

THE MAN WHO SOLD TRAFFORD

With Peel Group poised to sell its Trafford Centre to CSC, David Quinn profiles the man behind the deal, John Whittaker

Nobody in Manchester saw it coming. Like many of billionaire John Whittaker's property deals over the past 30 years, Peel Group's decision to sell its flagship Trafford Centre to Capital Shopping Centres is both gutsy and surprising.

Yet few expect that Whittaker's ambition to pull off the CSC deal will be derailed by US shopping centre behemoth Simon Property Group's attempt to intervene – this week, it appointed Citigroup to advise on a potential bid for CSC – meaning Whittaker's trademark tenacity is unlikely to be required on this occasion.

Since the 1980s, when his company snapped up historic landholdings around the Manchester Ship Canal to facilitate the development of the 1.9m sq ft Trafford Centre, Whittaker (pictured above) has had a knack of seeing off both critics and competitors in the dogged pursuit of big financial returns. The trick was repeated in 2006, when Peel seduced the BBC into selecting its MediaCityUK site in Salford for its move north, rather than the three locations the broadcaster had shortlisted in Manchester city centre.

"He is an incredibly canny



player and the deal with CSC is a typically canny deal," says one senior Manchester agent, who, like many contacted by *EG* this week, prefers not to be named. "He will become deputy chairman of CSC and that massively increases his sphere of influence in UK property."

Local policy makers

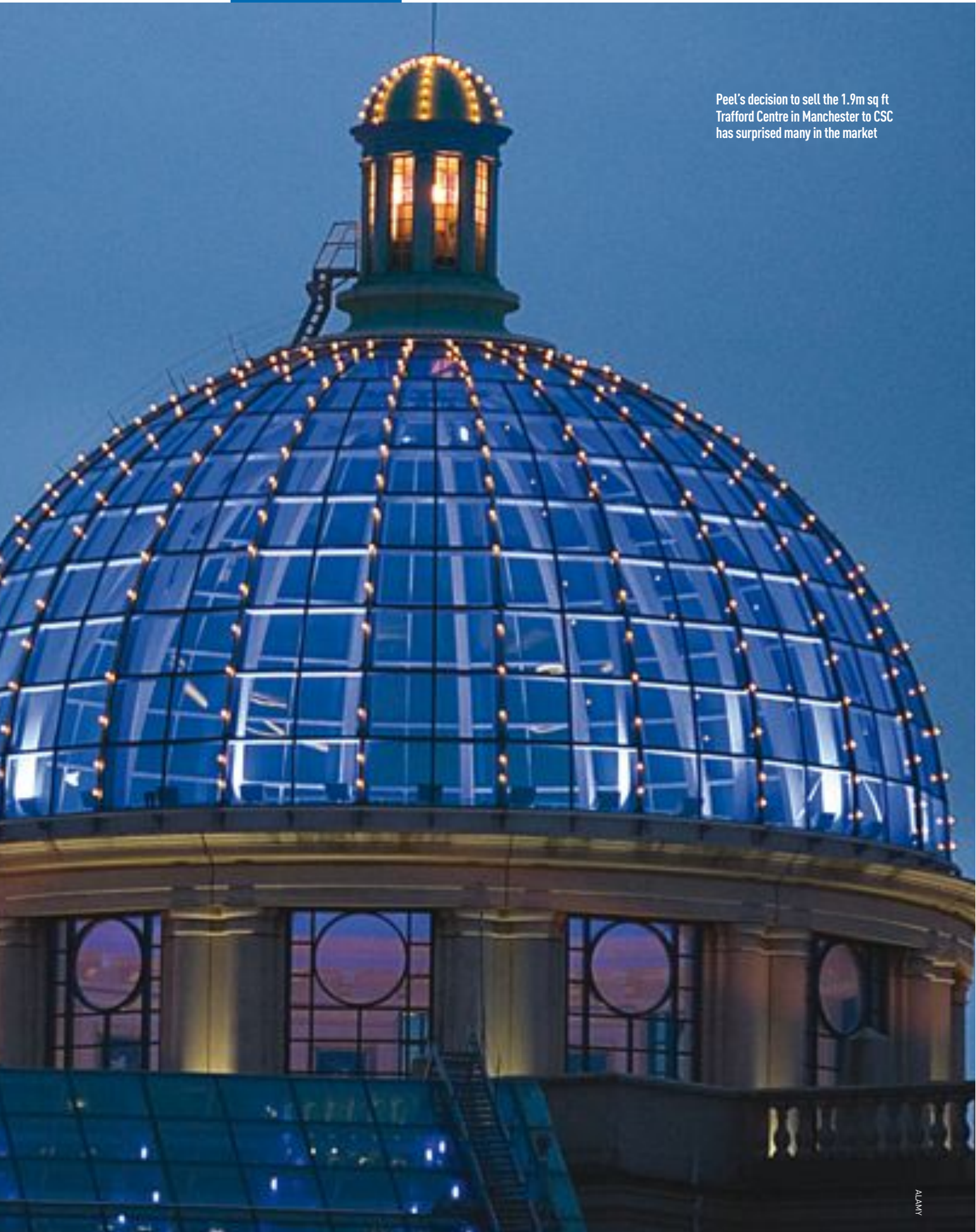
Despite Peel's size, Whittaker is an outsider who has never sought, nor had returned, the admiration of local policy makers. He is based on the Isle of Man and continues to operate outside the so-called "Manchester Family" – a loose assortment of property companies and their advisers favoured by council chief executive Sir Howard Bernstein – and some see this

as Manchester's loss rather than Whittaker's.

"He's never been embraced and he's never embraced them," says one senior Manchester property figure of Whittaker's relationship with the Town Hall. "If you lose a battle with someone, you sometimes try to find a way to work with them next time around. That's never happened between Peel and the council. John's such a major player, it's a pity that the council has never sought to tap into his energy and creativity."

Peel was taken private by Whittaker in 2004 with backing from Saudi investment group Olayan, which is thought to retain a stake of around 25%. Its total assets are worth £1.2bn, with Whittaker's





Peel's decision to sell the 1.9m sq ft Trafford Centre in Manchester to CSC has surprised many in the market

personal wealth standing at £1.06bn, according to the *Estates Gazette Rich List 2010*.

Recently, Whittaker's strategy has focused on selling significant stakes in key Peel assets. They include offloading 49% of Peel Ports to RREEF for an estimated £775m in 2006 and the sale of a 65% stake in Peel Airports to Vancouver Airports Group for an undisclosed sum earlier this year.

The CSC deal is similar, in that Peel will free up a mountain of cash – around £670m – which is likely to be reinvested in ventures in Greater Manchester, such as MediaCityUK and Port Salford, its proposed distribution scheme in Barton. But it is also different, since it gives Peel a stake of up to 25% in an entirely different business.

Ongoing strategy

CSC, a REIT, has a UK-wide portfolio of 13 shopping centres and a market capitalisation of around £2.3bn. Whittaker will become deputy chairman and says the move represents Peel's "ongoing strategy to broaden its investments in many diverse sectors through partnerships and co-investment with complementary businesses".

Sources say Whittaker has been an admirer of CSC's portfolio for some time, and began to seriously consider the deal following the demerger of Liberty International into CSC and Capital & Counties Properties earlier this year.

A Peel spokesman says: "Opportunities like this don't arise very often, and when they do you have to take them. CSC and the Trafford Centre are both focused on delivering high quality shopping and leisure experiences, so there is a natural fit. By investing equity and expertise, while combining the Trafford Centre into the CSC portfolio, the Peel Group gains significantly greater exposure to the retail property market via a portfolio of some of the UK's top shopping centre assets."

Ostensibly, the ratification of the purchase of the Trafford Centre at CSC's extraordinary general meeting on 20 December will loosen Peel's grip on the North West's economy.



"On an operational level, our plan is to blend the best bits of the Trafford Centre with the other assets, to the benefit of both."
David Fischel, CSC

But while its stake in one shopping centre will be diluted, the transfer of CSC shares to Peel means Whittaker's company will effectively own a significant minority stake of around 12% in the Manchester Arndale, the city centre's largest mall, which is 93.5% owned by a joint venture between CSC and Prudential.

The fact that Peel and CSC will both have stakes in the city's two largest shopping centres seems certain to lead to better co-operation between the two. The Trafford Centre has been a thorn in the side of the 1.4m sq ft Arndale since the former reopened in 1998, just as the city centre mall was recovering from the damage caused by the

IRA bomb that exploded in Manchester two years earlier.

The Arndale has undergone something of a rebirth in recent years, with the opening of a major new extension in 2006. Nonetheless, the Trafford Centre still commands the region's highest Zone A rents at up to £375 per sq ft, compared with around £300 per sq ft at the Arndale.

According to CSC chief executive David Fischel, the two centres are complementary, with the Arndale being strong in the day and the Trafford Centre attracting custom in the evening. "On an operational level, our plan is to blend the best bits of the Trafford Centre with the other assets, to the

benefit of both," he says.

The company's ownership of both the Metro Centre in Gateshead and Newcastle's Eldon Square means CSC has experience of managing two competing schemes in the north of England.

Local agents are unwilling to speculate on the possible implications of CSC owning both centres: "I don't think it makes a huge difference. Peel has been very much on its game in the management of the Trafford Centre and I expect CSC will be the same," says one retail agent.

However, the prospect of an extension to the Trafford Centre has already been mooted on the back of the deal. One agent speculates that CSC will use its existing relationships with tenants at other shopping centres to expand the offer of its new asset. House of Fraser, Primark and Argos are likely targets – the latter being an existing tenant of the Arndale.

The only remaining issue to resolve is that of Simon Property Group, which has mooted the possibility of a takeover of CSC – in which it holds a 5.6% stake – and has requested the deal be halted while it considers its options. The prospect of a "Dutch auction" between Simon and Westfield, which owns 3% of CSC, has also been raised.

CSC remains focused on the Peel deal, reasoning that it is in the best interest of shareholders. They will have their say at the EGM.

And what of Peel? Whittaker's son James is a development director at Peel, while elder brother Mark works in the property investment arm of the business. Daughter Kate also works for the company, and some have speculated that it can only be a matter of time before their 68-year-old father initiates some kind of dynastic handover. So far, however, there is little sign that Whittaker is winding down his thirst for deals.

TERMS OF THE TRAFFORD CENTRE DEAL

- The value of the deal is £1.6bn. CSC will pay £748m for an equity purchase of the Trafford Centre. Peel will make a cash contribution of £77m in exchange for new shares and convertible bonds from CSC to Peel.
- CSC will assume the Trafford Centre's £798m net debt and other net liabilities totalling £54m.
- CSC immediately issued a placing of 62.3m new ordinary shares, representing 9.9% of the previously available shares. This has raised £221m in new equity.
- CSC will own 100% of the Trafford Centre. Peel will take a stake equivalent to 19.9% of CSC's issued share capital, or 24.9%, assuming the conversion of bonds.
- John Whittaker remains as chairman of Peel and will also become non-executive director and deputy chairman of CSC.

THE POWER OF PEEL

Peel's desire to stick its fingers in as many pies as possible tends to foster ambivalence in the North West's corridors of power. While all would like a slice of Peel's investment capital, the scale of the firm's ambition can leave it at loggerheads with the public sector.

In 2008, for example, management perceived a threat to the profitability of the Trafford Centre from the potential imposition of

congestion charging. It spearheaded a "no" campaign that saw off Manchester council's desire to introduce the charge, simultaneously killing off the prospect of a £1.4bn transport funding pot.

Subsequently, Peel's lobbying for special planning powers over its £50bn Ocean Gateway scheme covering the river basin between Salford and Liverpool – and its ill-fated attempt to create an LEP for the area – have raised eyebrows.