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A framework for the management of retail assets

Gardner, Alan¹, Orr, Allison M.², Jackson, Cath³ and White, James T.¹

¹ Urban Studies, School of Social and Political Sciences, University of Glasgow

² Retired, Formerly Urban Studies, School of Social and Political Sciences, University of Glasgow

³ Department of Urban Studies and Planning, University of Sheffield

Abstract

Purpose - The retail investment landscape in the UK has drastically changed. Understanding owners' responses to this structural change is critical to gain insight into protecting investment performance. This paper identifies and evaluates the tactics and strategies being adopted.

Design/methodology/approach - This paper employs a mixed methods research approach, using data collected from semi-structured interviews with professionals involved in the retail investment process. This is supplemented by secondary market data analysis.

Findings - The paper assesses the practical responses made by retail property owners/managers, structured around emerging sub-themes. Actions include mitigating short-term risks through greater use of temporary tenants/licensees and independent retailers; preparing generic 'white box' retail space to capture remaining tenant demand; exploitation of the tenant mix to provide 'the retail experience'; and application of new technologies and processes in a sector where systematic risk remains high. A new framework for retail asset management is developed.

Research limitations/implications - This study contributes to the retail asset management literature and understanding of the way the contemporary retail landscape is shaping investment management behaviour.

Practical implications- The developed framework provides guidance to real estate managers developing a retail real estate management strategy and will help them recognise tactics to better support the evolving retailing market.

Originality - The new framework adds new insights to understanding the process for managing retail assets and the actions necessary for asset managers to address economic/functional obsolescence and sustain asset investment values.

Keywords: Retail market, asset management, innovation, transactional, operational

Article classification: Research Paper

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1. Introduction

The UK retail sector continues to undergo fundamental transformation driven by technological change, greater online penetration and pressure on mid-range retailer business models. The Covid-19 pandemic and inflationary squeeze on disposable incomes exacerbate the challenges faced. Much media coverage and published research has concentrated on the decline of the high street as the retail venue of choice and as a principal driver of local economies. Less research has investigated the impact on the retail property sector albeit with some exceptions (such as Orr *et al.*, 2023; French *et al.*, 2021).

What can owners and their asset managers do? They are faced with multiple decisions, ranging from day-to-day tactical issues to longer-term strategic considerations increasingly arising and discussed, such as the repurposing of space to cater for alternative uses, and changing the ethos of their interactions with the requirements of tenants in this 'changed utterly' market. This paper explores the multifaceted role of the asset manager and investigates the widening complex specialisms and actions undertaken, important if they are to be enabled in a meaningful manner. By concentrating on asset management in this way, we aim to add understanding to this overlooked element of the real estate investment process (Autio *et al.*, 2023), an increasingly vital area, important to investment returns and to the wider promotion of urban economic growth.

The focus of the paper is the UK retail sector, core to the economic and social viability and vitality of town and city centres, yet fundamentally threatened by the structural change in the sector. It contributes to understanding the tactical and broader strategic approaches adopted by asset managers by employing a range of research methods. Exploring asset management styles identified in the literature, a qualitative approach across five UK cities is used to generate primary interview data from a range of industry professionals, revealing detailed insights into the complexity of the role of the asset manager. The insights gained are then contextualised by analysis of quantitative data drawn from relevant secondary sources. Finally, a framework for retail asset management is developed to help asset managers sustain value for properties facing economic/functional obsolescence.

In the remainder of the paper, the asset manager's role is explored and positioned within the 'run-of-the-mill' management phase of the investment process. Different styles of asset management are reviewed and those pertinent to change and therefore most useful in the current retail climate identified. A categorisation of asset management styles is presented and forms the basis for the empirical stage. Qualitative and quantitative methods and data are discussed in section 3. In section 4 the research findings are detailed, revealing the range of interventions employed by asset managers.

This, then, enables the complex components of the role to be mapped and a framework for retail asset management developed. Finally, conclusions are drawn along with suggestions for further research.

2. Revealing real estate asset management styles

The management of direct real estate investment assets is complex. McAllister (2020, p.565) describes the range of characteristics that contribute to this complexity as ‘diverse and often complex bundles of technology, materials, services, financial flows, legal obligations, regulatory responsibilities, contractual and business relationships’, together requiring ‘operational management’, as termed by Geltner (2003). The management of these ‘bundles’ is a core aspect of the investment process and ‘improvements to operational efficiency and effectiveness can enhance investment performance’ (McAllister, 2020, p.565). Baum and Farrelly (2009) agree, setting out that measuring relative fund performance must include manager performance (the ‘alpha’ of investment returns), embracing ongoing asset management tasks that are distinctly separate skills from purely investment activities. Different components of the ‘bundles’ require different types of approaches, broadly distinguished as tactical or strategic. Tactical activities are reactive, deployed immediately in response to specific building circumstances. Strategic approaches are more likely to impact beyond immediate market circumstances and can represent proactive and considered responses to fundamental challenges. However, roles and responsibilities for operational management challenges can vary significantly across investor groups and styles, further complicated by different operational models relating to the outsourcing or insourcing of key functions.

There is no single model of attributing the ‘bundles’ of responsibilities and functions to operational management roles, with McAllister (2020) identifying facilities management, property management, asset management, specialist functions, fund management and a further four categories servicing legal, accounting, data and research functions. The functions of such roles are not distinct or stable (Autio *et al.*, 2023), although a hierarchy of relationships is suggested by Remit (2019).

Remit’s (2019) traditional view of the relative positioning of the roles depicts fund management and asset management as higher in the hierarchy and distinct from property, facilities and building management. This reflects the evolution of business models within the real estate industry, whereby property and facilities management (and more general building management) are frequently outsourced, largely reflecting the day-to-day nature of the operational issues ascribed to these roles. The spatial diversity of property holdings often means that different localised management services are an efficient approach to delivering these roles. The major real estate consultancies – JLL, CBRE,

Savills, Knight Frank and BNP Paribas – offer management services that concentrate on the day-to-day functioning of buildings, taking this element of management away from the investor. By contrast, contribution to investment performance underpins the functions and responsibilities of real estate asset management, to ‘improve the risk-adjusted performance’ of assets (Autio *et al.*, 2023). This is further explained by McAllister (2020) in his depiction of the asset manager role feeding into investment returns through having the responsibility for identifying and executing value add opportunities.

In terms of asset management strategies regarding mainstream asset classes – principally equities and fixed income – strategies are considered ‘active’ or ‘passive’ based on investment mandates targeted at out-performing or matching defined market performance or peer-group based benchmarks. With respect to real estate, Jacobs (2005) starts to unpack the role suggesting active asset management can mean many things, from ‘a bit of gearing and the occasional rent review’ through to the ‘full gamut of strategic activity that looks at enhancing property cashflows, values and returns’ (p.302). Geltner (2003) agrees, describing how the core characteristics of real estate distinguish it from traditional securities management. Jacobs (2005) goes further and captures the essence of active real estate asset management in that it involves, implicitly, altering the status quo of an asset, whether that relates to the physical structure or the implementation or amendment of leasing terms. This contrasts with corporate strategists (see for example McDonagh 2008) and public-sector real estate asset management perspectives (Rymarzak and Trojanowski, 2012; Ngwira *et al.*, 2012) that focus on achieving corporate goals and service delivery.

Read (2017) presents an extensive review of real estate asset management, identifying four approaches to active management and the different underlying skillsets required. The first two are operational asset managers, who focus more intensively on developing relationships with the wider real estate management and facilities teams, and transactional asset managers, who focus on deals, negotiating leases and setting rents with a focus on what tenants require, with a strong awareness of market fundamentals. These approaches resonate with Jackson and Orr (2019) who found that managing tenant and leasing risks are fundamental, especially during market uncertainty, and also with Orr *et al.* (2023) who identified the importance of leasing and covenant concerns in an adaptable retail investment market. The other two approaches to asset management identified by Read (2017) are analytical asset managers, who have strong financial skills, making effective use of data modelling through spreadsheets, and comprehensive asset managers, who again have strength in financial management but, combined with liaison management, foster effective relationships, both with the

team and external suppliers. While this is a useful typology, Read (2017) acknowledges that asset managers often need to exhibit skills spanning the four approaches. Indeed, the literature reveals that there is no fixed categorisation of asset management tasks, with disagreement spanning categories as well as the type and scale of inputs. The multifaceted and complex role of the asset manager is evident, with priorities and styles varying across market phases.

With respect to the retail sector, much of the literature on asset management strategies focuses on shopping centres, usually led by a manager and supported by a team. In this instance the focus is often on managing or improving brand and pitch to potential customers (Hunter, 2006) by creating a positive customer experience that strengthens a centre's performance, reinforcing the broader relationship between tenants and improving the flow of information between owners, managers and tenants. The importance of customer experience through the emergence of the 'experience economy' (see White *et al.*, 2023a) has spread beyond shopping centres and asset management strategies have to take account of the transformation brought about by increasing penetration from online shopping modes across customer selection, transaction, and the final delivery of consumer products. This challenge is recognised by Worzala *et al.* (2002) in their discussion of the need to increase the 'entertainment value' platform within retail outlets. Land Securities, a major shopping centre investor in the UK, indicated their intentions to embrace this approach by creating a new retail structure to 'elevate' its retail destinations and 'curate guest experiences that can't easily be replicated online' (Newman, 2021). Jones and Livingstone (2015) consider three major UK retailers and the impact of online sales on the retailing market and report that the space considered by occupiers is 30-40% smaller than 30-40 years ago. They also highlight that retailers need to provide an attractive experience for physical customers to remain relevant. This work was optimistic in suggesting that retailers could effectively maintain a major physical presence by developing a multi-channel model. The subsequent collapse of one of the retailers they deemed to be successful (Debenhams, in 2021) shows how that outlook has changed.

Fundamental market shifts such as this should be considered in the role of asset managers. Indeed, Read (2017, p.47) highlights how the four approaches he identified may change, as 'many asset management roles evolve over time as ... the needs of the companies they work for change' and McAllister (2020, p.569) similarly identifies that asset managers often need 'an entrepreneurial outlook'. He specifically identifies shopping centres as an asset class experiencing significant change leading to opportunities for "'alternative" revenue generation', with Orr *et al.* (2023) agreeing and citing innovation as needed to improve data sharing and lease management in the retail sector. Indeed,

while retail was long perceived as the strongest sector in the UK market and priced accordingly, it is now seen as the most challenging sector, with sustained disinvestment from institutions (IPF, 2019). Goshawk and IPD (2014) and the annual MSCI Lease Events Review capture the decline in lease lengths since the turn of the millennium, with the retail sector no longer protected by upward-only rent reviews and longer leases. Furthermore, with a presumption against retail and shorter lease lengths prevalent in the current environment, asset managers need to think differently, embracing innovative approaches to value generation. However, little is known regarding the response of retail asset management to these challenges.

The approach adopted here to explore the multifaceted role of the asset manager is to focus on three asset management styles: 'operational', 'transactional', and 'innovative'. Adopting this categorisation of styles reflects the need to improve understanding of the widening complex specialisms and consequent range of tactical and strategic approaches undertaken by asset managers in the retail sector. The first two styles are presented by Read (2017) and supported by Jackson and Orr (2019) and, in the retail sector specifically, by Orr *et al.* (2023), while the third reflects the need for evolution in approaches, not least in response to the fundamental structural changes affecting the retail sector. Autio *et al.* (2023) include 'innovation' in their development of a framework for strategic real estate asset management. They describe innovation as applying something new, whether it is incremental or completely new, creating value and is especially relevant in the current context of technological pressure. This paper is one of the first to consider how the functions and responsibilities of the asset manager not only align with the different styles available and suggested by Read (2017) but to explore how styles may have evolved due to changing circumstances and asset managers' adaptability and willingness to embrace new methods and ideas in the context of rapid sectoral and technological change on the UK high street.

3. Research methods

The research presented here is part of a larger study of change in the central retail area of five major UK retailing centres: Edinburgh, Glasgow, Hull, Liverpool and Nottingham. The focus on these regionally significant northern cities¹ avoided the complexity of the north-south economic, social and political effects identified by Wrigley and Dolega (2011) as influential on the resilience of retailing

¹ Glasgow (2,991,000ft²), Liverpool (2,998,000ft²) and Nottingham (2,877,000ft²) are three of the largest retail centres outside London's West End. Edinburgh (2,118,000ft²) and Hull (1,873,000ft²) are smaller regional centres (PMA, 2021).

centres². Using these retailing centres to define the area of study, the current paper employs mixed research methods to achieve the aim of exploring the multifaceted role of the asset manager, revealing understanding of the widening complex specialisms and range of actions undertaken.

As detailed in the following sections, initially a qualitative approach utilises semi-structured interviews to garner the experiences of professionals and collate data on the role of the asset manager. In preparation for the interviews, analysis of the retail and investment risk/performance literature (e.g. Jackson and Orr, 2011, Crosby *et al.*, 2016, Savills, 2018) was undertaken. This contributed to the researchers' understanding of the current challenges facing the retail sector, which assisted the development of a theoretical framework that identified themes on recent changes to the retail investment landscape and managing investment risks. This framework informed the design of the broad questions set to guide the investigation into the phenomenon and used to initially categorise the interview data before sub-themes were identified.

The primary data collection was then supplemented by descriptive quantitative analysis of secondary data drawn from CoStar and the Local Data Company. Finally, the results of both stages of the study are drawn together and the complex tactical and strategic elements of the role of asset managers are mapped onto the three 'operational', 'transactional', and 'innovative' styles identified in the literature and the resulting framework of asset management strategies is presented.

3.1 Survey sampling

For the semi-structured interviews, purposive sampling was used to identify interview participants following Cresswell and Plano Clark (2011), which involved identifying and selecting individuals with in-depth knowledge of the operation of the investment market in the central retail area. Interviewees were recruited across the five cities, comprising a range of property professionals with experience supporting investors and managing retail assets.

Emails were initially sent to 66 potential candidates with 'follow-up' telephone calls subsequently used to increase participation rates. 27 participants, amounting to 5-6 in each city, were confirmed. The timing of the interviews reflects the impact of Covid-19. 13 interviews were undertaken between January and March 2020, ten in-person and three by telephone. Interviews were suspended as restrictions came into force, resuming in January 2021 with 14 interviews conducted via video

² London's exclusion reflects its unique scale and research challenges associated with its position as a leading global destination and complex retail core which comprise a series of distinct but linked centres.

conferencing, up until March 2021 (identified by underlining, see below). Interviews were undertaken until 'saturation' was reached, where no additional insights were found (Saunders *et al*, 2018).

Interview participants were drawn from a range of roles across various organisations involved in the retail investment process. The 27 interviewees comprise: one portfolio manager with current and previous retail exposure across the five defined markets and the broader UK (referenced as 'PTM01' in the results); six specialist retail asset managers for a range of private and public sector owners (AM01-06); five property managers managing in-town units and/or shopping centres (PM01-05); and the remaining 15 providing a range of retail property services including valuation, management, transaction support and broader advice (PS01-15). The broad selection of professional roles was chosen to capture wider perspectives in the investment process, appropriate given the lack of consensus of the asset manager's role in managing retail assets.

The sample spanned local/regional and larger national organisations. Some interviewees managed portfolios of retail assets, whilst others had backgrounds in managing individual shopping centres. Males represented 85% of the sample with the majority of participants (see Table.I³) holding senior management positions with 18 or more years of experience in the real estate industry. The remaining participants consisted of associate partners/directors, senior surveyors and asset managers, with asset managers averaging less experience, perhaps reflecting the third-tier position in the operational management model.

³ The minority female representation (15%) reflects the male dominance in the property industry. This also means gender could not be added to Table.I as the small population meant the anonymity of female participants could not be guaranteed.

Participant	Location	Job Title	Real Estate Experience	Timing of Interview
Retail Asset Managers				
AM01	Edinburgh	Partner	Over 18 years	Jan-March 2020
AM02	Glasgow	Asset Manager	Over 8 years	Jan-March 2020
<u>AM03</u>	Nottingham	CEO	Over 35 years	Jan-March 2021
<u>AM04</u>	Liverpool	Director	Over 20 years	Jan-March 2021
<u>AM05</u>	Hull	Consultant/Associate Director	9 years	Jan-March 2021
<u>AM06</u>	Edinburgh	Surveyor	Over 3 years	Jan-March 2021
Portfolio Manager				
PTM01	Edinburgh	Senior Portfolio Manager	Over 20 years	Jan-March 2020
Retail Property Managers				
PM01	Glasgow	Partner	Over 25 years	Jan-March 2020
PM02	Glasgow	General Manager	Over 9 years	Jan-March 2020
<u>PM03</u>	Liverpool	Centre Manager	Over 6 years	Jan-March 2021
PM04	Hull	Centre Manager	Over 7 years	Jan-March 2020
<u>PM05</u>	Hull	Centre Manager	Over 6 years	Jan-March 2021
Retail Property Service Professionals				
PS01	Edinburgh	Director	Over 30 years	Jan-March 2020
PS02	Glasgow	Associate Director	Over 9 years	Jan-March 2020
PS03	Glasgow	Director	Over 19 years	Jan-March 2020
PS04	Glasgow	Director	Over 35 years	Jan-March 2020
PS05	Edinburgh	Senior Partner	Over 40 years	Jan-March 2020
PS06	Hull	Director	Over 19 years	Jan-March 2020
PS07	Liverpool	Associate Director	Over 10 years	Jan-March 2020
<u>PS08</u>	Nottingham	Director	Over 30 years	Jan-March 2021
<u>PS09</u>	Nottingham	Director	Over 18 years	Jan-March 2021
<u>PS10</u>	Edinburgh	Partner	Over 19 years	Jan-March 2021
<u>PS11</u>	Liverpool	Partner	Over 35 years	Jan-March 2021
<u>PS12</u>	Hull	Senior Surveyor	Over 30 years	Jan-March 2021
<u>PS013</u>	Nottingham	MD/Director	Over 30 years	Jan-March 2021
<u>PS14</u>	Liverpool	Director	Over 30 years	Jan-March 2021
<u>PS15</u>	Nottingham	Senior Surveyor	Over 6 years	Jan-March 2021

Table.I. Characteristics of interview participants (Source: Authors' own creation)

3.2 Interview format

Semi-structured interviews were used, allowing interviewees time for in-depth discussion on the changing investment landscape and the implications for managing retail investment risks and performance. The interview schedules for the portfolio managers, asset managers and property managers were identical, guiding the discussion of current retail investment risks and management practices and their experience of how they had changed over the last decade. The schedule for property services practitioners was adapted in places to help tease out the multifaceted nature of the asset manager role. The average interview time was 58 minutes.

3.3 Coding procedure

The interviews, with one exception, were audio-recorded, transcribed verbatim, anonymised, and coded using abductive thematic analysis. The first step in the coding procedure involved using NVivo to deductively code the extensive interview data⁴ using the retail and real estate investment themes identified in the literature (see Table.II). An iterative inductive process was then employed to identify sub-themes emerging within the broad thematic categories. The coding process was performed by two researchers operating independently of each other, subsequently comparing findings and agreeing final outputs.

Adaptation of the Retailing Environment	<p>Drivers of evolutionary change</p> <p>Institutional structures, partnerships and the public-sector</p> <p>Occupiers self-organisation and space requirements</p> <p>Repurposing, reimagining and urban renewal</p> <p>Spatial variation and changing in the dynamics of the retail market</p>	Adaptation of the Investment Market	<p>Adjustment in the location quality of assets</p> <p>Challenging covenant strength perceptions</p> <p>Changes to pricing and valuation practice</p> <p>Flexibility in the lease model</p> <p>Investment risk perceptions and the behaviour of investors</p> <p>Rebalancing of the landlord and tenant relationship</p> <p><u>Managing void risks</u></p> <p><u>Tactical property management</u></p>
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Table.II. First stage deductive coding framework (Source: Authors' own creation)

Seven core categories of contemporary asset management activities, grouped in the final coding step into investment styles informed by the real estate management strategy literature, emerged from two themes of specific interest: managing void risks and tactical asset management. See Fig.1, which also shows the complexity of managing voids during market uncertainty, with three sub-themes identified. Post-covid uncertainty, a significant but unusual factor reflected in the later interviews, is not developed as a specific management strategy or tactic in the remainder of this analysis:

COVID has created no new trends, nothing is new as a result of the pandemic. It's just accelerated trends that were already in motion (AM06, Edinburgh)

⁴ Full transcripts are archived at ReShare UK Data Service and can be accessed at 10.5255/UKDA-SN-XXXXXX.

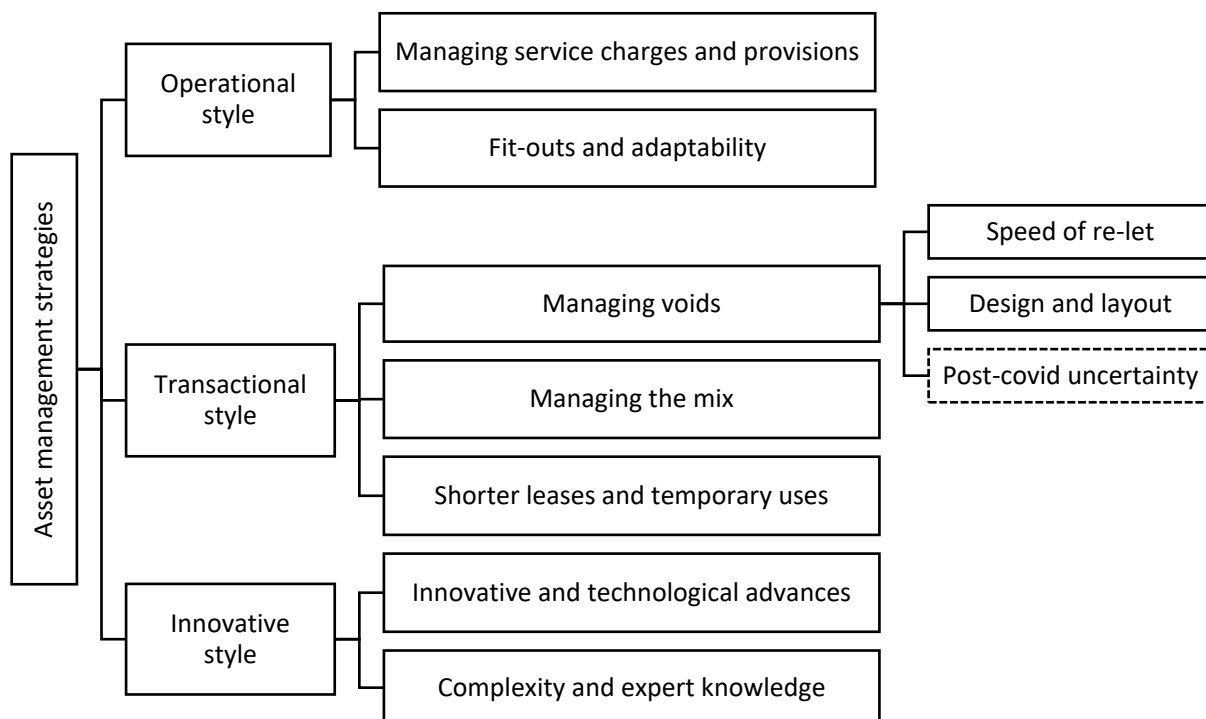


Fig.1. Hierarchical coding tree: Asset management styles and activities (Source: Authors' Own Creation)

3.4 Quantitative data

To contextualise the qualitative findings, leasing data from CoStar were collated for the period 2000-2022, the longest series available across all five markets. The secondary data cover the central retail area of the studied cities, capturing changes in lease length, floorspace leased, term and rent-free periods, contextualising the interview data by illustrating changing market circumstances. The data provide insights into market trends over the first two decades of the century, although there are of course inevitable gaps in coverage, often due to confidentiality attached to deals, such as the terms of lettings in the St James' Quarter in Edinburgh opening in June 2021.

3.5 Mapping the framework for retail asset management

Drawing the stages of the research together, the complex elements of the role of an asset manager are mapped. The mapping is based on the two types of approaches – day-to-day tactical and longer term strategic – and the three asset management styles identified in the literature and explored in the interviews – operational, transactional and innovative. This approach thus enables the myriad and complex components of the asset management role to be assessed and the new framework for retail asset management developed. The findings from each stage of the empirical investigation are presented below.

4. Asset management styles and activities

The interview data reveal three broad categories of asset management style – operational, transactional and innovative – currently employed which comprise a number of elements and these are explored in turn below. The qualitative findings below are drawn exclusively from the interview data.

4.1 Operational asset management

Within this first category, the interviews revealed two key elements, being the management of service charges and maintenance provisions, and the importance of fit-outs and adaptability.

4.1.1 Managing service charges and provisions

A basic, everyday consideration for asset managers relates to addressing tenant requests for maintenance and standard operational activities. There is a degree of transactional management in contracts but limited scope to make fundamental changes. Interviewees identified several considerations.

Tenants have become more aware of what costs service charges cover, increasingly discerning in whether they are considered reasonable and, linked to this, demand much clearer justification of what they are being charged for previously (AM01, AM03, AM04, PM05). Moreover, the focus on service charges and maintenance in general has been to reduce costs but this has taken on greater urgency as landlords appreciate that with rising vacancies, they are likely to have to cover a portion of costs themselves (AM04, PM05). The level of some service charges is fixed, meaning that as costs rise, such as minimum wage and other utilities costs, these cannot be recovered (AM01, AM04, PM05). Furthermore, some tenants are demanding capped service charges which places greater pressure on managing these non-recoverable costs (AM01, AM03, PS13).

there's been pressure on service charges for a few years now e'hh in terms of...and quite rightly, in terms of having to show value for money [...] ultimately the landlord is picking up the portion of the service charge that's, you know, attributed to empty units (PMgt05, Hull)

Service charge caps. [...] People want to know what their outgoings are, and they want to restrict those. So I would think, you know, shorter leases, more flexibility in how people operate them and, you know, some limits on charges. (PS13, Nottingham)

Linked to rising utility costs, heating older buildings that are not energy efficient and compromised in achieving required sustainability criteria was a challenge. PS14 notes that many older centres were built in the 1960s, asserting that these need to be demolished. Until that happens, these declining

assets require substantial service charges, which places a burden on owners. Addressing how to upgrade these assets to acceptable ESG levels will be at the heart of operational asset management.

we've got a lot of 1960s shopping centres in this country [...] So we've got a situation where maybe half of them need demolishing. And ultimately the landlord's going to accept that, but until that happens, you're going to have really high service charges, because you're, you're paying to find leaks and replace leaks, replace holes in decrepit 1960s buildings frankly. (PS14, Liverpool)

centres that have been built, you know, in the hay day probably have a lot of features that take a lot of money to run, and I think you would want something that's much lower cost to run so that you can be much more flexible for occupiers coming in. (PM02, Glasgow)

There were some positive comments in this area. PM05 indicated that service charge contracts do not just reflect the best price but also best value and service levels. Others (AM01) noted that tenants were receptive if service charges were transparent and could demonstrate adding value by providing something that would be difficult to acquire or generate themselves.

we employed someone whose role was a retail manager. And that person's job was specifically to go and liaise/help/support/come in in their jeans on a Monday morning and help somebody remerchandise their shop, if that's what they required. You know, just a resource for the retailers to use. E'hm. Once you start to explain those benefits, marketing support, social media support, people...that gets people's interest. (PM05, Hull)

Maintenance and repair obligations often placed on the tenant through the UK's traditional leasing terms represent an area of growing concern for asset managers of freestanding retail units. The short-term attitudes of some retailers mean fewer occupiers are prepared to accept repair obligation terms (AM03, PS08) and even refusing to accept any liability for non-trading floors in leasing deals (PM01). Hence, landlords increasingly take on these operational costs that are unaffordable for many resource-constrained, smaller landlords (PM01, PS02, PS04, PS13).

the role of the asset manager has become much more hands-on and intense than it ever was. And just to try and mitigate and see any problems coming up. (PS04, Glasgow)

4.1.2 Fit-outs and adaptability

Physical changes are often necessary. Whilst some of the tactics discussed relate to immediate responses, there is the space to think in more strategic terms when considering fit-outs and the ability to adapt space. There has been a growing trend towards downsizing high street units. Retailers are no longer prepared to accept liability for space that is not required. Landlords need to be creative when finding complementary alternative uses for vacant non-ground floor space, with access requirements meaning this can be difficult without compromising the retailing sales area of the ground floor. Subdividing department stores has also proven difficult because they have lower frontage-to-depth ratios.

All this is taking place against a backdrop of pressure on budgets with rising costs a constant headache, so asset managers face real challenges in deciding when to implement the various strategies available.

White boxing came up often (AM02, AM05, AM06, PM02, PM04, PS10, PS11). This is the creation of 'ready to go' units that cater for a range of potential tenants. For tenants, it offers space in walk-in condition, also known as "turnkey" or vanilla boxing, for rapid entry without fit-out costs. This seems particularly important to independents (PS13). For landlords, it de-risks investment, helping speed up relets, as white boxing creates non-bespoke 'generic' units with wider potential use. It is also more sustainable to maintain retail units as white boxes rather than stripping out units at the end of every lease.

retailers don't want to do all the heavy lifting of actually fitting out the store... What they would prefer is to have a unit that's white boxed that they can, kind of like, move in the same way that you would like a rented flat (AM02, Glasgow)

However, white boxing is not always in the landlord's interest:

where it's in a location where we think, actually this could be a 12 to 18 month void, there's no point in white boxing that and then bringing it into the rates bill. That's just going to be a cost for the landlord. Whereas if it's a prime unit, we think we could get a temp in there straightaway and they were going to get decent long term interest then, you know, absolutely it's worth it (AM06, Edinburgh)

Fit-outs involve landlords investing upfront in the unit but the benefit is that, spending more on fit-outs reduces the length of rent-free periods (PS15). This has become part of the incentive package and asset managers need to incorporate this accurately when working out the 'bottom line'.

we put that as part of the package so rather than just doing generic white boxing, tell us what you might need, we want to stay around these costs but we can give you a more bespoke service. So you might want an exposed ceiling so we'll leave that in but then you'll have a floor instead (PM03, Liverpool)

Detailed information on benchmarking the impact of asset management, as discussed in Section 2, remains limited. From the interviews, fitting out even a small unit can cost landlords £10,000-£15,000 (PS15). The interviewees covered another issue in suggesting that, whereas previously dilapidation payments from vacating tenants covered refit costs, with shorter leases and evolving landlord-tenant relationships that is going to be increasingly rare. The question of when to spend money, therefore, can be a tricky judgement call for owners. The ability to carve up, reconfigure or even create fallow space seems to be easier in shopping centres but dealing with large amounts of space is not easy.

Asset managers also need to offer flexibility with the assets they have if they are to meet current tenant requirements (AM01, PM02, PM03, PM05). Units with external and internal facades at ground level provide additional flexibility to accommodate the requirements of F&B operators, for example, albeit at an additional cost. This allows links into the night-time economy, when the shopping centre might be closed (PM03).

it's all about flexibility in design, but also flexibility in looking at the current demand. You're looking at someone else, if a class three operator wants to come in, and flexibility with doing a deal subject to planning and holding onto it for a bit longer. It's flexibility in a whole different variety of ways. (AM01, Edinburgh)

4.2 Transactional asset management

4.2.1 Managing voids

Asset managers faced rising vacancy rates, with high street vacancies for Great Britain rising by almost 32% and shopping centre vacancies increasing by 54% between 2017 and 2021 when they peaked [Local Data Company, 2023]. The question being asked by asset managers and owners is what proportion of vacancies reflects immediate post-pandemic challenges and what confirms longer-term over-supply of physical space. For example, Nottingham's Broadmarsh Centre saw vacancies jumped from 7.1% in 2005 to over 45% by 2017 (White *et al.*, 2023b). Demand for space remains strong in the best locations like Buchanan Street, Glasgow or Multrees Walk, Edinburgh but even these sites are coming under pressure as the definition of what constitutes 'prime' has shrunk, as evidenced by Orr *et al.* (2022).

Vacancy rates can be impacted by major refurbishment or redevelopment of existing space but the scale of the challenges facing asset managers, even prior to the pandemic, is clear; however every post-pandemic interviewee highlighted the increased (and unusual) uncertainty associated with the pandemic. Asset managers employ a range of tactics in response and participants discussed factors that influence the speed of re-letting an empty unit and effects of design and layout.

Factors that drive speed of re-let

The structural change in the retail sector combined with economic decline has shifted the balance of power towards tenants. Investors and their asset managers have a keen market awareness and prospects for reletting in this climate came across in the interviews. Location remains fundamental in driving the speed of reletting vacant or soon to be vacant space (PTM01, PS15):

good agency is still key, and the location of the premises will be key because if it's in the right place someone will want to be there to drive trade and commerce, which is what retail is all about (PTM01, Edinburgh)

Other factors that drive the speed of reletting vacant include:

- Building quality (PM03, PM05, PS08).
- Flexibility of use and ease a unit can be subdivided (AM06, PM03, PS15).
- Aggressive marketing that targets tenants on weaker pitches (PM04).
- Willingness of landlords to accept independent retailers' covenants (AM04; AM06).
now there's more of a willingness to take a chance and an acceptance that some of those parties you take a chance on will fail. (PS12, Hull)
- Flexibility of landlords over asking rent, lease lengths and terms (AM06, PS15, AM01, AM02, PM04, PM05) although this can overly complicate the legal process (PM05, PS01):
If they want to re-let that store right now, they need to accept that that tone is coming down, they're going to have to offer a bigger incentive and they're going to have to agree to more flexibility most of the time. That way if you've got stubborn landlords, the chances are they're going to be sitting in a void for much longer. (AM06, Edinburgh)
- Use of business rates mitigation tactics (PM04, PM05, PS12):
lots of landlords that are looking to try and minimise holding costs by either going through rates mitigation schemes of sort of temporary occupation, or allowing perhaps the likes of charities to occupy as a rates only business. (PS12, Hull)

Effects of design and layout

In the current market, the preferred retail configurations are becoming more regular/generic in shape (PS02, PS03) and some retailers even ask for a basic box with single entrance, with return frontages and secondary exits blocked off (AM01, PS02). Clear floorplates, ideally on one floor, are preferred by retailers (AM01, PS05, PM03, PS05; PS15) although independents and luxury brands tend to be more prepared to take a chance on 'quirky' floorplates associated with older buildings (PS03).

they like a box. Nice and simple. Nice square space, nice one level, flat floors, all very simple. Good square windows at the front, nice wide doorway in.....generally speaking it's, it's a general square unit. (PS15, Nottingham)

it varies greatly between different occupiers. [...], some will just look for a nice, a nice open box-shaped floor space, as clear as you can get it, as column-free as you can get it, that's it ideally. There are other retailers [who do like...] something a bit more quirky, you know, the likes of Abercrombie and Fitch, these guys who, Apple even, who do like something that's maybe listed, it's got a bit more history about it, original façade, etcetera. But even then, if you look at what Apple have done to their building on Buchanan Street, from the outside it's a beautiful listed building. You walk into that building and it's completely clear space, absolutely clear (PS03, Glasgow)

4.2.2 Managing the mix

The interview data reveal that managing the tenant mix is a core element of the asset management of a shopping centre. Interviewees discussed how seeking to optimise the mix of tenants helps to support the differentiation strategy of the centre and in effect then becomes self-enforcing – a centre

with a particular brand image will attract retailers that want to be associated with that brand image. However, it can be more reactionary, such as when a tenant has given notice to quit, or during downturns when it becomes harder to be selective and the emphasis is on filling voids and collecting rent. In these circumstances asset managers may use more temporary leases or break clauses to give them flexibility.

The interviewees identified a practical challenge in matching tenants to vacant space both in terms of the floorplate and neighbouring tenants (PM01, PM02, PM03, PM04, PM05, PS11). Units are often too large for smaller tenants seeking space, particularly corner units (PM03), while capturing an appropriate balance between chains and independents can be difficult throughout the property cycle as rental levels and availability fluctuate and favour different sectors at different times:

Some of the more competitive socialising brands, who're able to acquire stores right now in local units, sorry locations that they maybe wouldn't be able to afford before because landlords are chucking money to get these units filled. (AM06, Edinburgh)

The mix of occupier types and space usage has become more complex according to interviewees. The services and amenities that centres or wider shopping destinations need to offer to attract footfall has increased to include children's play facilities, open space for socialising and events space for example, to increase customer lingering time (PS01, PS02, PS13). The use and tenant mix are equally important to maximise the appeal to different shoppers, although the significance of some brands is often missed (AM04, AM05, PS13). Strong brand names can pull in specific groups of shoppers e.g. youngsters or families with greater disposable income. Managing the tenant mix can thus drive a more sustainable mix of customers.

you've just got to do your analysis, find your gaps in the market, see what, what your needs, what your market needs are, not just for retail but under the mixed use spaces, and react accordingly. (AM05, Hull)

Although there were instance of property service providers, because of their wider client base, highlighting less strategic approaches to tenant mix accepted by some small-scale investors:

we're trying to be as imaginative as possible, understanding what requirement is out there, and being as proactive as possible, and trying to be as competitive with what the market wants.[...] They want to achieve that as best as possible and trying to ensure capital growth. So, it's a bit of asset management that we've got to work with the landlords and manage their expectations." (PS06, Hull)

Shopping centre managers must be creative, and this can relate to finding ways to add something new to the retail mix. Small changes can work (PM02, PM03, PM04). PM04 highlights, for example, the success of a community not-for-profit food shop that fits with the value-focus of the centre, stating:

it's a non-profitmaking organisation so every penny they get from it goes back into more food. So they're helping the community as such, which it's gone down a bomb ... That store sells out of stuff every single day, it's brilliant. So it's a good use of the space (PM04)

4.2.3 Shorter leases and temporary uses

The trend towards shorter lease lengths is well-established [MSCI Lease Events Review (annual)]. This longer-term trend is clear in Fig.2 and Fig.SF1a. There has also been an accelerated erosion of 25-year+ leases from 2007 onwards; when agreed they are typically for larger units. The early trend was initially to 10-15 year leases, but then moving to 5-10 years and, more recently, 3-5 years, 1-3 years and even 1 year in the last few years. Whilst the trend was consistent across four cities, Hull experienced a shift towards shorter leases post-2008 that was not replicated in the other cities to a comparable level until the mid-2010's (Fig.SF1b-1f.).

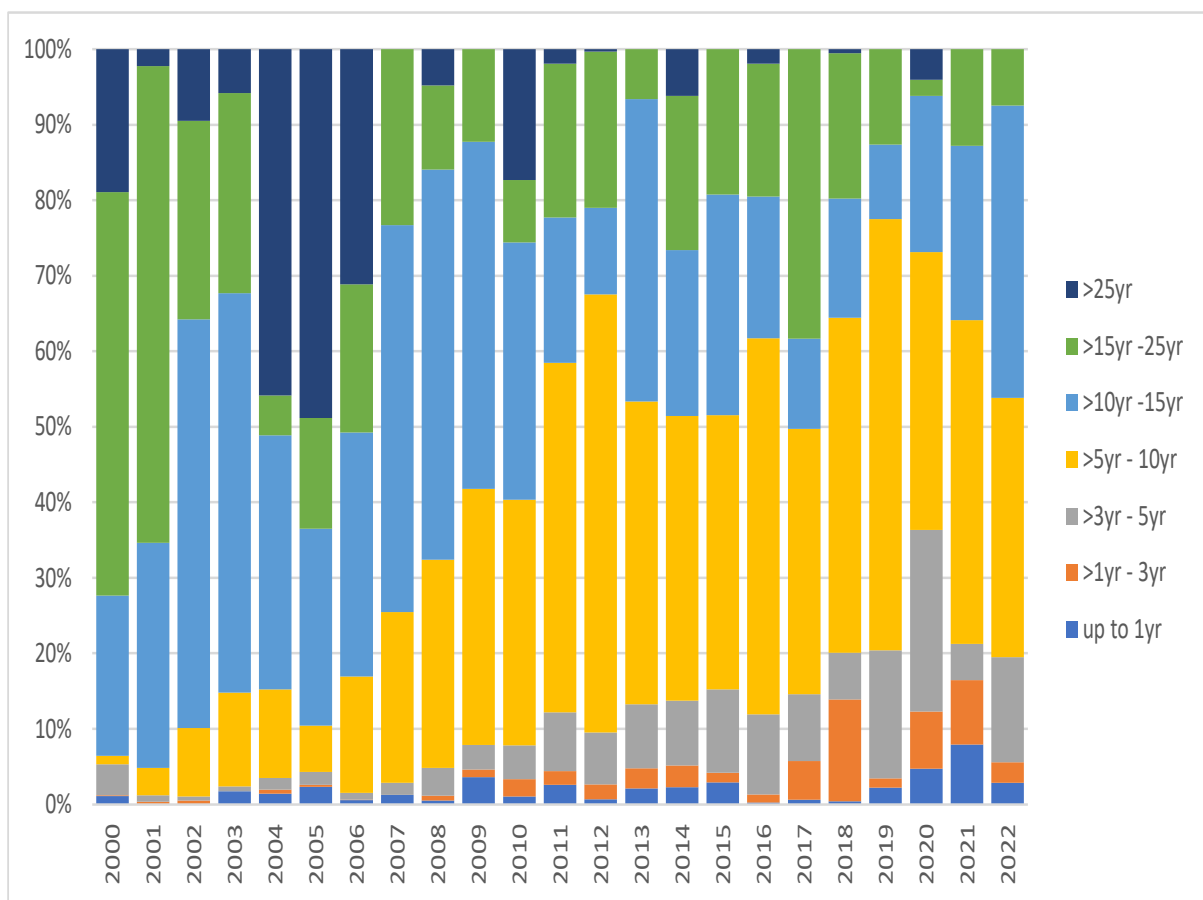


Fig.2. Proportion of retail floorspace let by lease length for the case study markets (Source: Authors' creation using data from CoStar Group, 2023)

An extreme of the increasingly short lease lengths is ‘pop-ups’⁵ or ‘meanwhile uses’⁶. These temporary uses were formalised in England and Wales, with the introduction of the ‘Meanwhile Lease’ by the Ministry of Housing, Communities and Local Government in 2009. They were seen as a tool for town-centre revitalisation, enabling the temporary occupation of vacant units by minimising administrative and legal costs, and reducing the burden of empty unit costs, such as business rates, on landlords (PS04, PS03, PS09, PS08, PS10). The interviews showed these have become popular in many cities but less so in Hull:

what we’ve seen is a shift towards pop-ups, but also a shift in the mindset of landlords, that a 15- to 25-year lease isn’t possible, so you will get a bit, a lot more flexibility in leases. (PS10, Edinburgh).

I’m not sure Hull’s maybe the marketplace for some of the type of pop up operators that you might get in perhaps some of the more wealthy city locations. (PS12, Hull)

Meanwhile uses can help make shopping centres and streets appear more active, shoring up footfall, a useful tactic as part of a longer-term strategy of revitalisation, although their more recent use is often as a shorter-term reactionary tactic to fill vacant space. This is also reflective of the shift towards independent retailers (AM06, PM05). These ‘trial tenancies’ enable the tenant to test the market, while the landlord might get lucky and the brand succeeds (AM05, AM06, PM01) with the potential to convert to a more long-term occupation (PM02, PS10). However, some interviewees saw little value or potential in temporary/trial leases, perceiving them to be a last resort of desperate landlords (PS08, PS09, PS12, PS15). Not all tenants are keen on them either and they can provoke a backlash from longer-term occupiers paying full occupancy costs (PS13).

what is a pop-up shop contributing? Great if it’s giving somebody an opportunity to try retailing in Nottingham city centre for the longer term but, you know, I know plenty of tenants that, in the shopping centres that started having these pop-up kiosks that pop-up in the middle of the thing. Well, they get very uptight about that. (PS13, Nottingham)

4.3 Innovative asset management

The interviewees identified some new technologies, techniques and modes of operating that help asset managers respond to current changing circumstances.

⁵ A common term in the sector, defined as temporary, often short term retail space (from <https://ajcretail.co.uk/news/pop-up-retail-space/>)

⁶ Temporary contracts that allow community groups, small businesses or individuals to use vacant spaces.

4.3.1 Innovation and technological advances

Technology can increase the efficiency of a wide range of asset management processes. Perhaps the area seeing most change is in property marketing. In the past, expensive brochures and incentives were used but now marketing materials are digitised (PM01). This can include the creation of online tours using drone footage and computer-generated imagery, which seemed to find greater favour during the pandemic (AM01, [AM05](#), [AM06](#)).

we've started using, during the COVID pandemic, online tours. So we use drone footage, and camera surveys of units, and we'll then upload those, and make them available to enquirers, so they can have a visual trip around the shop. We've also started using QR codes, so that people can get marketing information using their phones. (AM05, Hull)

Another way the marketing of space has changed is through the use of sales and letting platforms such as *Prompto* and online service providers, like *The Requirements List*, that inform agents of potential occupier requirements. These are finding greater use in asset management (PS07, [PS15](#)). *Appear Here* is another online service that matches temporary occupiers to vacant short-term space (AM02).

Social media, which has become an established way for shopping centre management teams to market centres and drive footfall, is being used in increasingly novel ways. For example, one asset manager advocated using social media voting to enable shoppers to select their preferred business concepts in funded pop-up shop competitions ([AM05](#)).

Achieving net zero is driving innovation in asset management practices but landlords/centre managers, while acknowledging the benefits associated with demonstrating good practice to retail customers, are more motivated by the desire to cut costs. Typically, this is in the form of replacing plant and equipment with newer, more sustainable versions, such as more energy efficient heating systems ([AM04](#), PM02, PTM01), or adding bike storage in shopping centres for emerging food delivery operations (PM02). Yet, there are differences in the adoption of new technologies and innovative practices within the market. Larger landlords with sizable retail holdings or shopping centres are typically more motivated (and better resourced than smaller landlords) to innovate and adopt new technology to improve the efficiency and cost of running their assets. For example, PM02 had considered using cleaning robots to cut costs.

Block-chain technology offers another possible way to make the disclosure of property information easier to facilitate the management, transaction and use of assets although this may take longer to establish. Standardisation and accessibility are the crucial issues (PTM01) and [PM05](#) developed a

standardised lease to overcome the delays associated with increasingly complex leases, demonstrating that greater standardisation in legal practices is possible.

there's no reason why we shouldn't, adopt a more European role with regards to leases from tenants. You go to Scandinavia your lease is as big as your three pieces of paper there. Scottish leases are like 50, 60, 70 pages (PS01, Edinburgh)

4.3.2 Complexity and expert knowledge

As the retail market continues to undergo unprecedented structural change and fundamental transformation, there is growing complexity. The central point that came up throughout the interviews is that retail is no longer a passive investment. This is increasing both the breadth and depth of the knowledge and skills required to ensure effective asset management. AM05 and PM03 discuss that landlords generally need a better understanding of the property market and need to adapt their practices accordingly. Indeed, a further recurring theme emerged throughout the interviews, that not all owners have the necessary skills, resources or management teams to do this, and so are increasingly having to use external asset management teams. In the past a landlord might have got away with buying and holding retail assets but, to believe this now, is naïve. Landlords need to work these assets to get acceptable returns (PS03, PS04, PS10). PS13 captures the issue of the small amateur investor who lacks the market awareness and skills needed for the changes in the sector, stating:

I had one the other day, I think he probably owns two [retail] properties ... one's occupied by a retailer whose lease is coming to an end, they've chipped him on the rent. He's very naïve into property, he was just hoping to sit there and collect his rent. (PS13, Nottingham)

One of the key issues raised in relation to the increasingly active requirements of retail property management, is the heightened emphasis on improving both the customer experience and thus the tenant performance, with the burden of responsibilities for this shifting towards the landlord. AM02, PM04 and PM05 report that some shopping centres employ specialists to support tenants, but that they are not necessarily real estate professionals, adding to the skills and experience on offer. For small-scale retail landlords, who do not have the critical mass to build and support an in-house team of expertise, this is a major challenge.

the shopping centre management team can probably swing that turnover number by about ten per cent either way [...] if you think there's a 20 per cent swing there, there's quite a lot of influence there. A shopping centre team can arguably have over a trading performance. And I think the more traditional landlords don't stand...don't see that value that you can get from a management team. (PM05, Hull)

we've recently changed our whole structure of asset management to be called customer experience. [...] they've appointed some people who aren't even surveyors, which goes to show how seriously we, we think that this is an issue, because we want people who are, who understand the retailer's point of view (AM02, Glasgow)

Some specific technical issues were raised, including the increasing need for bespoke lease terms. The ability to contract inside the Landlord and Tenant Act or opt out is just one area of increasing complexity in England. Every deal is bespoke but being able to navigate the complex legal landscape requires more detailed knowledge and possibly training ([AM03](#), [AM06](#), [PM03](#)). Added complexity comes from dealing with independent retailers as they have individual needs and less property knowledge than others. The perception was conveyed that in the past it has been easy for landlords to chase national multiples, but now they not only need to work harder to secure deals, including with independent retailers, but also in learning the complexities of the market to be able to support their tenants ([PM05](#)).

Further, turnover-linked rents, which are growing in use in the UK, increase the need for owners to understand their tenant, their business, and the markets. This is another area likely to be beyond the scope of individual landlords, operating without the systems that larger landlords have in place ([PS04](#)) and therefore unable to gather the data needed to fully judge how well their scheme and tenants are doing ([AM02](#)), unlike larger shopping centres ([PS05](#), [PS07](#)). The long-term issue of securing that data from tenants is not always easy, as discussed by Orr *et al.* (2023), and this is exacerbated by turnover deals being less standardised than 20 years ago ([AM02](#), [PM02](#), [PS04](#), [PS13](#)).

4.4 Framework of asset management strategies

Drawing on the findings presented above, where the seven different activities adopted by asset managers in response to challenges facing the retail sector are discussed, this section presents the results of the mapping exercise to provide a framework for retail asset management. As shown in Fig.3, the key elements are each positioned according to the different asset management approaches and styles revealed in the literature and emerging from the interviews. The two types of approaches – day-to-day tactical and longer term strategic – and the three asset management styles – operational, transactional and innovative – form the two axes. The result is a framework of asset management strategies that positions the increasingly varied and complex specialisms of the asset manager, important if they are to be understood and enabled in a meaningful manner. By exploring and mapping in this way, the aim is to add understanding to this increasingly vital area, important to investment returns and to the wider promotion of economic growth across town and city centres in the UK.

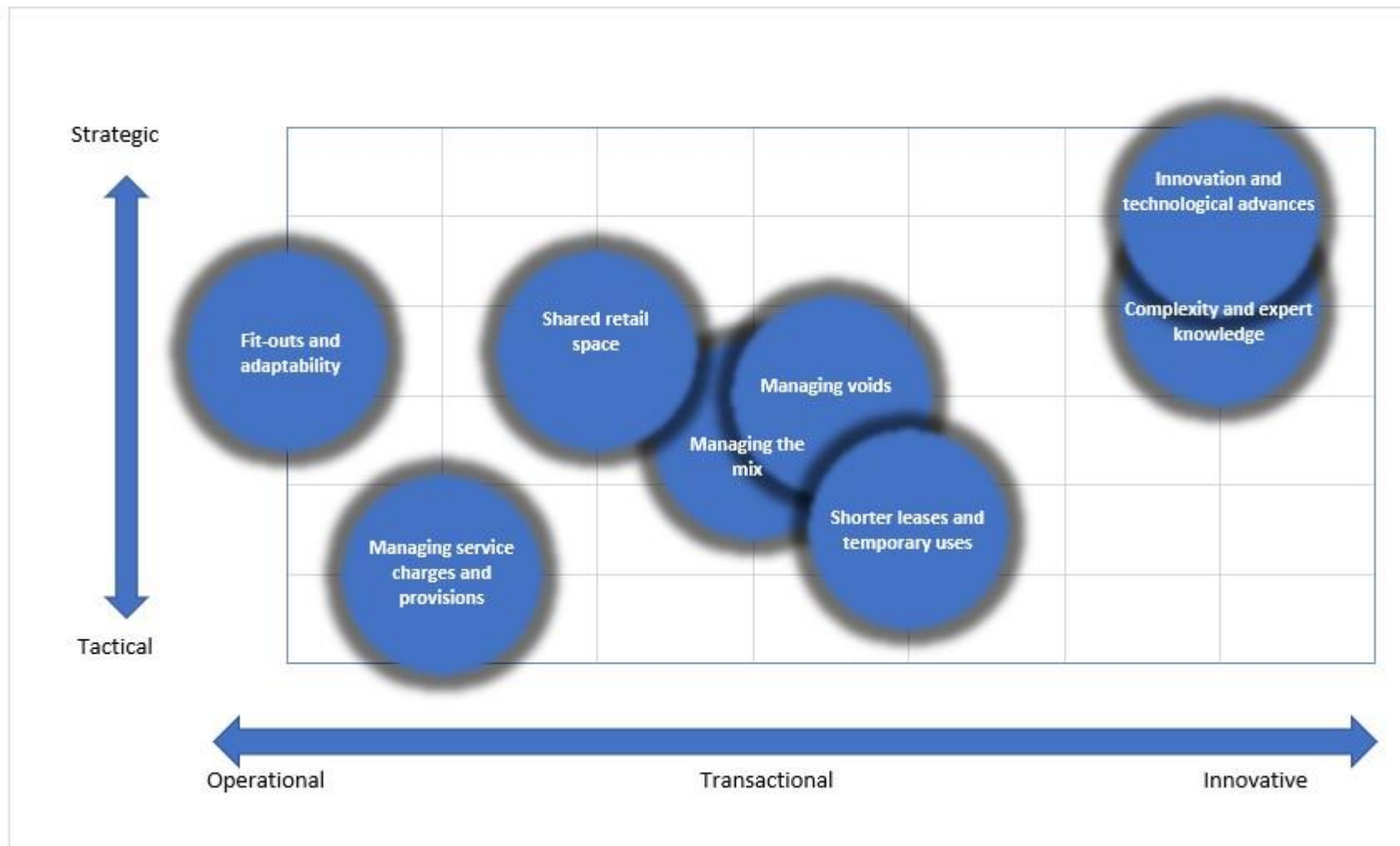


Fig.3. A framework for retail asset management: identifying and positioning strategies (Source: Authors' Own Creation)

In more detail, adopting an operational style involves making changes to the building in terms of how it is managed, the building fabric and how the building/unit is presented to prospective tenants. Here the focus for asset managers is typically on cost management. When adopting the transactional style, asset managers are focused on making deals that maximise returns. Yet, this management style needs to be grounded in realism and responsive to changing market conditions. At a basic level, it may involve greater flexibility in the lease terms asset managers are willing to negotiate to avoid income voids; at another level it might involve more thinking-outside-the-box, such as adding new business concepts to the tenant mix or encouraging more creative uses of space. Innovation is the third style of asset management. Here the focus is more long-term in nature and tends to involve the adoption of new technology or new skills to improve asset management processes and practices, whether in terms of cost and/or performance management.

5. Conclusions

This paper explores responses that asset managers are deploying during the current period of significant change and challenge in the retail sector. This is important for a number of reasons. Firstly, the contribution that asset management makes to investment performance is established (McAllister, 2020; Baum and Farrelly, 2009) yet is an overlooked element of the process (Autio *et al.*, 2023). The retail real estate investment environment is undergoing transformation due to the structural changes within the sector, and there is an urgent need to understand how asset management has responded to the challenge. Overlaid on this complexity and change is the broadened and multifaceted nature of asset management. This paper has responded to these transformations and changes by developing a framework for retail asset management, providing a way to distinguish between and explore the different operational, transactional and innovative asset management styles and the tactical and strategic approaches adopted in response to the challenges. This provides a way to understand and negotiate the increasingly comprehensive and complex duties undertaken, enabling asset management to be appropriately positioned within the investment process and, thus, its contribution to investment performance optimised.

The framework provides an overview of the type of actions taken by asset managers under challenging contemporary market circumstances. Firstly, with respect to operational approaches, this included adapting the fabric/shape of the unit/building, often providing smaller scale 'white-boxed' units for immediate occupation and the greater management of service charge provisions, which is difficult with older buildings and fewer tenants. They also undertake transactional responses – doing deals to manage tenant mixes, considering temporary pop-up uses, proactively adjusting leasing terms more

in favour of tenants, and taking greater account of what independent retailers can offer. Longer leases are now exceptions, almost exclusively on larger units. In addition, when negotiated, longer leases bias average lease lengths: small, regular deals dominating transactional asset management. The interviews also considered how innovation in practices and processes can play a role. These include technology changing the way space is let, sustainability driving new ways of maintaining buildings and some advances in data-sharing.

The five cities forming the basis of the study carry insights for other UK retail markets and further afield, given the significant commonalities in experiences in changes across the cities and professional backgrounds. However, our research identified the earlier impact on Hull in the wake of the GFC and it was no surprise our interviewees noted Hull was struggling to attract multi-national operators, relative to other cities. Furthermore, it can be seen that the challenges and responses identified are increasingly diverse and can be seen as 'role creep', whereby an increasing knowledge-base and experience is needed beyond the traditional structure of the retail sector. As Read (2017) identified, roles evolve and an evaluation of the role played by asset managers is overdue. This research highlights a priority that structures within investment houses and training the next generation of asset managers must shift from sector specialisms to a broader real-estate role, reflective of the diversification in use in areas once dominated by retail. Furthermore, asset managers tend to be concentrated in larger organisations and smaller, amateur real estate investors lack the resources needed to access this knowledge base. There are also data challenges, and these may increase due to a rise in bespoke lease terms, set alongside increasingly fragmented ownership. The greater creativity in lease transactions not only lengthens the speed of the legal process but has added to the complexity of the operational management of assets.

The framework for the management of retail assets contributes to the understanding of the contemporary retail investment landscape and how it is shaping asset management strategies and tactics. It also provides a systemic basis for investors and asset managers to create and evaluate their real estate management strategy. Thereby, it provides the next step in developing understanding of the role of asset management in investment performance. Work is needed to explicitly demonstrate the impact of asset management interventions on the value of individual assets. This could be extended to integrate the role into real estate benchmarking. This would further recognise and, in turn, help develop and reward the critical role of asset managers within the investment process. Indeed, one area that sits within the expert knowledge and operational aspects of the framework but

not covered here is the part played by asset managers in the net zero agenda, yet they are arguably invaluable in its implementation.

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