

Bain Capital Real Estate

Necessity-based retail is thriving in active population centers

Chase McWhorter, Institutional Real Estate, Inc.'s managing director, Americas, spoke with **Martha Kelley**, a managing director at Bain Capital Real Estate, and **Brian Harper**, founder and managing partner of 11North Partners, about their strategic partnership to invest in open-air retail real estate. Following is an excerpt of that conversation.

Can you provide an overview of Bain Capital Real Estate and share what drove you to re-enter the retail sector?

Martha Kelley: Bain Capital Real Estate [BCRE] targets primarily North American real estate assets we believe will benefit from long-term secular demand growth. Our team has developed a thematic (we aim to buy the “right” things), programmatic (we strive to do it with advantage) and dynamic (we seek to invest with discipline) approach to investing, where integrated partnerships with local experts bolster our deep deal-sourcing capabilities and drive further vertical expertise. As part of Bain Capital, a global private investment firm founded in 1984 that manages approximately \$185 billion of assets, we further benefit from the deep sector and geographic expertise of the firm’s 835-plus global investment professionals.

What differentiates us from our competitors is our thematic, top-down, research-driven approach to investing in real estate. Before we acquire individual assets, we go through months, if not years, of rigorous diligence to identify sectors and strategies where we see a combination of outsized demand growth, supported by enduring secular trends, intersecting with limited supply growth. We are extremely committed to, and yet dynamic in, our thematic approach.

As it relates to retail, our real estate team began paying closer attention to the sector after the pandemic, when we noticed a pattern of strong fundamental performance amid somewhat weak valuations. “Good” open-air assets were fully occupied and experiencing strong rental rate growth, and we observed resilience in the national and regional tenant base in terms of retail sales performance; however, the sentiment around retail in the broader capital markets was tepid. In other words, there was a disconnect between the fundamental performance of retail assets and how the markets were valuing them – yields for the “best” assets did not make sense relative to other sectors, such as residential and industrial. That disconnect attracted us to the sector; we surmised people were not paying close enough attention to retail to differentiate between the resilient retail centers, which were attracting and retaining great tenancy, and retail that was heading toward obsolescence.

At that same time, we met Brian Harper. Brian was CEO of RPT Realty, a NYSE-traded retail REIT with a demonstrated history of strong absolute and relative performance, including for its shareholders through the sale of RPT Realty to Kimco Realty Corporation. It was serendipitous that we found our perfect partner around the same time we were becoming particularly interested in the open-air retail sector.

Were you able to leverage other parts of the Bain Capital platform while studying the sector?

Kelley: Our colleagues throughout Bain Capital have been investing in the retail sector for decades, so we have amassed a vast amount of institutional knowledge and perspective about the consumer. Over the years, we have made investments in Canada Goose, Michael’s, Bob’s Discount Furniture, Domino’s Pizza, Staples, Dunkin’ Donuts, Burger King, Burlington, Dollarama and Fogo de Chão, among many other well-known retailers. This informs how we approach the real estate side of the equation. With the help of our colleagues in Bain Capital’s Consumer Private Equity business, the real estate team developed a proprietary model that allows us to score tenants in individual centers based on the differentiated knowledge we have cultivated about their underlying business models. We have scored and ranked approximately 750 U.S. tenants, which has helped us evaluate acquisition opportunities in a nuanced, strategic way.

How are you executing on retail opportunities?

Kelley: In April 2024, we formed 11North Partners, a retail-focused operating platform that is co-owned by BCRE and Brian and his team. We established the platform primarily to acquire grocery-anchored, necessity-based, open-air retail real estate assets, although we have some flexibility in our mandate. We are hyper-focused on quality – quality of asset, quality of market, quality of tenancy. Brian and his team, who are experts in acquiring, managing, operating and repositioning retail assets, elevate these already high-quality centers even further.

Brian, what drew you to partner with Bain Capital Real Estate?

Brian Harper: The distinctiveness of their overall platform. As Martha said, the BCRE team not only comprises real estate investors, but as a firm, they are part of one of the strongest global consumer-retail private investment franchises in the world. That matters because they are constantly examining how people live, how people work and how people shop across markets from Asia to Europe to the United States. They observe shifts in brands, spending patterns, and the evolution of retail and lifestyle experiences globally, and they bring that knowledge into every investment conversation. Combined with our deep real estate operating abilities, that is incredibly valuable.

On our side, 11North Partners is deeply rooted in the communities in which we invest, and we have in-depth knowledge of local dynamics and tenant relationships from more than 25 years of being in this business. When you pair that expertise with Bain Capital’s global consumer insights, credit acumen and real estate experience, you get a partnership that is strategically positioned to see “around the corners.” We are not just buying retail centers; we are creating long-term generational assets that align with where the retailers want to be.

Since establishing 11North Partners, where have you been the most active?

Harper: We have had a very active 12 months, bidding on more than \$5 billion worth of transactions. Most recently, we completed a \$395 million acquisition of a 10-asset portfolio of high-quality and high-volume Publix-anchored centers in infill markets in

Charleston, S.C., and across Florida, including in Orlando, Tampa, Boca Raton and Sawgrass. The portfolio features a strong mix of national, regional and “daily needs” tenants, which we believe creates a durable cash-flow profile. Earlier this year, we acquired three high-quality centers in Nichols Hills, a great zip code in Oklahoma City: one anchored by Whole Foods; one by Trader Joe’s; and a lifestyle center with Lululemon, Warby Parker and Kendra Scott, among other household names. We see huge market value-creation opportunities across this three-pack, as well as the ability to significantly grow cash flow.

What are you doing with these assets post-transaction?

Harper: Post-closing, our focus is unlocking each center’s full potential. Every center is different. We move quickly to upgrade the physical condition of each property to achieve and maintain our brand standard of excellence, whether that means new signage and refreshed landscaping or modernized facades. We think almost like a hospitality company, focusing on what the local community and tenants want. Those enhancements create an elevated consumer experience and aesthetic, which drives traffic. We are very focused on tenant credit and remerchandizing tenants to drive sales. Every center has a different playbook. We take a bottom-up, space-by-space approach to maximize value.

For several of the tenants with whom we are in active lease negotiations – national, strong credit, thriving retailers – our centers would represent their first-to-the-state locations. We expect this will be a draw for local residents, as well as those from outside the market. That said, we also pay attention to the strong local and regional tenants; they do a phenomenal job. We try to approach tenant relationships as true partnerships and work hand-in-hand with them on lease structures, expansions and marketing to help them achieve the strongest sales possible.

The retail sector has faced significant perceived headwinds in recent years. From your perspective, what are the most pressing risks to retail today?

Kelley: Macro forces, including outsized inflation, are causing softening within certain consumer segments. That said, when we study the data, we see resilience across select segments, including grocery, clubs and warehouses, and health and personal care services. These tenants, which underpin necessity-

based retail, continue to have strong consumer performance; their sales tend to be less volatile because they offer “necessity” products and services people purchase regardless of macroeconomic conditions. Our Consumer Private Equity business has also observed this dynamic. For some soft-good and apparel retailers, there is softening in performance; however, companies that have the “right” business models, have invested in AI and technology, and have developed brand loyalty and a differentiated brand offering are largely still doing well. Having developed a proprietary scoring model for tenants, all this data flows into how we evaluate a given retailer and whether we believe it is at risk of potential softening in its performance, or if it stands to perform throughout economic cycles.

Regardless of where we are in the economic cycle, we believe open-air retail is benefiting from a number of secular trends that tie to ecommerce. It is clear that brands and consumers alike want access to both brick-and-mortar space and ecommerce sales channels. This omnichannel approach allows retailers to meet customer preferences for buying online, picking up in store, try on before you buy and return in store, etc. It also allows retailers to service the customers’ need for immediacy and emphasizes how brick and mortar has become embedded in the logistics chain.

Another trend is work from home. With around 50 percent of knowledge workers working at least partially from home, you have approximately 1.5 more days where individuals may have time to pick up something from the store, run an errand, etc. This is a secular trend, resulting from changing patterns for how people live, work and shop. We are constantly thinking about the consumer and trying to anticipate changing trends.

What’s next? Where are the most significant areas, markets that offer potential?

Harper: We are focused on investment opportunities across the country, but we are leaning toward cities across the Sun Belt and the Southeast that are experiencing strong population growth, demographic tailwinds and exceptional sales productivity from our target retailers. We follow where the retailers want to be, and they want to be where the people are and where the people are moving. These two markets are examples of places that offer our tenants the scale and momentum to achieve high sales productivity.

CONTRIBUTORS AND CORPORATE OVERVIEWS



Martha Kelley
Managing Director
Bain Capital Real Estate

Martha Kelley is a managing director on the real estate team responsible for sourcing, underwriting, structuring, negotiating and managing investments in the retail and living sectors.



Brian Harper
Founder & Managing Partner
11North Partners

Brian Harper has more than 25 years of real estate experience, including serving as CEO and president of RPT Realty, where he institutionalized and repositioned the REIT.

Founded in 1984, **Bain Capital** is a leading private investment firm with approximately \$185 billion in assets under management across Private Equity, Growth & Venture, Capital Solutions, Credit & Capital Markets, and Real Assets. With 25 offices worldwide, the firm is committed to collaboration, innovation and delivering lasting value for investors, businesses and communities. **Bain Capital Real Estate** was formed in 2018 and pursues investments in often hard-to-access sectors underpinned by enduring secular trends that drive long-term demand growth for real estate assets and services. Bain Capital Real Estate focuses on assets where its team of 70 investment professionals apply deep industry expertise to accelerate impact and drive operational improvements. Its strategy aligns with the value-added

investment approach that Bain Capital pioneered and leverages the firm’s global platform and significant experience across



BainCapital

11North Partners is a real estate investment firm building a diversified portfolio of retail assets across markets and product types. The team leverages deep industry expertise, strong relationships, and institutional partnerships to access unique opportunities in the evolving retail landscape. 11North seeks to deliver attractive risk-adjusted returns through unlocking value across retail verticals including real estate ownership, debt and operating company investment.



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