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Shopping centres: what's selling and what's not

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Around £350m of shopping centre deals are working their way through negotiations

The Rushes, Loughborough

Talk to most people in the retail sector, and they will say sentiment is improving. And from the low bar seen in past years, with the complete decimation of shopping centre values and the dearth of credible buyer interest, that statement would seem to be true.

Availability of stock has ceased to be as much of an issue. Some vendors have found enough confidence to return to the market, while the few residual distressed assets have been put out for sale by receivers.

Interest in these centres has generally resulted in several investors wanting to get around the table to negotiate – but it's been slow work translating this into completed deals. In total, around £350m of shopping centres are currently stuck, according to market sources.

However, the past few weeks have yielded several positive stories in the shopping centre space, showing not only a commitment to pricing but a shift in the type of money looking at assets.

A strong second half?

The chunkier end of the market has been the notable exception to the sector's stasis. In the past week, *Green Street News* revealed M&G was paying around £100m to buy the half of Cribbs Causeway in Bristol that it doesn't already own.

And at the start of July, Norges completed its purchase of British Land's 50% stake in Meadowhall for around £350m, while Landsec also upped its stake with a £120m deal at Bluewater and Frasers Group continued to be acquisitive.

Pension fund interest in St Enoch is a step-change for the sector

The process around the lender-driven sale of St Enoch in Glasgow shows how much the market has shifted. After quietly being put to a select number of parties, Strathclyde Pension Fund is understood to be under offer for around £70m.

That an institutional investor of the scale of Strathclyde is keen for exposure to the retail market speaks volumes about the return of stability to values and yields. And Strathclyde is not an anomaly, as a pension fund is also understood to be circling Abrdn's Parkway centre in Newbury.

> *"Some assets have no value – and that's the truth"*
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> MARK WILLIAMS, RIVINGTONHARK

In a sign that the smaller end of the market might also be thawing, LCP and Evolve Estates has exchanged contracts to buy Bridges shopping centre in Sunderland, after spending some time running the rule over the £37m centre.

However, a roster of mid-sized and smaller centres have been in negotiations for several months – leading to the hope that a wave of completions could result in a strong second half of the year.

Centres in stasis

– Victoria shopping centre, Harrogate: under offer

– Centre:MK, Milton Keys: under offer to Royal London

– Mailbox, Birmingham: under offer to Seven Capital

– Swan Walk, Horsham: under offer

– Quadrant Centre, Swansea: under offer

– Stratford Centre, London: under offer

– Rushes shopping centre, Loughborough: under offer to Northdale

– Kingsgate shopping centre, Dunfermline: under offer to Northdale

– Vancouver Centre, King's Lynn: under offer to Northdale

– Parkway shopping centre, Newbury: under offer

Less optimistically, the extended period in which some of these assets have remained "under offer" shows the continuing misstep between seller and buyer expectations, and leaves sales processes exposed to changing market conditions – particularly in relation to availability of debt.

James Waldock, investment agent at GCW, told *Green Street News*: "The picture is still positive, with volumes way up compared with last year. We recorded £885m transacted in the first half of this year – already around 75% of the total for 2023.

"Large transactions such as Meadowhall and Bluewater make up 54% of that total, and selectively core money is starting to see value in shopping centres again. Institutional buyers are considering prime assets, which we haven't seen for a long time.

"We're seeing competitive bidding across the market, with second-round bidding now commonplace and competitive tension present in most situations."

More complex than imagined

For some, these lengthy negotiations suggest buyers may be biting off more than they can chew, and realising it as the sale progresses.

Mark Williams, director at investor and asset manager RivingtonHark, said: “There’s a huge risk with a lot of these assets as net income can go negative, even if tenants are trading really well, given the cost of running the assets. The market is appealing to a load of investors who see it as high-yielding per sq ft and want to have a go.

“Good assets out there, but they’re hard to find. The future for many centres is as car parking or a park. Some assets have no value – and that’s the truth.

“The cost of repositioning might cost more than the asset value. That’s why councils need to intervene in many schemes, as they can take a 50-year view and it makes economic sense for them, whereas it doesn’t for the private sector.”

Around £1.2bn was the total amount of investment into the shopping centre sector last year, according to Savills – the lowest since the depths of the Covid-10 pandemic in 2020. With so many deals still yet to land, eyes will be on the final quarters of this year to see whether 2024 gives the uptick in fortunes so many are hoping for.