You've bought a shopping centre? Why the hell have you done that?

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Retail buyers reveal what attracted them to the market and how to spot a good investment

Touchwood shopping centre, Solihull

“Now is the window of opportunity to buy shopping centres,” Eurofund’s Alberto Esguevillas told *React News* in December – and it looks as if other investors are starting to agree.

After years of slowing retail activity, the end of 2021 saw a relative flurry of big destinations changing hands and coming up for sale, culminating in Eurofund and Henderson Park’s purchase of the Silverburn centre in Glasgow from Hammerson for £140m last month.

Elsewhere, Landsec partnered up with M&G to increase its stake in Bluewater in Kent for a net initial yield of around 8%. Nuveen also began marketing its £190m stake in the Birmingham Bullring.

However, as Omicron gives another boost of momentum to internet retail, you still have to be brave to buy a shopping centre right now.

According to the latest IPF UK Consensus Forecasts report, shopping centres are expected to be the weakest performing sector of 2022 with total returns of 3.2%. Retail parks, by contrast, are predicted to deliver returns of 9.5%.

It’s a far cry from the heady days of 2014, when Landsec bought its first stake in Bluewater at close to a record yield (4.1%). However, the IPF forecast is a significant improvement on the last couple of years, and some believe shopping centres could be the surprise winner of 2022.

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> RHODRI DAVIES, CBRE

“There is a lot of equity out there who have been looking at the possibility of buying some quality shopping centres for a couple of years,” said Rhodri Davies, head of UK retail at CBRE, who advised Lendlease on the sale of its Bluewater stake.

“Covid slowed down the process, but now that we more confidently look like we’re coming out of that people are willing to put money into play, which is a significant shift from where we were 3 years ago.”

Davies told *React News* that “the retail warehouse market has become quite competitive, and a lot of yield compression has happened in the last 12 months,” which is driving investors looking for yield back to retail. “Whether it’s Bluewater, Norwich or Solihull, prime shopping centres to many are looking attractive.”

This is set to continue, predicts Davies: “The next month is going to be really important…I think we’ll see some things coming out quite quickly in February.”

To find out more about the frenzy of activity, *React News* spoke to investors who have bought shopping centres in the last year. What attracted them to the market? What makes a shopping centre a good investment? And what’s their play: light-touch management, or full-on redevelopment?

The “John Lewis factor”: Ardent Companies

Last year the American fund manager Ardent Companies bought its first UK retail asset, the John Lewis-anchored Touchwood centre in Solihull, for £90m.

“We just thought that it was very undervalued,” says Andrew Hilston, managing director at Ardent. “It really is that simple.”

But there were also more specific aspects of Touchwood that stood out. Hilston notes the “John Lewis factor,” as well as the centre’s proximity to the forthcoming High Speed 2 rail interchange station and the council’s “very

positive growth agenda”.

Touchwood, Solihull

Then there is the buzz surrounding the Commonwealth Games, which will be held this summer in Birmingham. Half of the events are taking place within the Solihull metropolitan borough, Hilston says.

“We like the catchment; all our analysis said that we didn’t think it was overprovided for. It hasn’t actually got that much vacancy. If we do if our current proper deals, we’re 96% occupied by space.”

Ardent’s plans for Touchwood include announcing further lettings, making some “cosmetic improvements” and working with the council to take advantage of those upcoming opportunities for footfall.

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Hilston and his team are in it for the long term: “We think it’s going to take probably another four or five years to see the full recovery in the retail market,” he says.

Will Ardent buy another shopping centre soon? “If there was another Touchwood, that would be fantastic. We are scouring the market to see if we think there is that dislocation between the true value and the acquisition price.”

A European approach: Axis Retail Partners

Florencio Beccar, CEO of Axis Retail Partners, has been a specialist shopping centre investor in continental Europe since the beginning of the 2000s. “It was a very buoyant market back in the day; all of the tenants were expanding and growth in retailers’ sales was strong across the board,” Beccar tells *React News* from Madrid. “Then the GFC happened and affected retail market fundamentals generally.”

For a long time Beccar steered clear of investing in the UK, because the market here did not utilise tenant performance data in the same way as Europe. “There are exceptions, of course, but generally the UK was oblivious to what the tenants were doing.

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> FLORENCIO BECCAR,
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> AXIS RETAIL PARTNERS

“There was a system which was based on UK lease structures which were upwards-only. This didn’t incentivise landlords to understand tenant’s underlying business. That generated a big disconnect between what the tenants’ sales performance was and what they could sustain in terms of rents. With what the market has gone through in the last three to four years, it was just an accident waiting to happen.”

In the last 18 months, though, as discussions about turnover rents and partnerships with tenants begin to catch on in the UK, Beccar became much more interested. Axis recruited Robert Jewell from Landsec to open a London office, and last month the partnership concluded its first UK deal to buy St George’s shopping centre in Harrow, north London.

“What we like about the UK today is that we believe that most of the pain has happened already. And we are now in a really interesting juncture to come in and benefit from what remains,” Beccar says.

RDI REIT, at the time known as Redefine, paid £72m for the Harrow centre in 2011. Axis bought it for around £40m.

St George's, Harrow

“Harrow has had a good Covid”

“There has been an overcorrection,” says Robert Jewell, managing director at Axis Retail Partners, “driven by the market painting a broad brush across all UK retail, suggesting distress is consistent in all assets, sub sectors and locations. This ignores the nuances of some of the better assets.”

“There is understandable concern over the uncertain income profile at the moment which is still putting a lot of investors and lenders off.” However, Jewell highlights the fact that “with shopping centres, the manager has a lot of influence over the performance of the asset given its operational complexity.”

A strong manager will “drive performance in the form of footfall generation, sales performance of retailers and ultimately from an occupational income and leasing perspective,” Jewell explains.

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Axis has its own data analysis tool named Origin, which “consolidates all of the sales performance data and allows the team to be more objective over decision making. So it’s based on fact, not gut feel.”

What stood out about Harrow? “There’s been no better stress test than Covid for the underlying performance of these assets, both from a shopper perspective – are they still going to come? – and from a retailer perspective: do they still want to have physical space in a shopping centre? And St George’s has had a good Covid,” says Jewell.

Over 50% of the income has been renewed or let during the last 18 months, which “gives us great comfort…Alongside the convenience and value retailers like TK Maxx, Wilkos and Boots, we also have both H&M Kids and H&M Adults anchoring the front of the scheme.”

Axis was also attracted to the fact that St George’s already had a significant leisure component. The Vue cinema has recently extended its lease and committed £2m to a refit. A gym on the second floor has been replaced with a

Puttstars mini golf course – “a family-focused, footfall-driving leisure anchor,” as Jewell puts it – and Axis plans to continue converting other parts of the building into leisure facilities in the coming months.

“Open air and food anchored”: Evolve Estates

Evolve Estates is on a roll. The fund, which is part of the London & Cambridge Properties group, made several shopping centre purchases last year, including: Swanley Square in Kent (for £10.9m); Hillsborough Barracks in Sheffield (for £4.5m); Waterborne Walk in Leighton Buzzard; Woolshops in Halifax (for £13.2m); and Parkway in Middlesbrough (for around £10m).

“When we say shopping centres, a lot of it really is open air, food-anchored-type shopping centres,” says Sebastian MacDonald-Hall, co-founder and director of Evolve Estates. “We’ve really not bought anything that’s covered apart from a small fraction.”

Woolshops, Halifax

Swanley Square sits opposite a large Asda, for example, while Woolshops is anchored by Marks & Spencer. “There is some element of fashion, maybe 5-10%,” says MacDonald-Hall. “There might be Peacocks, New Look, and JD Sports, but then there’ll be tanning salons, Vision Express, Boots.”

Focusing on essential retail turned out to be a beneficial strategy during Covid, as shops with that status could still trade during lockdowns. But Evolve has

specialised in that type of retail for the best part of 20 years. In that time it has created an in-house management platform.

“We have 50-60 asset managers and property managers combined with rent collection, finance teams, and in-house lawyers,” says MacDonald-Hall. “So we take it very seriously upon ourselves to manage these things in the best way we can, to make sure that our tenants are happy.”

When rents first started to drop several years ago, Evolve threw a lot of energy into residential development to bolster its yields. “But in the last two years, we thought: ‘Well, rents are really at the bottom now.’ And therefore we invest heavily into new product.”

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This thinking – that rents have bottomed out and there is value to be had – has fuelled Evolve’s acquisition spree over the last two years. “Retail is being tarred with that brush of the Intus of this world,” MacDonald-Hall adds.

And since people who bought retail assets in the last five years have probably lost money, “a lot of the funds are saying ‘just divest from retail’. And we’re saying, ‘well, if everyone puts it on the market at the same time, you tend to be able to get a bit of a deal.’ Yields are at levels I’ve never seen before in my career.”

Finally, MacDonald-Hall stresses that Evolve is “extremely careful” with its relationships with retailers. “We have very, very good contacts and that helps to de-risk schemes. So if we know someone is leaving, we have two or three other tenants that will come, and therefore it’s not such a catastrophe.”