

### MARKET FORCES CONTINUE TO RE-SHAPE THE REAL ESTATE FUNDS MANAGEMENT INDUSTRY

We are heading into uncharted waters - historical low interest rates, strong capital flows into real estate, below trend economic growth, at the same time as we encounter significant change and disruption in the marketplace.

Mr Adrian Harrington, Head of Funds Management at Folkestone, speaking at PIR's Annual Property Conference last week said "that market forces continue to re-shape the landscape of the real estate funds management industry. We are witnessing some of the most significant social, demographic and technological changes, and these are gaining momentum as they interact with one another. Together, they are having a significant impact on the way we live, work and play. The real estate industry provides both the accommodation to allow us to live (housing), work (office, retail, industrial, etc.) and play (hotels, entertainment facilities) and also an investment opportunity. Therefore, real estate fund managers more than just about any other industry sector, need to closely examine both their real estate and business strategies, to position themselves to take advantage of these opportunities going forward."

Mr Harrington said that whilst real estate fund managers need to adapt to these changes, the hallmarks of top performing managers is founded on five key principles:

1. a disciplined and focused strategy for each fund - clear and concise strategy/objectives with implementation that avoids style drift;
2. a strong alignment with investors - co-investment, fee structures and exit strategies that put investors first;
3. delivering active performance - generating alpha through active management rather than relying on market beta;
4. adopting appropriate capital structures - optimising the capital structure but at the same time avoiding over-leverage to generate short-term returns; and
5. a focus on risk management - implementing frameworks that identify, price and manage risk appropriately through the entire process from acquisition to management to disposition.

Mr Harrington said "Given where we are in the economic cycle and the changes being brought by these mega trends, it is not surprising that investors and their advisers are becoming more demanding of their managers when it comes to reporting, risk management processes, governance and succession planning. This is a good thing."

Commenting on the state of the real estate market, Mr Harrington said "there is a significant amount of money, much of this from offshore investors, looking to acquire Australian real estate. Despite nearing historical lows, on a global basis, yields on Australian non-residential real estate still look attractive and with the low dollar, this is attracting both institutional and private money from the US, Europe and Asia. Many of these investors have a lower cost of capital than Australian investors, and as a result, domestic managers are finding it harder to compete."



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"Real estate fund managers, now more than ever, need to focus on the underwriting, structuring, financing and executing of transactions, whether it be acquisitions or dispositions. As managers, our job is to maximise the risk-adjusted returns of our investors, and sometimes that means saying - no this isn't the right time to invest or this isn't the right strategy for this point in the cycle or maybe we should take some money off the table. There will be still opportunities to deploy capital especially in areas benefiting from some of these mega trends like real estate related social infrastructure (child-care, medical, aged care) although managers need to remain disciplined."

For a copy of the presentation please [click here](#).

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**About Folkestone**

Folkestone (ASX:FLK) is an ASX listed real estate funds manager and developer providing real estate wealth solutions. Folkestone's funds management platform, with \$917 million under management, offers listed and unlisted real estate funds to private clients and select institutional investors, while its on balance sheet activities focus on value-add and opportunistic (development) real estate investments. [www.folkestone.com.au](http://www.folkestone.com.au)

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