



## Operator's manual

There is plenty of appetite for UK logistics property and for many the preferred method of accessing the market is to partner with a local operator. Oxenwood Real Estate joint chief executive Jeremy Bishop discusses how capital providers can collaborate with on-the-ground operating partners

**Amazon centre in Sheffield:** Oxenwood's JV with Catalina Holdings acquired the asset in December

In 2014, Jeremy Bishop and Stewart Little left FTSE 250 REIT LondonMetric (the result of a merger between UK property companies London & Stamford Property and Metric Property Investments) to start their own business, Oxenwood Real Estate. Rather than raising a fund, the pair started by investing their own money and forming joint venture structures with selected capital providers. Subsequently, over the past three years, Oxenwood has invested in the UK logistics sector alongside Bermuda-based investor, Catalina Holdings, and private equity real estate firm, Forum Partners, the latter of which took a £20 million (\$24 million; €22.7 million) stake in the business in February 2015. “We see an increasing number of investors wanting to invest in joint ventures and at the operating partner level in the UK logistics space,” says Bishop. *PERE* asked him what international institutional capital should understand when engaging with operating partners in the logistics market.

*PERE: What is the landscape like in terms of choosing an operating partner in the UK logistics sector right now?*

**Jeremy Bishop:** Competition from capital is strong and wide ranging. Organisations are investing in the public, private and fund domains. It is interesting how many new potential investors turn up on each transaction. Of course, there are the usual suspects, but there seem to be one or two new entrants on each occasion. Larger operators appear to have ample capital because the resources of their existing investors are so substantial. Logistics is a very popular sector and there is quite a lot of dry powder around, so we think having an operating partner on the ground has advantages to a new entrant compared to the alternative of going it alone.

*PERE: And what kind of investors are seeking operating partners?*

**JB:** The range of potential capital partners for logistics operators is probably as broad as I have known it. There

are the obvious state pension funds and the UK-based institutions, there are private equity fund investors and even some ultra-high net worth private investors. It is a very broad field. At the moment, those parties seeking operating partners for UK logistics are most commonly from Asia and North America but other regions also feature, South Africa for example. Most wish to have at least some form of control, however some afford a reasonable degree of discretion – one earns a more hands-off approach through building a track record and a relationship with them. Some have concluded they wish to be in UK logistics but they may not have a team here. Others have a UK-based investment team, but they are of a scale where they don't want to operate their individual strategies themselves, so they work with a partner in the various categories of investment they have selected. The key for operating partners is to be able to adapt to investors' structural preferences.

*PERE: What do investors demand from their operating partners?*

**JB:** In the main, a demonstrable track record in the sector and the ability to co-invest. They like the alignment of interest which upfront equity provides and the motivational alignment by way of profit sharing at exit. That said, some investors may prefer no co-investment, if the quantum from the operating partner is relatively small compared to the commitment. There is a degree of complexity in establishing a joint venture, so some investors are happy to rely on the operating partner's track record. Sometimes, it is just simply corporate policy for investors to own 100 percent.

North American capital partners tend to prefer the operating partner approach. Sometimes they do that by way of a joint venture with a firm like ours and sometimes they are interested in having an investment in their operating partner in return for providing some capital. Asian capital appears to be a bit more diverse in its approach. Two Asian investors we have spoken to did not want any co-investment; they wanted to own the real estate outright, but required experience on the ground in the UK to help them.

*PERE: What is essential for a really strong investor-operator dynamic?*

**JB:** There are two aspects to that: preparation and people. Quite often, potential partners say: 'If you find a deal then

come and see us'. That's helpful, but not always enough, because transactions, particularly in the open market, tend to move at a fairly brisk pace. As far as preparation is concerned, we like it when investors have a team here and have made some preparations for their operations, even if it is as simple as knowing which professionals they will use and their preferred jurisdictional base. Establishing terms of business is crucial. Two of the most successful joint ventures I can think of from an ease-of-operation point of view were both incorporated well in advance of the first transaction. Not only did that enable commercial terms to be firmly agreed, it also allowed parties to devise a modus operandi and agree detailed commercial terms. That puts a new joint venture in the strongest position possible to deliver its investment strategy when opportunities for investment arise. Above all, though, I think it is about a like-mindedness between the people involved and a common investment philosophy. It is helpful when the capital partner has a team on the ground, but not essential - very often, there are executives overseas involved as well.

*PERE: How do you see investor-operator relationships evolving in the near future?*

**JB:** There remains a lot of capital interested in the logistics space and we find that the focus of the partners that we talk to is on income and income growth. We have debated interest rates so often since we set up Oxenwood I have lost count, and although swap rates have risen in the last six months, I think finance rates will continue to remain fairly low, at least relative to the yield on logistics property. We are also seeing rental growth. As a consequence, investors' appetite for income will persist, supported by the structural changes

that are taking place in the logistics sector as a result of e-commerce which show no signs of abating. There is less appetite for development. That said, I suspect that that may well change and that the strength of the sector from an occupational viewpoint, coupled

with the shortage of new buildings, will give rise to an increased appetite for development activity, principally as a way for investors to add high-quality buildings to their portfolios – building to own as opposed to building to sell, like in the retail warehouse market in the late 1990s and early 2000s. Financing, particularly for speculative development, remains scarce, and scarcity often leads to opportunity. □



**Bishop:** creating value through optimal partnerships

**“Investors are looking for operators to co-invest. They like alignment of interest”**