Commercial property still important asset class for private buyers

With 27% of global transaction volumes attributed to private buyers in 2016, commercial real estate remains an important asset class for private investors. The 2017 Knight Frank Attitudes Survey data shows that a full quarter of private client wealth is held in real estate investments (excluding their primary residence and second homes). This varies significantly from region to region, with Middle Eastern investors holding the highest proportion (33%) and North American investors the lowest (11%).

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According to the Knight Frank Investment Trends Survey, the majority of investment into commercial real estate was primarily driven by the want of diversification, with real estate being used in portfolios to provide variation from both domestic economy and across asset classes.

The survey identified office property as the most popular sector in investors' portfolios at 54%, a finding borne out by both long-term global transactions data and the results of the Attitudes Survey.

Safe haven for capital

Survey sentiment strongly shows that real estate continued to provide a safe haven for capital and a stable and secure income return in a low growth environment. A sentiment reflected in the survey's interview with Ian Bremmer, and the significance of safety of capital over size of returns. Despite an element of caution expressed from some parts, investors have a healthy appetite for further commercial real estate investment in 2017. Most survey respondents talked in terms of large double-digit percentage target increases in the level of assets under management.

The survey shows the majority of investors still feel under-invested in property and are looking to rebalance overall portfolios. Typically, respondents were looking to secure lot sizes from £20m to £50m, although a number talked of scaling up to over £100m. Respondents' preferred locations varied considerably depending on their domicile, with Australia, Africa and the US all cited as investment targets for 2017. The majority, however, continue to look to Europe for their allocations, the UK being the most popular individual country. The reasons cited for this include the scale of the market, relative liquidity and the depth of opportunities available.

Logistics real estate

The findings also show that logistics real estate is becoming increasingly attractive with 15% already invested and 22% looking to invest. Retail property is being affected by a huge shift in consumer behaviour; specifically, urban logistics, as part of the new ecommerce supply chain is seeing the biggest step-change in how property is used and where it is located. It is in these urban, local facilities that are seeing the greatest potential for private investors seeking secure long-term returns, and looking to tap into the growth opportunities created by the rise of cities and increasing urbanisation.

The results of this first Investment Trends survey clearly show that family offices' relationship with commercial property will only strengthen further over 2017. The asset class remains an important diversifier from their domestic economy and a "real" asset capable of providing both a store of wealth and a stable income component.

Anthony Duggan, head of capital markets research, Knight Frank, commented; "Our long term view is that we expect private investor allocations to increase, with significant dry powder targeting the sector. Whilst offices remain the most popular sector, logistics is increasingly rising up the wish list as the strong fundamentals become clearer. Once again, these results reflect the outcome of our Attitudes Survey, where the majority of respondents favoured investment in Europe, by some margin, the preferred destination of global allocations for 2017, with the UK remaining top of the country list, despite the on-going uncertainty of Brexit."

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