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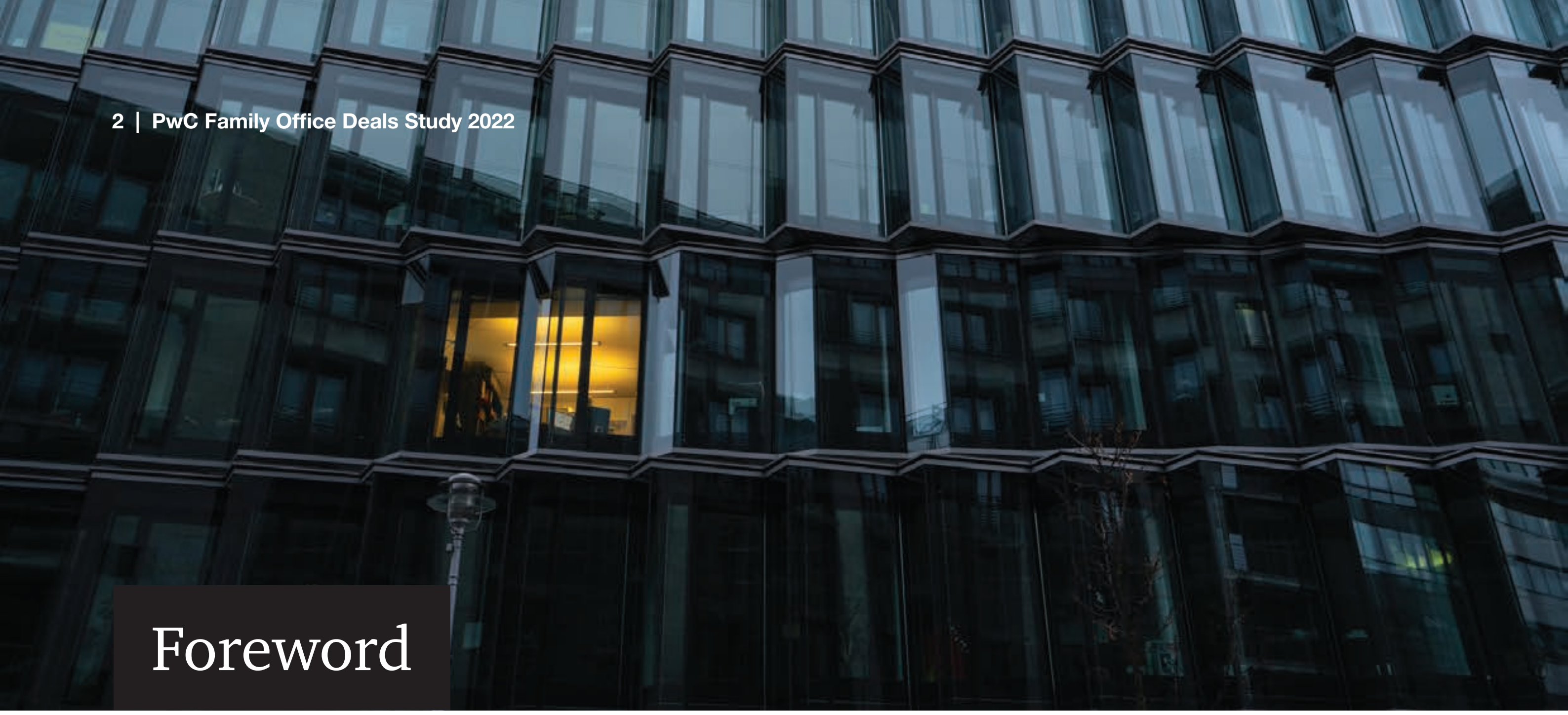
Family Office Deals Study 2022

Direct and real estate investments by family offices in Europe



Foreword

Family Offices are a unique and very discrete form of organisation. They manage the wealth of a single or multiple families and operate in a way that avoids publicity in order to protect the privacy of their beneficiaries. Accordingly, it is not a surprise that there is very little transparency about the role and importance of family offices as investors. What is their investment focus, preference on deal size and willingness to co-invest? What trends can be identified and to what extent do they compete with institutional investors and Private Equity houses?

Based on extensive research in collaboration with Family Capital, United Kingdom, we were able to answer these questions and provide a unique level of transparency, trends and insights with regard to investments in Europe.

Peter Englisch, Global Family Business and EMEA Entrepreneurial and Private Business Leader, Partner, PwC Germany

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Investments and deals are a cornerstone of wealth and asset strategy, especially in these times of change. PwC's Family Office Deals Study underlines that family offices and private investors have been steadily growing in relevance in this space, and are competing with institutional investors and private equity houses more and more. It also shows that Europe has rapidly become the main stage where this shift is taking place, underlining that the continent's attractiveness to domestic and foreign investors stems from investor's desire to deal in shared values, long-term perspectives and focus on predictability and stability.

Read more about the milestones of the last decade, and about what the future holds for family offices, in this report.

Johannes Rettig, EMEA Entrepreneurial and Private Business Business Development Leader, Director, PwC Germany

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The role of family offices in global capital flows has grown enormously in the last 10 years. Much of that activity is in the private markets, where increasingly returns have outshone those in public markets. But until recently very little was known from an aggregate perspective about how large these flows are and where they are most active.

This research by PwC and Family Capital represents the first comprehensive study that looks at private equity and real estate deal flow in Europe for family offices. The research shows where family offices are most active in the region and what sectors they favour.

David Bain, Founder and Editor of Family Capital Publishing

About this report

Family offices play a vital role for family businesses and their owners – supporting the strategy and legacy of the family, and ultimately providing peace of mind that their interests are being taken care of in a professional, systematic and efficient way. A key part of this is smart stewardship of family wealth and assets, including through investments and deals.

In recent years, family offices have become increasingly active and prominent players in the European and global deals landscape, getting involved in a widening array of direct investments in companies (hereafter “direct investments” or “direct investment transactions”) and real estate (hereafter “real estate investments” or “real estate transactions”) including multi-billion dollar megadeals. But how quickly – and in what ways – is their deal activity in Europe growing and evolving? How are their approaches developing over time? And what trends can be discerned in terms of deal sizes, structures, locations, sectors and asset classes, both today and over the past ten years?

In this report, we have analysed our unique database of family offices and their transactions to answer these questions and more. What emerges is a picture of a vibrant ecosystem of family offices that are increasingly proactive and ambitious in pursuing their goals – and in doing so are looking to invest in increasingly large and diverse deals, often in collaboration with others.

We hope you find this report interesting and informative. PwC has extensive experience and expertise in supporting and advising family offices, working with many family office clients around the world, often in conjunction with work for the related family business. To deliver the best outcomes for these clients we offer a comprehensive range of services specifically tailored to family offices. We have also compiled a Family Office Location Guide to help family offices choose the optimal location globally to meet their unique needs.

Methodology and definition of terms

PwC and Family Capital’s analysis of family office deals within or originating from Europe over the past decade is based on our proprietary database of 5,200 single family offices worldwide, of which almost 2,300 are based in Europe. In compiling this report, we researched direct investments in companies and real estate transactions undertaken by family offices between January 2012 and the end of 2021 with information from a variety of third-party sources, but also articles on major transactions published in the media or on the companies websites.

In terms of the scope of the analysis, we have only included transactions carried out by family offices that either have their headquarters in Europe or which are domiciled outside Europe but have carried out transactions within the region. Under the term “private investment offices” we have included single family and principal investment offices, and also family offices that are part of family businesses, often termed “embedded family offices”. However we have excluded information on typical multi-family offices.

Family offices deals with a focus on Europe are at their highest ever in terms of both volume and value

Both the volume and value of family office deals involving Europe – whether as the target location or origin of a transaction elsewhere – are now running at record levels. According to our research, the total number of family office-backed real estate and direct investments within and into Europe in 2021 was 934, surpassing the previous high of 901 recorded in 2019.

After a temporary decline in transaction value and volume in 2020 as a result of the Coronavirus pandemic, there was already a catch-up effect in 2021 driven primarily by rising direct investment transactions across a spectrum of mid-sized, large and mega deals above US$2.5 billion. Real estate deals also bounced back, though not yet returning to their 2019 level. As a result, overall deals resumed the upwards path they've followed in each year since 2016 with the sole exception of 2020.

Looking across both asset classes, the value of disclosed family office deals in 2021 reached USD 227.6bn – again a record high, buoyed up by a number of multi-billion USD transactions involving family-owned businesses. These included the disposal of up to 70% of Birkenstock to L Catterton, backed by Bernard Arnault's family holding company Financière Agache[1].

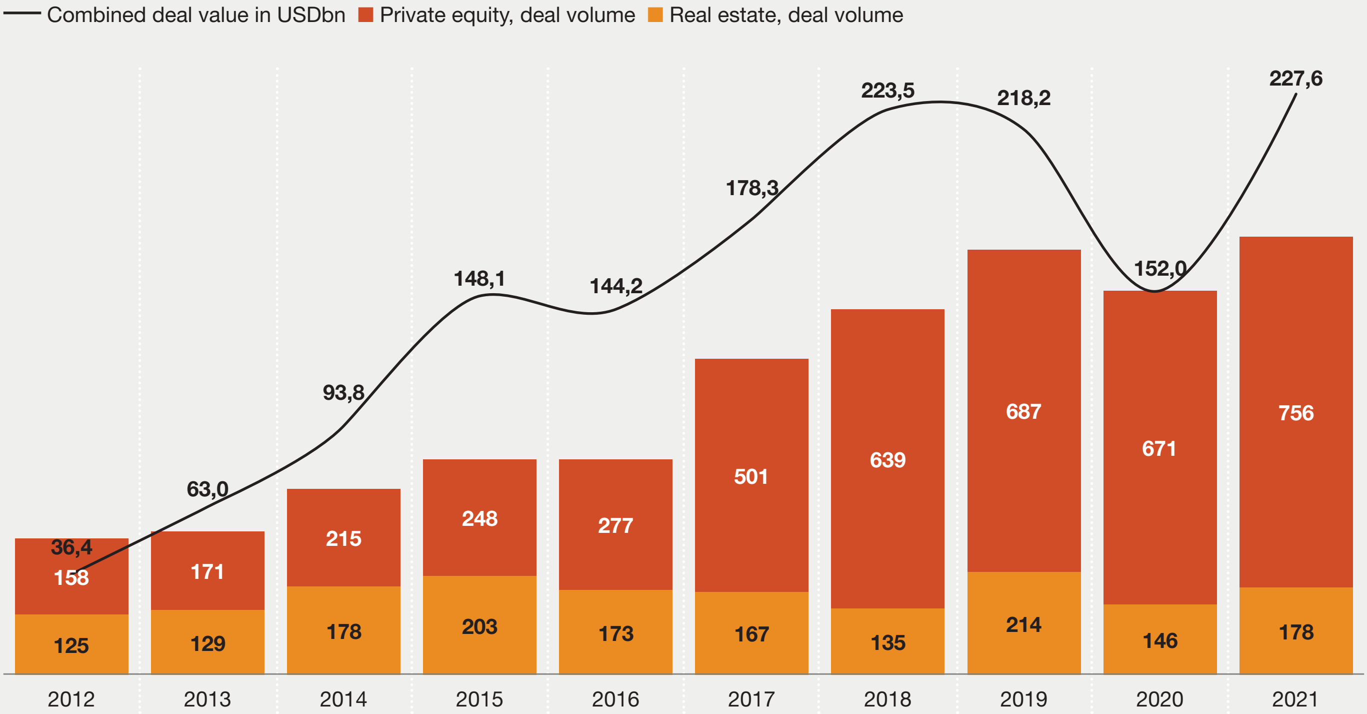
Families are more prepared to sell – assuming the price is right

The Birkenstock deal was just one of several transactions that, together, marked a watershed in family office deals in 2021. Whereas owning families have traditionally been steadfast in looking to retain and pass on their businesses to the next generation, the number of disposals during the year underlined that selling the business – including to other family-owned entities – has become more of a realistic option. Ample liquidity in the market and large quantities of "dry powder" chasing investments and acquisitions saw exit multiples reach sky-high levels, making 2021 a great time to be selling a business.

The year also marked another turning point, with family office-backed transactions accounting for 10% of the entire deals market – the first time they've reached this percentage. In the market more broadly, the number of non-single family office-backed transactions increased by some 38% in 2021 to 9,189, from 6,674 in 2020.

1 Archyde. (2021, April 23). Birkenstock: EU Authority allows takeover by luxury investor. Archyde. Retrieved April 25, 2022, from https://www.archyde.com/birken-stock-eu-authority-allows-takeover-by-luxury-investor/

Figure 1: Value and volume of deals carried out by family offices from, within and into Europe, 2012-2021



Source: Refinitiv US Holdings Inc., Real Capital Analytics, PwC analysis

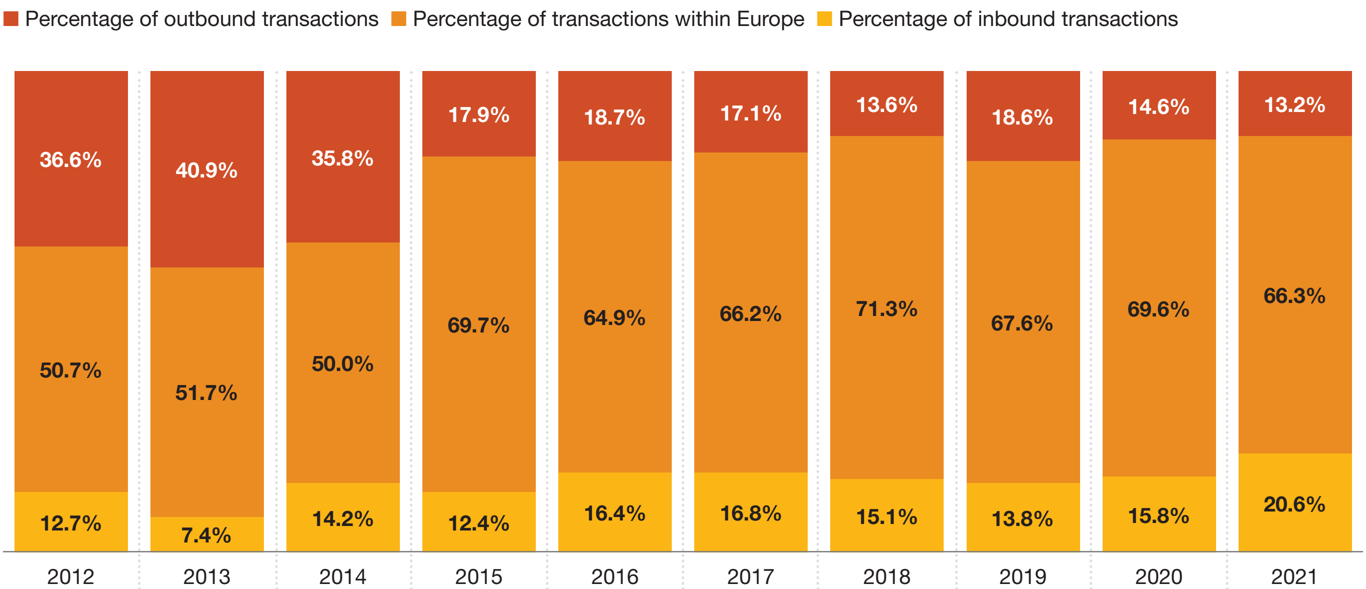
Europe has increasingly become the location of choice for family offices to acquire and invest

An analysis of inbound, outbound and intra-European family office-backed deals over the past decade shows that – amid generally rising deal volumes – the balance has shifted steadily from outbound to inbound, with intra-European deals holding steady as a percentage of overall transactions.

In 2021, the proportion of family office-backed deals focused on outbound opportunities fell to just 13% – its lowest level in the past decade. This took the share of investments in Europe by family offices based in and outside of Europe to almost 87%, narrowly exceeding the previous high of 86% recorded in 2018. Since the percentage of transactions outside of Europe by domestic family offices is decreasing at the same time, the trends clearly underline the rising attractiveness of the European market for international investors.

Why has Europe become the location of choice? There are a couple of factors at play. One is global geopolitical uncertainty, which makes staying close to home in Europe feel like a safer option, especially given that European family offices may feel more comfortable with Europe's business culture and regulation. Another is that while overseas sectors such as the US technology industry offered great investment prospects back in 2012-2014, there are now some even better opportunities within Europe.

Figure 2: Volume of family office deals 2012-2021 – outbound, inbound and within Europe



Source: Refinitiv US Holdings Inc., Real Capital Analytics, PwC analysis

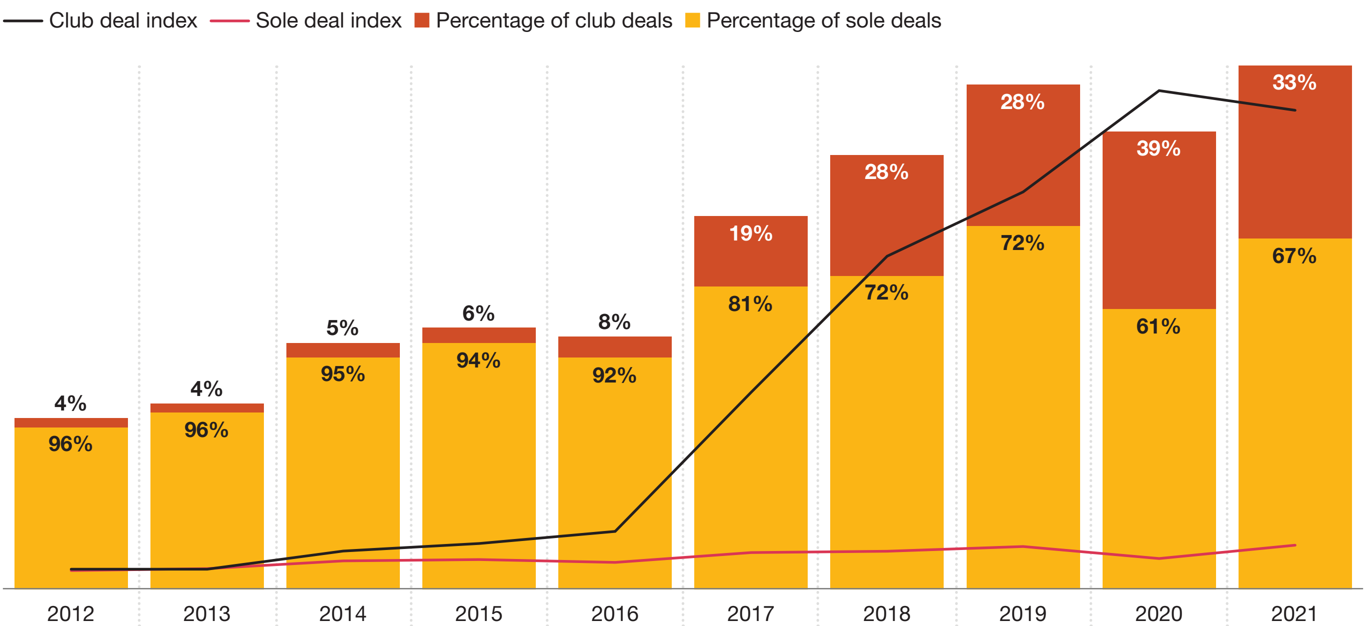
“Club deals” are on the rise – reflecting bigger deals and the desire to share risks

“Club deals” are transactions where a family office joins forces with other investors such as private equity or peers in the family office community to provide backing. The number of club deals has increased significantly over the past decade, rising especially strongly in the past five years – albeit with the total slipping back slightly in 2021 from its 2020 peak.

Even as the volume of “sole” or single-office deals has varied year-on-year since 2015, club deals have remained on a generally upwards track. Despite the pause in their growth in 2021, some 308 of the family office-backed transactions during that year can be classified as club deals against 626 sole deals – meaning club deals accounted for 33% of the total. And while the number of sole deals has roughly doubled since 2012/2013, the number of club deals has increased by almost 25 times and reached its highest ever level in 2020.

The main drivers behind the rise of club deals are the increasing size of investments – meaning more investors are needed to contribute the required capital – and the desire to diversify risk exposures. In an uncertain world, family offices are increasingly keen to share the risks and rewards around their investments.

Figure 3: Sole family office versus club deals, 2012-2021



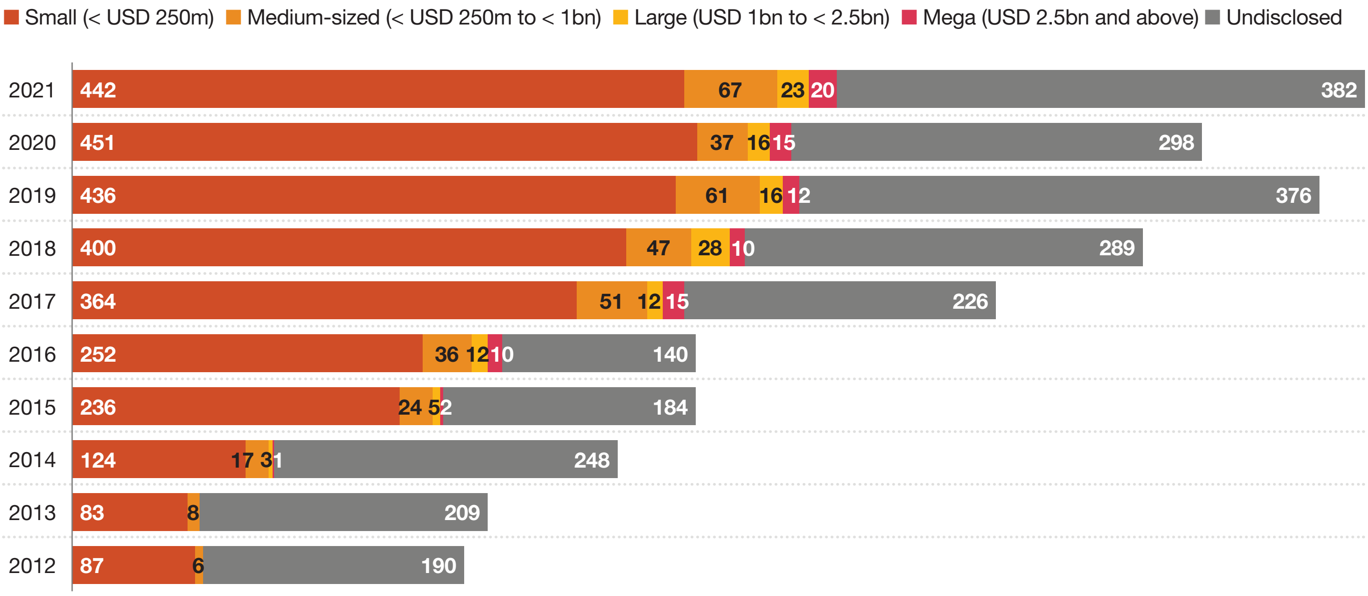
Source: Refinitiv US Holdings Inc., Real Capital Analytics, PwC analysis

Family office deals are getting bigger – with megadeals hitting new highs

The year 2021 saw a step-change in the number of European megadeals – transactions valued at above US$2.5bn – backed by family offices. Having bumped along at between 10 and 15 for the previous four years, the number of megadeals jumped to 20 last year, the highest for any year in the past decade. Large deals worth between US$1bn and US$2.5bn were also running at a healthy rate, recording their second highest annual total after 2018, at 23. Medium-sized deals between US$250m and US$1bn were at a record level, at 67.

The growing complement of megadeals includes several high-profile transactions during the past year. Europe's largest family office-backed transaction in 2021 was the merger of Groupe PSA and Fiat Chrysler Automobiles N.V. (FCA) into Stellantis for a total consideration of €21.2bn[2]. The Peugeot family holds 19.5% of the voting rights in PSA, while the Agnelli family holds 42.1% of the voting rights in FCA via its family office Exor in the Netherlands.

Figure 4: Changes in the distribution of family office-backed deal sizes, 2012-2021



Source: Refinitiv US Holdings Inc., Real Capital Analytics, PwC analysis

2 FCA and PSA Complete Merger to become Stellantis. Automotive News Europe. (2021, January 19). Retrieved April 21, 2022, from https://europe.autonews.com/automakers/fca-and-psa-complete-merger-become-stellantis

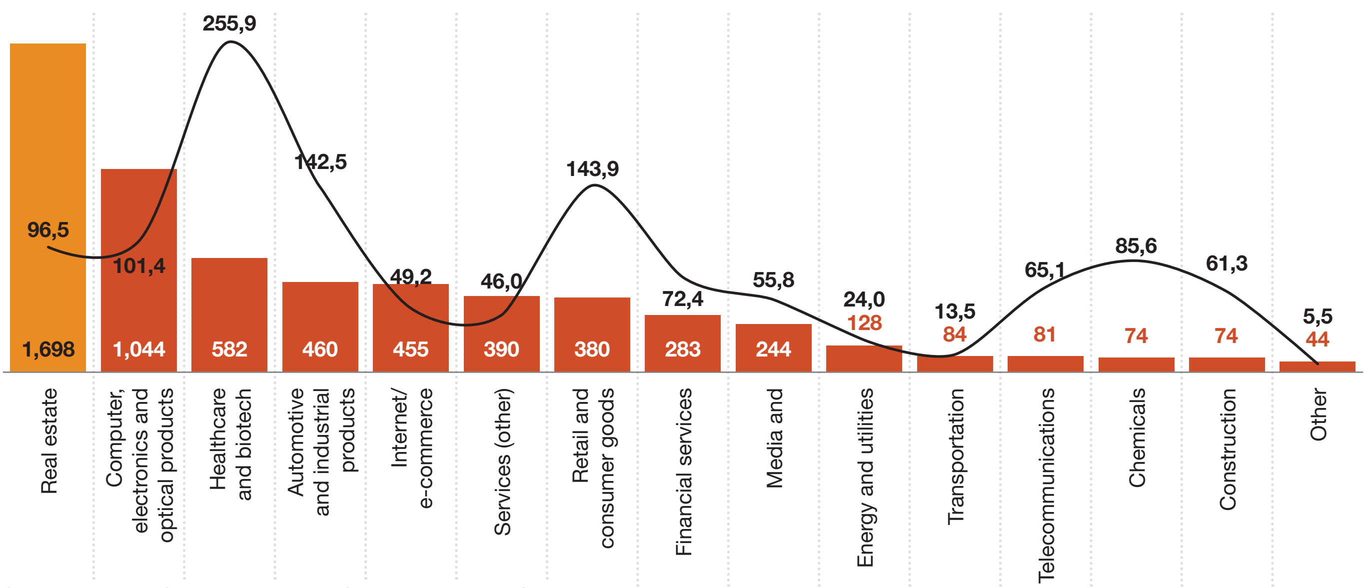
The top sectors are real estate in terms of deal volume – and healthcare & biotech in terms of deal value…

Our analysis of deals by sector reveals that real estate has been the most active sector for investments by single family offices over the past decade – with 1,698 transactions during that time – followed by 1,044 in the computer, electronics & optical products sector, and 582 in healthcare & biotech.

However, the total value of family offices' real estate deals has been fairly modest, at US$96.5bn. By contrast, the far smaller number of healthcare & biotech transactions amassed the largest aggregate value for any sector, at US$255.9bn, followed by investments in retail & consumer goods (US$143.9bn) and the automotive & industrial products industry (US$142.5bn). It seems likely that the high value of healthcare & biotech deals at least partly reflects the surge in interest and investment in life sciences as a result of the fight against the pandemic.

Turning to specific deals, the largest family office-backed real estate transaction in 2021 was the acquisition of the Elementum office quarter in Munich as part of a club deal involving two family offices – the Farrokhnia family's Imfarr in Austria and the Ketterer family's SN Holding in Switzerland[3].

Figure 5: Key sectors for family office investments, 2012-2021



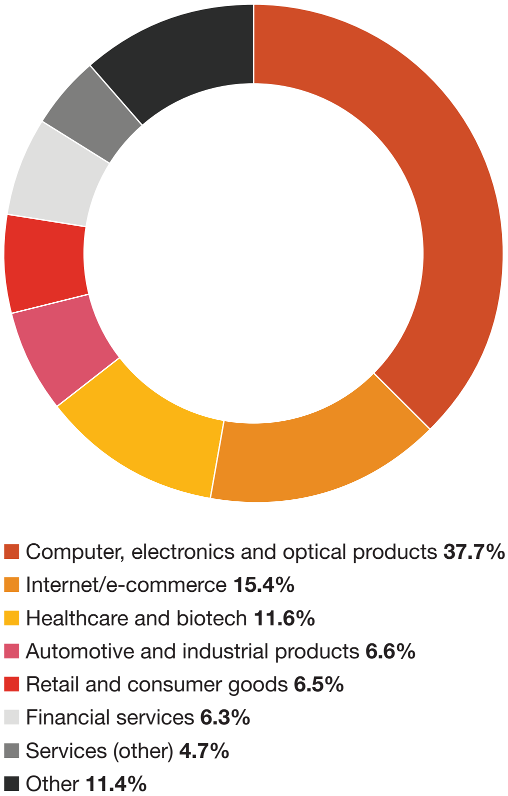
Source: Refinitiv US Holdings Inc., Real Capital Analytics, PwC analysis

3 Ltd, H. R. P. (n.d.). News. IMFARR und SN kaufen das Elementum von Credit Suisse. Retrieved April 21, 2022, from http://www.deal-magazin.com/news/107999/Muenchen-IMFARR-und-SN-kaufen-das-Elementum-von-Credit-Suisse

…with club deals mainly targeting digital technology sectors and healthcare

Zeroing in on family office club deals involving multiple investors, the sectors that have attracted the biggest shares of these deals over the past decade are computer, electronics & optical products at 37.7%, followed by internet/eCommerce (15.4%) and healthcare & biotech (11.6%). The more traditional "older industries" – the likes of automotive & industrial products, retail & consumer goods, and financial services – each have just a single-digit share of club deals.

Figure 6: Sectors with the highest share of club deals, 2012-2021



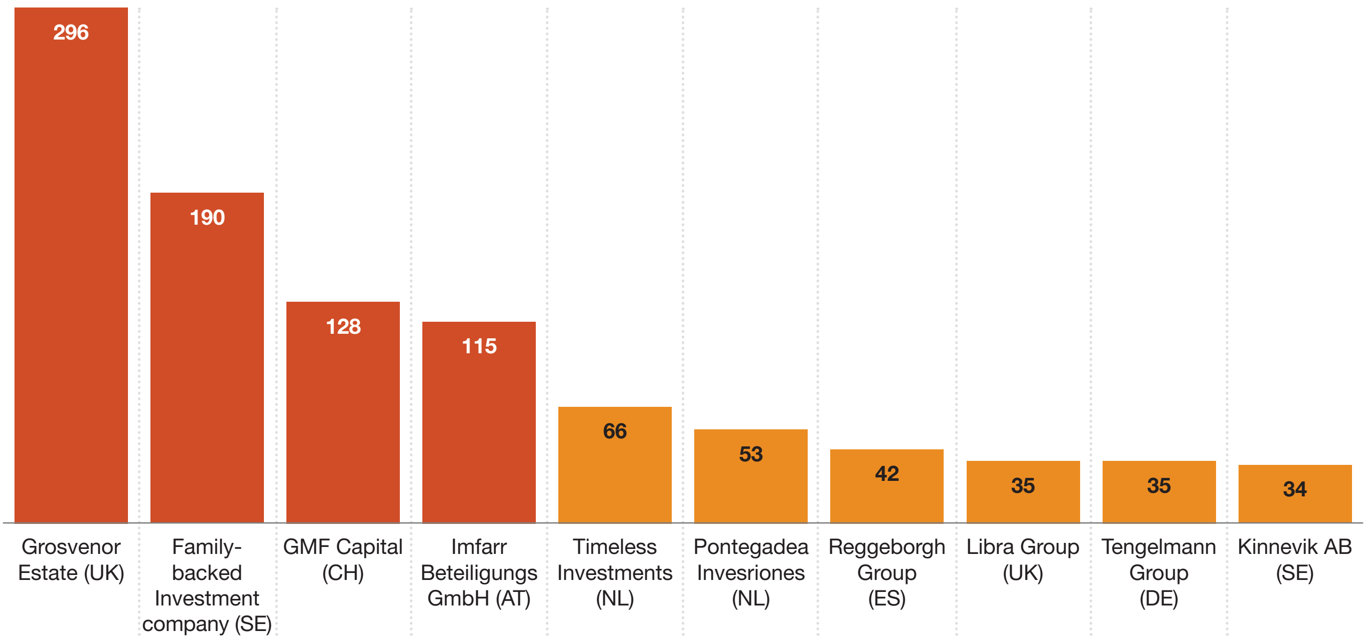
Source: Refinitiv US Holdings Inc., Real Capital Analytics, PwC analysis

The most active family offices in our study come from a wide range of European locations

An analysis of the family offices who've backed the largest numbers of European-related transactions over the past decade reveals that they come from a diverse range of locations, with the top five all originating from different countries.

The most active family office overall is the Duke of Westminster's Grosvenor Estate with 296 transactions, followed by a Swedish family backed Investment company at 190, Gary Fegel's GMF Capital with 128, and Nemat Farrokhnia's Imfarr at 115. Each of these offices has invested in more than 100 properties and/or companies within the past 10 years.

Figure 7: Most active family offices and family backed investment companies, 2012-2021



Source: Refinitiv US Holdings Inc., Real Capital Analytics, PwC analysis

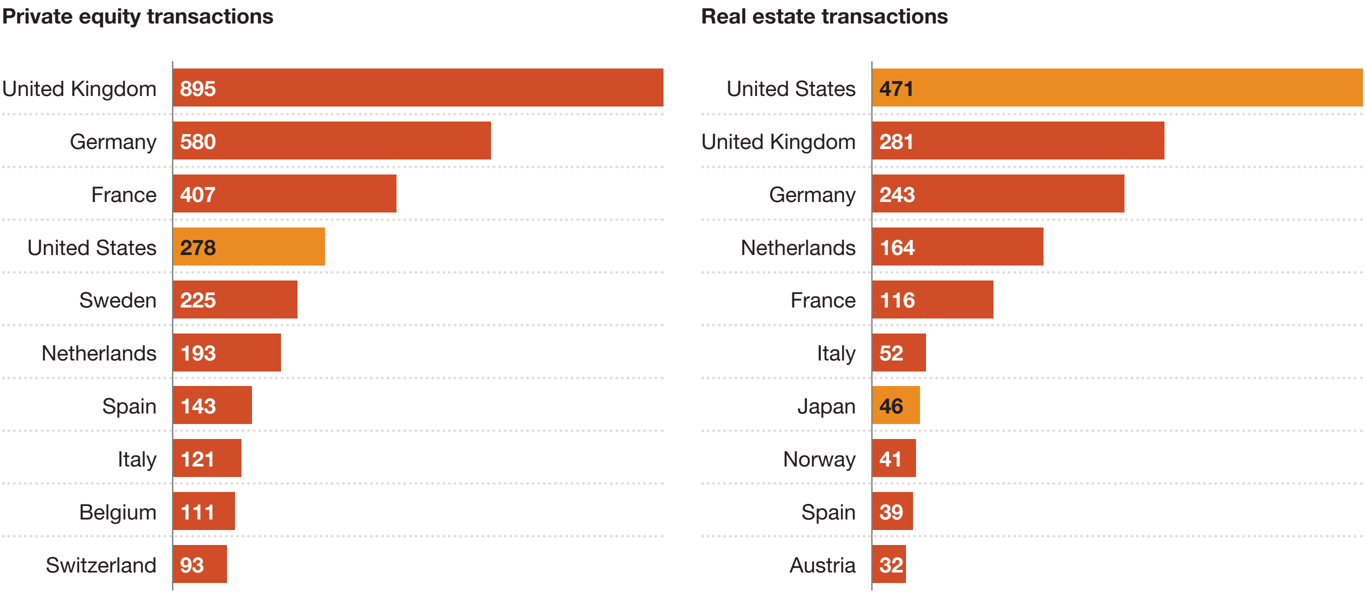
The most popular target markets are the UK for direct investments and the US for real estate…

A breakdown of family office deals by target market shows that the United Kingdom has been the most popular overall in the period from 2012 to 2021, ranking first for direct investment transactions and second after the US for real estate deals.

For direct investments, the UK's total of 895 transactions during the decade is followed by Germany with 580 and France with 407. The US ranks a fairly distant fourth with 278 transactions.

By contrast, the US's 471 real estate transactions makes it the most attractive target market for real estate investments, ahead of the UK (281) and Germany (243). Japan is the only target market in Asia-Pacific that makes either top 10, ranking seventh for real estate.

Figure 8: The most popular target markets for family offices (2012 - 2021)

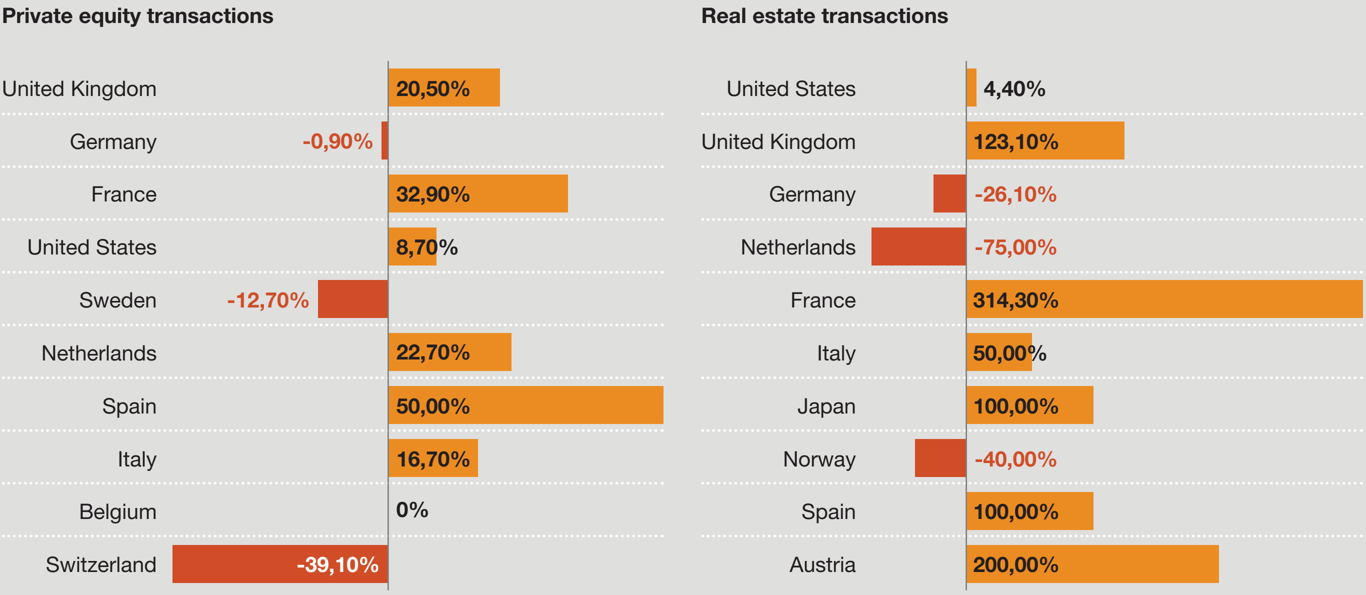


Source: Refinitiv US Holdings Inc., Real Capital Analytics, PwC analysis

…with Spain experiencing the fastest growth in direct investment deals, and France in real estate

Looking at the growth in deal volumes between 2020 and 2021, the biggest increase in direct investment transactions was in Spain, with a 50% jump, followed by France, where direct investment deals rose up by 32.9%. In contrast, transactions in Switzerland and Sweden declined. In real estate, the fastest growth in deals was in France, where transactions leapt by more than 300%, and in Austria, at 200%. Conversely, family office real estate activity in the Netherlands, Norway and Germany fell back.

Figure 9: Growth in transactions in the most popular target markets for family offices (2020 - 2021)



Source: Refinitiv US Holdings Inc., Real Capital Analytics, PwC analysis

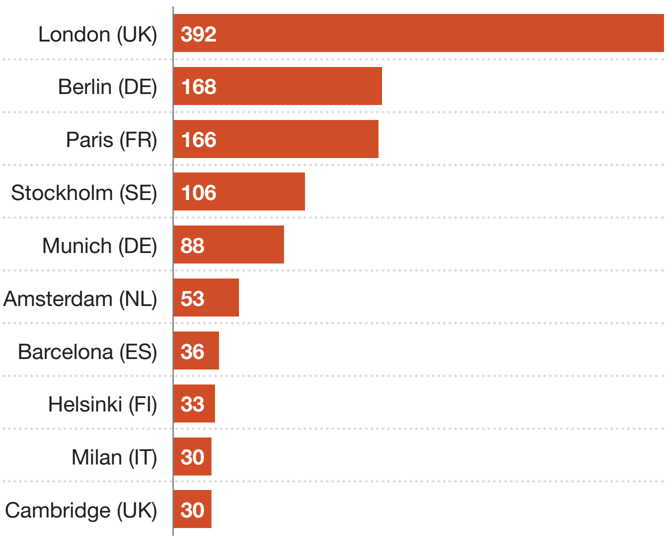
The hottest city locations for family office investments are London for direct investments and Miami for real estate

The leading city hot-spots for European-related investment by family offices over the past decade mirror the findings on target markets – with the UK's London taking the top place for direct investments, and the US's Miami for real estate.

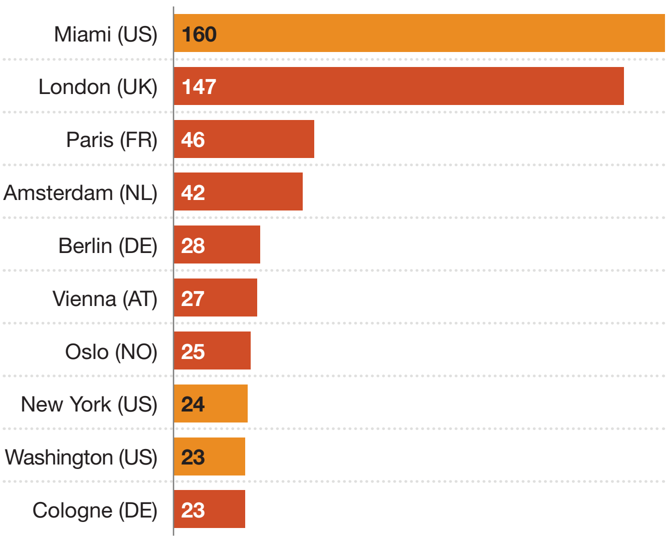
London attracted 392 direct investment transactions between 2012 and 2021, more than twice the total recorded by second-placed Berlin (169) and third-placed Paris (166). For real estate deals, the most popular hot spots are Miami, with 160 transactions over the period, followed closely by London (147) and then Paris (46). The US is the only country to have three investment cities among the Top 10 – Miami, New York and Washington.

Figure 10: City hot-spots for family offices investments (2012 - 2021)

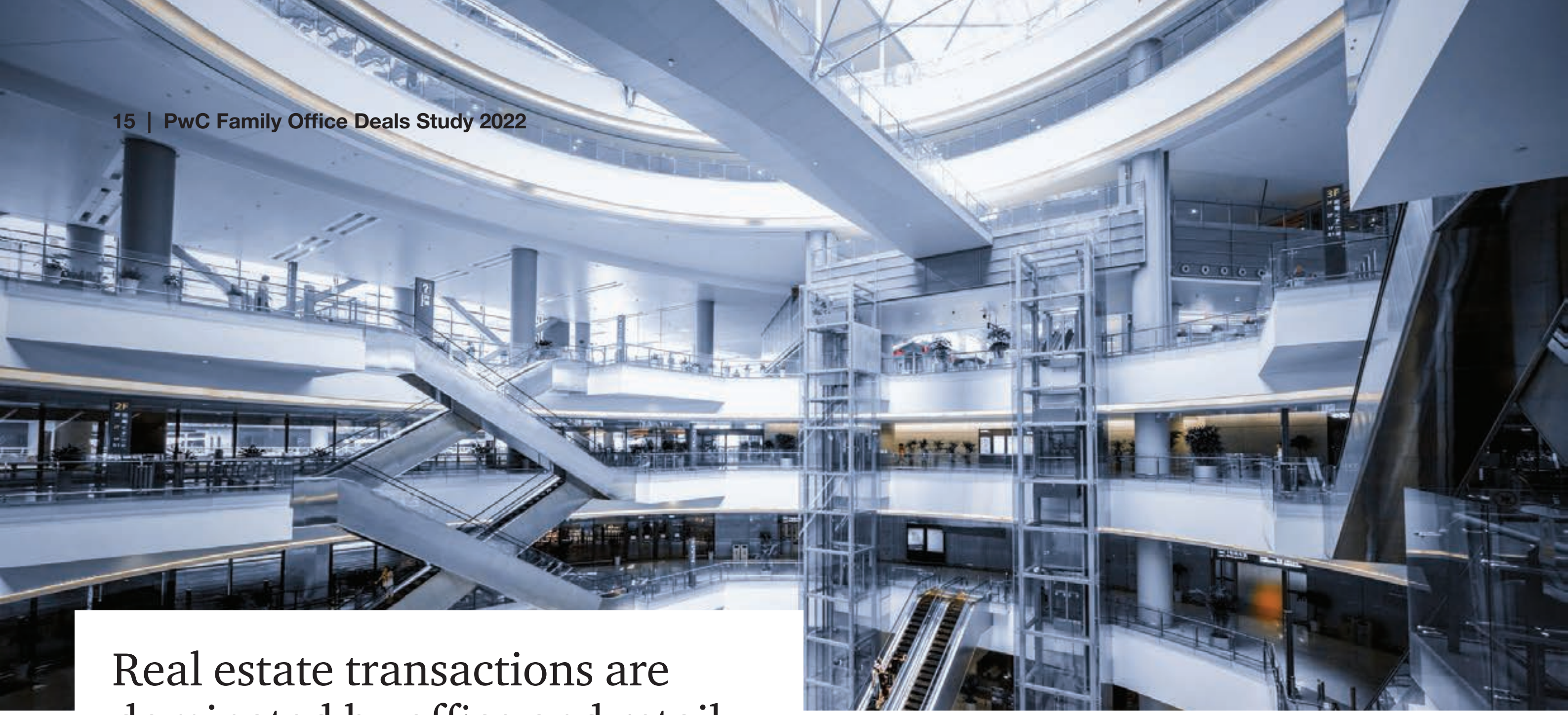
Private equity investments



Real estate investments



Source: Refinitiv US Holdings Inc., Real Capital Analytics, PwC analysis

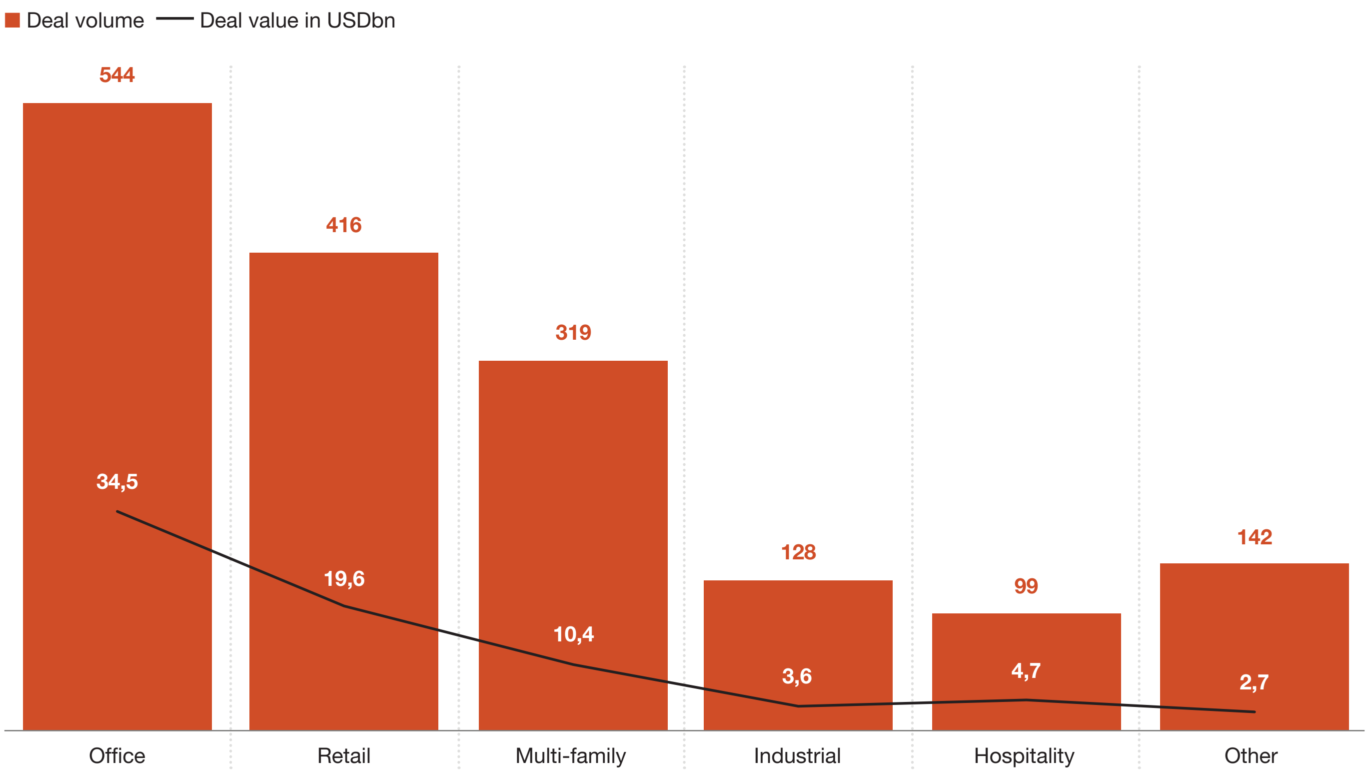


Real estate transactions are dominated by office and retail – so far

An analysis of family offices' real estate transactions over the past 10 years by property type, deal volume and deal value shows that office and retail deals dominate both in terms of number of deals and size of investment. Office deals rank as the most popular asset class with 544 deals worth US$34.5bn, followed by retail (416 transactions with a total value of US$19.6bn) and then multi-family properties (319 deals worth US$104bn).

Going forward, it will be interesting to see whether office and retail investments retain their leading positions among real estate deals, given the twin shifts triggered by the pandemic towards remote working and online shopping.

Figure 11: Total deal volume and value for real estate transactions involving different types of property (2012 - 2021)



Source: Refinitiv US Holdings Inc., Real Capital Analytics, PwC analysis

Various cities are leading the way in different types of real estate investment by family offices

A breakdown of family offices' real estate investments over the past decade shows that London is by far the leading city for investments in office space, with a total deal value of US$10.2bn. London also leads by a wide margin in multi-family deals, as well as being the number one target for hospitality investments.

Meanwhile, the top cities for investments in retail property are Paris and Miami, both of which have attracted total hospitality deal values of more than US$2bn in the 10-year period. Oslo leads for industrial property deals, with three US cities also making the top five in this sector.

Figure 12: The top five cities by deal value for family office real estate investments, broken down by property type (2012 to 2021)

Office

City	Deal value in USDm
London (UK)	10.226,3
New York (US)	2.375,5
Paris (FR)	1.519,1
Frankfurt am Main (DE)	1.447,6
Washington DC (US)	1.215,3

Retail

City	Deal value in USDm
Paris (FR)	2.056,4
Miami (US)	2.045,4
London (UK)	1.739,4
New York (US)	1.138,6
Madrid (ES)	776,6

Multi-family

City	Deal value in USDm
London (UK)	2.425,2
Washington DC (US)	386,5
Gaithersburg (US)	350,1
Virginia Beach (US)	314,0
District Heights (US)	294,8

Industrial

City	Deal value in USDm
Oslo (NO)	394,7
Siziano (IT)	363,8
Saint Peters (US)	122,0
Tampa (US)	112,7
San Jose (US)	108,5

Hospitality

City	Deal value in USDm
London (UK)	627,0
Prague (CZ)	258,5
Hamburg (DE)	242,8
Copenhagen (DK)	242,0
Amsterdam (NL)	229,8

Source: Refinitiv US Holdings Inc., Real Capital Analytics, PwC analysis

Outlook

This study has shown that the volume as well as the value of deals conducted with the support of family offices reached an all-time high in 2021. This raises the question: What will happen in 2022?

Nicola Anzivino, Global Industrial Manufacturing & Automotive Deals Leader, EMEA Deals Clients & Markets Leader, Partner, PwC Italy, says:

"We expect family offices to be increasingly focused on new direct investments both in the shape of club deals (with PE acting as deal arranger) and co-investments (with PE as the anchor investor). In an increasingly challenging market environment of high inflation and rising interest rates, direct equity investments can currently offer some of the best return prospects for the families, helping them reach their long-term value creation objectives.

Family offices can leverage their ability to act as the cultural "bridge builder" between the asset-owning families and private equity investors to drive the number of leveraged buyouts (LBOs) and minority investments in family-held companies. In addition, their industry network and relative inefficiency of pockets of the European private market often allows them to access the deals at attractive valuation entry points."

However, we are also noticing a number of critical signals that could influence investment in assets such as real estate. Rising energy prices and supply disruptions due to the Russian war on Ukraine and as a result of the COVID-19 pandemic have led to higher and broader-based inflation than expected. The slower-than-expected recovery in private consumption also signifies limited growth prospects. On the other hand, the central banks are trying to counter the advance of inflation by raising interest rates.

Owning real estate brings a number of benefits during periods of high inflation. First of all, owners will see appreciation as property values keep pace with the rising price of goods and services. Also, with fewer real estate development projects being initiated due to rising labour, material, machinery and other costs, property supply tends to decline, helping to buoy up prices for existing assets.

Second, inflation pushes all prices upward, rents included. As housing development slows and demand for existing properties rises, occupancy rates typically skyrocket. In such an environment, landlords raise rents, which generates higher revenues, and in turn increases property values.

Finally, mortgage payments on fixed-rate instruments do not change over time – meaning the outgoing payments remain constant while equity growth accelerates. Furthermore, inflation reduces the value of money owed in the future.

That said, advisors and investors should be aware that as mortgage rates rise during periods of inflation, demand for real estate tends to decline as debt becomes more expensive. The question now is whether this consideration will also influence the investments made by family offices in the current year.

If we look at the transactions carried out so far over the first three months of 2022 and extrapolate these figures to the whole year, we can come to the conclusion that the growth trend will not continue overall. Although we note a further increase in direct investment transactions, especially in the area of small and medium-sized deals, we expect that there will be a more significant decline in real estate transactions. More concrete results will be available to us in the second edition of our study in the second half of 2022.

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