RESEARCH

SHOPPING CENTRES

INVESTMENT QUARTERLY **Q1 2016**

Outlook

Good levels of supply set to continue

In addition to some schemes remaining available from 2015, there are a number of new sales currently being prepared for sale after Easter. Furthermore, a range of secondary centres are available on the 'grey' market if pricing aspirations are reached.

Strengthening of investment activity from mid-2016

We foresee a resurgence in demand in the immediate aftermath of a Brexit 'Remain' vote. A 'Leave' vote will delay this but the fundamentals of the UK economy should ensure recovery in the medium term.

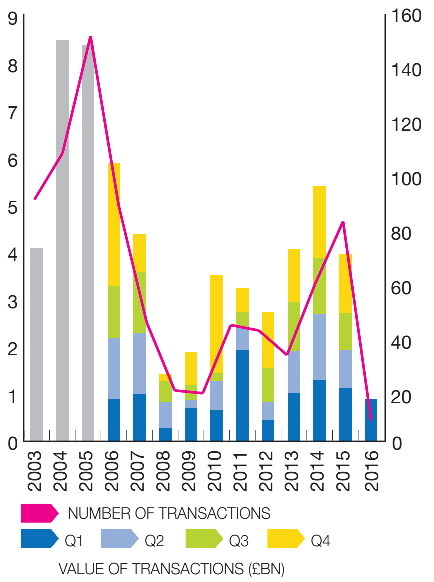
On-going recovery in occupational market

Retail vacancy rates will continue to slowly decline. The process of 'portfolio right-sizing' is on-going, but most retailers now have their houses in far better order and some are acquiring new sites, albeit very selectively.

FIGURE 1

Shopping centre transactions

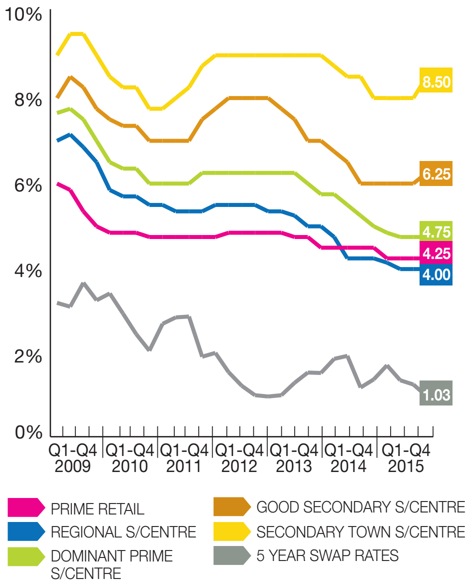
(LHS – Value of transactions, £bn)
(RHS – Number of transactions)



Source: Knight Frank LLP

FIGURE 2

Retail & shopping centre equivalent yields Q1 2009 - Q1 2016



Source: Knight Frank LLP

Q1 2016 shopping centres transactions

Shopping centre	Status	Purchaser	Vendor	Price (£m)	NIY %
Birmingham, Grand Central	Sold	Hammerson	Birmingham City Council	£335m	3.65
Liverpool, Liverpool One (35% stake)	Sold	ADIA	Redevco, Hermes, Grosvenor	£300m	4.25
Newcastle, Monument Mall	Sold	Standard Life	Hammerson	£75m	4.28
Lion Walk, Colchester	Sold	CBRE Global Investors	Ares	£76.5m	5.90
Clayton Square, Liverpool	Sold	Rockspring	Infrared / Hark	£38.4m	6.30

Source: Knight Frank LLP

MARKET COMMENTARY

Q1 has seen subdued investment activity

Q1 is often a quiet period but 2016 has to date seen particularly subdued activity due to a combination of macro-economic concerns, a challenging equities market and more latterly speculation over the outcome of the Brexit vote. Q1 2016 shopping centre transactions have decreased by 15% compared to Q1 2015 and 25% compared to Q1 2014.

Trend for targeted marketing

Given the levels of stock available in the market, vendors and their agents have increasingly been approaching buyers on a quiet, targeted, basis. Whilst stock levels remain high, we anticipate a continuation of this trend.

Demand remains strong for prime stock

A lack of product and a number of buyers chasing similar stock has ensured strong pricing at the prime end of the market. This is evidenced by Hammerson/CPPIB's purchase of Grand Central in Birmingham at around 3.65% NIY, ADIA's purchase of an additional 35% of Liverpool One at 4.25% NIY and Hammerson/Allianz's purchase of Project Jewel, including Dundrum, at 4% NIY.

Secondary stock currently more challenging

There is less depth of demand for secondary centres, albeit right-priced schemes continue to attract good interest.

Mixed messages from retail occupiers

The early stages of 2016 have provided a strong portent of what is to come for the rest of year in the UK retail market – erratic retail sales and some uncertainty among retail operators. After the disappointments of Christmas, retail sales bounced back strongly in January, only to subdue again in February.

The CVA's proposed by BHS and Beales, while not necessarily a pre-cursor to further fall out in the market, nevertheless highlight the competitive pressures of the UK retail market. Cost pressures are also mounting and will again be tested when the National Living Wage comes into force in April.

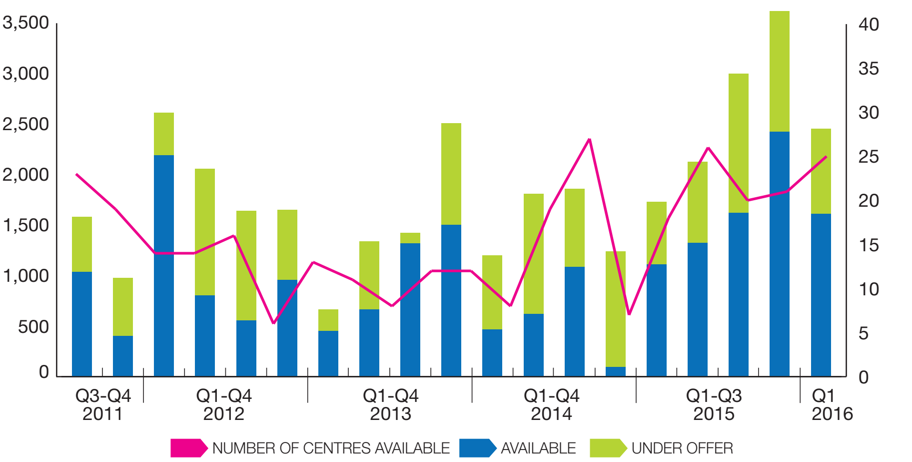
While a number of high profile retail names are retrenching, plenty more remain on the expansion trail. This slow but sustainable re-balance is manifest in trends in vacancy rates – Local Data Company reported that the national vacancy rate declined by 20bps in the second half of 2015 to 11.5%. The recovery was even more pronounced in shopping centres (-70bps to 14.1%).

Debt market stable

5 year Swap rates have remained broadly stable during the year to date, whilst LIBOR rates have moved very marginally out. Finance continues to be available for the right product but relationships are increasingly important and where a scheme has a 'value-add' element, lenders need absolute confidence in the business plan. That said, the lending market remains strong with average loan to value ratios at around 65%.

FIGURE 3

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



Source: Knight Frank LLP

RETAIL RESEARCH
Stephen Springham, Partner
+44 20 7861 1236
stephen.springham@knightfrank.com

INVESTMENT
Charlie Barke, Partner
+44 20 7861 1233
charlie.barke@knightfrank.com

Mark Smith, Partner
+44 20 7861 1533
mark.smith@knightfrank.com

David Willis, Associate
+44 20 7861 1208
david.willis@knightfrank.com

Olivia Yeandle, Surveyor
+44 20 7861 5019
olivia.yeandle@knightfrank.com

VALUATIONS
Graham Spoor, Partner
+44 20 7861 1539
graham.spoor@knightfrank.com

AGENCY
Mike Wimble, Partner
+44 20 7861 1569
Mike.wimble@knightfrank.com

Richard Griston, Associate
+44 20 7861 1188
richard.griston@knightfrank.com

Josh Braid, Associate
+44 20 7861 1176
josh.braid@knightfrank.com

LEASE ADVISORY
Jeremy Elphick, Partner
+44 20 7861 1590
jeremy.elphick@knightfrank.com

Andrew Thatcher, Partner
+44 20 7861 1657
andrew.thatcher@knightfrank.com

www.KnightFrank.com