Roll up, roll up – the companies that shop for redundant shops

OCCUPIER VIEW

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There will be more unwanted property in 2012, but exposure can be minimised

Jones Lang Lasalle recently reported that retailers may be able to aggressively reshape their portfolios through the judicious use of lease breaks and expiries. JLL believes portfolios could be downsized by 25% by 2013 and 50% by 2015. Of course, this assumes that lease flexibility coincides with the poorly performing stores – an unlikely scenario.

Nevertheless, we can assume significantly higher levels of unwanted property in 2012 and increased provisioning for redundant leases, not just among retailers. The *Sunday Times* suggests 21,000 senior bankers left the City last year, these redundancies should be multiplied several times over to calculate the wider impact of the end of the UK's affair with "casino banking".

So more surplus estates and at best a static economy – it looks like a tough job for corporate property managers seeking to dispose of property liabilities. Against this background, do the "white knight" specialists such as Legacy Estates and Surplus Property Solutions offer a potential remedy?

Between 2006 and 2008 we did a string of liability transfers which resulted in redundant estates being transferred at less than provision. Privity of contract issues were dealt with either by clever corporate structuring or via bank guarantees obtained by the purchasing company. Risk was effectively transferred, albeit at the price of a large upfront dowry. I am pleased to report that five years on, no liabilities have reverted to our clients and the surplus companies have, through aggressive proactive management, largely extinguished exposures.

Both companies are still actively acquiring additional redundant portfolios and announced transactions with Wolseley and Carillion in the past 12 months, with several more likely in 2012. The attraction to corporates is that the management of surplus liabilities is passed to organisations whose pure focus is disposal, rather than being the responsibility of in-house teams whose priority is to cater for the "front-end" operational portfolio. Stretched in-house teams cannot give surplus property the time it requires, especially in a difficult market, so we believe this avenue of exit will become ever more popular.

However, the true transfer of risk remains harder than ever to achieve. Bank guarantees for what are perceived as high-risk properties are unlikely to be available and insurance policies are prohibitively expensive, so provisions may have to remain on balance sheet, with the specialist companies in effect acting as expert managers of liabilities.

In this respect, such companies have proven they can perform with their reward directly linked to extinguishing gross liabilities; be that rent, rates, service charges or mitigating repairing covenants.

This unrelenting focus undeniably puts them ahead of internal estates teams or their third-party managing agents. Provided incentives and rewards are carefully structured and progress regularly monitored, the use of such specialists remains a sensible approach. However there is no silver bullet, managing out redundant portfolios remains desperately hard work, and sensible provisioning is key.

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