Green Street

Real Estate Alert

THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

Investor Interest in Lifestyle Centers Returns

Listings and trades of lifestyle centers are gaining momentum as the investment-sales market for retail properties continues to improve.

Grocery-anchored centers, with their necessity-based profile, led the initial rebound in retail trades. Now investors are broadening their scope to include open-air retail properties, deemed safer by many shoppers than enclosed malls amid the ongoing pandemic.

Lifestyle centers, with their pedestrian-friendly, Main Street layouts and focus on "experiential retail" such as restaurants and entertainment venues, have special appeal, retail pros say. With e-commerce threatening brick-and-mortar retail sales, such properties offer shoppers something they can't get through clicks on a laptop or smartphone. Increased foot traffic has led to solid leasing and growing confidence among lenders and investors.

"There is pent-up demand because consumers want to get out of the lockdown and interact with people," said **Barry Brown,** a senior managing director at **JLL.** "So many of these centers have good common areas and meeting grounds for activities like concerts and other areas, such as dog parks. … The public has a comfort level with the open-air concept that has picked up quicker due to the pandemic."

The top 20 lifestyle centers in major U.S. markets reported 8.1 million visitors in August, according to JLL. That's up from 1.3 million visits in the depths of the pandemic in April 2020, and down just 7.2% from August 2019, before the crisis struck. Meanwhile, lifestyle centers were 93.5% occupied at the end of the second quarter and commanded rents 46% higher than regional malls and 11.5% higher than super-regional malls, JLL reported.

"The retail sector has flushed out a lot of concerns over the past 18 months with regard to the tenants that were at risk," said Brown. "Now rent rolls are more sanitized, and your merchandising mix is likely improved or improving. You can underwrite your risk, and there are strong yields opposed to other investments."

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THE GRAPEVINE

Christina Lyndon is parting ways with **Angelo Gordon.** Details of the split are unknown, but the buzz is she informed colleagues Monday that she was leaving the firm to pursue other opportunities. Lyndon has been at the investment manager's New York headquarters for more than 15 years, rising to managing director and portfolio manager of its AG Real Estate Income Fund. She had a previous stint at **Lehman Brothers.**

CBRE Investment Management of Los Angeles has added a director of acquisitions. **Dino Christoforakis** started this month in New York, focusing

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Lone Star In Deal for Big Host Hotel Package

Lone Star Funds has agreed to pay **Host Hotels & Resorts** more than $500 million for five hotels in what would be the largest hotel portfolio sale since the onset of the pandemic.

The Dallas-based fund operator is under contract to buy a 2,323-room package of properties in California, Georgia and Northern Virginia. Exact pricing could not be learned, but pros familiar with the deal said it exceeds $215,000/room. **Hodges Ward Elliott** is brokering the sale on behalf of Host, of Bethesda, Md.

The largest full-interest sale of a hotel portfolio since the crisis began was in March 2020. In that deal, likely struck before travel shut down, **Brookfield** acquired two hotels totaling 659 rooms in Atlanta and Washington for $331 million, according to **Real Estate Alert's** Deal Database. Hodges Ward brokered that sale on behalf of **Pebblebrook Hotel Trust.**

The pending deal would mark Lone Star's return to the hotel market as a buyer. The investment manager had been selling lodging properties in the years leading

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AIR Communities Snags 4 DC-Area Rentals

Apartment Income REIT has paid slightly more than $500 million for a four-property multi-family portfolio comprising 1,400 units in Greater Washington — the largest deal yet for the public company that formerly was part of **Apartment Investment and Management Co.**

At the estimated value of $357,000/unit, the initial yield would be between 3.25% and 3.75%. **Cushman & Wakefield** brokered the sale for New York shop **Capital Properties,** which listed the package at the beginning of the year.

The REIT, now branded as AIR Communities, was spun off from Aimco in December 2020. AIR buys and manages apartment properties, while Aimco is a developer. Both companies are based in Denver.

According to public filings, the purchase is the REIT's second since the split. In June, it paid $222.7 million for City Center on 7th, a 700-unit property in Pembroke

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Those fundamentals are leading to trades. The retail sector's two largest single-property sales this year involved lifestyle centers, and a $250 million listing of that recently hit the

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market may surpass them both. Market pros expect as many as a dozen lifestyle centers to trade in the next six months.

Conor Lalor, a director at **Eastdil Secured,** said investor interest in lifestyle centers began to perk up before the pandemic. It slowed amid the economic turmoil, but then rebounded stronger.

"We noticed this trend just before Covid hit, and then, of course, everything went on pause," he said. "The fact that the asset class survived and then thrived since then has surprised many and now has adherents. Bidder depth and pricing has improved markedly from pre-Covid levels."

In contrast to grocery-anchored centers, where hot demand has led to substantial compression in capitalization rates, investors are drawn to lifestyle centers by fatter yields. That provides an avenue for buyers that invest further out on the risk spectrum to boost their retail allocations.

"There is definitely liquidity because there are investors that have a conviction around the lifestyle space and know how to underwrite without over-reliance on soft goods," said **Chris Decoufle,** a managing director at **CBRE.** "The capital is core-plus and value-add, and, on the trades you see, offer pretty strong returns."

Lifestyle centers also are cheaper to operate than malls because they have fewer indoor common areas, Decoufle said. They often can be expanded to add apartments or office space, which in turn drive customer traffic to stores. Indeed, many lifestyle centers are in a mixed-use, live-work-play environment. Such repositionings can be tougher with enclosed malls.

"With the slow demise of enclosed malls, open air is a big winner in that conversation," said Decoufle. "That could be street retail, power centers or lifestyle centers, depending on the location."

Lifestyle centers may be having a moment in part because they fill a sweet spot for investors. They are big enough to satisfy larger investors seeking to deploy significant capital in the retail sector while achieving yield. At the same time, they're not so large that they would scare off investment committees still concerned about risk in a sector that's been battered by bankruptcies amid competition from e-commerce in recent years.

"You have to start out with some trades that are bite-sized," said Brown, of JLL. "Now, $100 million is not as intimidating a number to many investment committees as it was at the beginning of the year. And clearly the debt markets opening up has had a big impact on these trades."

Decoufle said owners of lifestyle centers also have been realistic about readjusting pricing after years of woes in the retail sector. He said the sizes of their properties, compared with those of trophy malls, make that more palatable.

"If you are attempting to trade a lifestyle center now, then likely it's been written down to a level that meets the market," Decoufle said. He said mall owners have not done so. "On a basic level, it's scale. If I have a lifestyle center once worth $150 million, I can write it down to $100 million and move. If I had a $1 billion mall now worth $240 million, I can't do that. You can't take those hits so quickly."

The year's biggest single-property retail listing is for a lifestyle center in Yonkers, N.Y., expected to command bids of $250 million. The grocery-anchored property, called Ridge Hill, totals 1.2 million sf. It's 71% leased and includes a 187,000-sf medical-office building. A purchase at the estimated value would give a buyer an initial annual yield of 7%.

JLL began marketing Ridge Hill in late August for **QIC,** an Australia-based investment manager. The seller is touting the potential to lease up vacant space and add residential and hotel components. It's also emphasizing the property's resilience during the pandemic, noting it attracted 7.1 million visitors in the 12 months prior to August.

If that property trades at the estimated value, it will be the year's largest retail trade, excluding portfolios. The biggest single-property retail deal so far this year involved the RIM shopping center in San Antonio, which in May sold for $216.9 million. The trade was for 1 million sf, as an additional 600,000 sf was shadow-anchor space and separately owned. The buyer was a partnership between **Kimco Realty, Big V Property** and **Equity Street Capital.** JLL represented the seller, **HGR Liquidating Trust,** a fund sponsored by Houston-based **Hines.**

The RIM, which was developed in phases in 2006 and 2018, is 93% leased. It receives more foot traffic than any other shopping center in Texas, according to JLL, with 16 million annual visitors. The property has a large restaurant component and is part of a mixed-use district with residential, office and hotel space.

In a more recent deal, and the second-largest single-property retail trade of the year, a 246,000-sf lifestyle center called La Encantada in Tucson sold for $165.25 million in late September. The buyer was local player **Town West Realty.** JLL represented the seller, **Macerich,** a REIT based in Santa Monica, Calif.

La Encantada, built in 2003, is 93% leased and has high-end tenants such as **Crate & Barrel, Tiffany & Co., Lululemon** and **Williams-Sonoma.** It also has a spa, a **Barre3** fitness studio, a fitness club, and specialty food and beverage establishments such as **AJ's Fine Foods, Blanco Tacos + Tequila** and **RA Sushi Bar and Restaurant.**

Lifestyle-center listings continue to flow. This month, a **PCCP** partnership began marketing a grocery-anchored lifestyle center in suburban Dallas worth about $125 million, a price that would give a buyer an initial annual yield of 5.75%. The property, Watters Creek at Montgomery Farm, in Allen, totals 458,000 sf and is 85% leased. It includes 360,000 sf of retail space and 98,000 sf of office space. JLL also has that listing. ❖