

SAGA

— STRATEGIES —

SAGA Views and News

Welcome to the SAGA Strategies' newsletter!

As part of our focus on key asset classes relevant for GCC investors, we are taking another look at real estate in this issue, this time at international trends and investment opportunities.

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Views on International Real Estate – Trends Shaping the Industry

Alternatives to Core (and Core+). As discussed in the previous newsletter, yield-chasing capital has resulted in unprecedented valuations of core assets. This is acutely true in the traditional markets of North America, Europe and Japan. Alternatively, then, investment capital has been focusing on key demographics and growth in technology as value drivers, particularly in the following sub sectors:

- Data centers (around logistics hubs)
- Healthcare / Senior Housing (in new and traditional retirement communities)
- Student Housing (especially in second tier locations)
- Self-Storage (following the movement trends of millennials)
- Mixed-Use Buildings (where live, work and leisure are seamlessly integrated)

Normalizing of Debt Markets. As interest rates continue to rise, the fuel for the last decade's steroidal real estate growth has been siphoning off. This is causing cap rates and yields to be mismatched. But the new paradigm means that funding for acquisitions is going to come at a higher cost for international investors.

Geopolitical risk is the New Norm. Times were when geopolitical risk was adjusted with a token discount rate. Not anymore. From Brexit to trade wars to potential wars brewing in stable spots around the world, real estate investing needs to be undertaken with a keen level of risk consideration when underwriting, just as in other asset classes.

Emerging/Disrupting Business Models. With the popularization and mainstream acceptance of co-living/working (such as Wework and Airbnb), shorter lease terms and shared spaces have introduced new business models catering to the preferences of a burgeoning demographic. The result is placing a premium on changing lease terms which have created their own secondary market.

Peripheral Investing – Services Catering to Real Estate. More than ever before, real estate is now led by big data and predictive analytics. Established real estate houses and startups alike are providing investment returns on the backs of PropTech, particularly in CRE. Investment in these companies provides exposure to both real estate and technology in an environment where a turn in the cycle might provide key insights into selectively targeting capital.

Lack of Affordable Housing. This is the challenge faced in mature and emerging markets: as more and more people get priced out of their home markets (rental or purchasing), the crisis in the scarcity of affordable housing is a growing reality. Typically, the returns are not viable for most developers to undertake affordable housing development. However, with the right incentives and PPP projects, certain pockets around the world are providing stable (read: core-like) investment returns.

Last Mile Logistics. Distribution is evolving on the back of continued growth of the industrial sector. E-commerce, easier movement of goods, and delivery innovation are all fueling investment opportunities. As patient capital looks for a home, it would be well served in a diversified portfolio of logistics technology.

The above trends will be leading the way for the next few years. Equally importantly, however, is the setup and structuring of efficient vehicles which allow for GCC investors to take timely advantage of opportunities as and when, and where, they arise.

Interesting News

- [Succession Beats Wealth Preservation as Top Priority for Families](#) - The world's richest families are making the successful transfer of leadership to the next generation a major priority underscoring the critical importance of family governance in an era of disruption and uncertainty.
- [Investment portfolio complexity on the rise](#) - A prominent provider of technology for the fund management and OCIO sectors has launched a study revealing that investment portfolio complexity has been increasing dramatically. Also significant, 89% of respondents expect that the OCIO market will continue to increase in size.
- [\(Entrepreneur\) Family Office Growth in India](#) - Perhaps paralleling what is happening in the GCC, India is seeing a marked rise in establishment of family offices. This article explains some of the trends driving this growth.