

# Interpreting the Thunder:

## What Do December Megadeals by Aussie Billionaires Mean for Retail?

HEITMAN

On the same week in December 2017, two octogenarian Australia natives, both worth billions, made major headlines with agreements to sell blue-chip companies that they had built into global industry leaders. Sydney-based real estate magnate Frank Lowy, chairman of the retail group Westfield, generated the first official announcement with a \$16 billion deal – which will constitute Australia’s largest-ever M&A transaction – to sell Westfield to European commercial property giant Unibail-Rodamco. Days later, Adelaide’s own international media mogul Rupert Murdoch made newsrooms buzz with official word that most of the assets of 21st Century Fox, including its film studio, will be acquired by Disney for \$52.4 billion in stock.

Many are asking, is the close timing of these deals – both of them in sectors that have been transformed in recent years by digital competition – merely a coincidence, or do the concurrent moves by Lowy and Murdoch constitute a bellwether indicator with implications for the broader economy, including retail real estate?

Westfield operates in a retail environment that has been under siege over the course of decades by the well-documented and widely reported movement of retail purchases from bricks-and-mortar locations to online marketplaces. A symptom of this shift has been the widespread, and often unsuccessful, struggle by traditional retailers with physical stores to adapt to changing market conditions. In 2017 alone, there were approximately 40 retail bankruptcies of substantial size. In a similar vein, traditional entertainment companies like 21st Century Fox have digital problems of their own, as they face growing threats from the likes of Netflix, Amazon Prime, and Apple, which spent a combined total of approximately \$13.5 billion on content in 2017.

Some contend that, against this wide contextual backdrop, the most prudent move for retail real estate investors is to head for the proverbial exit and cash out while physical stores still command attractive valuations in an environment where capital remains cheap and plentiful eight years into a stock market expansion.

But looking more closely, others view the retail sector in a more nuanced light.

It is noteworthy that while Lowy and Murdoch have chosen to divest companies faced with daunting digital challenges, they are also hedging their bets in interesting ways.

Murdoch will retain ownership of Fox’s broadcasting network, including Fox News and Fox Business, while at the same time gaining an estimated 5% ownership share in Disney. Reports say that his son, 21st Century Fox CEO James Murdoch, may also be placed in a senior role at Disney. Murdoch père, in response to assertions that the 21st Century Fox sale represents a “retreat” by him, has characterized the deal as “pivoting at a pivotal moment.”

Lowy’s Westfield sale may also be viewed as a multi-part pivot. While Lowy is taking some cash off the table in the deal, the transaction will also provide him with an estimated 2.8% stake in Unibail-Rodamco, though this meaningful holding is still small enough that he would be able to sell out of it without telegraphing his intentions. Even if Lowy does sell out of his position in Unibail, however, his son, Westfield CEO Peter Lowy, will maintain an important tactical position for the family as a board member of the merged company, which will have a formidable and newly augmented portfolio of quality flagship and fortress assets in the US and Europe.

In another compelling maneuver, the Lowy family has laid the groundwork for the spinout of Westfield’s new retail tech platform, OneMarket, with Westfield shareholders to own 90% of OneMarket and Unibail slated to own only 10% as a result of its Westfield acquisition. Westfield has expended considerable resources to develop OneMarket, seen as bricks-and-mortar stores’ answer to Amazon. OneMarket’s CEO Don Kingsborough describes the platform as connecting “physical retailers’ isolated databases so that a customer can search, buy, and locate both online and in the physical world.”

What could be concerning to mall owners and REITs is that the Lowy family has sold its own bricks-and-mortar holdings while making a point of retaining ownership in its digitally-focused OneMarket asset. As Sir Lowy, who was also knighted by Queen Elizabeth in December, very profitably raises a white flag above his Westfield fortress, some investors may take this as a cue to follow his perceived pivot away from bricks-and-mortar retail. By the same token, others see a resulting decline in investor competition for bricks-and-mortar retail assets as a market opportunity that is ripe for exploitation.



Westfield Sydney

---

**While Lowy and Murdoch have chosen to divest companies faced with daunting digital challenges, they are also hedging their bets in interesting ways**

---

# Interpreting the Thunder:

## What Do December Megadeals by Aussie Billionaires Mean for Retail?

---

HEITMAN

### **Disclaimer**

Although the written materials contained herein were prepared from sources and data presumed by Heitman to be reliable, Heitman makes no representation or warranty, express or implied, with respect to their accuracy, timeliness or completeness. You are additionally informed that any information contained herein is always subject to change without notice. Finally, any statements contained herein that are “forward-looking statements” or otherwise are not historical facts but rather are based on expectations, estimates, projections and opinions of Heitman involve known and unknown risks, uncertainties and other factors. Actual events or results may differ materially from those reflected or contemplated in such statements. Accordingly, Heitman expressly disclaims any responsibility or liability for any loss or damage that may be incurred by any party who relies on the written materials contained herein.

### **Confidentiality Notice**

The information contained herein is confidential and shall not be copied, reproduced, used or disclosed, in whole or in part, without the express written consent of Heitman, which may be withheld in Heitman’s sole and absolute discretion.