

# PERE

## Retail

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## KEYNOTE INTERVIEW

# Scaling performance through active asset management



*Retail parks and other convenience retail formats offer resilient income that can grow with strong, disciplined execution, say Redevco's Hannah Evans, Deborah Green and Israel Casanova Lafuente*

Long dismissed as a challenged property type, retail parks have emerged as one of Europe's most resilient retail formats, benefiting from convenience-led tenant demand, limited new supply and an ability to evolve alongside changing consumer habits, say Hannah Evans, investment director; Deborah Green, head of asset and transaction management, UK; and Israel Casanova Lafuente, investment director and country head, Spain and Portugal, at Redevco.

As investors increasingly seek

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durable income and operational upside, success is becoming less about market timing and more about active asset management, tenant curation and understanding local catchments.

**Q How should investors approach retail park investing?**

**Hannah Evans:** Retail in general is

well known as a much more operationally involved asset class within real estate, which I think heightens the importance of having a specialist manager. This is especially true for retail parks, a subsector where we have a longstanding track record.

You must do a lot of work on return attribution, really understanding exactly what is driving the returns that you are forecasting for particular opportunities. Of course, you must be very aware of the market cycle and do your analysis around that, and scenario

planning to make sure that you have a dynamic strategy that can be flexible. We have accumulated nearly 25 years of operational data that shows how this asset class behaves in different market situations.

But outperformance is ultimately going to be driven by very active asset management, really working the assets to deliver better income and value, not just relying on yield compression and market conditions. In retail parks, the ability to develop strategic tenant relationships, and then leverage those relationships to deliver better investor outcomes, is absolutely crucial.

**Deborah Green:** Yes, the strength of those relationships is key. We do use leasing agents, but we also have strong occupier relationships, which are really important to the execution of business plans. I think of examples in the UK where we have acquired a retail park and very quickly been able to secure a key retailer, which then really drove that asset's future performance and the tenant mix.

**Israel Casanova Lafuente:** Our bedrock is the dominant, convenience-led retail parks. Convenience-led means essential retailers; we are talking about food, DIY stores, pharmacies, even some types of sports shops. And dominant refers to their catchment area. This property segment is not focused on cities or markets like other areas of retail, but rather on catchment in terms of consumer profile, geographically or by income. Within those catchments, we target assets that hold a dominant position, including retail parks and other formats anchored in essential retail.

### **Q** What might such a management and value-creation business plan look like in practice?

**HE:** I think retail parks specifically offer a great opportunity to create

### **Q** How can investors and managers best build a diversified retail park portfolio in the current market cycle?

**HE:** We look at it in two phases. The initial portfolio build where we have a very disciplined approach to deployment to build a diversified and income-led portfolio, with a strong focus on stability. In the initial phase of portfolio build, we rely heavily on our local teams on the ground, who lead the sourcing.

Then we have the second phase of ongoing portfolio management and optimization. We are consistently measuring our exposure and rebalancing it over time, adjusting for different market cycles and managing different risk concentrations. So we constantly look at diversification through the lens not just of geography, but also tenant exposure, types of assets, lot size and various other factors that will all contribute to a well-balanced portfolio.

**ICL:** When we acquire an asset, we also complete full underwriting, validated through due diligence and input from external advisers. By completion, we already have a detailed plan for managing the asset and achieving the targets set for that acquisition. So that is how we start, by implementing that plan.

*“The retail park format and other convenience retail destinations present a lot of advantages”*

**ISRAEL CASANOVA LAFUENTE**

value, for example through reconfiguring units on a park. We often have the ability to increase the gross leasable area – basically adding square meters, maybe onto the car park, maybe as an adjacency to the existing park – and increasing the income potential.

This can often be done by adding additional units or drive-throughs. And obviously, being a multi-let asset, there is also the opportunity to actively improve either the tenant mix or the quality of the income stream through

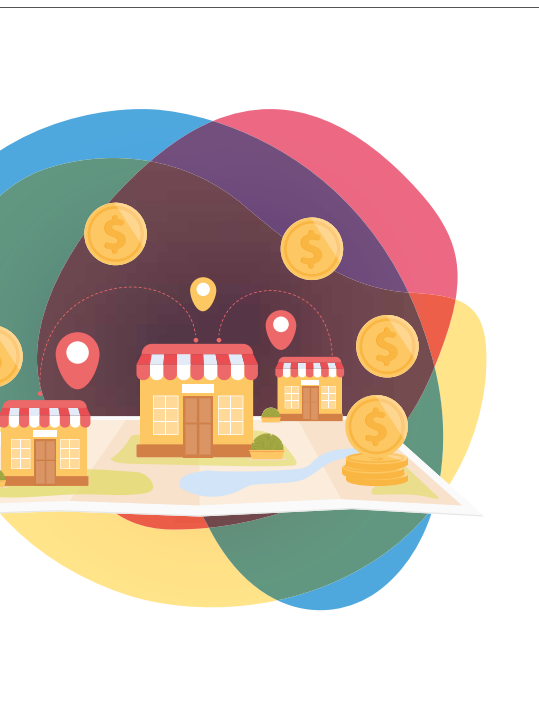
renegotiating leases or re-letting spaces.

**DG:** Yes, with a low vacancy rate you need to be more creative to drive growth, sometimes even taking back space. We also look to drive new income streams that did not previously exist. This could mean using an area of the car park that previously was not income-producing, for example creating a pod that can then be put to food and beverage use.

Not only do these enhancements drive income, but they also drive footfall and increased ‘dwell time’ from consumers – providing amenities that encourage customers to spend longer at the park.

Another example is EV chargers, which are in place in over 80 percent of our UK retail parks portfolio. These are important for several reasons: they align with our ESG strategy; drive additional income; provide an important amenity for our customers; and increase dwell time at our parks, which in turn drives demand for additional food and beverage. So, what initially





seems like a small intervention can actually have far-reaching benefits.

**Q Can investors avoid common risks and pitfalls by maintaining discipline and selectivity in those plans?**

**ICL:** Perhaps we should start off with the type of assets that we avoid. We just went through an analysis of an interesting asset in the Spanish market that we decided not to buy. It was because the conclusion from that analysis was that the rent that was being paid by the tenant was considered above market level. And therefore, any buyer would risk the need to make rent adjustments downwards to maintain the tenants in place, and there was unlikely any room for growth in the near term.

In the asset business plans, balancing capex versus cash income is not a binary decision. You sometimes try to do both, to maintain income and to outlay capex, particularly on actions that will future-proof the assets and keep the tenants renewing.

From a structural point of view, retail parks are very simple buildings.

*“There is now a real sense of the place that retail parks hold in the local community*

**DEBORAH GREEN**

*“Outperformance is ultimately going to be driven by very active asset management”*

**HANNAH EVANS**

We are talking about big boxes surrounded by parking. As a result, with a limited amount of capex, you are easily able to adapt the asset to the demands of its catchment, which is crucial because the nature of that demand is evolving all the time. So, we need to be aware of those adjustments and adaptations that can be done in this subsector in a much more efficient way than maybe other retail subtypes. We focus on the long-term behavioral trends, and these assets are quite flexible and can adapt well.

I’ll give you an example. Online commerce has impacted retail significantly over the past 10 years, but retail parks have been the retail asset that has adapted best to that trend by reinventing themselves, whether through Amazon lockers, ‘click and collect’ locations or just linking item returns to a physical place.

**Q What does the future of real estate investment look like for the retail park subtype?**

**ICL:** We are convinced that the retail park format and other convenience retail destinations present a lot of advantages, principally its resilience and the fact this is an income-producing asset. It has performed very well through all the economic crises for the last 25 years, not least covid. During the pandemic, these assets stayed open to the public because they offered the goods and services that people needed, all in an open-air space.

Moreover, with the kind of plans for enhancing income we have discussed, we believe that these assets are capable of adapting to anything that might come, and we are going to be able to continue evolving this format into the future.

**DG:** Yes, we have been able to create diversified income streams and match the evolution of the tenant mix. Fifteen years ago, retail parks mainly provided bulky goods offerings. What we now see are food and beverage, leisure, necessities and important social uses such as pop-up flu vaccination centers.

There is now a real sense of the place that retail parks hold in the local community, and they are able to cater to those local and ever-changing needs. And I think the retail park will continue to evolve, so that even as consumer needs change, these necessity-based assets can adapt and stay ahead, becoming ever more attractive investments. ■