Institutional capital pushes to head of retail queue

Listed companies and pension funds draw on massive firepower to carve out dominant positions as retail landlords amid an overall drop in deal volumes

BY **CORMAC MAC RUAIRI**

Finland has always exhibited a fiercely independent spirit despite being one of the lesser populated countries in Europe. This trait even comes to the fore in the European retail property sector. The Nordic country claimed the largest retail investment deal this year – Blackstone's €3.8 bn equity and debt acquisition of Helsinki-listed company Sponda. The company's portfolio at the time included €1.2 bn of Finnish shopping centres, making this transaction 30% larger than the number 2 deal, Pradera's purchase from Ikea Centres of 25 retail parks located in eight countries for €900 mln. The Sponda sale is notable as overall investment in retail property has actually declined. RCA data indicates that investors acquired €34.7 bn of retail properties in the first nine months of 2017, a 15% drop from the same period a year ago. Retail property transactions in the same period were 20% below the sector's five-year average, while July-September was the sector's weakest quarter for deals since the second quarter of 2013. RCA explained the drop by saying the growth in online retail has reduced the appeal of shopping centres that are not prime destinations. The trend may be less pronounced than in the US, but it is still having an obvious effect.

Key points

Supply of core product weak; deal volumes down 15%

Institutions increase dominance in sector

Finland and Poland/CEE capture largest deals

The Sponda deal bucks another emerging European trend: Blackstone applied for the delisting of Sponda's shares from Nasdaq Helsinki. Strictly speaking the move was a formality as Blackstone already owned the vast majority of the shares and was in full control of the company. Yet, this movement from listed to non-listed ownership goes in the opposite direction to the general trend observed in the retail real estate sector during the first 10 months of 2017.

PropertyEU Research tracked over 150 large retail transactions, all above €20 mln, with an aggregate volume of just under €20 bn. The average price per deal came to €126 mln. Of the top 20 deals (totalling €9 bn), 12 (totalling €5 bn) involved listed companies or institutions on the big side. Aside from Blackstone and Pradera, there was only one other private buyer in the top 10. This was CPI Property Group acquiring a portfolio of 11 retail assets located in Central and Eastern Europe from CBRE Global Investors for €650 mln. CPI is an investment and development company majority owned by Czech billionaire Radovan Vitek. This is symptomatic of another trend: capital coming from the Czech Republic was responsible for a whopping 22% of the total of €5.4 bn of property investment across CEE in the first half of this year, according to Colliers International.

SOUTH AFRICANS

But the big story coming out of CEE in H2 has been the return of public buyers of retail assets, in the guise of Johannesburg-listed Echo Polska Properties (EPP) and Nepi Rockcastle. After a hiatus from January to June, the two companies have each invested about €1 bn each in shopping centres in the region so far in H2. EPP announced in October that it had agreed to acquire eight shopping centres and four retail parks for €692 mln. The properties are located in regional cities across Poland and feature 620 retail units across a total gross leasable area (GLA) of 450,000 m². The transaction has been split into three tranches and is expected to complete by 29 June 2020. It will double EPP's retail GLA and expand the company's presence in Poland's strong regional cities.

Top European shopping centre deals (JANUARY-OCTOBER 2017)

	ASSET/LOCATION	BUYER	VENDOR	€ MLN
1	Sponda	Blackstone	Sponda shareholders	1,200
2	12-asset portfolio in Poland	Echo Polska Properties	Chariot Top Group	692
3	11 assets	CPI Property Group	CBRE Global Investors	650
4	Xanadú, Madrid	Intu Properties	Ivanhoé Cambridge	530
5	Woluwe, Brussels	Eurocommercial	AG Real Estate	468
6	Serenada, Krokus malls, Kraków	Nepi Rockcastle	Mayland Real Estate	461
7	Olympia mall	Deutsche EuroShop	ECE / Rockspring	374
8	Arena Plaza, Budapest	Nepi Rockcastle	Active Asset Investment Management	275
9	50% of Xanadú, Madrid	TH Real Estate	Intu Properties	264
10	Paradise Center, Sofia	Nepi Rockcastle	Bulfeld/Komfort	25

SOURCE: PROPERTYEU RESEARCH

Days later, Nepi Rockcastle said it would invest €461 mln to acquire two adjacent shopping centres which are being integrated as a 100,000 m² retail centre in the Polish city of Kraków. The assets are Serenada, a 41,170 m² shopping centre opening this month, and the adjacent 27,728 m² Krokus shopping centre in the Bora-Komorowskiego district of Kraków. The South African firm said the acquisition made it the owner of a top 10 super regional shopping centre in Poland and one of the largest dominant retail owners in the most populous country in Central and Eastern Europe. The investment volumes and square metres for both the EPP and Nepi Rockcastle deals are all very large. But Colliers' head of CEE research Mark Robinson says the 'best number' in light of the transactions was the 8.6% year-on-year growth in Polish retail sales for September. That was not a flash in the pan as the January to September average was 8.2%. 'You've got the situation where GDP growth is around 4% in Q3, 3.9% in Q2, and pretty consistent retail sales that are double that amount,' Robinson says. 'Retail sales are being driven by real wage growth, both in Poland and across the region. Wages are growing faster than inflation, and what that does for consumers is put money in their pockets. The demand-side argument for buying these shopping centres is now really strong.'

WESTERN EUROPE

Listed and institutional-grade investors picked up other major centres during the review period. Deutsche Euroshop scored a top H1 deal by acquiring Prague's Olympia mall from ECE for €374 mln. The UK market remained relatively quiet; the largest deal was Invesco RE buying Southside in Wandsworth, London for €178 mln. London-listed shopping centre specialist Intu, meanwhile, extended its Spanish portfolio by acquiring the 153,000 m² Xanadú centre in Madrid for €530 mln. TH Real Estate, owned by US inancial group TIAA, subsequently took a half share for €264 mln. TH Real Estate was acting for its European Cities Fund. 'Xanadú is a super-prime shopping centre with a first-rate tenant line-up and extensive asset management potential. Future plans to further enhance the leisure element of the scheme cement its position as an asset that is well-positioned to deliver a robust income return,' said Andrew Rich, European Cities Fund lead fund manager at TH Real Estate. The firm also formed a 50:50 joint venture with Barings Real

Top 10 high street and convenience retail deals (JANUARY-OCTOBER 2017)

	ASSET/LOCATION	BUYER	VENDOR	€ MLN
1	25 retail parks	Pradera	Ikea Centers	900
2	90 retail assets	BVK/Universal-Investment	Corestate Capital	687
3	85 stores	Patrizia Immobilien	AP3 Third Swedish National Pension Fund	400
4	3 retail villages, UK	LandSec	Hermes Investment Management	387
5	9 retail parks	Tristan Capital Partners	Brockton Capital	280
6	Project Gravity, Germany	Castlelake	Retail Properties Investment Trust	230
7	Boccaccio Fund	Four institutional investors	Futura Investment Management	226
8	4 malls, 73 stores and other assets	Lone Star	Dela	215
9	24 retail properties	Corestate Capital	various	210
10	100 New Oxford Street, London	Thor Equities/AEW	Tishman Speyer	200

SOURCE: PROPERTYEU RESEARCH

Estate to own the Kamppi centre in Helsinki.

Amsterdam-listed Eurocommercial rounded off the review period with the agreement to acquire control of Woluwe shopping centre in Brussels from insurer AG for €468 mln. 'The tenant base is broad and international and includes many familiar names with whom Eurocommercial already has strong relationships, making the centre a natural fit for our €4 bn portfolio of shopping centres,' said Eurocommercial's CEO Jeremy Lewis.

CBRE Global Investors, a manager of funds and mandates mostly for institutional capital, has invested at least €700 mln in retail so far this year. Three of the four acquisitions involved shopping centres. Despite dire warnings of the e-commerce threat to shopping centres, the segment is very much in demand in Europe, Florencio Beccar, head of retail EMEA at CBRE GI, agreed during an investment briefing at Expo Real. 'All the noise is coming from the US and is contaminating the market here. The US built too much GLA, seven times the ratio in Europe,' Beccar said (*see page 20 for more*).

While these deals were impressively large they were also the exception. A lack of quality retail schemes available in European core markets, JLL notes, led to a broadening of interest in terms of geographies as well as retail asset classes.

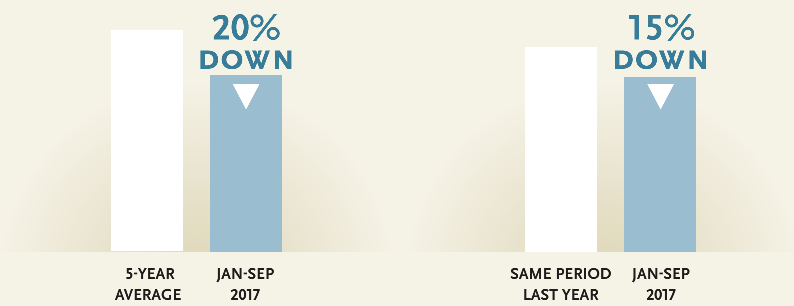
CONVENIENCE RETAIL

For Bavarian pension fund BVK this has meant a pivot to high street and portfolios of 'necessity retail'. In April BVK acquired a portfolio of German retail properties from Corestate Capital for €687 mln. Germany appears to be the richest source of large portfolios of grocery and DIY stores. Figures published by BNP Paribas Real Estate show the convenience store and supermarket segment accounted for 43% of the overall German retail volume from January to end-September 2017. Colliers International pitched the volume lower at €7.7 bn, but the underlying trend is the same. Thomas Danzel, head of retail investment at Colliers Germany, said that portfolios of grocery stores and supermarkets accounted for almost 60% of activity. Patrizia Immobilien rang up one of the largest retail deals of this kind in September by acquiring 85 assets, let to grocery chains Lidl, Aldi, Edeka and Rewe, for €400 mln. Patrizia said it is one of the largest landlords of retail real estate in Germany following several such deals in recent years. ■

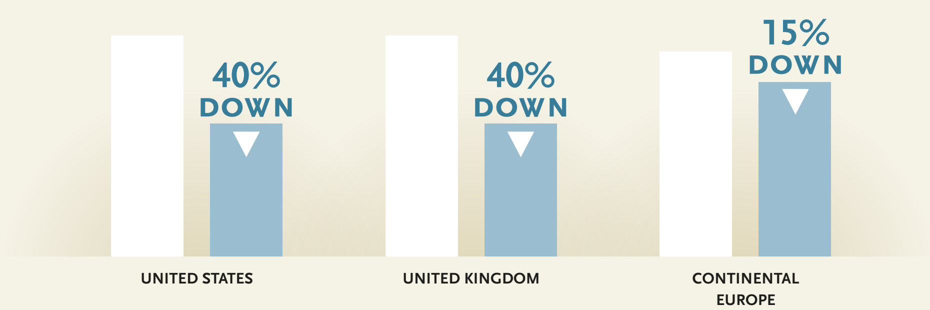
Retail volumes drop 15% in first 9 months of 2017

Online retail has reduced the appeal of shopping centres that are not prime destinations, according to Real Capital Analytics (RCA). This is a turnaround for a segment that often relies on investment in dominant big-ticket assets located in secondary locations.
Investors acquired €34.7 bn of retail properties in the first nine months of 2017, a 15% drop from the same period a year ago, RCA data shows. Retail property transactions over the nine-month period were 20% below the sector's five-year average, while July-September was the sector's weakest quarter for deals since the second quarter of 2013.
Tom Leahy, RCA's senior director of EMEA Analytics, said: 'Online commerce is polarising investment in Europe's retail property sector and this is particularly pronounced for shopping centres. Large, dominant centres in strong catchments continue to attract buyers, whereas there's less appetite for centres in regional locations. It's a pattern that is playing out to dramatic effect in the US; in Europe, the trend is most pronounced in the UK, where online retailing has one of the highest levels of penetration.'

Online hits mall spending and pricing



Picing % change in pricing compared to peak in 2006-7



Where is the shopping centre supply coming from?

E-commerce is often perceived as the biggest threat to retail real estate, but a far more fundamental hindrance to investment is the lack of available core product. There are, however, a number of prominent schemes currently on the market. Blackstone hired JLL during the summer to sell four assets in Portugal (Sintra Retail Park, Forum Sintra, Forum Montijo and the Almada Forum). The four centres, valued at between €750-900 mln, are all located in the Lisbon area and managed by Multi Corporation, Blackstone's European retail platform. UK property development firm Heron International has mandated CBRE to sell its €250 mln retail portfolio in Spain.

Milan-listed REIT Beni Stabili is seeking a buyer for a portfolio of five Italian shopping centres valued at over €200 mln. Meanwhile, there were media reports in mid-October that Oaktree, BlackRock and Orion Capital Managers were battling to acquire The Square in the Tallaght suburb of Dublin for about €233 mln.

Shopping centres on the market

	ASSET/LOCATION	VENDOR	BROKER	SIZE M²	GUIDE PRICE € MLN
1	Four shopping centres	Blackstone	JLL	195,000	750-900
2	Stakes in two malls	Unibail-Rodamco	Cushman & Wakefield	167,000	400
3	Three shopping centres, Valencia	Heron International	CBRE	84,000	230-250
4	The Square Towncentre, Tallaght, Dublin	Nama	Cushman & Wakefield / JLL	53,000	233
5	Five shopping centres	Beni Stabili	Lazard	142,500	200
6	Berceo shopping centre, Logroño	CBRE Global Investors	CBRE	34,000	105