The Influence of Retail Structural Change in the Evolution of Sector Allocations in Commercial Real Estate Investment Portfolios

March 2018

Background

Retail property in the UK differs in its supply and demand dynamics compared to other markets globally, while internet retailing penetration rates vary around the world.

Much has been written recently about the current state of US retail, in particular the health of its regional malls. The impact of e-commerce has also been much discussed. However, there has been less discussion on the influence of omni-channel retailing or the potential consequences this may have on allocations to the retail sector from an investment perspective.

Brief

The research is expected to consider the fundamental question of what, if any, impact to date the many changes in retailing have had on allocations to the sector within major, institutional/non-specialist real estate investment portfolios. The study should be set in an international context and address such matters as:

- Has the proportion of capital flowing into and out of retail assets altered over the past decade? If so, why has this come about? Is it as a result of structural changes affecting the long term rental fundamentals of the retail sector such as shifts in consumer behaviour and the impact of e-commerce and other competing forms of retailing on occupier demand, voids, covenants, and rental performance? Has there been a shift in long-term yields for retail, reflecting its sustainability (lack of obsolescence) and ease of re-letting when compared to other sectors? Is it due to change in the type of capital or cost of capital going into this sector? (25%)

- Can investment in other sectors replicate what retail exposure used to provide in terms of investment performance? Or are there wider portfolio allocation implications? (25%)

- In terms of the implications for sector allocations over the next decade, say:
  - How might the future growth of multi-channel retailing influence sector weighting?
  - Will the robustness of demand for different types of retail investment be affected? For example, prime super-regional shopping centres or large supermarkets in medium-sized towns.
  - Are there lessons to be learned for the UK from other countries? Or does the UK form a blueprint for what to expect elsewhere?
  - If the retail market is going to shrink, where will that capital go? Will it be redeployed to other sectors or will it leave the asset class?

(50%)

Approach

A quantitative insight would prove valuable, in the context of expected returns, volatility, etc. What might be the result of feeding the experience of retail in the last 10 years into a portfolio optimisation model, compared to the last 40 years? Would the target for retail be higher or lower? A further approach could be to look at market weightings versus portfolio level exposure in comparing different geographies.

A survey of current investment intentions is not considered appropriate as the purpose of this research is for it to be forward-looking (a time horizon of 10 years would be sufficient to capture what may be long-term, structural and, hence, permanent change), as well as to encourage debate in the wider industry.

Scope

Whilst, clearly, the UK situation is central to this study, the examination should extend to a minimum of six countries, covering North America, Europe (in addition to the UK) and Asia/Oceania. The expectation is that comparisons between countries will differ as a particular property type may not be relevant to all countries.

Output

Findings are to be presented in a format that is accessible to general real estate investment practitioners and that clearly conveys the practical implications of the research findings.

Outputs will comprise a detailed report (including an executive summary of no more than two pages), as well as a non-technical summary report, drawing out key implications and their relevance for the industry. In terms of relative importance, the report should be broadly weighted in accordance with the percentages noted for each of the main section described previously.

Research Monitoring

Under the chairmanship of Richard Gwilliam, Head of Property Research, M&G Real Estate, a Project Steering Group (PSG), will be appointed to oversee the research, the membership of which will include IPF Research Director, Pam Craddock, and other parties knowledgeable in the subject area. The PSG will meet with the appointed party as required during the term of the project to act as a monitoring group and to provide constructive support to the appointee. The PSG will also be responsible for approving the final report prior to publication.

Project Duration

Following confirmation of the appointment of the contractor, it is anticipated that the findings of the research will be available for dissemination within a period of six months.

Appointment Process

Proposals should be submitted to the IPF Research Director, Pam Craddock (pcraddock@ipf.org.uk) by close of business, **Monday 30 April 2018** in a format consistent with the IPF Research Submissions Guidelines, which are available to download from the IPF website.

The IPF reserves the right not to proceed with any proposal, as well as to appoint a research contractor without conducting interviews. It is intended that an appointment will be made within two to three weeks of the deadline for submissions, depending upon the number of proposals received.

Cost

As a guide, the typical budget the IPF sets for a study of this nature is in the order of £40,000, excluding VAT and costs of production.