

PUBLICATIONSEUROPE

APRIL 1, 2025: VOL. 19, NUMBER 4

The next big thing: When niche sectors go mainstream

BY CHRIS ANDERSON

Once considered niche investments, real estate sectors such as student housing and logistics have come to the fore in recent years, firmly embedding themselves in the institutional real estate landscape. In changing market conditions, these assets promise steady income streams and resilient demand, proving to be more attractive than offices and retail.

Could similar transitions occur for other alternatives, such as self-storage, data centres, and co-living? Or are these markets still too niche, with liquidity pools too shallow to support widespread institutional adoption? As portfolios evolve in response to global economic shifts, demographic changes, and technological advancements, investors are being forced to rethink their asset allocations and reassess which sectors hold the potential to deliver long-term returns.

Charles Allen, head of European real estate at Fiera Capital, highlights the growing appeal of alternative real estate. "Institutional investors are increasingly targeting opportunities to reduce risk by diversifying portfolios outside of fixed income," he says. "Alternative real estate offers low correlation to traditional asset classes like offices and retail while producing long-term, inflation-hedging income streams in sectors with capital growth potential."

[> Privacy Preferences](#)

Charles Ferguson-Davie, co-CEO and CIO of Moorfield Group, is well versed in the trajectory of once-niche asset classes becoming mainstream, having first invested in student housing in 1997. "Purpose-built student accommodation [PBSA] has been established for many years as a destination for institutional capital," he explains. "The attraction lies in the strong demand/supply dynamics, driven by the growth in higher education and the promise of liability-matching income streams with counter cyclical and inflation-linking qualities."

Having once been considered a niche market, PBSA has now become a core asset class in institutional portfolios, with Ben Henry, acquisitions director at Fusion Group, also noting the appeal. "What was once an alternative sector is now mainstream," he observes. "As university enrolments continue to rise, the fundamentals of PBSA remain strong, and it continues to attract major institutional investors."

This example is far from unique, as the broader residential rental market is undergoing a similar evolution. In the United Kingdom, institutional interest in multi-family and build-to-rent (BTR) properties has started to spill over into single-family housing and co-living spaces. "The demand for more housing of all types has driven institutional interest in the living sectors," Ferguson-Davie continues. "While in markets [such as] the United States and Germany, rental housing has long been a staple of institutional portfolios, the United Kingdom is just beginning to embrace it. This emerging trend presents an attractive growth opportunity for investors."

Another key factor in this evolution is the resilience of residential real estate, which has shown robust performance in the face of economic uncertainty. Martin Towns, deputy global head of real estate at M&G Real Estate, observes this shift. "The growth of our exposure to the living sector in various forms has been a significant part of our strategy," he says. "Investor surveys worldwide show a preference for living sectors, and we see this globally, from the United Kingdom to Europe and Asia."

From niche to core

While the "beds and sheds" sectors have thrived, offices and retail, the traditional cornerstones of institutional portfolios, are facing structural challenges. Daniel Green, partner at Tri7, summarises the change in the market as follows: "The demand for office space is shifting, especially in secondary and tertiary locations," he says. "But there's an opportunity to reposition office assets, such as converting office buildings into data centres or other alternative uses."

This repositioning strategy also applies to retail properties, many of which are being repurposed for mixed-use developments or even logistics hubs, acknowledging that the demand for traditional shopping outlets is in decline. "Demographic and socioeconomic changes will continue to drive the emergence of new real estate asset classes," adds Moorfield's Ferguson-Davie. "However, we believe long-established sectors such as offices and retail will not be downgraded and considered niche or emerging – they will simply be repositioned to meet new demand."

Allen adds to this point by highlighting the nascency of segments such as single-family in the United Kingdom. "[This] presents the opportunity for early-mover advantage, with those who have already started to build a track record across asset and operational management strategies set to have the competitive edge, as it means they can scale quicker," he says. "As institutional portfolios continue to diversify, the trend of shifting focus from traditional office and retail spaces towards more resilient, inflation-linked alternatives is clear."

Scaling challenges

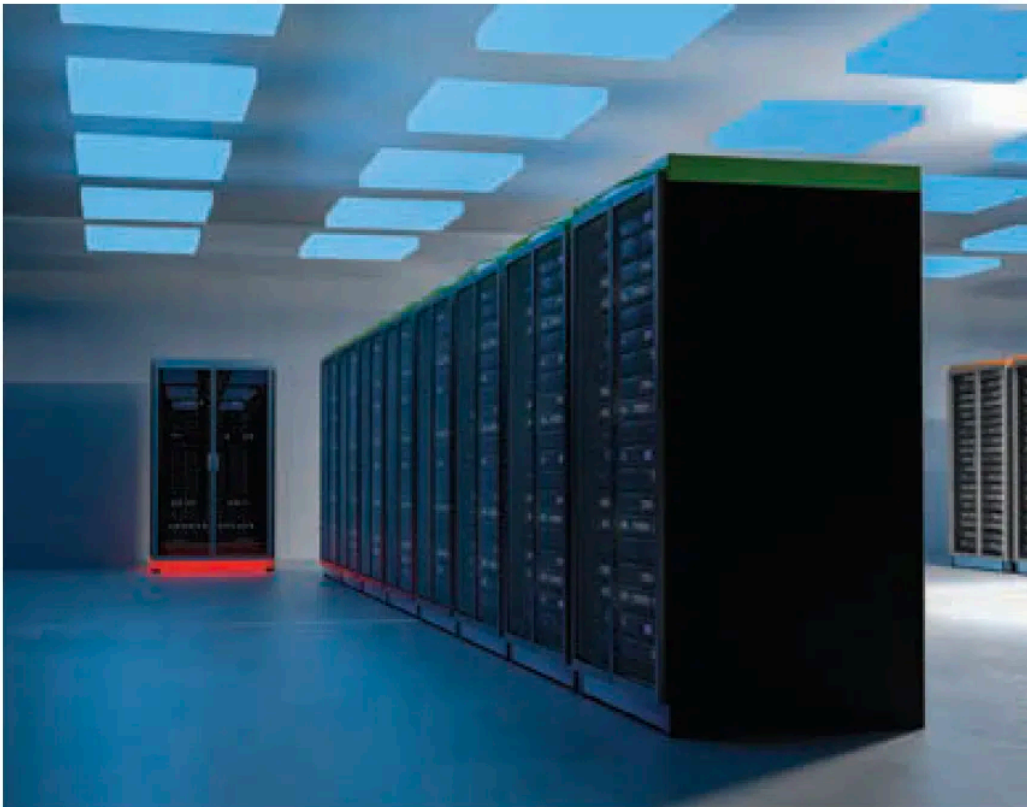
While certain alternatives have successfully made the leap into institutional portfolios, some sectors are more challenging to scale. Mahdi Mokrane, head of fund management real estate at PATRIZIA, elaborates on this trend.

"In 2022, nearly 50 percent of the invested real estate universe in the United States was made up of alternative property types, such as student housing, medical offices, data centres and cell towers," he says. "They are

integral to future-proofing portfolios. In Europe, this trend is accelerating, though there are still structural barriers to scaling these asset classes."

Liquidity constraints are a common challenge when scaling alternative real estate investments. Unlike traditional asset classes like offices or retail, alternative sectors do not allow for rapid scaling, says Tri7's Daniel Green. "Aggregating portfolios in self-storage or student housing is inherently more difficult, especially when compared to established markets," he argues.

Beyond liquidity, operational intensity presents another hurdle. Many alternative asset classes, particularly data centres and healthcare properties, require significant operational expertise to ensure long-term success. "Alternative sectors, by nature of their occupier base, are often operationally intensive," PATRIZIA's Mokrane continues. "To deliver outperformance, investors need to have strong in-house asset and operational management capabilities or form partnerships with specialist operators."



Data centres continue to divide opinion, with some betting on the segment growing exponentially, while others warn about threats to the sector, chiefly led by technological obsolescence and the availability of uninterrupted and affordable power.

Beyond the conventional

As niche sectors continue to make their way into institutional portfolios, some investors are beginning to look to the unexpected. Ian Rickwood, founder and chairman of Henley Investment Management, is building express tunnel car washes as the next potential institutional play.

"We see car washes as the next self-storage," Rickwood comments. "The market has already attracted interest from corporate buyout private equity, such as KKR and Blackstone. However, we also see an opportunity for the private equity groups to follow suit in the near future, given the relatively low operational aspects of the business."

Rickwood further elaborates on Henley's expansion strategy, revealing that the firm is utilising artificial intelligence (AI) to identify the best real estate locations for future car wash investments. "AI allows us to

analyse bulk data more efficiently, run detailed algorithms for volume projections, and pinpoint high-potential sites for expansion," he says. "Getting the right real estate is a key to success for this business."

Finding the alternative

As with any emerging asset class, liquidity and scalability remain central to whether self-storage, data centres, and co-living will become widely adopted by institutional investors.

Ferguson-Davie notes how in the United States there is a much larger and more liquid market, which often allows trends to emerge there before spreading to Europe. "Single-family rentals, for instance, have long been a core institutional sector in the United States, but are only now gaining traction in the United Kingdom and Europe."

Looking to the future, Josh Miller, head of transactions – Europe at Harrison Street, is optimistic that the market will stabilise in 2025. "We expect borrowing costs to decrease and capital values to stabilise, which should boost liquidity in senior housing, student accommodation and self-storage," he explains. "When combining those dynamics with continued strong operating performance, we predict these sectors will become even more attractive to institutional investors."

However, Saul Goldstein, CEO and founder of ActivumSG, offers a word of caution regarding data centres, which some consider a speculative sector.

"Data centres are more infrastructure than real estate," he says.

"There are risks around technological obsolescence, as well as issues related to power availability. That is why our 'powered land' strategy is geared towards securing land and power agreements for developers, without taking on the risk associated with data centre development or operations."



Mitiska REIM opened its fourth self-storage facility in a joint venture with STORO, on the outskirts of Brussels, in February 2025. The Groot-Bijgaarden site offers 687 units ranging in size from one square metre (11 square foot) to 30 square metres (323 square feet), spread over four floors. Mitiska REIM believes the self-storage sector is underpinned by constrained supply, strong tenant demand and positive NOI growth.

Next steps

For now, as niche assets are still finding their place in the market, they remain difficult to break into, largely due to their operational demands and challenges with scalability.

"We don't invest in data centres because they require a specific skill set and are too operationally intensive," says Keith Breslauer, managing director and senior partner at Patron Capital. "But we've seen success with other alternative sectors such as gas stations, storage businesses and even hotel groups that carry more operational risk."

Goldstein suggests a correction may be coming for some speculative sectors. "The sheer amount of capital pouring into certain niches, such as data centres, is risky," he warns. "When too much money chases a hot trend, valuations can spiral out of control. The real question is: What will the next mainstream alternative asset be?"

As investor demand continues to grow, driven by a need for long-term, inflation-linked returns, it is likely that the distinction between alternative and mainstream real estate investments will blur even further. What is considered niche today may well become tomorrow's institutional staple.

Looking forward, investors will need to balance the opportunities presented by emerging property types with the challenges of scalability, operational intensity and liquidity. While some segments may take longer to fully integrate into institutional portfolios, others – in particular residential and unconventional investments such as car washes – are poised to lead the way. As this evolution continues, institutional investors will find new avenues for growth and long-term returns, making the real estate market an increasingly dynamic space.

Chris Anderson is a UK-based journalist.

For reprint and licensing requests for this article, [Click Here](#).

SHARE THIS ARTICLE





[RESOURCE CENTER](#)

[Why Should You Watch Our Market Navigator Series?](#)

Glossary, videos, podcasts, research in the [Resource Center](#)



Visit our Preference Center

Sign up to receive emails from IREI. You'll receive updates on upcoming events, special publication offers and more. [Sign up here.](#)



Institutional Real Estate, Inc.
2010 Crow Canyon Place, Suite 455,
San Ramon, CA 94583, U.S.A. | +1 925-244-0500

[Contact Us](#)

[Privacy Policy](#)

[Terms of Use](#)



