

Inside KKR and Mirastar's logistics ambition



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Logistics investor, developer and manager Mirastar has grabbed industry attention since it came out of the blocks last year with initial backing from M7 Real Estate, and an exclusive mandate from Goldman Sachs.

Led by Mirastar's chief executive Ekaterina Avdonina and chief investment officer Anthony Butler, who co-founded the firm in 2019 after working together at Delin Capital Asset Management, the firm has expanded across Europe with offices in London, Madrid and Rotterdam.

Now that another big player has bought out M7's stake – private equity giant KKR, which acquired 50% for £3m in late March, according to M7's latest accounts – the business is aiming for an equally eye-catching new chapter of growth.

KKR's head of European real estate acquisitions Seb d'Avanzo, who previously worked with Butler at private equity real estate firm MGPA for a period before Butler left in 2008, says he leaped at the chance for a slice of the action.

"When I learned of the opportunity to work with [Mirastar], I rushed at it realising there would be a number of people that would also want to work with them," he says. "That played to our advantage – we moved quickly, and there was a trust relationship based on our past experiences together."

As KKR's primary industrial and logistics platform, Mirastar plans to deploy some \$4bn (£3bn) of capital in the next three to five years, either through value-add funds or other fund types.

It has secured in excess of £150m assets under management, with another £350m in its deal pipeline due to be completed in the next six months.

"We'll look at anything from £10m to multi-hundred million pound portfolios," says Avdonina. While the business is "scale-driven", its flexibility with lot sizes is one of the "differentiating factors" in



Ekaterina Avdonina

its acquisition programme.



Anthony Butler

Mirastar has so far exchanged contracts on Arterial Park – a consented big box scheme in Rayleigh, Essex – which it plans to develop into an urban logistics park. If it proceeds, it will begin construction later this year. It also has two schemes in the Netherlands – one in construction (pictured), and one in planning.

Expansion drive

In the weeks after the deal completed, and in the middle of lockdown, the team spent a lot of time assessing how the industrial occupier markets will perform post-Covid. It determined the time remains ripe for acquisitions, especially in locations where supply is tight.

“We realised that supply is going to get even thinner in some of our target markets,” says Avdonina. “We have seen further constraints on future supply, which enables us to be a bit more acquisitive.”

Its investment criteria covers land for direct development as well as forward funding for undercapitalised developers; it is also on the hunt for value-add income opportunities.

The platform, which has mainly focused on big box sheds, is also considering expansion into urban logistics development.

Geographically, Mirastar is focused on the Western, Northern and parts of Southern Europe. In particular, expansion to Italy and Germany is on the cards.

“We don’t want to grow too quickly because we want to have boots on the ground as well and have local teams,” says Butler.

He adds that while the Nordics would be an attractive market, it is a tricky one to enter that also offers a “small universe” of opportunities; elsewhere, the CEE lies beyond its scope. And KKR’s existing presence in France – after buying a stake in logistics firm Etche France in May – means that market presents a potential clash in interests.

In terms of investment, Mirastar is free to source other mandates. “There will be some mandates that aren’t appropriate to KKR’s capital and may be more appropriate to others,” says Butler.

“Although we’re very closely aligned, we have some freedom to operate and venture with other investors. Some are actually very comfortable with that, because they like the fact that KKR is there alongside it.”

Starring in KKR’s real estate play

KKR has no timescale for a potential exit from the business. “We see this as a relationship that could last a very long time,” d’Avanzo says, adding: “We’re going to have numerous funds that we would want to use the Mirastar platform for.

“There will be plenty of investors that want to work with Mirastar as well, [where] there is no conflict. It’s a long-term relationship.”

Besides Mirastar and Etche, KKR has invested \$1bn in a new European data centre platform called Global Technical Realty, and acquired PAI Partners’ €1bn Dutch holiday park business Roompot, as well as a string of notable hires.

“As a firm and a real estate team, we have been making some significant investments for the last part of this investment cycle,” says d’Avanzo.

Although KKR first invested in industrial in Europe in 2015, d'Avanzo says the investment case has been "picking up in the past couple of years". The shift to e-commerce and supply and demand dynamics have driven this, as well as an abundance of capital flowing into logistics.

"The way we are thinking about real estate as an asset class over the next few years is that, we believe that we will be in a very low interest rate environment for a protracted period of time," d'Avanzo adds.

"There are question marks around the office sector, and very big question marks around retail. Logistics is a standout star. If you can create durable cash flows with moderate to good growth potential, we think those assets are going to get bid up just from freed-up capital, needing to go into some strong income assets."

And while d'Avanzo points to the possibility of yield compression, it is not a structural change that KKR or Mirastar are betting on.

That said, Avdonina is bullish that there will "definitely" be more yield compression on the horizon, given the sector's "phenomenal supply and demand imbalance" and liquidity targeting logistics. She observes that in Germany, yields are forecasted to be lower in Q3 than they were in Q1.

"There is no other sector that demonstrates the same defensive characteristics with a very low supply, pretty much across the entirety of Western Europe," she adds. "There's a lot of investment and demand for being allocated to the sector. That's here to stay."

How logistics could deliver diversity

While the European industrial and logistics sector is powering ahead of its commercial real estate counterparts in many respects, it is fair to say it is lagging behind in others – most notably, when it comes to diversity. Avdonina is one of the few prominent female executives in the arena – a fact she finds "very sad".

However, Avdonina is upbeat that a more diverse pool of talent will make its way to executive levels within the next decade.

She notes that the junior and mid-level gender ratios within logistics departments at the big surveyors in particular are "changing very rapidly".

Butler muses that the ongoing turmoil in the retail sector may reroute more talent into the sector, given the overlap in skillsets involved.

"There is probably a higher level of female real estate people in retail... to transition over to logistics," he says. "But like all industries, you've got to start a lot of it at the grassroots [to] bring generational change. In 10 years you'll probably see a very different scene, or at least I hope so."

An image problem might lie at the heart of the challenge of attracting talent – as Butler points out, logistics was never exactly "as sexy as offices or retail". And as far as construction went, it was "just a box in the middle of a field".

But now, there is much more for the sector to shout about. "The level of sophistication has improved dramatically, especially since the last crisis, when people suddenly recognised the ecommerce story, and that it's one of the least volatile sectors," says Butler. "The people who are coming into it are very different to the kind of animal that used to manage and invest in it, say 20 or 30 years ago.

"Historically, investors went for logistics as a diversifier and maybe for higher-yielding income. But the world has changed now."

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Seb d'Avanzo

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