Outsourcing gets real

Could Deutsche AWM's outsourcing deal with BNY Mellon be the tipping point for third-party real estate administration to flourish?

Michael Luciano, chief operating officer for Deutsche AWM's Alternatives & Real Assets business

In February, Deutsche Bank's Deutsche Asset & Wealth Management (Deutsche AWM) unit finalised an agreement to outsource the asset servicing of over $46 billion in real estate and infrastructure funds to BNY Mellon.

The deal, which also includes Deutsche AWM transferring approximately 80 employees to BNY Mellon, represents a new trend in the real estate and infrastructure fund industry to outsource servicing operations, similar to the way hedge funds have outsourced more and more non-investment-related activities in recent years. Part of the reason for the shift simply has to do with choice. While there's an abundance of hedge fund administrators, real estate administrators are still a fairly new breed, though the industry is changing.

"In the past there have been only a few providers of real estate investment servicing; however, the market is beginning to evolve," says Michael Luciano, chief operating officer for Deutsche AWM's Alternatives & Real Assets business. "As the market continues to grow, we expect that asset managers will realise the benefits that can be gained from partnering with a market leader in asset servicing."

With the market evolving, Deutsche AWM saw an opportunity to outsource. "When we acknowledged a potential shift in the industry to outsource real estate and infrastructure servicing operations, we evaluated a number of vendors, and following in-depth due diligence, determined that BNY Mellon was the best fit for our business," says Luciano. "We based our decision on the established evaluation criteria, which included global expertise and bandwidth, expertise in YARDI (a real estate accounting system) with integration into BNY Mellon reporting platforms, clear understanding of success factors, proven experience in large transformational lift-outs, good cultural fit with similar organisational cultures, and a noteworthy commitment and ability to invest in technology and platforms."

And rather than just looking at the deal as a way to reduce operational headaches, Deutsche AWM sees outsourcing as a way to better adapt to changes down the road. By allowing business to focus on their core competencies, both the investment side and the operations side can be at their best.

"Through the arrangement with BNY Mellon, Deutsche AWM's Alternative and Real Assets business can better serve its clients by improving its operational efficiency and leveraging the global footprint and resources of one of the world's leading investment servicing companies," says Luciano. "One of BNY Mellon's core competencies is asset servicing, which means they have the resources and industry expertise to adapt to changing market conditions and make necessary investments to meet client evolving needs."

Of course, nearly every decision has its pros and cons, and outsourcing is no exception. The 80 or so employees transferring to BNY Mellon's Alternative Investment Services business will no longer be under the oversight of Deutsche AWM, so there's a certain amount of trust the asset manager has to put in the outsourcing partners that servicing will continue at a quality level.

"As with any function, when you decide to outsource, you lose some of your direct control and influence," says Luciano. "That said, we are retaining appropriate staff members for oversight and control ,and expect the partnership will only benefit our business and clients."

A deal of this magnitude could also be a launch point for more real estate administration outsourcing over the next few years, though Luciano says that Deutsche AWM doesn't expect to further outsource other parts of the business at this time. Still, for the rest of the industry, the potential is enormous. Luciano points out that estimates show that approximately 70% of the $2.4 trillion assets globally in private equity and real estate are managed in-house.

"This is expected to shift considerably in the coming years, especially as asset managers realise the benefits that can be gained from partnering with a market leader in asset servicing," he says. ■

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