

Global M&A Intelligence Report

The new norm for M&A in the real estate sector: key trends and market outlook

From the beginning of H2 2022, the global M&A real estate markets started to slow, with a significant decline in deal activity seen in the US, UK and Western Europe. We saw our clients pause while markets destabilised. This reticence to transact has continued into the start of 2023 and, while there are undoubtedly deals still happening, the volume and deal frenzy have slowed in all regions. This drop off should be seen as an opportunity as dislocation in markets provides a base for resetting the deal landscape for the next cycle. With a general tightening of the debt markets, it is essential that the underlying deal fundamentals are strong as is the underlying opportunity. In terms of what we are seeing there are certain markets which appear insulated from the slow down with continued M&A interest:

- Data centres remain a critical part of the M&A activity segment with several processes being underway in 2023. The need for more data capacity and the relatively limited supply means the underlying demand indicators for continued investment and growth opportunities are strong – especially if this is part of a wider acquisition strategy with exposure to a wide geographic / multi-jurisdictional reach with a potential to build a platform.
- Platforms with exposure to “beds” remains strong. This includes student housing, hotels and the wider leisure segment as well as PRS across multiple jurisdictions. The operational focus and the ability for these specific segments to increase and pass on costs in a relatively flexible way allows inflationary costs that may otherwise pressure the fixed income models to remain attractive to investors albeit in tier 1 locations. We are also seeing a continued demand for luxury hotel opportunities with that demand underpinned by very limited supply and the extremely strong consumer demand which has seen an unbelievable growth in ADR (average daily rate) and REVPAR (revenue per available room).

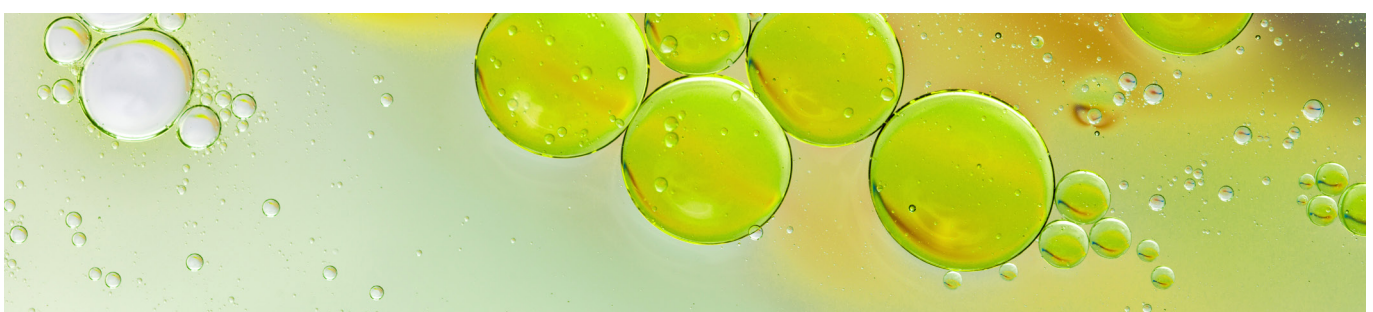
- The logistics sector continues to be a market where M&A activity has remained committed with active transactions in England, Spain, France, and Germany.



“The new norm for the real estate sector is the constancy of uncertainty and the need to respond to turbulent and unpredictable capital events – this means for some rebalancing portfolios and for others the need to consider resilient investment strategies.”

Jo Owen
Co-Chair Global Real Estate Sector, UK

In terms of the key trends impacting M&A activity, ESG related considerations have become a critical part of the decision-making process. It is being driven by all stakeholders - investors providing fund commitments are as alive to this issue as the lenders assessing and grading the underlying real estate for security. In addition, transactions are taking longer to reach completion and diligence processes have become extremely thorough. We expect this to be the case for the rest of 2023 and also expect warranty and indemnity insurance to remain a necessary deal requirement in all transactions.



Deal highlights for the *Real Estate* sector:

- **Volkshaard SHM** with the acquisition of **Habitare+ SHM** and **KLE Het Volk SHM** in the framework of a merger by acquisition
- **Blackstone** on the sale of three holiday resort sites in the UK to **USS** by way of sale and leaseback, and subsequent disposal of **Butlins** business to former management
- **USAA Realco** on a GBP400 million UK real estate joint venture with **Packaged Living Limited** to invest in and develop UK residential sites
- **Realbase**, an online real estate marketing and campaign management platform, on its sale to the **Domain Group** (ASX:DHG) for up to AUD230 million as part of a competitive sale process
- **Harrison Street** on the sale of four purpose-built student housing properties in the UK to **City Developments**
- **Palace Resorts**, leader in the luxury resorts business in Mexico and Central America, on the acquisition of 75% of the **Baglioni Group**, operator and owner of luxury resorts and hotels in Italy, London and the Maldives, with an option to acquire the remaining 25%
- **Crossroads**, a real estate private equity fund manager, on the EUR145 million sale of the easyHotel Benelux Portfolio to **easyHotel**, the low-carbon affordable hotel chain
- **KBC Verzekeringen** on the sale of **Distribution Center Seinehaven**, comprising six high quality logistics assets located in the Port of Rotterdam, to **Boreal IM** and **Cadillac Fairview**
- The management team of Scottish housebuilder **Miller Homes** on their over GBP1 billion sale to American asset management firm, **Apollo** from private equity firm **Bridgepoint**
- A controlled affiliate of the **Starwood Capital Group** on its disposal of **DoubleTree by Hilton Bath Hotel** via the sale and purchase of the entire issued share capital of **Craigendarroch** to **Pandox**
- **Hickory**, an Australian commercial real estate developer, on the sale of a controlling share of its data centre business to US-based **STACK Infrastructure**. The deal involved establishing a joint venture between **Hickory** and **STACK** to develop a hyperscale Australian data centre platform
- **Longfellow Real Estate Partners** on a GBP1.5billion joint venture focused on investing in life science and innovation real estate across the UK, with a particular emphasis on the Golden Triangle markets of Cambridge, Oxford, and London

