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Proven Values

The German Entrepreneurial Index (GEX) was created in 2005 with the objective to map the stock market performance of owner-dominated companies based in Germany. Both during the crisis and the years preceding it, the GEX index regularly outperformed the DAX. Owner-dominated companies tended to have higher listings and have thus become a role model for not-family-owned business across industries and countries – including for the European real estate economy.

by Bernhard Schoofs

What sets family-owned businesses apart from other companies is primarily the planning horizon. In owner-operated companies, the senior management pursues the goal to secure the committed capital for generations to come. The performance of senior managers of non-owner-operated companies often used to be gauged by the year-end results they achieved. Recent studies demonstrate that it pays to have a long-term planning horizon. As the survey “Family-Owned Businesses 2010/2011” compiled by the consulting firm Auxilion suggests, 87 percent of the 127 executives polled in Germany believe that owner-operated companies are more resistant to economic downturns.

The values that define family-owned business were often underestimated in years past. Now they are experiencing a renaissance: Economic upheavals have moved the strategic shortcomings of purely capital-market-driven companies centre stage. Instead, safety-oriented investments capture the fancy of many investors these days. A proportionately higher number of investors have therefore come to appreciate the strategy of family businesses of preserving equity above all and of realising reliable if moderate returns. Here, sustainability takes precedence: The idea is to keep realising returns from a given property even decades after the initial investment. The return on equity during the first few years is rather secondary in importance.

Lasting Business Relations and Flat Hierarchies

Under the aspect of capital preservation, you will see the difference between the investment strategies of purely yield-oriented companies and family-owned businesses throughout the entire product lifecycle of a property. For instance, owner-operated companies tend to attach more importance to long-term business relations than to a one-time bargain price for an acquisition. Long-lasting business relations afford family-owned businesses deep insights into the routines of their trading partner and his quality standards: For example, the partner’s construction and management principles will be familiar. This will enable an owner-operated company to make a comparatively more reliable assessment of the quality of the property to be acquired.

Another advantage of family companies is their frequently flat hierarchies. These permit quick decision-making whenever the market calls for it. Together with the generally substantial equity cover, it enables owner-operated companies in the real estate industry to respond flexibly to shifting market situations. At the same time, the entrepreneur of a family-owned business assumes personal responsibility for the decisions made.

The attitude cultivated by owner-operated companies, namely preserving capital above all, inspires confidence among investors. It is a superior way to weather difficult times, making lower returns seem an acceptable price to pay. Particularly before the background of economic turbulences, family businesses serve as role models for companies even and especially in the real estate sector. As a first step in the general corporate reorientation toward new values, initiators of real estate funds could acquire sizable stakes in their own products. By holding a large interest in their own fund capital, initiators will signal their personal faith in the acquired property, the management strategy, the planned sales scenario, and thus in the predicted return on investment.

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