businesses and when an investment manager decides to outsource work and to outsource some of the tech platform, then it has effectively outsourced certain aspects of its own cybersecurity. Managers need to make sure their service provider has the right policies in place and has the right level of security.

AD: The cost of deploying your own disaster recovery and security processes and procedures comes at a high cost. A lot of managers determine that it is best for them to focus their internal costs on the investing side – that is where they add value. What we are seeing is an increased migration toward cloud services support for a lot of these processes. Cloud service providers create all the necessary security and redundancies should anything actually happen. Relying on these types of service providers allows both the fund administrator and the real estate manager to focus on their primary objective, the capital investment and subsequent financial reporting.

MG: Strong systems are not just there to mitigate viral attacks or something simi-

lar. Where I work and live, we sometimes have quite a bit of snowfall or extreme cold temperatures that prevents us from getting into the office. That leads to stress on the remote access system. You might not think of this as a disaster, but having your systems be able to function under these sorts of stresses is very important. We can never be too prepared in terms of being able to access all of our networks wherever we are in the world and carry on even if staff cannot access the office they typically work from.

Global challenge

AL: The globalization of real estate investment is a significant operational challenge for our clients and for ourselves. Managers invest in many different jurisdictions across multiple continents or even globally. Some of these jurisdictions tend to have very specific local requirements, so it is practically impossible to find a single system that does it all.

The challenge is: how do you get consistency in the data in order to report to investors in a consolidated way? This does not just apply to financial data but also to non-financial data such as occupancy, types of assets or tenants etc. A manager of a regional or global fund needs to know, for example, if rental income in country A means the same thing as in country B and to find a way to compare apples with apples.

AD: The challenge around the requirements for clients in various locations relates to the way we store, process, and report data. From an operations perspective, there is a desire to have the work done in a uniform manner globally to ease the final reporting process.

There is also a challenge around the accessibility of the data in all jurisdictions, and by all audiences. This often prompts the data warehouse and data lake conversations.

Both of these are challenging to put together from a cost and effort standpoint. Data warehouses are often easier for the end consumers of the data to use based on their predetermined, and often rigid, format for input and output. Data lakes offer a more flexible reporting ability in the end, but require significantly more maintenance, and an experienced staff to mine and compile the data. Investment managers often don't want to take on the costs associated with building and maintaining databases like these. This

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MICHAEL GREGORI

prompts them to look for the right service providers and/or software to achieve their reporting needs.

AL: One of the things we will continue to see more in the future is this reporting of non-financial data, which traditionally has not been part of a typical fund administrator's scope of services. As a result, we will see fund administrators going more and more into the middle office roles with clients and not only being at the back office end.

AD: Client portals are becoming more important to investment managers and their clients. A few years ago, most portals were simple document repositories where all of the client's data were just stored in static reports.

However, with the need for more data transparency and ease of viewing there is now a broader range of portal products with more functionality. As a service provider, you need to decide if you will put forth the resources to develop your own portal or outsource the portal to one of these dedicated portal providers. We are taking the route of creating our own portal to maintain a single, comprehensive service offering for all of our clients, who need something flexible and accessible. ■

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ALEX DROSTE