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Heitman to focus on self-storage, SFR as it sets out 2022 plans

Alternatives to continue as the focus in the new year

Naimish Keswani

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Chicago-based real estate investment firm Heitman is targeting US single-family rental and self-storage in 2022 as it seeks to deploy significant capital into new areas.

Speaking to With Intelligence, Brian Pieracci, managing director and head of North American acquisitions at Heitman, says its portfolio is currently overweight on non-traditional assets and likes that it does not correlate with broader economic trends.

“We wanted to move into more defensive sectors that were going to be less tied to any shifts in the economy, and that’s served us well,” he says.

The $47bn manager is examing a range of sectors next year and is bullish on single family rentals, self-storage, medical office, student housing, and senior housing.

However, single-family rental properties are top of the firm’s list, according to Pieracci, mainly due to the lack of affordable housing in the United States.

“Our strategies are focused on developing new sources of housing, and we’re going to continue investing in spaces that can help alleviate some of the shortage that the country is currently seeing,” he says.

With nearly $8bn in assets under management, self-storage is another favoured area for Heitman, and a segment they’ve been investing in since 1996.

“Self-storage performs in times of exuberance, and it also performs in times of difficulty, as we recently experienced with the recession from the pandemic,” Pieracci says.

The sector also has fewer capital requirements compared to others, where the capital load can be considerable and drag returns.

"On a relative basis, comparing it to other property types, you get a higher relative yield. Our experience has been that you get a higher, above-average NOI growth."

The firm this month acquired a portfolio of thirteen newly constructed self-storage properties spread across Boston, Charlotte, Dallas, Naples, Nashville, Newark, and St. Louis, in a joint venture with Life Storage.

Funds

According to With Intelligence data, the Heitman Value Partners III is on track to wrap up its activities by the end of the year. The fund was first launched in 2013 and followed a diversified value-add strategy. It is expected to sell its last remaining equity investment by the end of 2021.

In a board meeting held by Memphis Light, Gas, and Water Division Pension System (MLGW) this month, **Tom McCarthy,** Heitman's senior managing director for private equity in North America said that the fund is projected to provide a higher rate of return compared to its target.

"We are going to end up about 100bps higher on our IRR for the fund above the highest level of our target. We had a target IRR of 12%-14%, we're going to end up at 15.1%," McCarthy told the board.

"The reason for our performance in this fund has really been driven by sector selection. We were heavily weighted into the alternative property types," he added.

The fund had no exposure to retail with little commercial office exposure.

The $1.9bn Heitman Value Partners V, which smashed its hard cap of $1.25bn in June this year, will follow a similar strategy and will be heavily weighed towards alternative property types with a target IRR of 12%-14%. The fund, however, will invest a small amount in retail.

"In the retail sector, we're only looking at smaller community oriented and grocery-anchored retail, not larger formats," McCarthy told the investor.

Apart from MLGW, which allocated a total of $30m to Fund V, other known investors in Heitman's products include the New York State Teachers' Retirement System, the California State Teachers' Retirement System, and the State of Michigan Investment Board, as per With data.

Heitman is overseen by chief executive officer Maury Tognarelli. Gordon Black is their senior managing director for portfolio management.

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