

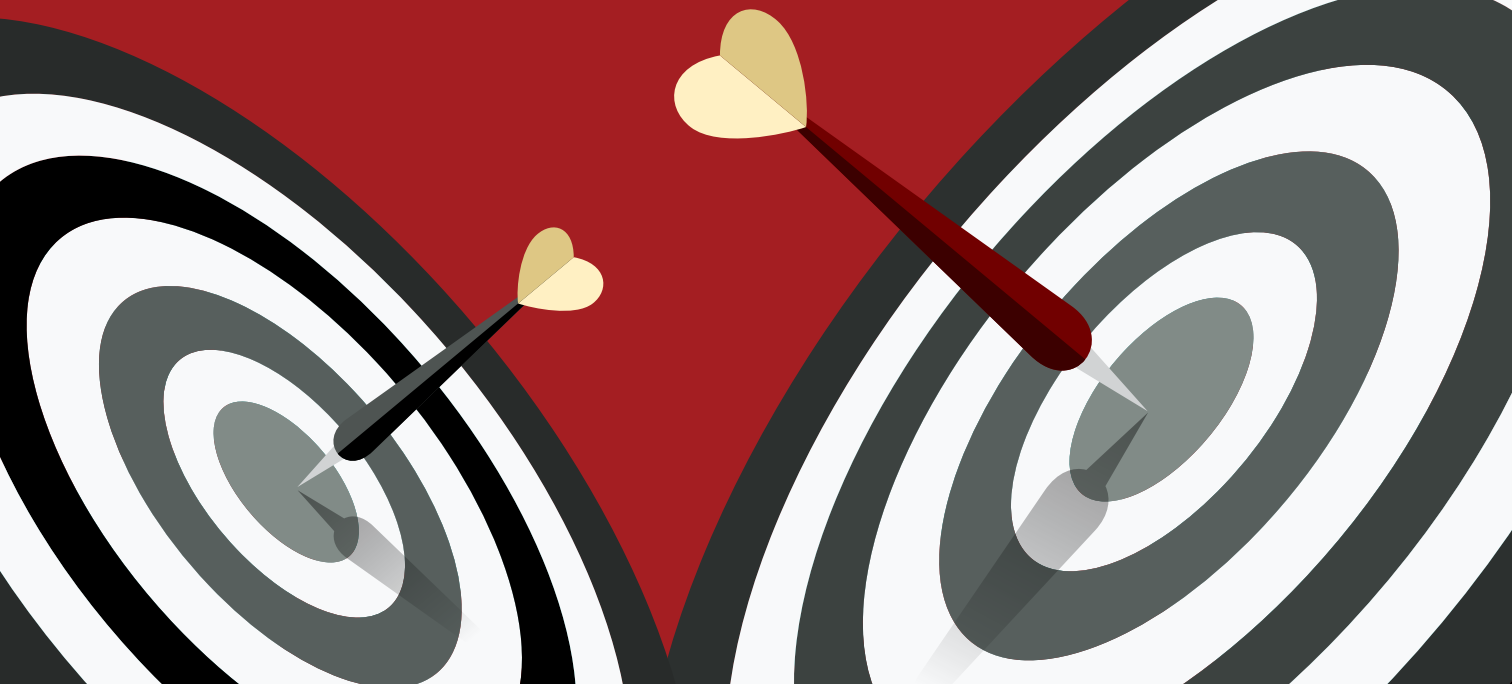
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SHOPPING CENTER BUSINESS[®]

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FOCUSED ON REINVENTION

Centennial Real Estate's
big purchase brings new
vision to malls.



Centennial's New Focus

With an acquisition from Westfield, the company is the new kid on the block in the regional mall business. But the company has a history that is rich in retail, and in creating successful centers.

Randall Shearin



Vancouver Mall in Vancouver, Washington, is exemplary of the portfolio that Centennial Real Estate is building. The 883,000-square-foot center is the dominant retail hub for Southern Washington.

The regional mall has come back into focus for a new group of investors as many larger owners have begun to concentrate their capital and strengths on stronger assets in key markets. That's causing larger players to sell centers that are further afield from their current investment targets. What is out of focus for larger owners has become a strong opportunity for a new set of owners in the industry – those seeing the upside in investing in regional malls in primary and secondary markets that are the main retail hubs of their areas.

In 2015, Westfield elected to sell several of its centers in a portfolio to refocus capital on its development pipeline. For industry insiders, the move wasn't surprising, but the industry did a double take when Dallas-based Centennial Real Estate Company was the announced purchaser of five of the centers in December for \$1.1 billion. No one doubted Centennial's ability to execute – the company has sound financial backing from USAA Real Estate and Montgomery Street Partners. Rather, the surprise came from Centennial's desire to jump into the super-regional

mall business. Until that point, the company was known as an investor/operator of town centers and power centers, with a few regional malls under ownership. Buying five malls from Connecticut to California seemed a big stretch for the company. For Centennial's founder and CEO, Steven Levin, it was the perfect opportunity to create the company he had always wanted to build.

SCB recently met with Levin and Centennial's chief operating officer, Dan Sheridan, at the company's Dallas headquarters for our cover story this year.

BACKGROUND IN RETAILING

Steven Levin grew up in the retail business. For many years, his family operated Margie's, a regional women's off-price clothing retailer that grew along with the regional mall business in the 1960s, '70s and '80s. He learned the business from the ground up, starting out working in the stores.

"My father was a great merchant," he says. "I was around the business from a young age and worked in the business constantly."

After college, Levin went to work for the family business full-time. At that time — in the late 1970s — the company had 30 stores in the Southwest. Following the growth of the regional mall business by pioneers like The Hahn Company, Simon, DeBartolo and others, the company grew its locations and presence in the region. By the early 1980s, it had 60 stores. Levin spent most of his time focused on merchandising, later becoming the company's president. In 1982, the company was sold. Levin, then in his late 20s, entered commercial real estate.

"My vision at the time was to build a great shopping center company," he says. "I wanted to own and rent shopping centers, and successfully operate them while creating value. I had a mindset to create an excellent real estate experience for shoppers, since I had insights from my days as a retailer. It has taken me 30 years to get down my path, but slowly but surely here I am."

In the late 1980s, the Texas real estate market hit a recession, in part due to the savings and loan crisis, but Levin stayed in the business, building and selling a real estate investment company in the early 1990s. When the constraints of a tighter market finally eased, Levin launched Centennial Real Estate Company.

"I launched Centennial in 1997 and set out to build the shopping center company I had wanted to launch 15 years earlier when I left the retail business," says Levin.

Centennial began deliberately slow, buying neighborhood and community centers to enter the business. In 2002, the company acquired its first mall, Lufkin Mall in Lufkin, Texas, with Chicago-based GEM Realty Capital. Levin knew the cen-



The 1.3 million-square-foot Hawthorn Mall in Vernon Hills, Illinois, was one of five centers that Centennial acquired from Westfield for \$1.1 billion earlier this year.



Steven Levin and his family ran the mall retail chain Margie's in the 1960s, '70s and '80s. The company had 60 stores, most of which were located in the Southwest.

ter well because he had been a tenant at Lufkin Mall. The companies sold the center in 2006. In 2004, the company acquired Pueblo Mall in Pueblo, Colorado, which it still owns today.

"At the time, we couldn't buy malls in

primary markets," says Levin. "But the malls in secondary markets were hidden gems. They typically own the retail in their market because they are the only game in town."

Levin kept pace during the Great

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Centennial Real Estate has owned Brazos Mall in Lake Jackson, Texas, for a number of years. The company believes in continually improving its properties.

Recession, sitting on the sidelines with acquisitions. He was well capitalized with strong connections to more capital from companies eager to take advantage of his track record. Levin knew he hadn't grown Centennial to its full potential and wanted to take advantage of the recovering commercial real estate market.

"We were very conservative," he says. "I was 32 years old when real estate crashed in the 1980s. I came out of that with a cautious outlook. We have always operated very prudently. We exercise tremendous discipline in underwriting our acquisitions. The capital partners we partner with, and how we structure these deals, are conservative. In 2008, we were positioned with strong assets, yet we stood aside until the timing was right to buy."

In late 2010, that time came. From 2010 to 2015, Centennial Real Estate bought three malls, several community centers and a number of smaller retail properties, all of which had some level of financial or operational distress.

One of the properties that Centennial purchased in 2010 was located in Colleyville, Texas, anchored by Albertson's and Kmart. The center had four separate owners. While Centennial originally purchased one parcel, over the next 18 months the company purchased the remainder of the center. It brought Whole Foods Market to replace Albertson's and redeveloped the project to a Class A neighborhood center. At 225,000 square feet, Village Park at Colleyville also includes Petco and Ace Hardware anchors.

Centennial sold the property to Kite Realty Trust in April 2015.

"These type of deals are in our DNA," explains Levin. Centennial purchased other centers during this timeframe that were similarly challenged. After being purchased at the height of the real estate market in 2006-2007, many properties were back on the market. Several of the centers Centennial bought were only 50 percent leased due to existing ownerships inability to underwrite leases at market rents. Among those properties Centennial purchased were five projects in Santa Monica, California.

In 2011, the company, in partnership with GEM Realty Capital, acquired Chico Mall in Chico, California, from General Growth Properties. The 528,000-square-foot center is anchored by Sears, Forever 21 and Dick's Sporting Goods with JC Penney as the shadow anchor. Centennial remodeled the center's common area and made other improvements. Like the Westfield centers, Chico Mall is the dominant retail destination for a large trade area of Northern California. The acquisition positioned Centennial for something much larger. Levin realized that if Centennial could successfully operate properties halfway across the country, the company could take the next step and acquire a large portfolio.

INCREDIBLE OPPORTUNITY

In 2013, Levin sought out the opportunity to acquire the majority interest in the portfolio of centers by Westfield.

While the portfolio was marketed quietly, Centennial was at the table from the beginning.

"It seemed like I had been searching for this transaction forever," Levin says. "Occasionally in life, you get hit by the lucky truck. The stars were aligned for us to seize the opportunity."

Among these stars was the capital to see the deal through completion. Since Levin started in the commercial real estate business, he has had capital partners and continued to build strong relationships with each of them. His relationship with Montgomery Street goes back for years. Centennial originally went to a number of investment firms to partner for the Westfield deal. One of those firms was USAA, where Levin had an existing relationship. After an initial meeting, Levin realized that USAA's outlook on the mall business fit what Centennial and Montgomery Street had in mind — long-term ownership coupled with lasting value creation.



Steven Levin, CEO of Centennial Real Estate.

"We wanted a certain type of partner with this deal," Levin says. "We wanted a partner that had a longer term horizon where we could take the time needed to execute our plan. We knew we would need at least five to seven years, and that is too long for many investors. We knew our partner also really needed to understand the business of retail and how it is changing. USAA understood that; they



At 1.3 million square feet, Connecticut Post Mall in Milford, Connecticut, is the dominant retail center for a large part of the state. The center is anchored by JC Penney, Macy's, Sears, Target, Dick's Sporting Goods and a 14-screen Rave/Cinemark Theatre.

have been interested in the mall space for a long time and, like us, had not been able to find the right deal. Again, like us, this was the one they were waiting for size-wise and quality-wise.”

The three entities purchased the Westfield portfolio for \$1.1 billion (Westfield retained a minority share in the five centers), closing in December 2015. Since the deal took nearly two years to consummate, Centennial had time to plot its strategies for the portfolio's future — and for that of the company.

The five centers from Westfield were not Centennial's first foray into the mall business. In fact, in its nearly 20 years in business, Centennial has owned and operated a number of regional centers, most in the Southwest. At the time of the Westfield transaction, the company owned three regional malls — Pueblo Mall in Pueblo, Colorado; Brazos Mall in Lake Jackson, Texas; and Chico Mall in Chico, California. But the centers Centennial has acquired are larger in scale and reputation than the company's existing mall assets, which leads to new challenges and



Steven Levin, CEO, and Dan Sheridan, COO of Centennial Real Estate, met with *Shopping Center Business* at the company's Dallas headquarters.

opportunities.

“This is something we felt we were always going to do,” says Levin. “But, actually doing it is a different story. This has really put us at an elevated level with regard to tenant exposure and the ability to create a best-in-class organization.”

Along with the acquisition of the properties came the chance to grow Centennial to the next level. With \$1.7 billion in assets, the company is now becoming a large player in the regional mall industry. This has allowed Levin to begin focusing on building his operating platform.



The food court at Centennial's Pueblo Mall in Pueblo, Colorado. Like many of Centennial's centers, Pueblo Mall is the dominant retail center in the market.



Fox Valley Mall in Aurora, Illinois, is anchored by JC Penney, Macy's, Sears and Carson Pirie Scott. The center serves a large trade area in the West Chicago suburbs.

"We were a player in the B mall space, and that doesn't come close to the caliber of what we have purchased from Westfield. This purchase really caused us to change the way we do business and how we do business. We now have to bring our business to the same level as the assets we now own," Levin says.

The first move has been to beef up the company's executive team. Centennial hired Dan Sheridan, an industry veteran who has held senior executive positions with Irvine Company and General

Growth Properties, as chief operating officer. Jim Davis was hired as managing director of national leasing. Mark Thorsen was hired as senior vice president of asset management and Deborah Georgetti-Piro was hired as senior vice president of business development. Each of these executives has more than 20 years in the regional mall industry.

"To be frank, putting together a strong team has been as challenging as buying the assets," Levin says.

FOCUS ON ENHANCEMENT

Centennial Real Estate purchased five centers from Westfield for \$1.1 billion. Each center has a captive market. They were:

- Connecticut Post Mall in Milford, Connecticut. The 1.3 million-square-foot center is anchored by JC Penney, Macy's, Sears, Target, Dick's Sporting Goods and a 14-screen Rave/Cinemark Theatre.

- Fox Valley Mall in Aurora, Illinois. The 1.5 million-square-foot mall is anchored by Carson Pirie Scott, Sears, Macy's and JC Penney.

- Hawthorn Mall in Vernon Hills, Illinois. The 1.3 million-square-foot center is anchored by Carson Pirie Scott, Sears, JC Penney, Macy's and a 12-screen movie theater.

- Vancouver Mall in Vancouver, Washington. The 883,000-square-foot center is anchored by JC Penney, Macy's, Sears, a 23-screen Cinetopia movie theater and Gold's Gym.

- Main Place Mall in Santa Ana, California. The 1.1 million-square-foot center is anchored by Nordstrom, JC Penney, Macy's, Ashley Furniture Home Store, Round 1 Bowling and Amusement, 24 Hour Fitness and a six-screen movie theater.

The centers total approximately 6 million square feet and were 97 percent leased at the time of sale. One big change for Centennial is that, for the first time in many years, the company is not purchasing assets that need some sort of turnaround.

"These assets had been well taken care of," Levin says. "For us, these are the crown jewels of our portfolio."

Centennial has positioned the centers – along with its three existing regional malls – as The Centennial Collection so it can proactively market its regional malls as a group to tenants and the industry. The real opportunity in the centers, Levin says, is adding the experience component that has become so important to physical shopping destinations over the past few years.

"The experience part of our business – the theaters, food, restaurants, social interaction and entertainment – is something that we are immediately expanding

upon with all of these centers,” says Levin.

Centennial also won't stop with adding theaters and restaurants. The company is developing a defined merchandising plan for each of the centers.

“It's getting inside the mall and going beyond that initial layer,” explains Levin. “We have to look at where we can take each of these centers to go beyond where they stand now.”

In the 1970s and '80s, when Levin spent years on the tenant side of the business, he says that while 50 percent of the inline space went to national tenants, 50 percent was reserved for regional and local tenants in order to differentiate each center. He'd like to see this approach incorporated into Centennial's centers.

“We have to get back to more unique tenants,” Levin says. “We want to bring back the local component into the malls because they bring the community experience.”

In addition to some new tenants, Centennial is adding components like family entertainment and theaters. The company is in the early stages of formulating plans and deciphering the opportunities that exist in its new acquisitions.

NEW ADDITIONS

One of the reasons that Centennial purchased the portfolio from Westfield was that these properties were the dominant regional centers in their trade areas. Even the centers located in larger MSAs, like those in the Chicago area, are among the



Dan Sheridan, COO of Centennial Real Estate.



Main Place Mall in Santa Ana, California, combines retail, entertainment and dining for a strong destination. The 1.1 million-square-foot center is anchored by Nordstrom, JC Penney, Macy's, Ashley Furniture Home Store, Round 1 Bowling and Amusement, 24 Hour Fitness and a six-screen movie theater.

strongest centers in the area. Others are dominant for an entire region. Vancouver Mall is the dominant regional center for the southern half of Washington, for instance, and Connecticut Post Mall is the dominant regional center for a large population of Connecticut.

Because the centers are so different than the properties that Centennial had under its control before, it has brought on a lot of expertise to operate them. Aside from new corporate staff, the company brought on board the majority of the center-level employees who operated the properties for Westfield. This approach allowed Centennial a short transition time before the closing of the deal.

“We were fortunate to retain the managers at all of the centers and the majority of the staffs,” Levin says. “They were integral to us being able to transition these malls, while continuing to operate them successfully.”

Centennial has built a leasing team focused on leasing its malls as a package. The Centennial Collection brand will help the company market the properties to retailers. The next step is looking at each center to better understand what specifically, if anything, needs to be added or improved as far as tenants go. Additionally, the longer-term plan, which is taking a macro view of each center, will be executed to determine any development

needs. Centennial is in the process of hiring a head of development to spearhead this strategy.

“We see each center as a regional hub,” says Levin. “We are looking at the site; not just the center, but what we can do in terms of creating more density on the land and if there are opportunities for other complementary uses. We want to take full advantage of the dominance of these destinations.”

With management of the centers quickly stabilized, the company is now looking ahead at the future of the company and the centers.

“The key members are in place,” says Sheridan. “We have been fortunate to maintain a really strong team in the field. Combined with our corporate staff, we have a solid core team. We look forward to the launch of what we refer to as Centennial 2.0. We are positioned at the ground floor of an amazing opportunity to create remarkable assets; as we move ahead we will determine the highest and best use of all of our real estate.”

Part of that new Centennial is redefining an existing company by its properties. Doing so is causing leadership to create a new culture reflective of the quality of its new acquisitions combined with its reputation of the past.

“We want to create a culture that is defined by the utmost level of integrity and

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Centennial's turnaround of Village Park at Colleyville included the replacement of a grocery anchor with Whole Foods Market. The project was sold to Kimco Realty Group in 2015.



The Crossing is a community center that Centennial owns in North Richland Hills, Texas. Tenants include Kroger Signature, Kohl's, Unleashed by Petco and Cristina's Mexican Restaurant.

transparency in how we operate," says Levin. "We want to do what we say we are going to do. We have a strong work ethic; there is no substitute for hard work. We also want to have fun and make the work enjoyable for our employees. The best way to create that culture is to find those people who have those characteristics. That won't automatically create the

culture for us, but it gives us the foundation for that culture and makes it a priority for us to operate that way."

MOVING AHEAD

With the Westfield portfolio under its belt and a solid foundation laid for increasing revenue and activity at those properties, Centennial isn't slowing down. The company is continuing to seek out new

acquisitions. It recently hired Andrew Galvin, who previously worked in acquisitions at Rouse Properties and General Growth, to be its leader for acquisitions.

"We are focused on what's next," Levin says. "We purchased the Westfield portfolio as the first stop along our journey, but we have an exciting road ahead."

On its radar screen are more dominant regional malls in suburban and secondary markets.

"The mall is still the most dominant destination and venue in America," says Levin. "It still drives the largest amount of traffic to a single place. Our malls generate between 6 million to 10 million visitors per year. They are prime for being transformed into what fits the world today. When malls were built, they were the entertainment; just being there was like nowhere else. Now, you have to create the next form of entertainment. The mall is not just a shopping venue today. They are dining venues, entertainment venues, leisure venues, fitness venues and a setting for more mixed-use activities."

While some consider regional malls a contrarian investment, Levin says that a commitment from ownership, strong management and a different way of approaching leasing — a back-to-basics approach — has helped Centennial foster early success. Branding the centers as a national play also helps, but realizing that leasing should be regionally and locally focused will foster a connection with the community. When consumers feel that they are a part of something larger, and make a connection with an experience, that results in the dominance of the center.

"The malls that have the location, ownership, capital and knowledge to transform are going to be the most dominant destinations in America," Levin says. "Malls in other parts of the world have so many more uses, and there are thousands of people in them at any given time. I believe we can transform the stronger regional malls into this in America. You are seeing it already in some markets." **SCB**

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