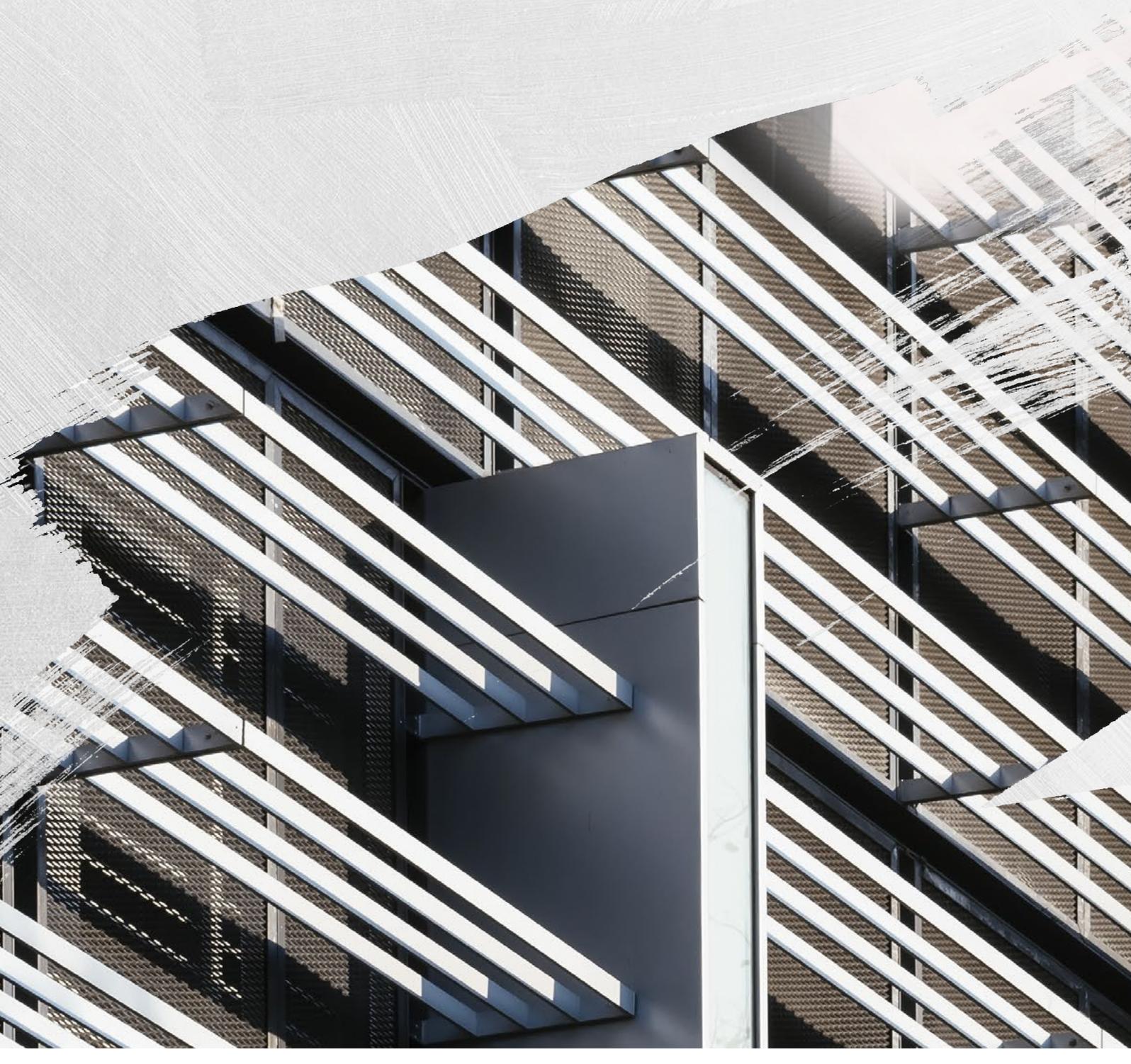


# *Raising capital* from corporate real estate

*EMEA transaction volumes analysis  
2020 update*



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## Introduction

2019 was a record year for corporate disposals of owned real estate across a wide range of industries. In the EMEA region alone, disposals of corporate and owner-occupied real estate raised €23.1bn across more than 460 transactions.

This report provides a breakdown of disposals into asset types and geographies, as well as a high-level review of the context for this activity. Whilst it surveys disposals over the past decade, it is published at a time of unprecedented global disruption and widespread uncertainty.

The ongoing global Covid-19 crisis presents enterprise-wide challenges for all businesses, regardless of their size, sector or geography. At a time when debt markets and other sources of capital are significantly constrained, businesses are increasingly looking at the different routes available to generate liquidity from their properties. This report demonstrates that disposals remain an attractive route to releasing capital – not only because they can allow for considerable operational flexibility, but also because investors are becoming more aligned with the needs of corporates.

We continue to see a growing appetite from investors in specialised corporate and owner-occupied properties, such as research buildings, healthcare facilities and manufacturing sites, which is opening further routes to monetisation. The Covid-19 crisis may lead to more of these kinds of facilities coming to the market. We also expect to see companies that are self-delivering HQs and other facilities to look to ease their financial commitments by collaborating with investors via forward funding sales.

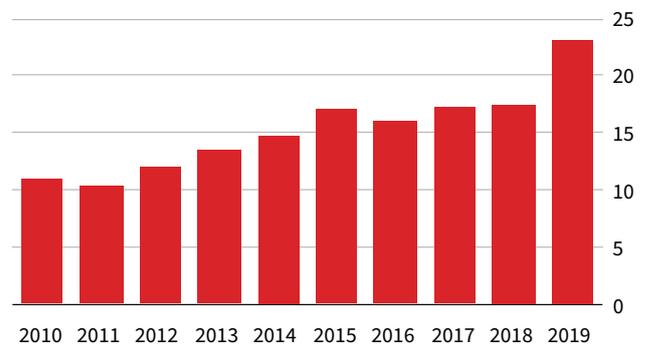
# Corporate disposals in EMEA are at record levels

**Disposals of corporate and owner-occupied real estate in EMEA raised a record €23.1bn in 2019, up sharply from €17.4bn in 2018. Last year was also the fifth consecutive year in which the total value of corporate disposals exceeded €15bn.**

It is worth noting that these record-breaking levels of activity took place in the first full year under IFRS 16, the reporting standard that requires companies to recognise assets and liabilities arising from all leases with a term longer than 12 months.

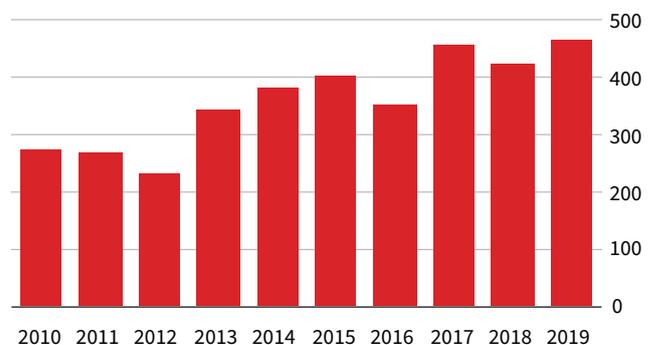
Prior to the implementation of the new accounting regime, it was predicted that these requirements may precipitate a fall in corporate disposals. As long-term lease commitments now appear on businesses' balance sheets as liabilities, it was speculated that the accounting changes would spur greater levels of property ownership. We have, however, not seen this in 2019. Appetites for disposals among corporates, and particularly for sale and leaseback transactions, remains very strong.

Value of EMEA Corporate Disposals €bn, 2010 - 2019



Source: JLL, excludes deals < \$5m

Number of EMEA Corporate Disposals, 2010 - 2019



Source: JLL, excludes deals < \$5m

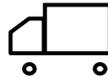


## What's driving the rise in corporate disposals?

While conditions specific to individual companies and the industries in which they operate are key reasons for sales, the high volumes of recent activity are also being driven by several wider trends:



**A high number of portfolio transactions** which accounted for almost half the value of all disposals that took place in 2019. This is a potential signal that corporates are developing holistic owned vs leased strategies across their property portfolios.



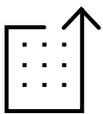
**Higher levels of activity in logistics**, driven by retail groups and courier businesses taking advantage of the growth of the logistics capital market. This reflects a longer-term trend of greater willingness from businesses to operate as a tenant of these spaces.



**Mid-cap corporates** owned or controlled by private equity groups were a key component of activity in 2019. Private equity groups pushed their portfolio businesses to dispose of property to pay down debts, as part of consolidation efforts or to release cash.



**Net-lease and long income funds**, along with American triple-net (NNN) lease funds, have become increasingly active in corporate disposals. These funds have also pushed the adoption of selling assets in portfolios with master leases across multiple global locations.



**Greater appetite for complex assets**, such as research or manufacturing facilities, from specialist landlords, potentially signalling that corporates and investors are becoming more aligned around lease agreements that provide operational flexibility around these more niche types of property.



**Disposal of non-core assets**, with many corporates disposing of former HQ office properties on short term sale and leasebacks as they rationalise their portfolios. Retail and leisure operators have also disposed of interests in properties no longer required. In each case they're taking advantage of demand from "value add" investors.



# What are corporates and owner-occupiers selling?

**Offices, retail and industrial properties continued to be the most active sectors for corporate and owner-occupied disposals in 2019, accounting for 76% of the total value of disposals in EMEA.**

## Offices

Corporate disposals of office properties raised €6bn in 2019, down from €7.8bn in 2018. Notable transactions included the sale by British Telecom of its London headquarters for €230m to Orion Capital Managers. BT will continue to occupy the 300,000 sq ft building, which is located near St Paul's Cathedral in London's financial district, for at least 30 months in a sale and leaseback deal. The telecoms and media group recently signed a lease for a new headquarters in nearby Aldgate, which is due to complete construction in 2021.<sup>i</sup>

In one of the largest deals of 2019, Deloitte sold their Copenhagen headquarters to Norwegian investor KLP Forsikring for €190m in December. The sale came in quick succession of KLP acquiring another office building a short distance from Deloitte's HQ.<sup>ii</sup>

Elsewhere, broadcaster ITV disposed of their headquarters on London's South Bank for €170m to Mitsubishi. The building was sold with planning permission for a 31-storey residential tower made up of 213 apartments, making it one of the largest development opportunities to hit the London market for several years.<sup>iii</sup>

## Retail and Leisure

Corporate disposals of retail and leisure properties grew sharply in 2019, with €6bn of transactions taking place - compared with €3.7bn in 2018. Key transactions included UK retailer Sainsbury's disposing of 12 superstores for €490m to New York-listed Realty Income Corporation. Sainsbury's, which jointly owned the sites with property developer British Land, will continue to operate from the stores under long-term net lease agreements with the new owner.<sup>iv</sup>

In April, French retail group Casino sold a portfolio of 32 supermarkets to American private equity group Apollo Global Management for €470m. The disposal comprised of a mix of retail locations primarily situated outside of Paris. As part of the transaction, Apollo will create a special purpose vehicle to acquire the portfolio and Casino will receive an interest in the new entity.<sup>v</sup>

In another portfolio transaction, Texas-based hedge fund Davidson Kempner Capital Management acquired 370 properties from Ei Group, the UK's largest pub owner and operator, for €400m. The property portfolio includes both pubs and former pub sites which have been converted to alternative uses.<sup>vi</sup>

## Industrial and Logistics

Industrial and logistics disposals have grown markedly over the past few years. In fact, €17.4bn took place between 2015 and 2019, compared with €7.4bn between 2010 and 2014. Furthermore, 2019 saw the total value of corporate disposals reach €5.7bn, up more than 50% on 2018 and only narrowly behind activity in the Office and Retail sectors.

Key transactions included French retail group Carrefour selling its stake in property vehicle Cargo, a property company that owns some of its distribution centres. The sale netted the group €290m, and is part of Carrefour's plan to dispose of €500m in non-strategic property assets by 2022.<sup>vii</sup>

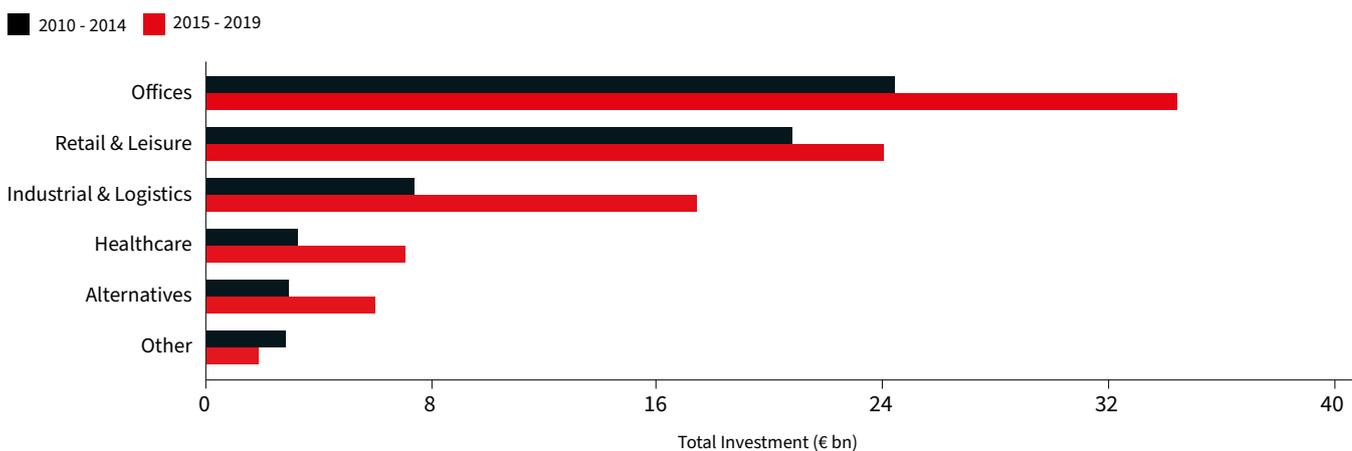
In May, UK retailer Sports Direct sold their headquarters for €135m to Malaysian investor KWAA Logix Sportivo. The retailer will continue to operate the property as a distribution centre, as well as offices and retail store, on a 15-year lease.<sup>viii</sup>

## Other sectors

Beyond these sectors, the value of corporate disposals in the healthcare sector has risen markedly over the last few years. Sales of healthcare assets have raised a total of over €7.1bn since 2015. Moreover, corporate healthcare disposals represent some of the largest transactions of 2019: in December, BMI Healthcare disposed of 30 acute care hospital facilities in the UK for €1.7bn to New York-listed Medical Property Trust. The facilities are under long-term inflation protected net leases to BMI Healthcare, who are the UK's largest operator of acute hospitals.<sup>ix</sup>

Activity in the alternatives sector also rose markedly in 2019, reaching €1.6bn. Much of this was driven by capital targeting student housing in the UK. Student Castle, for instance, sold its purpose-built student accommodation assets in the UK to Singapore Press Holdings for €520m.<sup>x</sup> Elsewhere, Vita Group disposed of its portfolio of eight properties to DWS for €665m. Vita Group will continue to operate the buildings, which are located in city centre locations across the UK.<sup>xi</sup>

### Value of EMEA Corporate Disposals by Sector, 2010-2014 vs 2015-2019



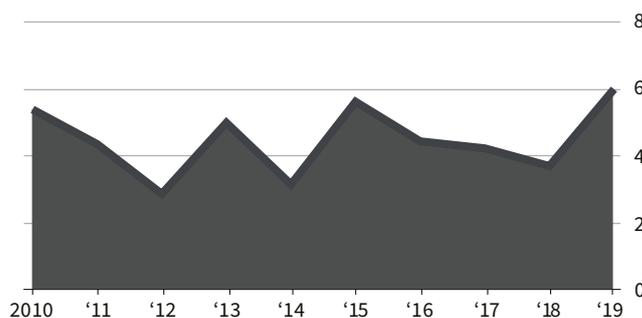
Source: JLL, excludes deals < \$5m

### Value of EMEA Corporate Disposals €bn, 2010 - 2019

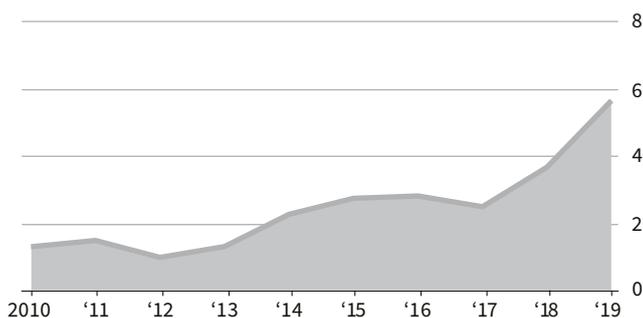
#### Offices



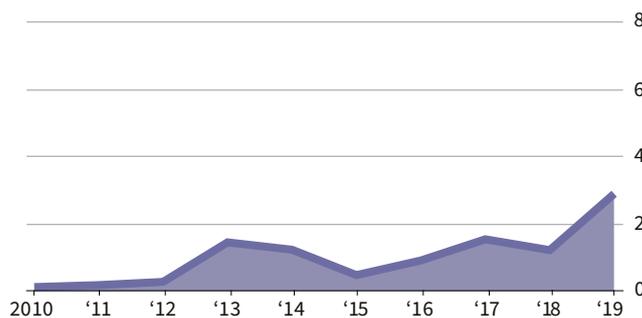
#### Retail & Leisure



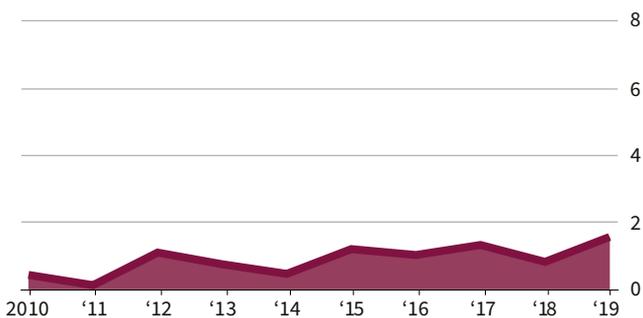
#### Industrial & Logistics



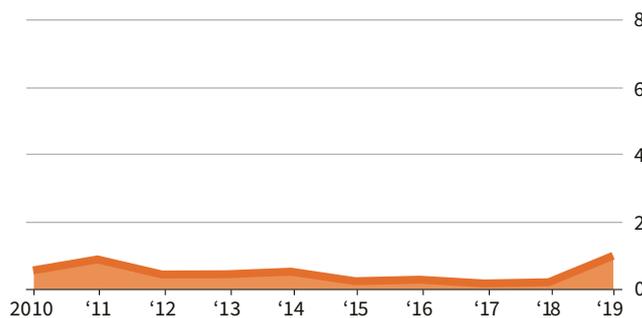
#### Healthcare



#### Alternatives



#### Other



Source: JLL, excludes deals < \$5m

## Key disposals in 2019



### January

Ei Group, the UK's largest pub owner and operator, sold 370 properties to Davidson Kempner Capital Management for €400m



### May

Sports Direct sold their headquarters for €135m to Malaysian investor KWAA Logix Sportivo



### August

Student housing developer Vita Group disposed of its portfolio of eight properties in the UK to DWS for €665m



### November

ITV sold their London headquarters on the South Bank for €170m to Mitsubishi



### April

Sainsbury's disposed of 12 superstores, which it jointly owned with British Land, for €490m to New York-listed Realty Income Corporation



### July

British Telecom sold its London headquarters for €230m to Orion Capital Managers



### October

Carrefour sold its stake in property vehicle Cargo, a property company that owns some of its distribution centres, netting the group €290m



### December

Deloitte sold their Copenhagen headquarters to Norwegian investor KLP Forsikring for €190m



## Which countries have seen the most activity?

**The UK, Germany and France were the most active markets for corporate disposals in 2019, accounting for 69% of the total value of transactions in EMEA.**

In the UK, the value of corporate and owner-occupied disposals almost doubled in 2019, with €7bn worth of corporate disposals taking place. Healthcare disposals in the UK raised €2.2bn alone in 2019, more than any other sector. While the sale of BMI Healthcare's portfolio represents the bulk of this figure, other notable healthcare disposals in the UK included the sale of four retirement villages by Audley Group to Schroders for €440m. Audley has formed a new venture with Schroders and Octopus Real Estate to deliver the sites, with Audley being responsible for the operational delivery of the villages.<sup>xii</sup>

Disposals in Germany also increased markedly in 2019, reaching €5.8bn. Industrial and logistics assets continued to

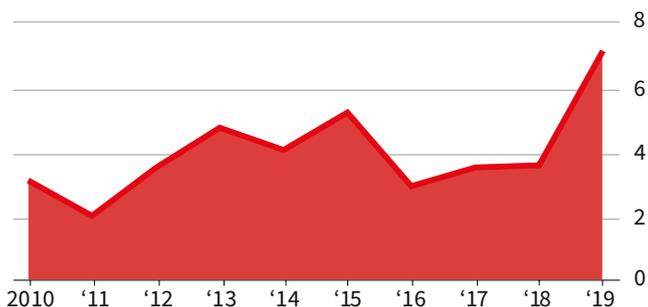
represent a higher share of corporate disposals in Germany than in other major European markets. Slightly more than half of German corporate disposals in 2019 were of industrial properties, raising almost €1.7bn. France saw €3.2bn of corporate disposals in 2019, a slight increase on the previous year.

Elsewhere, activity in Spain grew slightly on 2018, with €1.5bn of corporate disposals taking place across 37 disposals. The Netherlands saw €0.3bn in 2019, a significant fall on the previous year. The Nordic countries saw 55 corporate disposals, collectively raising €1.2bn.

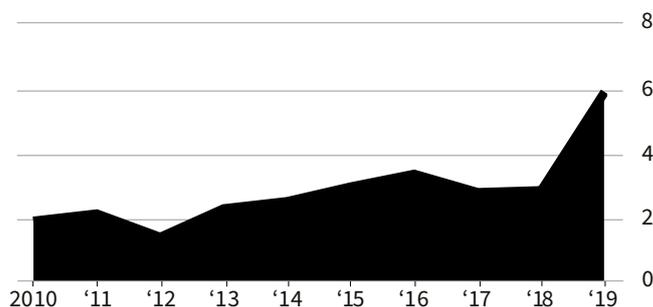


## Value of EMEA Corporate Disposals €bn, 2010 - 2019

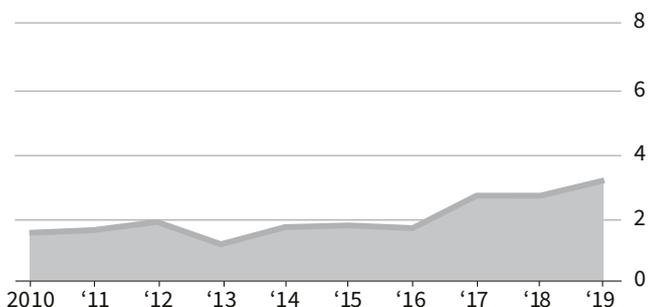
United Kingdom



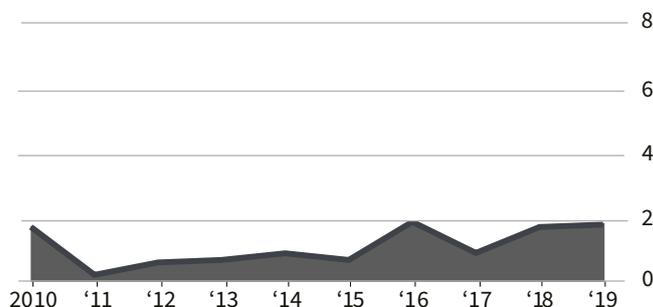
Germany



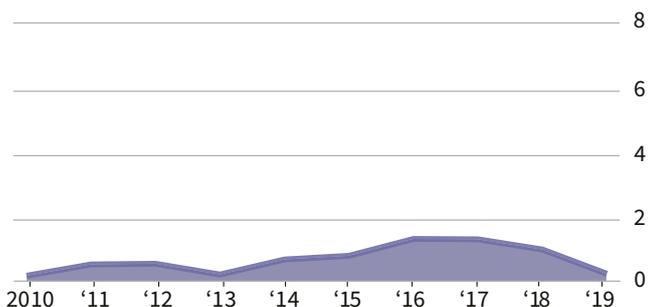
France



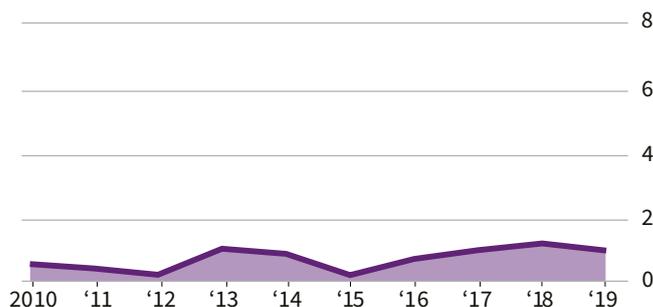
Spain



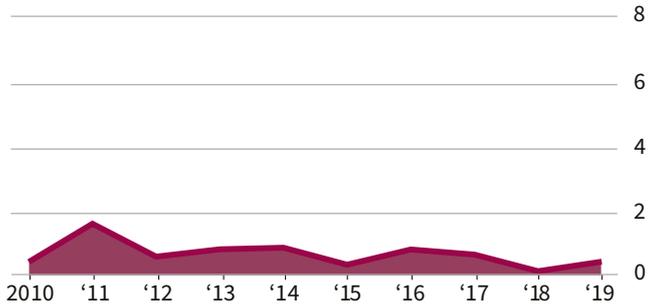
Netherlands



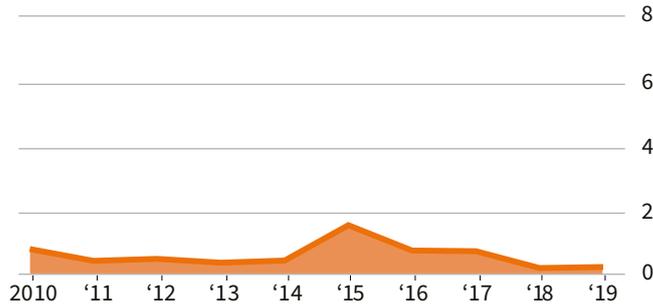
Italy



Sweden



Norway



Source: JLL, excludes deals < \$5m

# Unlocking the value of corporate real estate

## Corporates and owner-occupiers looking to unlock the value of their property portfolios have a range of options available to them, including:

- Sale and leaseback, in which properties are sold to landlords in return for the company taking an occupational lease
- Strip income, where an investor pays a lump sum upfront to acquire the rental income derived from a long-term lease, with the property reverting to the tenant when the lease expires
- Credit tenant leases, which are similar to strip income. Credit tenant leases are based on the tenant's credit rating, the lease structure and rental profile. The rental payments are typically securitised and distributed to credit investors in bond format, offering investor diversification and increased liquidity.

Sale and leasebacks are the most commonly utilised of these options – in part because of the relatively low level of complexity involved and strong market appetite for these types of disposals. For UK pension funds and annuity investors in particular, long term indexed sale and leasebacks are a significant source of annuity compliant investments.

Corporates are also demonstrating a high degree of creativity in how they structure sale and leasebacks to minimise operating expenditure, rather than focusing exclusively on maximising capital value. For instance, one retailer disposing

of a portfolio of logistics centres asked prospective buyers to bid their lowest rent against a fixed capital price. Looking ahead, we may also see businesses structuring portfolio-wide concepts as a property company or joint venture.

Alternatively, some businesses have opted for property pension fund partnerships, where proceeds from the real estate are used to reduce a deficit in a company's pension fund. This places the property into a partnership vehicle that both the company and its pension fund have a stake in. A lease is then set up between the company and the partnership, with the pension fund's share being used to pay down the deficit.

Investors in corporate real estate are increasingly showing an appetite for collaborating with occupiers during disposals. This can take the form of acquiring properties that are vacant or on short leases and sharing the upside created when the occupier commits to a longer lease post acquisition. Some investors are also collaborating in the procurement of new facilities via direct forward funding.

Furthermore, the growth of more specialised landlords is providing a viable route to monetisation of more niche property types, including manufacturing facilities, laboratories and datacentres.

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