

# Sponsor Interview

## In reimagining U.S. retail, look to local communities

Recently, **Jonathan Schein**, senior vice president and managing director of global business development for Institutional Real Estate, Inc., spoke with **Matt Strotton**, global director, capital, for QIC Global Real Estate, about the state of U.S. retail and the opportunities it offers. The following is an excerpt of that conversation.

### Why the United States?

We see an opportunity in the U.S. to own, manage and develop regional shopping centers and retail-led, mixed-use town centers over the long term, applying an active management approach. The U.S. meets all of the criteria that QIC uses to assess opportunities for building long-term real estate positions in key markets. We have worked up quite a sophisticated top-down and bottom-up range of research to investigate our thesis. Over time, as we built the investment case for the U.S., we did indeed find that this market possesses those attributes that we look for.

### What are those attributes?

Our overriding objective is to look to create and enhance value in stable, fast-growing economies with stable socio-political attributes. We own and operate assets that we can reposition to provide consistent, sustainable returns and growth over the longer term in markets with potential to grow. The cornerstone of our investment philosophy is the careful analysis of our trade areas and our ability to build lasting relationships with our partners, our tenants and our communities. By better understanding the evolving needs of our trade area, we can resource our properties, enhance our offer and position our properties to



**Matthew Strotton** leads QIC Global Real Estate's Capital team, overseeing fund management, global mandates, capital transactions, treasury and debt management and global strategic partnerships. With 22 years' experience in the retail sector and 17 years with QIC in regional shopping center investment, development, product development and funds management, he has overseen \$13 billion in U.S. and international transactions.

Mr. Strotton was responsible for establishing QICGRE's real estate platform in the United States and works closely with Stuart Miller, Global Director – Asset Strategy; Brenton Watson, Executive Vice President – Asset Management U.S.; and Joe Boehm, Executive Vice President – Retail.

provide sustainable returns and consistent growth. We were very patient in acquiring our U.S. portfolio, and it is well positioned today. We're excited at the prospect of growing our properties from a very healthy base and enhancing their position as the core locations for commerce in our communities.

### What are those who have been predicting the demise of retail missing here?

The phrase "demise of retail" makes me smile. In our view, the demise concept is overdone. When we first entered the U.S. market, we flagged two variables particular to the U.S. that could open up master planning opportunities — the first being department stores or anchor stores owning and controlling their own real estate within a shopping center or town center, and the second being the different retail merchandising mix in U.S. shopping centers compared to what we have in Australia. These two factors, which have received quite a bit of negative media attention, are two opportunities that give us a range of value-add alternatives for our properties. (This

opportunity will vary, of course, with weaker locations having a more difficult time unlocking value in these areas, a point that has been well covered in the media.) Retail continues to be lumped into one broad category, but we can't deny the diversity that exists. There are many subsectors within retail that will experience ups and downs, and certain shopping centers in those subsectors in certain markets that will weather ups and downs better than others. We relish the challenge and have been able to mitigate and ultimately leverage the changes that are present today in the U.S. for future rewards. So demise is not the right word.

### What is the right word?

Renaissance, perhaps. Retail has always been a dynamic asset class subject to reinvention. Retail requires differentiation, reimagining. And we direct our resources toward this. The shifting wants and needs of our consumer, and the manner in which our retail tenants attract and interact with their consumers, will continue to evolve. Some markets will reach a new equilibrium that may highlight or exacerbate weaker

fundamentals. But our business, and our retailers, will continue to evolve. Disruption is a constant feature of the retail world, and landlords must remain focused on reimagining and taking advantage of new opportunities. Retail is a sector that is ripe for a renaissance because consumers are demanding it, our communities are demanding it and, importantly, there is an opportunity to reimagine the shopping center by taking a fresh look at our master planning. A lot of Rs, I know.

**QIC's retail business in the United States is vertically integrated, as it is in Australia, with QIC both owning and managing your portfolio of shopping malls. What are the strengths of this model in the current U.S. retail environment?**

Being vertically integrated gives us the benefit of controlling all strategic functions that contribute to operating a successful portfolio. We have the control we need to work collaboratively across leasing, retail merchandising, funds management, investment management

and asset creation functions. This gives our investment partners line of sight at all points throughout the cycle.

In addition, our total return approach gives us more flexibility to undertake larger scale developments without necessarily focusing on maximizing income on a quarterly basis. Taking a regional mall or shopping center enterprise private and removing the needs of, say, daily pricing, can impact your management and value-creation model. We approach the management of our assets and their growth in a sustainable way that resonates with and supports the communities we serve.

**How does your focus on real estate as a local business drive QIC strategy for building value in these assets?**

The way we look at it, successful retail and town center real estate investing is a local business. Our local strategy pervades our thinking and approach from asset selection through to every aspect of operations. In fact, we apply a hyper-local strategy when it comes to master planning, product strategy, asset trans-

formation, marketing and community engagement, which drive assets' enduring value. QIC is not simply looking to evolve our asset ready to sell or refinance into the next cycle. We are looking at repositioning it and building the property as part of a community on a decade-by-decade basis. Through our partnerships with successful businesses and our communities, we look to introduce local retailers, local restaurateurs, into our properties. That is very important to us. We don't need to have our retail

mix driven purely by national and international retailers. We are quite drawn to introducing local retailers that have a successful model.

**How do you select your assets and markets?**

We are managing assets in 12 local economies. For asset selection, we identify local communities and markets with an outsized potential to generate predictable income streams over longer periods of time, and importantly, we consider what role the prospective asset plays within that local market. Will this asset and its trade area respond to ongoing value-add strategies? This question is central to our thinking when pursuing an acquisition. We then ask ourselves which retailers we can attract and what our unique selling proposition is. Can we add value through the planning regime? Can we introduce complementary town center uses such as office, hotel, multi-family, medical, and other city and community uses? The types of retailers, restaurants, hotels and other uses we intend to introduce in our shopping malls have to complement our position in the local community.

We strive to be a responsible community partner, too. True to our strategy of weaving our assets into the fabric of our communities, we deliver environmental and social investment initiatives matched to community needs. Our objective is to reduce our environmental footprint through efficiencies while leveraging our expertise and resources to champion community priorities.

**Which lessons from your experiences in Australia are most relevant to actively managing QIC's malls in the United States?**

We have been successful in Australia because we have embraced disruption and evolution since our inception. Certainly, one important lesson here is the importance of being able to modify the offering to accommodate the changing needs of consumers. Doing that in Australia has involved significantly increasing the size, quality and ambiance of our shopping centers and developing them as vibrant town centers. When



Victoria Gardens in Cucamonga, Calif.

we first looked at the typical U.S. tenant mix, we saw about three-quarters apparel, with some ancillary uses such as a bookstore, or a CD or record store, and a cafe. By comparison, our Australian properties represent a diverse range of products, services and retail, commercial, residential, medical and other civic uses, which creates a different experience than what you have at a fashion- or apparel-led offer. We actively incorporate, for instance, grocery stores and other offerings that celebrate food, making it an important part of why people want to visit our properties. Consumers may be drawn to our properties to do their weekly grocery shopping and come back later in the day to enjoy a meal with friends at a four-star restaurant and then take in a show during the evening. They may visit an adjoining library or work in the neighboring office park and visit each day. The demarcation between retail and local community is blurred as it has been in traditional town centers, so our communities enjoy all of these authentic experiences and uses in one place. Because we design our properties as town centers, you really get the feeling of visiting the heart of your community. There is a clear opportunity to extend this thinking to our U.S. properties.

**Given digital disruption in retail, what must U.S. mall managers and developers do to ensure their properties remain relevant to consumers now and over the long term?**

The key is knowing and accepting that retail, and particularly shopping malls, are always going to change — always — and not to be alarmed by that reality. Nor should we be complacent in addressing the evolution. You need to anticipate the needs of consumers and be ready to introduce to the shopping center experience new retailers, uses and offerings that fill the unmet needs of our communities. The relationships we build with our retailing partners, and their visions for creating an omni-channel presence, continue to be an essential part of our day-to-day jobs. E-commerce may have impacted our methods of com-

merce, but the very same retailers that are growing a new online presence are also reinventing their physical offering, level of service and commitment to showcase their products and services. Our job is to respond to their needs, share our views on the needs of our communities and provide a dynamic built-form experience. Simply put, we need to continue to do our job, and do it well. All of this change and reinvention requires reinvestment and dedicated resources. To ensure

that we stay ahead of the curve, we are devoting the resources necessary to continually reinvent our properties.

**What a concept — do your job and do it well.**

I know it sounds simple, but for every single QIC asset, we appoint a proven senior executive as an investment manager whose full-time job is to seek the next evolution of that property. The job of our investment managers is not simply to go to the mall



South Bay Galleria in Redondo Beach



Artist's rendering of South Bay Galleria planned redevelopment

and redo a food court, paint the car park and upgrade the landscaping. It is vital that our investment managers not only work closely with our local property management teams to reinvigorate the operating properties as they exist today but also envision where we will take these properties in the next 10 and 20 and 30 years and ready them for their next phases of growth. For our investment partners, we can relay this directly through our integrated platform.

**How can digital technology be leveraged as part of an omnichannel retailing strategy to improve the local, offline shopping experience?**

We are executing a digital strategy by investing in leading platforms and backbone technology. This includes things like installing advanced fiber-optic networks throughout our assets to provide a pillar for services, for mall management and building automation systems, and for security, as well as for telephone and high-speed Internet and reticulated television. We also

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synchronize our assets’ websites, mobile applications and in-mall digital directories to meet and exceed consumer expectations so they are wholly connected to our asset. This incorporates digital mapping and iBeacon technology that can be used across all digital channels to enable wayfinding and real-time proximity marketing.

**A final word?**

We are community-obsessed retail and retail-led town center specialists. For us, true innovation is about empowering our communities to own our assets by delivering places that are relevant to them — engaging places where people choose to be and that are woven into the fabric of their local area. We enable our retailing partners to grow with us as they showcase their evolving offer at our properties. It sounds simple enough, but the art is in the execution. We are now living in the most digitally powered age in human history, but the fundamental truth is that we still yearn to belong to and interact in spaces that make us feel comfortable and connected. We are building those places.

**CORPORATE OVERVIEW**

With more than \$15.1 billion invested in U.S. and Australian retail and offices, **QIC Global Real Estate** is recognized for delivering predictable outcomes for clients over the long term. Its team has extensive experience in deal origination and execution, asset management, leasing, marketing, and development. QIC is a global diversified alternative investment firm offering infrastructure, real estate, private capital, liquid strategies and multi-asset investments. It is one of the largest institutional investment managers in Australia, with \$65.7 billion in funds under management.

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