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DLC, Temerity Target Shopping-Center Spree

DLC Management has landed key funding from Temerity Strategic Partners as it embarks on an aggressive campaign to buy suburban shopping centers amid market dislocation.

Temerity is kicking in $50 million of growth capital for the partnership, while DLC, a value-added retail shop based in Elmsford, N.Y., is contributing $12.5 million. That seed money, combined with leverage and deal-level institutional joint-venture capital, is expected to help fuel $1.6 billion to $2 billion of acquisitions over the next three years.

Adam Ifshin, who founded DLC in 1991, said the firm is “all-in on playing offense” as high interest rates and economic uncertainty have most investors sitting on the sidelines. He anticipates that the resilience of shopping centers, combined with discounted pricing, will soon lure institutional investors back to the retail sector in a big way.

With many large investors more focused on multifamily and industrial properties in recent years, he likened the retail sector to “the little kid in the corner that can’t get picked for the team.

“We now think we are getting picked for the team,” Ifshin said. “We are well positioned to take advantage of the fact that lots of institutional capital is severely underweighted in retail, and we can help rightsize and normalize that.”

Sales of retail properties worth at least $25 million dropped 50% year over year in the first half, according to Real Estate Alert’s published rankings, and that trend continued through the third quarter. Meanwhile, the weighted average per-sf sale price for deals worth at least $25 million has fallen four years in a row. Year-to-date through mid-November, the average price was $219/sf, down 10.7% compared with last year’s annual average and off a whopping 47.1% from the 2015 peak.

Amid that backdrop, DLC, which has a 17 million-plus-sf portfolio, has remained active. Late last month, the firm bought a portfolio for $100 million, one of only about a dozen shopping-center deals nationally to hit that mark this year. The firm partnered with New York-based investment giant DRA Advisors on the off-market transaction.

Blackstone’s ShopCore Properties was the seller of the 765,000-sf portfolio, which encompassed four centers in Arizona, Colorado, New Jersey and Ohio. DLC plans to bring in a specialty grocer at one center and to redevelop another that is just 53% occupied.

Ifshin, DLC’s chief executive, said the firm seeks underperforming properties. That could include cases where the owners didn’t have capital to make improvements, came in at a poor basis or has a loan coming due. In addition, the property could have been owned by a family now facing a generational shift that’s triggering a sale. DLC seeks “to have the widest possible funnel at the top” and is not constrained by deal size or geography.

“We are in the buy, fix and sell business,” Ifshin said. “We are not a babysitter of assets. This is an entrepreneurial business.”

To that end, the firm typically holds properties for five years. It plans to sell $600 million to $1 billion of assets over the next three years. “Recycling capital is really, really important as an operator and a fund manager,” he said. “Sometimes you have to sell when the market isn’t great.”

Because his firm remained active in the years when retail properties were out of favor, it picked up properties at pricing that will still generate strong returns, he said. “We are just fine on the sell-side because we have added more value than we expected, and the leasing has outperformed the underwriting pretty consistently.”

In June, DLC argued in a white paper that hybrid work has caused a fundamental shift that is keeping office workers close to home and driving up demand for suburban shopping centers.

Ifshin said the retail sector is benefiting from a “tsunami of tailwinds,” including virtually no new construction in recent years, the conversion of shopping centers to other uses shrinking supply, and healthier balance sheets for retailers.

“We do business with tenants that are the backbone of the American economy,” he said, citing Dollar Tree, Target, Walmart and grocery stores as examples. “But what we don’t do is … aspirational retail. We do the retail that enables middle-class Americans to live their best lives at the most affordable prices. That is what Temerity saw in us.”

Temerity, a Chicago-based firm founded last year by Bruce Cohen and Jeff Citrin, considered 30 retail platforms before teaming with DLC. It is acting via its Temerity Strategic Partners Fund, which is looking to raise $300 million, according to an SEC filing.

Cohen called DLC “a great fit for our capital as they have a proven ability to execute in a sector that has long been out of favor with institutional capital.” He agreed that the resilience of open-air shopping centers means “investment dollars will start to rotate back into the space.”

In September, Temerity teamed up with Ashcroft Capital to help that New York-based apartment specialist expand its multifamily portfolio in the Sun Belt. Also via the Strategic Partners Fund, it is providing Ashcroft with $50 million of growth capital to fuel $1.5 billion of investments over the next three years.

Ifshin noted that he has been reluctant to surrender his firm’s independence and has turned down multiple offers from institutions to team up. However, he said Cohen, whom he has known for two decades, came to him with a different structure that was “very intriguing.”

“This gave us the best of both worlds,” Ifshin said of the initiative. “It gave us the ability to maintain our complete and utter independence. And it gave us the ability to scale and continue to do business with our longtime institutional limited partners” as well as land new such partners.