

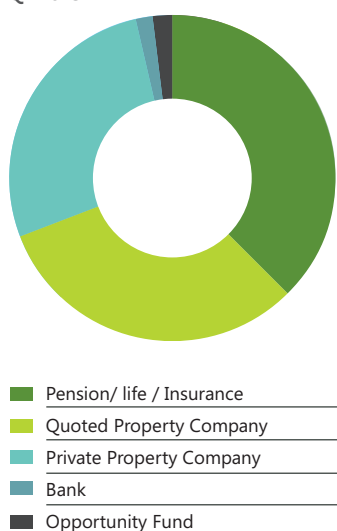
Q1 2013 SHOPPING CENTRE

Investment quarterly

Outlook

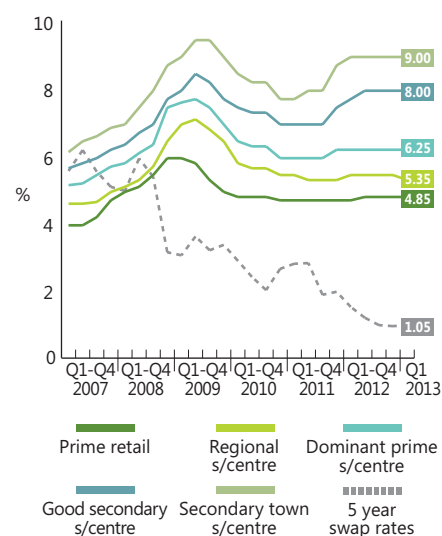
- Demand for prime assets remains strong. There is evidence that this level of demand is beginning to trickle down to good secondary assets and we anticipate increased interest in this sector.
- The provision of debt in the shopping centre market has improved in recent months, which will undoubtedly stimulate more activity in 2013.
- Divergence between stronger-performing assets and weaker secondary stock will continue.
- We anticipate continued demand for prime and good secondary assets whilst the weaker secondary and tertiary product continues to struggle.

Figure 1
Who's buying?
Q1 2013



Source: Knight Frank LLP

Figure 2
Retail & shopping centre equivalent yields
Q1 2007 - Q1 2013



Source: Knight Frank LLP

Q1 shopping centres sold

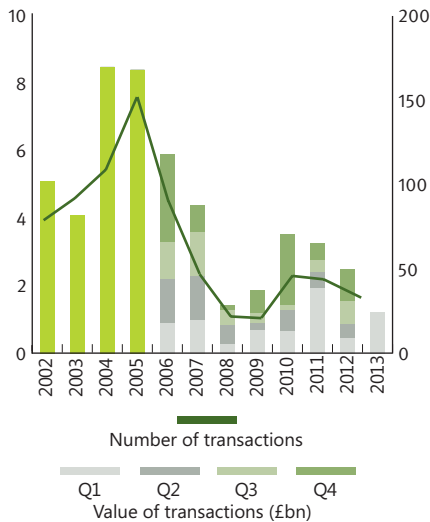
Shopping centre	Status	Purchaser	Vendor	Price (£m)	NIY %
Midsummer Place, Milton Keynes	Sold	Intu Properties	Legal & General	250.5	5.09
Grosvenor Portfolio (Inverness, Burton & Grimsby)	Sold	F&C REIT	Grosvenor	247.5	8.00
Thecentre:MK	Sold	Hermes	PRUPIM	190.0	n/a
Friary Centre, Guildford	Sold	PRUPIM	Hermes	150.0	n/a
Ealing Broadway, Ealing	Sold	British Land	Wereldhave	142.5	6.75
Lion Walk, Colchester	Sold	Sovereign Land	LaSalle UK Ventures	56.0	7.35
The Dolphin Centre, Poole	Sold	Legal & General	Wereldhave	57.7	7.81
Orchard Centre, Taunton	Sold	West Register	RBS	22.0	9.00
Met Quarter, Liverpool	Sold	Schroders	Anglo Irish	21.3	8.50

Source: Knight Frank LLP

Figure 3

Shopping centre transactions

(LHS – Value of transactions, £bn)
(RHS – Number of transactions)

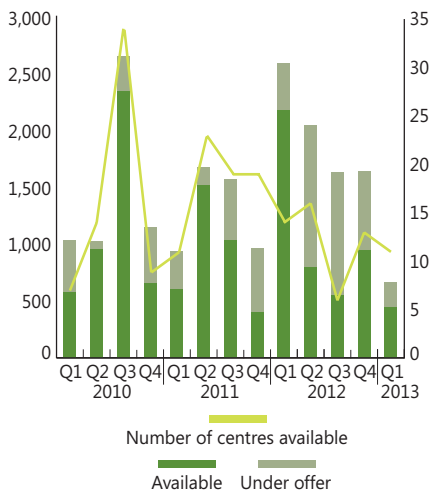


Source: Knight Frank LLP

Figure 4

Shopping centre availability

(LHS – Value of availability, £m)
(RHS – Number of centres available)



Source: Knight Frank LLP

Market commentary

- Notwithstanding the challenging occupational market and uncertain economic backdrop, it has been a promising start to 2013 for the UK shopping centre investment market. Transactional volumes were £1.24bn across 13 deals in Q1, following a healthy final quarter in 2012. This was a substantial increase of 169% on the volumes recorded in Q1 2012 and indeed the strongest quarter since 2011.
- Continuing with the trend in the previous quarter, Q1 also saw a few high-value deals. Intu Properties' £250m purchase of Midsummer Place in Milton Keynes from Legal & General was one of the headline deals of the quarter. Reflecting a net initial yield of 5.1%, the transaction attracted several bids and demonstrated the strong appetite for a prime asset in an affluent location. Another key transaction was Wereldhave's sale of Ealing Broadway in Ealing to British Land for £142.5m, with a net initial yield of 6.75%.
- Sovereign Land's £56m purchase of Lion Walk in Colchester (NIY 7.35%) provides a good indicator of the level of interest for a good secondary scheme in the South East.
- During Q1 2013, the purchaser profile has been largely dominated by pension/life/insurance companies which accounted for 38% of Q1's total value (largely due to the sale of Midsummer Place and Ealing Broadway). Quoted property companies also played an active role, accounting for 32% of purchasers in Q1, overtaking the position of private property companies.
- There are currently 11 shopping centres being openly marketed, with a combined value of over £500m compared with 14 assets at the end of Q4 2012. There continues to be a notable lack of openly marketed prime opportunities, although a number of good secondary assets have come to the market in Q1, for example, Mell Square in Solihull and the Mall schemes in Sutton Coldfield and Uxbridge.
- Overall sentiment has improved over the last quarter. We see this trend continuing as good demand for prime assets and good secondary stock is sustained, particularly in light of the improvement of debt availability.
- Given the level of interest and pricing achieved for recent transactions, prime shopping centre yields moved in by 15 bps to stand at 5.35%, while yields for good secondary assets were unchanged at 8.00% but trending more positively.
- The recent high profile tenant failures have to some extent moved investors down the risk curve, therefore creating a premium market for the better schemes and conversely, a discount market for perceived weaker secondary assets. Whilst an investor may be prepared to take an element of covenant risk, the true market rent needs to be understood and as does the nature of tenant demand for any given location.
- The Chancellor recently announced that the Office for Budget Responsibility had cut the official UK growth forecast for 2013 from 1.2% to 0.6%. Unsurprisingly, consumers are still wary of the weak economic backdrop in the short term. The challenge for both the occupier and landlord going forward is the rapidly changing retail landscape. Many retailers are downsizing their requirements, or adapting "click and collect" services. Landlords need to react to this and perhaps look at embracing e-commerce into their schemes. The recent opening of Trinity Leeds will mark the beginning of the next generation of digitally enabled shopping centres where online meets bricks-and-mortar stores.

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