# NEWS

## BMO preps £250m Boots portfolio for sale

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Retail reporter

A £250m portfolio of Boots stores owned by BMO Real Estate Partners is being prepared for sale.

The process, which could also result in a restructure of the vehicle that owns the circa 300 shops, is part of a consensual agreement between BMO and lender FMS Wertmanagement, the German publicly-owned "bad bank". A sale would reflect a circa 7% yield.

Brookland Partners and JLL have been appointed to market the opportunity, which is one of the last UK legacy portfolios left over from the last financial crisis.

FMS was established in 2010 to take on the distressed positions of Hypo Real Estate, including loans issued by pbb Deutsche Pfandbriefbank. The appetite for the deal will be a litmus test for the secondary retail and high street sector, with many private equity buyers currently holding back from selling assets into an uncertain market.

Recent retail administrations, including Jones Bootmaker and Jaeger, have prompted concern among investors over the future viability of the sector.

Market sources said BMO's decision to initiate a sales process had likely followed the success of Topland's £450m sale of 76 Marks & Spencer stores to US firm Fortress Investment Group in September last year.

The Boots portfolio was originally bought in 2006 by Leo Noe's F&C Asset Management in a £298m sale-and-leaseback deal. Boots agreed a 15-year leaseback on the properties at £15m. BMO acquired the assets through its merger with F&C in 2008.

It has since sold some of the more valuable assets, including Boots' Oxford Street flagship, W1, which it sold in 2012 for £28.1m and at the time had a lease expiry of 2019.

Some of the remaining assets are in small towns. An arrangement put in place with Boots in 2006 dictates that it is allowed to surrender a proportion of the leases each year, but it is understood that it has withdrawn from very few. The portfolio has an average unexpired lease length of around three years.

The deal with Boots also determines that individual stores cannot be cherry picked for sale, but any buyer could explore an arrangement to amend this agreement and provide more favourable options to the retailer elsewhere within the portfolio.

Some of the shops that Boots may look to withdraw from could be seen as potential redevelopment opportunities.

### Boots health check

Despite the rhetoric around the demise of the high street, Boots is regarded as a healthy tenant.

Neil Saunders, managing director of GlobalData Retail, said: "It is performing reasonably well, but cuts in pharmacy funding have affected the retailer. Outside of the pharmacy, its core products, such as food and general medicine, are performing well. It has a lot of stores and should keep its portfolio under review.

The difference between Boots and other high street retailers is that it is essential as people need a pharmacy. That said, there are areas where it has an overlap and could do with a review, but it is in a much better position to sustain its portfolio than other retailers."

Boots was acquired in 2014 by US pharmacy Walgreens, which became Walgreens Boots Alliance. It posted net earnings of $1.1bn (£881m) for the quarter ending 28 February – a 14% increase on the same period last year.

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