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# Institutional investors turn to US multifamily, retail, logistics assets

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Australian institutional investors, including super funds, are turning their attention more seriously to investing in the multifamily, retail and logistics sectors in the US, says Eric Smith, executive vice-president of $US9 billion ($12.2bn) L&B Realty, based in Dallas.

"It is encouraging they will be investing with us in the US," said Mr Smith, who met with potential investors at a series of meetings in Melbourne, Brisbane and Sydney.

He added that they were also interested in Europe, but his firm only handled investing in the US.

"It will be a diversifier for their portfolios — but they are not very sure yet of the timing," he said.

Mr Smith was in Australia to speak at the Atchison Consultants Global Property Forum in Melbourne, where he spoke on the state of the US real estate market.

He told *The Australian* that his firm had chosen to focus on Australia as its first offshore location.

"We think the Australian market is a good (first) step for us. Australian institutions are long-term holders of assets and very sophisticated in real estate investing generally," he said.

Most L&B Realty clients are large US institutions.

L&B Realty is a mid-sized boutique investment firm, founded in 1965. Three years ago, it appointed Melbourne firm AFM Investment Partners as its representative in Australia.

Mr Smith spoke positively about prospects for the US real estate market, singling out the multifamily and logistics/industrial sectors for their performance.

The projected return for all property types in the US was 5.4 per cent between 2018 and 2020, he said.

Industrial property and multifamily, however, was expected to show returns of 7.1 per cent and 5.4 per cent respectively — both sectors will do better than office (4.9 per cent) or retail (4.6 per cent).

Despite the current trade spat between the US and China, Mr Smith said there had been a strong uptake in industrial space over the past two quarters.

"We have not yet felt the impact. We actually have an uptick in imports, especially from Asia and China," he said.

"US retailers are sourcing from China and trying to bring their products into the US before the tariffs take effect — or they get worse.

"US firms understand that President (Donald) Trump is taking a hard line and that China similarly is taking a hard line, but their expectation is that the US is going to negotiate a better deal with China."

Mr Smith said the US would have to continue to import most of its commoditised goods from China because there was "not a lot of opportunities of re-shoring those imports".

The reality was that US firms would have to move and store goods irrespective of trade tensions.

Demand for multifamily assets was growing because it had become the preferred form of housing for millennials.

Mr Smith said statistics showed that between 1 per cent and 2 per cent of millennials were beginning to buy homes. This would continue, but would not have a material impact on demand for multifamily housing.

He said millennials had been priced out of the market and, since the global financial crisis, had faced difficulty in securing housing finance. The demographics, he said, showed a strong preference for multifamily housing, which gave them mobility and access to high-quality amenities, such as pools and gyms.

On retail, Mr Smith said traditional retailers were investing in e-commerce platforms and distribution networks to catch up with the Amazon effect — while at the same time offering several new delivery options.

Most retail sales in the US would continue to occur "in store" over the next five years, he said. But the US had too much retail space, and weaker retailers, including JC Penny and Sears, had filed for bankruptcy protection.

Retail sales in the US were expected to increase by 4.6 per cent annually, buoyed by projected growth in e-commerce sales averaging 12.6 per cent over the next five years.