

Shopcore: Excel Trust, Accelerated

After an acquisition by Blackstone and the appointment of a new CEO and president, ShopCore has arrived.

Nellie Day



Whole Foods Market anchors Downtown at the Gardens in Palm Beach Gardens, Florida. Other tenants at the center include West Elm, Cobb 16 Theatres and The Cheesecake Factory.

ShopCore Properties will have much to celebrate come New Year's Eve. Over the past 15 months, the San Diego-based, retail-focused REIT (formerly Excel Trust) found a new home, a new leader and surpassed \$5 billion worth of assets – not bad for a company that raised just \$210 million through its initial public offering (IPO) and subsequent listing. With no legacy assets, ShopCore's predecessor, Excel Trust, was organized on Dec. 25, 2009, setting its acquisition strategies in place and completing its initial common stock offering on April 28, 2010. The company surpassed \$1 billion in assets in 2012, less than three years after its IPO.

Then Blackstone stepped in. The investment mega-firm purchased Excel for about \$2 billion in cash on April 10, 2015, paying \$15.85 per share, representing a premium of about 15 percent over the company's April 9 closing price. At the time, the company owned and managed

about 38 retail assets totaling 7.2 million square feet, with a focus on necessity-based tenants, including grocers, drug-stores and department stores. Blackstone Group LP followed this purchase up with another acquisition, nabbing 49 U.S. shopping centers from Toronto-based RioCan Real Estate Investment Trust for \$1.9 billion in December 2015.

This massive retail infusion allowed Blackstone's \$2 billion purchase to balloon into a \$5 billion entity with more than 80 assets in 19 states. It also allowed the company to inject new lifeblood in the form of a new CEO and president. Luke J. Petherbridge stepped into this role on April 28, 2016. The former CFO and treasurer of DDR Corp., Petherbridge



Petherbridge

brought with him a wealth of knowledge and experience that includes overseeing the execution of \$5 billion of real estate transactions, raising more than \$9 billion of long-term capital and supporting various strategic initiatives.

The new parent company, new CEO and president and new acquisition strategies has inspired the new brand, ShopCore, and Petherbridge couldn't be more excited to helm this new iteration – one he feels is very much deserved after a job well done.

"When we sat down and looked at our firm – we went from \$2 billion to \$5 billion really quickly – we felt that warranted us having our own identity," he says. "We want to be best in class, a new large landlord in this sector, and now is the right time to rebrand ourselves. It cuts away at the old historical ties of being a public company, and it felt like a good time to relaunch our brand, mission, focus."

MASS MARKETS

Part of ShopCore's new focus will include supporting its existing markets. The company maintains a solid presence in California, Texas, New York, Florida and Pennsylvania, among other states. Petherbridge notes ShopCore has an affinity for densely populated regions, with an active presence in Philadelphia, New York City, Los Angeles, San Diego, Dallas and Houston.

"Population and density matters," he says. "Those are the keys. Population density limits you to the top 40 MSAs [metropolitan statistical area]. You don't have to be in the top two to five MSAs, but maybe in the top 15. It's hard to make money if you're not in one of the top 40 MSAs. It really thins out after that."

Petherbridge notes this strategy has led ShopCore to increasingly invest over time in Florida, Boston, the Carolinas and even New Hampshire. He's also closely following the retail markets in Portland, Oregon, Seattle and Phoenix, where the company currently owns The Promenade. Though much of ShopCore's presence may seem to lie on the periphery of the U.S., including the two coasts and Texas, Petherbridge does not rule out a larger push in the Midwest. The company currently only has one holding in that region, the Streets of Woodfield shopping center in Schaumburg, Illinois.

"When I think about the middle of the country, I'm a big believer in the Midwest," says Petherbridge, a native of Australia who was based in a suburb of Cleveland, Ohio, while he was with DDR, but now calls Chicago home. "I think select markets like Chicago and Minneapolis would make sense for us. We really want to find the highest quality locations where we believe retailers of all types will do well."



The Scottsdale Promenade in Arizona is occupied by Nordstrom Rack and Michaels Arts and Crafts.



The Shops at SkyView Center in Queens, New York, is home to tenants including Bed Bath & Beyond, Target, Best Buy, Marshalls, Old Navy and Nordstrom Rack.

Retailers like Ross Dress for Less, Publix and Dick's Sporting Goods may be some of ShopCore's biggest tenants, but Petherbridge is quick to point out that the firm wants to see local mom-and-pops, as well as rising retail stars, succeed just as much as these national giants.

"We're trying to find locations where we believe retailers will thrive," he continues. "It's not just the Targets, Walmarts and T.J. Maxx's that we want to see do well. We want locations where the mom-and-pops can do well."

WANTED: NEEDS

One of the ways ShopCore is providing support to its mom and pops is by ensuring they're surrounded by strong, complementary tenants that can drive business through their doors. The firm has placed a large emphasis on value and needs-based retailers, something Petherbridge refers to as necessity-based value.

"Ross is a very good example of where the consumer is moving," Petherbridge says. "Value continues to remain a very key focus. Those tenants that are growing very quickly—Ross, T.J. Maxx, Burlington Coat Factory—do an extraordinary job. We're very optimistic about that specific segment of the market, and we're confident in their growth trajectory."

Petherbridge notes he has a specific affinity for T.J. Maxx's parent company, TJX Companies, thanks to its other off-price apparel and discount home furnishing stores that can sometimes feel more like local small businesses. These include Marshalls, Sierra Trading Post and HomeGoods.

Petherbridge is also a firm believer in grocery anchors, with a specific emphasis on specialty grocers.

"Grocers clearly remain a very active segment of the market," he explains. "We're starting to see a significant number of specialty brands, whether Trader Joe's, Whole Foods and 365 by Whole Foods, Sprouts, The Fresh Market or Fresh Thyme, adding a necessity base to centers. They remain a key component to any center, and they allow the daily users to swing by more frequently."

The healthy attitude taken by many of the above-mentioned specialty grocers is a trend that has extended into other shopping center tenants as well, as Petherbridge has witnessed. This encompasses everything from vitamin stores to chef-driven, locally sourced healthy cuisine and even fitness studios. As with the grocers, Petherbridge is now seeing more local health-oriented concepts gaining steam and growing nationally.

SHOPCORE

“The amount of health- and beauty-focused tenants that are growing across the country remain at all-time highs,” he says. “Specialty grocers are moving out of their historical regions and into new territory. LA Fitness and Planet Fitness are expanding. Then you’ve got Orangetheory Fitness, cycle studios and tenants of all types that support an active lifestyle. You’re seeing these trends emerge as sales trend toward these guys.”

CHANGING WITH THE TIMES

Another trend Petherbridge appreciates is the flexible nature of many historically large, big box retailers. This decrease in square footage means ShopCore can entertain a wider variety of tenants in its urban centers. With its focus on population density and necessity-based value, this is a much-appreciated break from tradition, as far as Petherbridge is concerned.

“Many retailers that have historically set in exactly one size are now becoming much more flexible in their footprints,” he says. “They’re laid out to be more efficient. This is an area that excites us as retailers evolve and we see where they’re willing to go in markets.”

Petherbridge points to Target’s new smaller-scale format, which is rolling out stores between 20,000 square feet and 60,000 square feet, and to Petco’s boutique-style store, Unleashed by Petco, which only consists of about 4,000 square feet, as two great examples of retailers adapting with the market. These flexible store formats can be particularly useful in vertically integrated centers like ShopCore’s The Shops at Skyview Center, a mixed-use shopping center in downtown Flushing, New York. While ShopCore maintains a wide variety of outdoor centers, weather and spatial constraints can result in multi-level, enclosed malls. Notable tenants at the center include Target, Marshalls, Bed Bath & Beyond, BJ’s Wholesale Club, GNC Live Well, and Restoration Hardware and Nike outlets.

Weather and space permitting, however, Petherbridge does believe consumers appreciate the atmosphere that comes with open-air retail.

“If you really look at the performance at these outdoor centers, we do believe in the value and convenience factor of these retailers,” he says. “The retail puck is definitely moving to open-air centers.



West Broad Village in Richmond, Virginia, is anchored by Whole Foods Market. The property operates a seasonal ice rink, and other integrated events throughout the year.

Even up north and in the Midwest, I still think they work very well. Shoppers tend to gravitate to outdoor centers, and many of the retailers that are growing — Burlington, T.J. Maxx, Ulta, Trader Joe’s, Whole Foods, fitness tenants — are growing in the outdoor format.”

Petherbridge knows omnichannel and the social aspect of shopping centers are also areas of growth. He estimates that about 90 percent of ShopCore’s tenants are considered internet-resistant, consisting of grocers and service-oriented businesses that are hard to replicate online. The company is also taking steps to assist tenants however it can with new technology and delivery strategies.

“We’re trying to aid retailers in their omnichannel approach, and over time, that will evolve,” he says. “We’re seeing more drive-thrus for ease and convenience. We’re providing parking spaces reserved for in-store pick-up, so customers can order online and quickly grab their item from our stores.”

ShopCore has also integrated events and programming into its shopping centers whenever applicable and possible. South Park Meadows, a power center in Austin, Texas, now holds concerts and social gatherings, while West Broad Village in Richmond, Virginia, operates a seasonal ice rink.

“We’re actively monitoring trends and taking a holistic point of view,” Petherbridge says. “The key to retailers is a focus on high-quality locations and a proven experience. How do you enhance this experience? We’re very much focused on how to engage the consumer as much as possible.”

With little new retail development in the pipeline nationwide, ShopCore is doing exactly that: reinvesting its capital in its assets and focusing on the shopping center experience. In addition to the customer, the firm is also focusing on its employees and tenants as it embraces its new identity. Petherbridge says the firm is taking its privileged role as one of the nation’s leading retail landlords seriously.

“We have such an incredible opportunity to excel and really be one of the best-in-class retail landlords in the country,” he says. “I don’t say that lightly. It’s not something that is going to happen overnight. It’s going to take many years. But this group is very good. We have an opportunity to do things a little differently and a little better in some cases. We’re very excited about that and we’re very excited to have a partner like Blackstone.”

Petherbridge, too, views his new role with great respect.

“I think the Excel portfolio was well put together by the initial management team,” he says. “For a small REIT, they did a very good job. Now we have the sponsorship of one of the most pre-eminent private equity firms on the globe. There is an entrepreneurial spirit within ShopCore and within Blackstone. I plan to take everything I’ve learned at DDR and beyond and apply it to our business. Tenants remain very central to our company. It’s the only way I know how to do business.” **SCB**