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FIVE QUESTIONS

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Endurance through evolution

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Over the past decade, gradual changes have been accompanied by fundamental shifts. Certain subsectors, including office and retail, have encountered difficulties, while others, like residential, have seen demand solidify. Eric Wurtzebach, global head of real estate; Brendan Jones, head of EMEA real estate; and James Kemp, head of APAC real estate with Macquarie Asset Management, identify the most significant changes to the sector over the past 10 years and discuss how their investment strategy remains unwavering.

What are the most significant changes you have seen happen in the private real estate industry over the past decade?

Eric Wurtzebach: Two of the most notable shifts in recent years have been a growing preference for partnerships with specialist operating platforms and a heightened emphasis on investment conviction over general allocation buckets. Together, these trends represent a healthy evolution, demanding a fulsome understanding of investment alternatives and favoring managers who can partner effectively with seasoned operators.

James Kemp: For almost 20 years, we have been employing a real estate strategy focusing on investing in both operating companies (opcos) and direct real estate (propcos). Over the past decade, interest in this investment approach has significantly increased, both from real estate investors and managers. Real estate investors recognized the benefits in the opco/propco investment strategy but also identified that this investment structure differs significantly from direct real estate investing, and they have often hesitated to pursue it directly, which has created a clear demand for gaining exposure to opcos through specialized managers.

Brendan Jones: Broadly speaking, over the past decade, we have seen a significant pullback in allocations to retail and office sectors and a clear shift more recently toward residential and logistics. There is a heightened focus on niche asset classes and operational real estate, which ties into the need for specialized management.

In that context, how has your firm's approach to capital formation evolved over that period?

JK: We responded to client demand and proactively established a fiduciary model with regional products primarily focused on our opco/propco strategy. Prior to this, we had implemented this investment strategy predominantly through our balance sheet. This evolution was a direct response to an evolving market and also enables a more efficient business model around opco/propco investing.

EW: Macquarie's approach has remained consistent over the past 15 years. We focused on pursuing attractive risk-adjusted returns by identifying sectors with durable, long-term fundamentals. We emphasize high conviction investing in select geographies, partnering with specialist operators to create value and mitigate risk at the asset level.

Similarly, how has your firm's approach to dealmaking evolved?

BJ: We really leaned into our current dealmaking approach, which was a significant part of our

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business post-GFC. It is now our sole focus. We consistently seek sectors with strong, long-term fundamentals as our starting point. From there, we concentrate on identifying and partnering with specialist operators within those sectors.

JK: As a manager, we are fortunate to have been actively involved in the living and logistics subsectors across developed global markets for nearly two decades. These continue to be our preferred areas for investment. We believe they offer a strong combination of factors, including favorable risk-adjusted returns at the asset level, an ongoing need for opcos and an investment strategy that consistently resonates with real estate investors. As such, there has not been a massive pivot in our investment focus. While our capitalization structure has evolved, our core investment thesis remains very much the same.

And how has the composition of your team changed?

JK: While there has not been a drastic evolution in sector or country coverage, we have significantly scaled our business. We now operate more like a venture capital firm, with many senior directors owning the relationship and working closely with our opcos. The skill set to identify, invest in and then help grow an opco is very unique, and our senior directors all have at least 10 years' experience working with opcos. Only with this experience across the senior director team have we been able to scale our business to manage as many opcos as we do today.

BJ: Despite regional differences, the sectors we target – living, logistics and niche operational real estate – ensure significant knowledge transfer across our teams. The specialized skills, especially our ability to offer strategic and institutional oversight for opcos, resonate strongly worldwide. We foster continuous learning among our global team members and encourage our underlying opcos to share insights across markets.

What are the biggest risks for the industry today, and which risks should be monitored closely for the future?

EW: While we firmly believe that specialist operator partnerships will continue to deliver attractive risk-adjusted returns, there is a risk that some firms are adopting this strategy without sufficient experience in portfolio company investment. This could lead to execution errors that are difficult and costly to unwind, especially given the complexity of repositioning or exiting a poorly selected operating partner.

BJ: The potential obsolescence of certain assets is a significant concern for some – but, in my view, this risk has been somewhat overplayed. Obsolescence is primarily a risk in secondary locations or those properties that have been neglected and no longer meet current tenant demands. If you possess the right office in the right location, the underlying fundamentals and demand remain strong.

JK: In APAC, the biggest risk I observe is the trend of managers who have predominantly invested in gateway office or retail sectors across their track records now promoting living and logistics strategies. While this shift is in response to investor interest, these managers often have limited experience in the more local and domestic sectors of living and logistics. Real estate investors should spend time assessing the capability of these managers. ■