

MADDISON'S RETAIL AVENUES

John Maddison has specialised in retail parks for nearly 20 years. We spoke to him about the sector's future and his role at Quadrant Estates.

It's very apt that outside the Quadrant Estates' office on the edge of London's Carnaby Street there's a light installation by artist Julian Opie which shows a figure constantly walking. The piece has some resonance with John Maddison's role at Quadrant Estates as so much of what he does is about generating footfall through its retail park portfolio.

After a decade at British Land where he rose to be Head of Retail Warehouse Asset Management, Maddison moved to Quadrant Estates in 2015 to become a Partner. He was attracted to the wide-ranging role and the philosophy of the business, but also saw a change in the sector's ownership structure which offered opportunity.

He observes: "After many years of the sector being dominated by institutional ownership, we've seen new money coming in through private equity, sovereign wealth and other sources and that creates opportunities for partnering and for asset management specialists who really know the sector".

Quadrant Estates' major partner in the retail park market is the legendary American private equity house, Kohlberg Kravis Roberts, which gave the company £500m to invest in assets across the UK.



Gallagher Retail Park

Maddison is emphatic about the virtues of the sector: "It has fundamentals that work. You've got a constrained planning supply, so there isn't a plethora of new developments coming through all the time. For occupiers, it offers low total occupancy costs, so a typical service charge on a retail park should be about 10% of a shopping centre equivalent. On top of that, mezzanine floors offer opportunity to work space harder at no additional cost."

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Gallagher Retail Park has undergone a multi-million pound transformation

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"Most importantly, it works for the consumer: easily accessible, plenty of free surface-level car parking, and increasingly a broader range of both retailing and places to eat and drink."

A good example of how the sector is evolving from the previous generation of retail parks is a project which has consumed a considerable amount of the Quadrant team's time since Maddison joined the business.

Located next to junction 9 of the M6, Gallagher Retail Park in Wednesbury comprises more than 500,000 sq ft of retail space and has been the subject of a multi-million pound reinvention which has seen the park transformed. With KKR, Quadrant Estates acquired three adjoining assets and set about creating one coherent park.

Maddison reports: "Each one was fundamentally trading perfectly well, but it was different car parks, different levels, a disparate retail environment, and key retailers were either over-sized or inefficient in profitability terms so there was scope for making their occupancy more viable and opportunity to realise greater untapped potential."

A key move was the amalgamation of the existing Currys and PC World stores on the park.

"They were trading in two very large stores, so they were diluting what was essentially a very good location by the fact they had two big rents, two managers, lots more staff than they needed, and it was wholly inefficient. So we rightsized them to one 50,000 sq ft store and added a mezzanine. I believe out of nearly 300 stores or more across the UK, it's now their number one performer."

As part of the transformation of the park, new floor space has been added, 11 new lettings have been agreed plus re-gears and rent reviews on top. The question of the park's F&B offer has also been addressed: "It already had a Burger King, as well as an isolated Pizza Hut and KFC, but we've introduced Nandos, Costa and also new brand offers like Smashburger, and integrated them into the main scheme."

"This has been real asset management. This type of project is extremely rare: credit to my fellow partners who had the vision to buy the estate and had an idea of what they could achieve. My role coming in was to assist with the key occupational negotiations, talk to the prospective brands, and help accelerate the process, supported by a best-in-class team."



The overall rental tone at the park has moved forwards to around £45 per sq ft while market observers reckon it would command close to £200m if the investment came to the market today.

Quadrant Estates' business model and the investment horizons of its partners mean that assets will inevitably be sold on, and Maddison is clearly slightly wistful that their close association with the park may come to an end. "You can get quite attached to these assets," he remarks.

Of course, not every park in the UK which could do with a make-over can get this sort of treatment. As a veteran of the sector, Maddison is aware that there are a lot of assets throughout the UK which pose major challenges.

"In the sector's mid-market, there's nothing wrong with having a very solid performer. If you've got a scheme of six or eight units which are holding their own, don't expect rents to double, but if you play around the edges and you're smart and you understand where everyone's at, there will be opportunities.

"One of the occupiers will probably be slightly oversized, there'll be places where you can put in mezzanines, add new space, refurbish façades etc and look at re-gears.

"At the bottom end of the sector, there are a number of locations that probably don't need to exist. There are towns which just have too many schemes and they end up just trying to pinch occupiers off each other. The biggest over-arching challenge that the sector does face is over-renting at the prime end."

Solutions to the eradication of increasingly unviable stock could be radical and there has been increasing talk in the market about the potential for parks to be redeveloped into alternative uses, such as residential. Maddison believes there is some scope for this but clearly only in locations where the equivalent values stack-up.

"There are some assets in and around London which could be of interest to housebuilders who are now focussing strategy on creating homes with a capital value of £500-800 per sq ft. In Acton, we've seen Barratt pay around £7m over the asking price for a short unexpired lease to Homebase - who also wanted to retain it and continue trading.

"However, these scenarios will mostly play out around London and the South East and these are not places where the over-supply of parks is really most acute.



Morfa Retail Park in Swansea is next to the city's football and rugby grounds

From a more core sector perspective, Maddison says a lot can be achieved at parks if owners take a broad and flexible view.

"If you look at Morfa Shopping Park in Swansea, it's right next to the premier league football and rugby ground. You've got rugby and the football alternating with slightly different capacities or crowds, but the park is busy every weekend. Ahead of the games, the F&B places are packed to the rafters with people but it's not uncommon to see three or four family members arrive in their car with maybe one or two going to the match and the others going shopping. So, technically, while we may be providing 'free' parking for people going to the games; overall we're facilitating spend by encouraging more use of the park and its shops as well as the places to eat and drink."

The ability of parks to readily offer click-and-collect is also a major plus for the sector going forward.

"Out of town retail is by far the most aligned sector to omni-channel retailing and it's fascinating to see how the relationship is developing. What we saw from out-of-town during the recession was that footfall was down although less so than other retail sub-sectors. But it wasn't that people weren't spending, rather, they were getting smart. Petrol prices were through the roof, everyone was trying to shop more efficiently, and hence lower frequency of visits per year. But click-and-collect was coming into its own and is now a major driver to retail parks."

Quadrant Estates' business is driven by investment flows and Maddison reports that there is a changing sentiment towards - and understanding of - the sector.

"Our two founding partners visited Asia on a roadshow earlier this year, and the most unexpected part of the trip was just how many investors' ears were attuned to the retail warehousing sector."

The Retail Park product is fairly unique in the UK real estate market and so can often be misunderstood or misinterpreted for a very different type of asset on other continents.

"Because of the way in which retail parks have been in the past and the way in which they are evolving today, it's vital to challenge any preconceptions and explain just what a new environment people like us are creating looks like, and what the potential is. We're very fortunate to have such supportive investors, alongside KKR, such as Ashby Capital and CarVal Investors to work in partnership with.

"I think capital movements into the sector are going to be fascinating and we hope that we can play our part in that."