Deutsche Bank Is Stuck on RREEF

By CRAIG KARMIN And LAURA STEVENS

Deutsche Bank AG's DBK.XE +0.90% on-and-off effort to sell its giant real-estate fund group is taking its toll on one of the world's largest property-investment businesses.

Nine months after the bank first raised the possibility of selling the business known as RREEF, investors are still wondering about its future. The bank's lack of clear direction is putting its real-estate fund group at a competitive disadvantage, some investors and consultants say. Many pension funds have been shifting to safer property funds and looking for new managers, and they may be hesitant about putting their money with RREEF because of the uncertainty, they say.

Deutsche Bank's new management team is nearing completion of a companywide strategic review. That includes RREEF, which has $56 billion under management and invests primarily in commercial real estate globally. It is considered one of the jewels of Deutsche Bank's broader asset-management business, which has about $694 billion.

While it isn't clear what the review will mean for RREEF, some analysts speculate that all or some of the group may be back up for sale. But some within RREEF expect the bank to keep the business, according to people who have spoken with RREEF staff.

The bank plans to announce results of the review in September.

Not all investors are waiting until then. As of the end of June, RREEF's $5.5 billion flagship U.S. fund faced $150 million of redemption requests, according to company documents.

Although that is a small portion of the fund, and Deutsche Bank has the means to meet the redemptions requests, the demands are in contrast to the success of similar low-risk funds managed by competitors. J.P. Morgan Chase JPM +1.96% & Co. and UBS AG UBSN.VX +0.85% each have more than $1 billion in investor money waiting to get into their flagship U.S. real-estate funds.

What's more, RREEF has abandoned plans to raise a new €1 billion ($1.24 billion) property fund. The fund group has shed 8% of its investment staff in recent months, to about 550 people. Two of RREEF's senior real-estate debt specialists defected last week to Clarion Partners, a rival property investor.

A Deutsche Bank spokeswoman declined to discuss RREEF's status. But she said that the bank is creating a "newly-integrated asset and wealth management division," and the bank is "committed" to growing it. The spokeswoman said more details would be revealed next month after the strategy review.

Speculation over its sale began last fall when Deutsche Bank announced it was reviewing options for its entire asset-management business and analysts said the bank hoped to raise as much as $2 billion.

After dozens of firms expressed interest in the business, the bank said it was in talks with money manager Guggenheim Partners. Then it pivoted, saying that those talks would be only for the sale of RREEF, which analysts believed could raise as much as $500 million.
In June, new co-chief executives Anshu Jain and Jürgen Fitschenbrought brought in a new management team to run the bank's newly combined asset-management and private-wealth management group. In less than three weeks that new team said its talks with Guggenheim to sell RREEF were off after the two sides couldn't agree on sale terms.

"I would not be surprised if [the review] was a catalyst again to seek a buyer for parts of the business, including RREEF," said Jon Peace, a bank analyst for Nomura Securities Co.

RREEF executives are hoping that the review will put the sale fears to rest. Some say privately they are being told the review will make clear the division isn't for sale, according to people who have spoken to RREEF employees.

Deutsche Bank could even opt for ways to boost RREEF's business, such as using its private-client and retail channels to raise money for RREEF funds, something the bank hasn't done much so far, these people said.

The Massachusetts Pension Reserves Investment Management Board, which manages pension money for the state, withdrew $275 million from RREEF earlier this year amid the sales process. "When we heard RREEF was for sale, we decided to redeem our investment," said a spokesman for the fund.

Bank officials said the entire asset-management division, which runs funds that invest in a wide range of assets, saw a total of €15 billion in net outflows across various products for the first half of the year.

"Asset management is obviously suffering from the uncertainty caused by the strategic review of the global asset-management division initiated in November of 2011," said Stefan Krause, Deutsche Bank's chief financial officer, on a recent analyst call.

The questions about RREEF come at a time when some analysts say the bank looks undercapitalized relative to its global peers. Last week, Deutsche Bank reported that net profit in the second quarter fell by nearly half to €661 million, and it pledged to cut 1,900 jobs.

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