

LEGAL & GENERAL PUTS OCCUPIERS FIRST WITH NEW FLEXIBLE LEASING MODEL FOR RETAIL AND LEISURE

Legal & General (LGIM Real Assets) announces the launch of a new commercial leasing framework for retail and leisure occupiers (“flexible partnerships model”), with an initial focus on turnover rent options. The flexible partnerships model marks a departure from traditional long-term leases, to a fully flexible approach that brings optionality to occupiers from start-ups all the way to superstores.

With structural changes impacting the retail and leisure sectors in recent years, predominantly due to the rise of e-commerce and rapidly changing consumer expectations, the traditional leasing model and the ‘1954 Act’ is no longer fit for purpose for many occupiers. Over the past five years, retail business launches and failures have increased by 29% and in 2019, the average length of a new retail lease had fallen to under five years. Historically, landlords have taken a ‘one size fits all approach’, which in today’s fast paced and evolving leisure and retail sectors is no longer fit for purpose.

In response to sector challenges, accelerated by the coronavirus pandemic, LGIM Real Assets has developed a flexible partnerships model that will deliver optionality and be available to existing and future occupiers. This market leading initiative aims to be UK-wide and applicable to all assets, playing a key role in supporting UK high streets by pioneering new owner and occupier partnerships. The foundation of the new leasing structure will consist of 4 core packages:

Flexi

What? White-boxed spaces aimed at start-ups for 3-36 months, on turnover deals

Who? Aimed at emerging brands, new concepts and seasonal businesses

Why? Reduce the initial cost, complexity and commitment length for small businesses whilst providing the most innovative and exciting occupiers for our customers

Operational

What? A turnover deal with an owner break linked to performance, with mid-term leases of 3-5 years

Who? Aimed at operators who we want to work with and remain important partners, but for whom the traditional leasing model no longer fits.

Why? Collaborative sharing of risk and reward between owner and occupier, driving stronger performance through partnership and offering more involvement from owners to drive audience group

Flagship

What? A traditional lease on a longer term of 5+ years

Who? For resilient occupiers who are financially solid, guarantee footfall and who prefer the traditional model

Why? Occupiers remain happy with longer-term commitments and we are happy that their offer is resilient and fit for the future

Flexi Flagship

What? An amalgamation of the turnover flexibility of Flexi, but with the lease length of Flagship

Who? Operators we want to partner with but need longer-term security

Why? For relevant businesses, particularly in the leisure sector, that we want to partner with but have higher initial fit-out costs to pay off and/or require longer lead times to engage local customer base

Denz Ibrahim, Head of Retail & Futuring at LGIM Real Assets, comments: “Demonstrating our commitment to bring innovation to the real estate sector, this new flexible partnership model really sets the bar for institutional landlords. It will provide optionality to all our existing and future occupiers in how they want to partner with us, and flexibility for us around who we want to work with.”

“Retail is not only changing through market forces, but also culturally. Our role as owner is shifting from what was solely ‘the librarian’ (collecting rent, renting shops and cleaning spaces), to becoming an ‘editor’ of the space. We need to ensure we have the right content, at the right time, in the right places, to support both occupiers and consumers. Understanding these changing behaviours and having more curatorial control over our assets allows us to be on the front foot in delivering future ready places, whilst helping our occupier weather the seismic changes impacting the retail and leisure sectors.”

As trading levels recover post Covid, this new flexible partnerships model has greater potential for investor income upside and the ability to generate increased and better quality occupier activity through optimised lease commitments. This transparent and collaborative approach will revolutionise the way LGIM Real Assets engages with its retail and leisure occupiers, resulting in enhanced cashflows and a better alignment of risk.

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Further information

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Notes to editors

About Legal & General

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LGIM Real Assets

LGIM Real Assets is a division of Legal & General Investment Management (LGIM), one of Europe’s largest institutional asset managers and a major global investor. LGIM manages £1.2tn in assets (as at 31 December 2019), working with a range of global clients, including pension schemes, sovereign wealth funds, fund distributors and retail investors. LGIM Real Assets has AUM of over £35.1bn (as 31 December 2019) and is one of the largest private markets investment managers in the UK.

Investing in both debt and equity and across the risk/return spectrum, LGIM Real Assets actively invests in and manages assets across commercial, operational and residential property sectors, as well as infrastructure, real estate, corporate and alternative debt. Taking a long term view in order to future proof its investments, the business continues to lead the industry in ESG performance, considering all environmental, social and governance issues at asset level as well as portfolio level.