Client: Allsop
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Date: 11/07/2021
Page: 4
Reach: 653340
Value: 17315.8400

Vultures prey on bombed-out shopping centres

Cash-rich buyers are targeting a market upended by the pandemic and store closures, writes *Sam Chambers*

For George Walker, February 3 this year will always be remembered as the date when the shopping centre market hit rock bottom.

Allsop, the auction house where Walker plies his trade, sold West Orchards shopping centre in Coventry that day for £4.85 million to Tony Khalastchi, an experienced private property investor.

The sale of the city centre site – where Marks & Spencer and JD Sports are among the tenants and which was valued at £37 million eight years ago – shocked the market. This year it lost Debenhams, its anchor tenant. "My phone was red hot the next day with banking contacts asking me, 'What the hell have you done?' " Walker recalled. "But it was when people really began to feel the market was as bad as it was going to get. Now, every time we sell a shopping centre, we get another list of 10 to 20 people wanting to buy the next one."

Institutional investors such as pension and insurance funds, already nursing hefty losses on retail property, are staying on the sidelines – but smaller property firms, local councils and wealthy individuals are scouring the wreckage for bargains.

Gap's recent decision to shut all its 81 stores in the UK and Ireland was a reminder that the pain on the high street is not over, but a growing number of investors believe that the retail industry's darkest moments have now come and gone.

In the first half of this year 38 shopping centres have sold at a total value of £550 million, yielding 12.8 per cent on average, says property agency Savills. That compares with £575 million in the first half of 2019, when yields averaged 8.5 per cent. The boom in online shopping has pushed yields on warehouses below 4 per cent.

Mark Garmon-Jones, head of shopping centre investing at Savills, said over a quarter of the buyers were backed by Israeli money, often invested via the UK's Orthodox Jewish community. Currently under offer are £316 million worth of centres, with another £850 million worth coming to market, Savills said.

The reluctance of high street banks to lend against retail property has limited the pool of buyers, and often they are paying in cash.

"There are a lot of rich people out there buying these things as a cash cow. They won't invest in them or do anything with them, so it's a council's worst nightmare because they will end up being run into the ground," said Mark Williams, executive director at RivingtonHark, a property investor focused on regeneration projects.

Buying shopping centres is not for the faint-hearted. A vacant shop leaves landlords with lower rents, a business rates liability and a shortfall in the service charge. And there are plenty of vacant shops: in 29 shopping centres more than half the shops are empty, according to the data provider LDC.

The biggest uncertainties hang over "prime" centres reliant on fashion retailers and department stores, which have been hit hardest by online shopping. A sale process for the Trafford Centre last year yielded bids at about half its £1.7 billion valuation, prompting Canadian pension giant CPPIB to buy out fellow lenders and take full ownership of the centre. Since then Touchwood in Solihull, anchored by John Lewis, has

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been bought by US investor Ardent for £90 million – £20 million less than it cost to build 20 years ago.

Generally, investors see more reliable income streams in the sort of drab shopping centres likely to be anchored by Lidl or Home Bargains. London-based Signal Capital, which invests on behalf of large institutions, has earmarked £100 million to invest in these "community centres" in regional towns.

Signal partner Colman McCarthy said their mix of cheap products and essential services – such as libraries or GP surgeries – will keep shoppers coming back. Signal expects to acquire between 10 and 20 centres and own them long-term. According to property agency CBRE, it paid £19 million for Motherwell shopping centre, home to retailers including B&M and Iceland.

Housebuilders and developers are scouring London for centres that could be redeveloped into homes. Ballymore, the Irish developer, paid £75 million for the Broadwalk shopping centre in Edgware, north London. Ballymore intends to redevelop it into a scheme with homes, shops and leisure activities.

There are signs that soaring land values could encourage similar projects in other cities. In October, Sovereign housing association paid BlackRock £27.2 million for Clifton Down shopping centre – in one of Bristol's priciest areas. Sovereign plans to use the income to fund affordable housing and, potentially, redevelop the centre for homes. Meanwhile, Legal & General is marketing The Grafton centre in Cambridge as a redevelopment opportunity, potentially to house life sciences firms spun out of the university.

For much of the country, though, the economics of redevelopment do not stack up, providing opportunities for vultures to swoop. "The prices," said Williams at RivingtonHark, "are within reach for many people."

38

Shopping centres sold in the first half of this year, at a total value of £550m

29

centres have more than half of their shops empty

£316m

Value of shopping centres currently under offer