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How the new managers of Intu's old shopping centres are planning to turn their fortunes around

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Asset managers start putting business plans into action

The various asset managers that have taken over the running of the old Intu shopping centres face an uphill battle.

Against the backdrop of a retail market has never been tougher, they are tasked with turning around the fortunes of the centres so that as much value as possible can be recouped.

So how are they going about it? Here we review the business plans different asset managers have put in place:

SGS Finance: Lakeside, Braehead, Watford and Victoria

Comprising the Lakeside, Braehead, Watford and Victoria shopping centres, SGS Finance is the biggest of the Intu property companies. Although the centres are generally high quality, they have not been immune to the weak market – their combined value fell by 40% in the second half of 2020 to £753m.

Under a three-year business plan presented to bondholders in June, SGS expects to be able to maximise value by selling assets towards the end of the period but will assess options on an ongoing basis.

Key to that will be growing net rental income from an initial forecast of just £22.1m this year to £70.7m in 2023.

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>
> MARK CARRINGTON, GLOBAL MUTUAL

To achieve this, asset managers Global Mutual expect to invest just over £112m in capex. Much of this will be focused on supporting leasing activity.

“That capex is very much identified to make sure that the tenant mix and offering of each retailer in the centres is the best that it can be,” says Global Mutual managing director Mark Carrington.

It is not just a case of finding new tenants but curating the centres to position the right occupiers in the right place.

"It's really easy to do the easy deal. It's not easy to do the right deal," says Carrington.

Alongside the leasing plans, just over £10m of the capex budget is earmarked for planning and design costs to work up new development plans. It is expected that this investment – which could involve drawing up residential schemes or repurposing large retail units – will generate an additional £50m of value on exit.

The plan has got off to a strong start. In the second quarter, rental income was £15.2m higher than expected and service charge income was £3m higher. As of 6th August, SGS had collected 70% of net rent with respect to Q2, well above the 58% collected for Q1 at a comparable point and rent collection is progressing well for Q3 with 66% collected so far.

Global Mutual has signed up a number of new food and drink operators at Lakeside

Some key letting deals have also been concluded. Last month, SGS announced [a series of deals at Braehead] with Frasers Group, Paperchase and others, and Steven Gray, Global Mutual's head of European retail asset management, also highlights progress made to bring in new food and drink brands at Lakeside.

“I think we had five to six voids in the F&B space at Lakeside and all but one of those have now been filled. We’ve also tried to broaden the offer a bit beyond nine to five dining to build on the fantastic leisure offering we have with the cinema, bowling and Puttshack.”

Gray adds that some international retailers are looking to capitalise on the closure of department stores to gain market share.

“International brands like H&M and Inditex are definitely seeing the opportunity in some of the biggest shopping centres in this country to reposition themselves to capture the spend that is no longer going into the former anchor department stores.”

Trafford Centre

After an aborted effort to sell the Trafford Centre at the end of last year, CPPIB only moved to appoint an asset manager earlier this year. The Canadian investment giant, which was formerly the mezzanine lender on the 1.8m sq ft Manchester shopping centre, formally picked Pradera Lateral in May.

As a result, the business plan for the asset is still being drawn up and is set to be finalised in the coming weeks. More details will emerge then, but leisure and entertainment is likely to be central to the leasing strategy.

Rhys Evans, director of asset management at Pradera Lateral, says this year's Summer Social is a sign of what is to come at the Trafford Centre

This summer, the shopping centre hosted the Summer Social, an outdoor event featuring retro fairground rides, live music and entertainment, and pop-up food and drink stalls.

Rhys Evans, director of asset management at Pradera Lateral, says this is "a good signal of where we want to take the centre".

He adds that key metrics on footfall and rent collection have been improving as restrictions ease. The cash flow statement for Trafford Centre Limited shows that income levels took a step up in the second quarter, rising to £25m from £18.9m in the first quarter and £16.5m in the final quarter of 2020.

Intu Debenture: Eldon Square, Potteries and XSite Braehead

The two main assets in the APAM-managed Intu Debenture are Eldon Square in Newcastle and Potteries in Stoke-on-Trent, whose value halved last year to £108.9m and £31m respectively. They have common problems. Both have large vacant units to relet – Debenhams used to occupy both centres – but Potteries is grappling with a higher level of vacancy.

Under APAM's business plan, a two-and-a-half-year hold period is envisaged for the Debenture assets, which also include the [obscured] Braehead leisure scheme in Renfrew. This year, the focus is on rent and service charge collection, cost management and maintaining occupancy, but from next year attention will move to investing capex to support new lettings and increasing occupancy.

So far, the business plan is progressing well. An update published last month showed positive net cashflow of £7.61m, £13.86m ahead of budget. This was partly down to the deferral of capex and lower costs associated with centre closures, but to a large extent the improvement reflected better than expected service charge and arrears collection, and improved rental income.

APAM executive director Simon Cooke says the disruption surrounding Intu's collapse resulted in "a period of disengagement with occupiers which meant that when we took over there was some low hanging fruit".

He added: "The team at APAM have worked hard to reengage with tenants and have made good progress restoring cashflow."

APAM is more confident of a recovery in the value of Eldon Square than the Potteries

The business plan states that as a leisure asset, “a rebound in value” is expected for XSite ahead of the shopping centres. It also predicts a recovery in the value of Eldon Square – Newcastle City Council owns 40% of the centre so would be a logical prospective purchaser.

The position of the Potteries is described as “more marginal given the secondary nature of the scheme”. The immediate priority is to reduce void costs by introducing “meanwhile uses”, but APAM also plans to engage with local stakeholders including the council and universities to explore repurposing opportunities that would make the centre more attractive to investors. An alternative strategy could be to pursue separate sales of parts of the property, such as the car park or the Primark.

Metrocentre

Spanning more than 2m sq ft, Metrocentre in Gateshead is one of the largest shopping centres in Europe. This presents both a challenge and an opportunity. The closure of the Debenhams and House of Fraser stores has left space to fill at the heart of a centre that asset managers Sovereign Centros acknowledge has too much retail space.

However, the size of the centre opens up opportunities for large footprint leisure operators to take space.

This is a key element of the business plan and builds on the centre’s history. Until 2008, it was home to an indoor theme park called Metroland featuring amusements such as a rollercoaster and miniature railway.

How the Metroland indoor theme park used to look before it closed in 2008

Progress has been made on this front. Last month, *React News* revealed that Sovereign Centros had signed up Gravity to convert the former Argos unit into an entertainment venue featuring a go-karting track.

Under the business plan, which will see about £32m invested over the next three years, Sovereign Centros also intends to reduce the overall number of retail units and bring in other alternative uses.

Moving key retailers into larger stores is one way that the asset manager plans to reduce the number of units. Recent leasing deals with JD Sports and H&M are an example of this.

Introducing new uses will also help. In a recent call with bondholders, Sovereign Centre chief executive Chris Greaves said it was planning to bring in a workspace operator to take space across a number of units.

Other centres

Among the other former Intu centres, the rebranded Derbion centre in Derby has made some of the most progress. *React News* revealed this week that the centre, which is owned by Cale Street Investments and managed by former Capital & Regional executive director Ken Ford, had secured more than 200,000 sq ft of retail lettings. Frasers Group has signed for the 127,000 sq ft unit previously occupied by Debenhams, as well as taking space at the vacated Topshop unit and part of the former BHS store. Mango and Tommy Hilfiger have also joined the centre's tenant roster.

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>
> KEN FORD

The new lettings are part of a drive to "elevate the offer without alienating the existing diverse customer base". Under the business plan, a refurbishment of the food court will begin in the new year and planning is underway to extend and strengthen the cinema complex, bowling and indoor golf offer.

Ford says that just having Derbion to look after was a positive.

"Our ability to focus purely on Derbion, rather than a portfolio of assets means that we can be more agile, to the benefit of our retailers and visitors," he says.

He adds: "The last 18 months has accelerated changes in consumer behavior and it's vital that we respond in a similarly motivated way."

Ellandi, which has taken over management of Intu's former Milton Keynes centre and Merry Hill in the West Midlands, has put leisure at the heart of its plans. At Merry Hill, it plans to increase the leisure provision at the centre from less than

10% to about 20%. Around £50m will be invested in the centre as part of a business plan that also involves upgrading the existing leisure facilities, putting in place new signage and installing 200 electric vehicle charging points.

At another of the larger Intu centres, St David's in Cardiff, which was owned by Intu in a joint venture with Landsec who now manage the centre, plans are also afoot to diversify the tenant base. As well as trying to attract new national and international brands, Landsec is working to encourage more independents to set up shop. Last year, it launched a "Made in Wales" initiative to give local businesses the chance to win pop-up retail space, and a fortnight ago, it announced that it had agreed deals to welcome eight independents to the centre, with talks ongoing to bring in another 12 later in the year.

Landsec's future plans are unclear at this stage. It is more than possible that the REIT could end up taking full ownership of St David's. Earlier in the summer, chief executive Mark Allen said the company was monitoring the prime shopping centre market for opportunities "at potentially compelling returns".

It is a rather different story for the Broadmarsh shopping centre, another of the Intu centres that was held in joint venture. Following Intu's collapse, the centre fell into the hands of Nottingham City Council which then decided to demolish it and is in now working up redevelopment plans that are expected to involve a mix of uses including student accommodation and offices.

The current strategy is to hold the Xanadu centre in Spain for another 12-24 months

Intu Xanadu in Spain is another of Intu's former joint ventures that will be keenly watched as a successful sale of the asset, which is owned in joint venture with Nuveen, could materially increase what Intu's unsecured creditors recoup from the administration.

An update provided by the joint administrators at Interpath in July revealed that the current strategy was to hold the asset for a further 12-24 months to allow time for the market to fully recover and conclude a refinancing which is expected later this year. A deal with Snozone earlier this year to take over the indoor ski slopes on a new long-term lease at an increased rent will help the cause.