Logistics & Industrial

The Rise of Private Capital

Q2 2024

Key Points:

- **Private or non-institutional capital has become more active in the logistics and industrial investment market, accounting for 53% of transactions by value so far in 2024** (~$400 million), compared to the long-term average of 15%. This follows the acquisition of more than $1.0 billion nationally in 2023 (20% of total volumes) from private capital investors.
- **Not only have they become more active, but there has also been a large jump in demand for larger assets that institutional groups have historically dominated**. Notably, this has included acquisitions by both domestic and offshore family offices.
- **While private capital has been active at certain points in past cycles, particularly post-GFC, our view is that they will account for a higher share of deal activity going forward.** This increased activity will stem from a shift in appetite from private investors who had historically invested in other commercial sectors but are now reweighing to L&I at a similar price point.

Private capital, which is defined as high-net-worth individuals, including family offices and non-institutional developers and owners, has historically played an active role in the logistics and industrial (L&I) sector, particularly in the sub $20 million bracket, where they have been the dominant buyers.

Over the past decade, private capital has accounted for almost 65% of all L&I acquisitions (by value) between $5 million and $20 million nationally, while conversely, they have represented just 13% for deals above this size range. The dominance of private investors at the smaller end of the market reflects higher levels of liquidity and smaller average asset sizes compared to other commercial asset classes such as office and retail.

While private capital continues to dominate the sub $20 million size bracket, there has been a notable shift over the past 12 months towards larger assets that have traditionally been the domain of institutional groups. This change reflects a strategic reallocation by private capital investors seeking asset classes that offer income growth in the current environment.

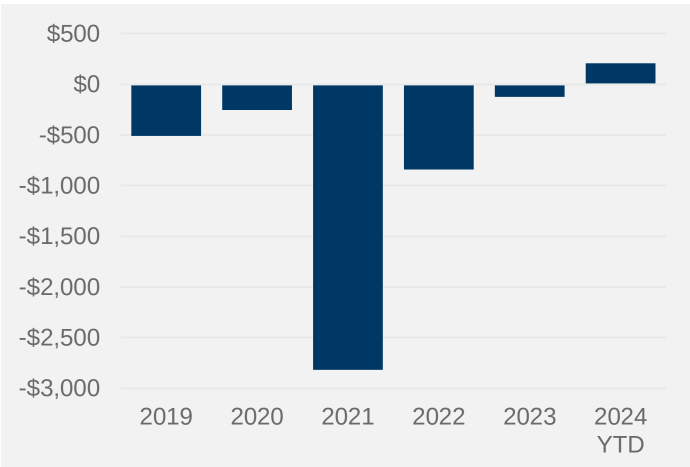
Why are they becoming more active?

In the context of recent interest rate increases, private capital remains largely insulated from interest rate fluctuations, largely because a substantial portion of these investors are cash buyers. Additionally, these investors have become much more sophisticated, undertaking more rigorous sector and market due diligence than they have in the past. As a result, most view the next 12 months as a favourable time to invest given the absence of some buyer groups and historical trends that show that total returns outperform immediately following a period of pricing dislocation.

During the peak of the market between 2020 and 2022, private capital was predominantly active on the sell side as they sought to recycle assets and capitalise on the increased buyer demand from institutional groups. This was a trend that also played out during the 2005-2007 period. Accordingly, with tighter credit conditions at present and weaker participation from select investors, including AREITs as they focus on their development pipelines, private capital investors have returned and are able to offer deal certainty with attractive settlement terms given they are well capitalised. Ultimately, this means they have an advantage in the current environment.

Against a backdrop of varying performances across different commercial asset classes, private capital asset allocations have shifted towards the L&I sector. This shift stems from existing investors up weighting their allocations due to structural tailwinds that have supported demand and driven asset performance, which has also attracted new market entrants into the sector.

Private Capital Net Acquisitions ($ mil)



Source: Cushman & Wakefield Research

What are the recent trends?

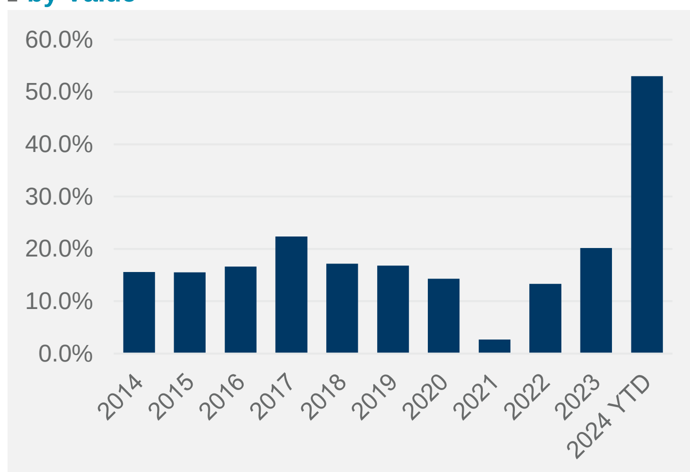
Consistent with the post-GFC trend, private capital was the second most active buyer in 2023, acquiring just over $1.0 billion of L&I assets nationally, accounting for 20% of volumes by value for the year (deals above $10 million). For 2024, the share of private capital acquisitions has become more pronounced, representing 53% of transactions by value (approximately $400 million) and almost 60% by number so far, and compares to the long-term average of 15%.

In addition to higher volumes, there has also been a jump in the average transaction size from private capital as they are now playing in size brackets historically dominated by institutional groups. The average deal size from private capital so far in 2024 has jumped 53% from last year to almost $35 million. Further, there have been multiple deals done between $50-$100 million, while there are others above this range currently in due diligence. The anecdotal feedback from these investors is that they have historically invested in either office or retail sectors; however, they are reallocating capital to L&I at a similar price point, supported by greater comfort compared to past cycles that downside vacancy risks can be mitigated by buying strategically in higher occupier demand markets.

Our data shows that private capital has acquired approximately $430 million nationally for deals above $30 million since the beginning of 2023, with Melbourne being the most active city, accounting for just over half of this volume.

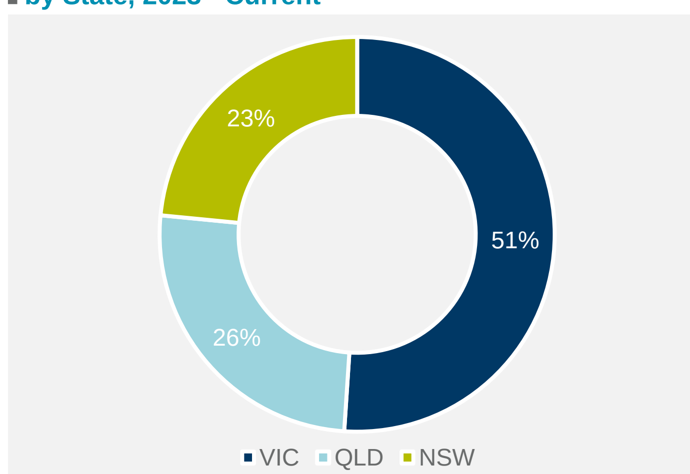
The investment thesis from private capital investors is similar to institutional groups in that they are targeting infill assets in tightly held markets that provide scope for growth and future positive reversion. For most, they tend to be more passive investors, so asset location and underlying land value will remain the priority for these investors.

Share of Private Capital L&I Acquisitions by Value



Source: Cushman & Wakefield Research, MSCI

>$30 million Private Capital L&I Acquisitions by State, 2023 - Current



Source: Cushman & Wakefield Research, MSCI

Where to from here?

Given that commercial real estate, especially L&I assets, has proven to offer high risk-adjusted returns over the long term, there is likely to be increased activity as private capital seeks to diversify their portfolios with L&I assets.

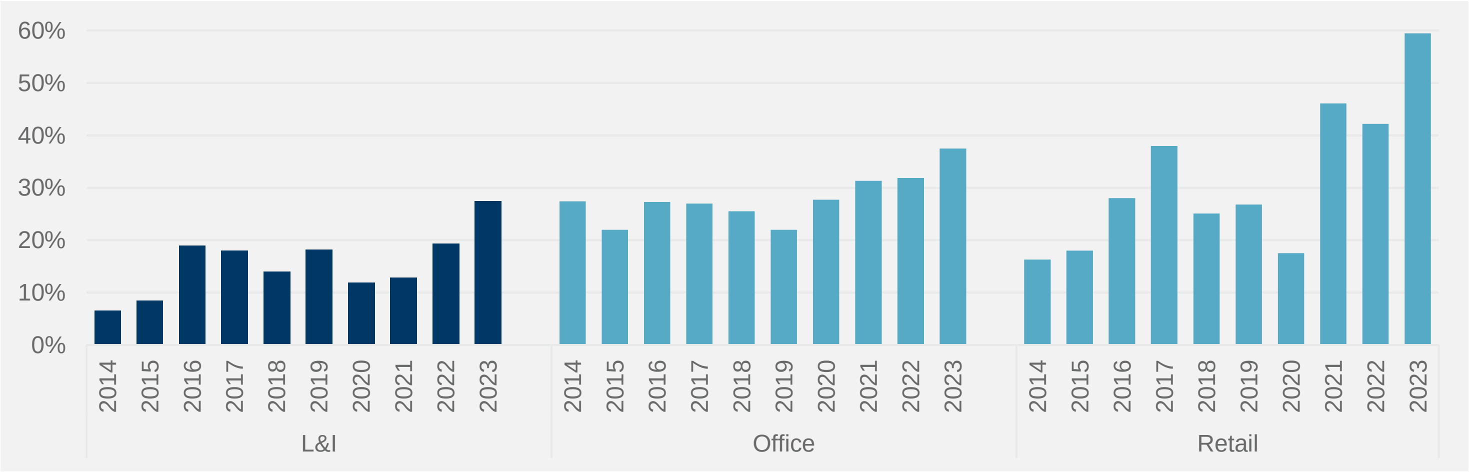
Unlike previous cycles where private investors became outgunned by institutional groups once they became more active, we anticipate this to be a new thematic going forward with greater private capital presence in the $30-$100 million bracket. While there will be outliers above this range, the $100 million + segment of the market will continue to be dominated by institutional groups.

Looking at other commercial real estate sectors, private capital has accounted for 29% of volumes between $30-$100 million for the office sector and 33% for the retail sector over the past decade, compared to just 16% for L&I over the same period. Going forward, the rewieighing of private capital towards the L&I sector has the potential to increase this share to similar levels being recorded in other commercial real estate sectors.

Globally, private capital is much more active in the L&I investment market for deals above $30 million, representing 25% of buyers by value over the past three years (31% of buyers for deals above $10 million). This proportion is higher again in the US, where it has been closer to 33% since the beginning of 2021 and underscores the growth potential from this investor segment going forward.

Opportunities remain for private capital, both as buyers and vendors. However, both need to be mindful of the current stage of the market in the cycle and plan their strategies accordingly. In line with this, assets that offer the ability to capture 20%+ positive rent reversion are expected to attract the most interest, with trophy L&I assets in core locations expected to be the focus. From discussions, most private capital investors tend to prefer capex light assets, and as such, location becomes the primary focus as they look to acquire assets with maximum tenant appeal to minimise vacancy downtimes. As such, we expect these assets to be in highest demand.

Private Capital Share of $30-$100 million Investment Volumes by Sector



Source: Cushman & Wakefield Research, MSCI

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