Westfield $16 billion Unibail-Rodamco sale rings the bell on retail's next chapter

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SYDNEY/MELBOURNE (Reuters) - For investors in Australia’s Westfield Corp (WFD.AX), its $16 billion sale to European property giant Unibail-Rodamco UNBP.AX may mark a turning point for a mall industry under pressure to reinvent itself amid fierce online competition.

But to billionaire Frank Lowy, who built Westfield’s vast European and U.S. shopping center network into multi-purpose leisure venues, it was also the perfect moment to call time on a family empire.

“He probably thought that he’d taken it as far as he could with his sons, and there were other people that may have a different way of approaching the industry,” said Harold Finger, founder of Sydney-based shopping center investor Haben Property Fund Pty Ltd, who has known Lowy since he was a boy.

Reporting by Byron Kaye in SYDNEY and Sonali Paul in MELBOURNE; Additional reporting by

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“He’s 87 years old, his kids are not little babies any more, they’ve got kids and they’ve got other interests that they can get involved in,” he said, referring to two of Lowy’s sons, Peter and Steven.

The sale of Westfield to Paris and Amsterdam-listed Unibail-Rodamco is a milestone for so-called bricks-and-mortar retailers, which have so far argued they can downsize or, in Westfield’s case, go upmarket to avoid the incursion of online competitors led by U.S. giant Amazon.com Inc (AMZN.O).

But analysts and investors in the sector disagree about what comes next.

“Lowy has bailed on Westfield before Amazon destroys his malls and turns them into relic tombs of the 20th century,” said Eric Schiffer, CEO of private equity investor the Patriarch Organization, by telephone from Los Angeles.

“You can only do so much to re-imagine a shopping mall, and they’ve tried here in Los Angeles, but it’s like trying to reinvent the horse and carriage. No matter how much you try you can’t turn a horse into a Tesla. It’s not going to happen.”

The deal may nudge other mall owners towards considering a sale more seriously, though some point out that further M&A action will be more difficult with Westfield and Unibail-Rodamco - two big players - now off the board.

The Lowy family, which owns 9 percent of Westfield, will end up with a 2.8 percent stake in the combined group.

Citi analysts noted Lowy’s public statement that he remained committed to his seven-decade-old company as an investor but said “it’s hard not to see today’s announcement as signaling a significant shift in view”. The deal has lifted expectations in a sector sold down by investors over its gloomy outlook.

Shares of Scentre Group (SCG.AX), which Westfield spun off in 2014 to hold its Australian shopping centers while Westfield kept the U.S. and British assets, rose 2 percent on Wednesday, on top of a 4 percent jump a day earlier.

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The explosion of online retail has led to a worldwide decline in department store footprints, forcing mall owners such as Westfield to rethink their business models to sustain or grow earnings.

In the United States, Macy’s Inc (M.N) and J C Penney Co Inc (JCP.N) have said they would shut hundreds of stores to protect themselves from declining sales. Credit Suisse estimates that up to 25 percent of U.S. malls will shut by 2025. Westfield has been seen as a pioneer of reinventing the mall concept, adding cinemas, apartment towers, high-end food courts and luxury fashion labels to its rental mix.

The overhaul - which has spanned the Westfield portfolio from Beverly Hills, California, to London and Milan - has nonetheless curtailed earnings growth as capital works hit rents, weighing on the company’s share price and making it attractive for buyers.

“Westfield particularly we saw as a good opportunity because it’s rare that you see a group that has such high quality assets, and they’re building out what is really the pre-eminent retail portfolio globally,” said Grant Berry, a portfolio manager at Australian broker S.G. Hiscock, which invests in retail real estate investment trusts (REITs), including Westfield.

“They’ve been doing all the right things and the market hasn’t been giving them credit for that.”

Winston Sammut, managing director of Folkestone Maxim Asset Management, said the deal offered Lowy and his family an exit just as their business entered its most challenge phase, while offering the buyer access to a fresh market.

“It’ll probably turn out to be good timing,” said Sammut. “There’s still a lot of headwinds for the sector in general. The writing’s on the wall. You’ve got to take opportunities as they come.”

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