We discussed the key issues with Gurjit Atwal, head of the real estate sector at Eversheds LLP and member of the ICSC Legal Group.

What are the key factors investors seek before investment? Is it rock solid return on investment, or are they again willing to up their appetite for risk?

“I advise a number of investors in the sector, and talking to the stalwarts of the industry, there are a number of factors behind decisions to invest in shopping centres:

• returns - predictable, long-term returns with relatively low volatility;
• scale - which can be achieved relatively quickly through ownership of large, management intensive assets;
• diversity - a diverse tenant base which spreads risk; and
• liquidity - the opportunity to attract foreign investment for joint venturing or future disposal.

It is important to note that the dominant or ‘mega malls’ come with high entry barriers in the form of specialist management skills and high capital requirements.

The dispersion between best and worst assets – linked to core and marginal locations - is probably wider in retail property than other property sub-sectors. This has largely been driven by fundamental changes in the sector such as e-commerce, online shopping, consumer expectations and changes in store formats.

For the major players in the market, the appetite for big, dominant centres is clearly there. Witness the recent example of Bluewater shopping centre in the UK, where intense bidding demonstrated not just the desire amongst investors for the most attractive assets but also the willingness amongst bidders to accept lower short-term returns, to secure longer term gains.
Some of the intense bidding and predisposition to prioritising longer-term gains was undoubtedly encouraged by the current interest rate environment and attractiveness of UK plc to foreign money. This combination of factors has squeezed some out of the ‘top-flight’ market and rekindled interest in secondary assets.

There are highly attractive returns being made on centres and locations that are considered ‘secondary’, which with the appropriate asset management and work-out strategies, are delivering yields that many investors are now admiring. However, as with everything, there is a reason that asset or location is deemed ‘secondary’ and investors will need to weigh up their risk-to-reward calculations.

Where is the investment coming from?

Demand is deep in the sector - with UK and Euro institutions, REITs and sovereign wealth funds being most aggressive in the prime/super prime market and private equity and opportunity funds dominating at the secondary level. The first group will tend to borrow modestly (40% LTV) and on an unsecured basis. The second group will borrow aggressively (65% LTV) on a secured basis. Whilst the banks are lending again and competing for business, we are unlikely to see a return to the heady days of 70%+ LTV.

What do you want to personally get out of your attendance at the ICSC Law Forum?

The Forum offers a wonderful opportunity to make connections, share and learn from other leading commentators and participants in the market, share experiences and gain valuable market intelligence and insights that would otherwise be hard to come-by.

For further information, please contact:

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