

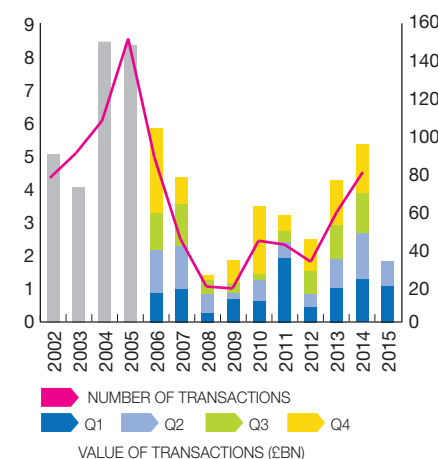
SHOPPING CENTRES

INVESTMENT QUARTERLY Q2 2015

Outlook

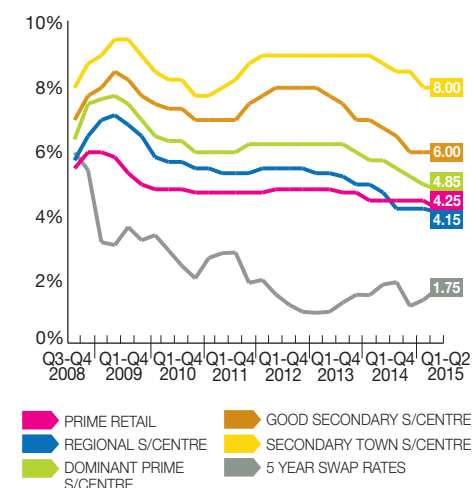
- The messages emerging from the retail sector are very mixed. GfK's UK Consumer Confidence Index soared in June to its highest level since the late 1990s, with consumers increasingly bullish about both their own financial prospects and the health of the economy overall.
- This optimism has partially filtered through to retail sales. In the 3 months to May, the ONS reported that retail sales volumes were up 4.7% year-on-year. Values were up by a more modest 2.6%, reflecting widespread deflation in the market – good for consumers, far less so for retailers.
- Footfall trends are far less positive. BRC/ Springboard Footfall Monitor reported a 3-month average decline of -0.5% in May. The decline in traffic was steepest in shopping centres (-2%). There is clearly still some disconnect between consumer confidence and actual shopping behaviour.

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 Q3 2008 - Q2 2015



Source: Knight Frank LLP

Q2 2015 shopping centres transactions

Shopping centre	Status	Purchaser	Vendor	Price (£m)	NIY %
Cleveland Centre, Middlesbrough / Coopers Square, Burton-on-Trent	Sold	New Frontier	F&C	179.0	6.75
Kings Mall, Hammersmith	Sold	Schroders	Matterhorn Palos Partnership	153.0	4.25
Grosvenor Centre, Chester	Sold	HIG	Carlyle	65.1	6.35
Broad Street Mall, Reading	Sold	Moorgarth	Englander / Davidson Kempner	62.3	6.85
St Johns, Leeds	Sold	Valad	Hermes	37.0	8.30
Ayr Shopping Centre, Ayr	Sold	Sovereign Land	M&G	35.0	6.00
Vicarage Field, Barking	Sold	Benson Elliot	MAR Properties Ltd / NAMA	35.0	8.50
Priory Centre, Dartford	Sold	Ellandi	Co-operative Bank	33.0	8.39

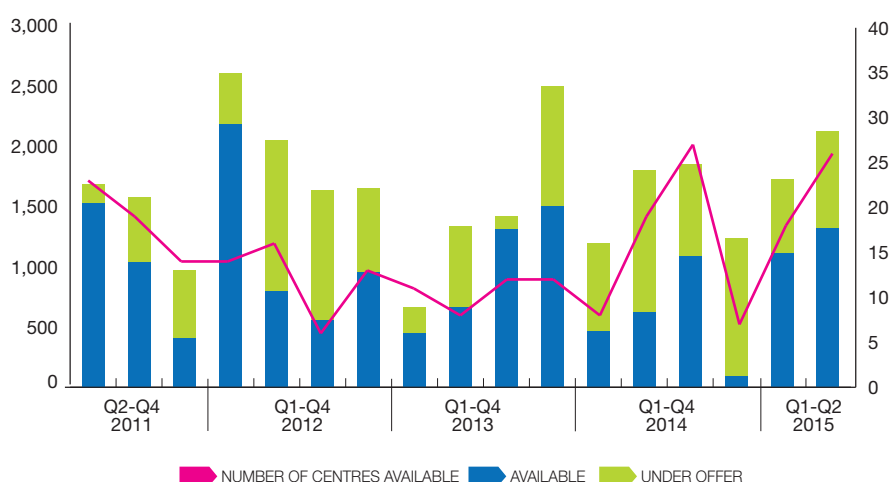
Source: Knight Frank LLP

MARKET COMMENTARY

- Q2 saw a discernible slowdown in investment activity. Total sales volumes over the 3 month period were £749m across 13 deals. Although boosted by Schroder's £153m purchase of Kings Mall in Hammersmith, which closed just before end of the month, volumes were still substantially below the level reported in Q1 (£1.1bn) and the corresponding period last year (£1.2bn). Cumulatively, volumes in the first six months of 2015 stood at £1.8bn, around 14% lower than the first six months in 2014.
- However, the relative lack of volume belies generally positive market sentiment with retail continuing to offer attractive initial income returns relative to other sectors. There is healthy demand for prime and good secondary shopping centres, although the market for poorer secondary assets is more fragile.
- Portfolios remain a favoured route and are seen as an opportunity particularly for overseas investors, their appetite driven by cheap finance and relatively high yields. Project Charlotte is a good current example of a portfolio transaction, comprising seven diverse centres from Tamworth to Glenrothes. The portfolio is currently under offer with a quoting price of £245m and quoting yield of 7.23%.
- Deals completed during Q2 included Broad Street Mall in Reading (£62m, 6.85% NIY), Rope Walk in Nuneaton (£24m, 8.5% NIY), and Grosvenor Centre in Chester (£65m, 6.35% NIY). The latter was particularly significant in that the purchaser was a new entrant to the market, namely US private equity house HIG, an example of the increasing diversity of buyers.
- A further £800m of capital was under offer at the end of June. Schemes under offer include N1 Angel in Islington, which is being sold by Hendersons for £173m at a NIY of 3.85% and the Grafton Centre in Cambridge, which L&G are buying from M&G for c. £100m, a NIY of 5.75%.
- There are already encouraging signs for a pick-up in activity in the second half of the year. The number of schemes being openly marketed is increasing and stood at 26 at the end of June 2015. The schemes have a collective quoting value of around £1.3bn. The highest profile centre currently available is the West One centre on London's Oxford Street. The 90,000 sq ft scheme is being sold by Orchard Street on a long leasehold with a quoting price of around £240m, representing a yield of 3.46%.
- Over Q2, yields for regional shopping malls and prime shopping centres hardened by 10bps and 15bps respectively, to 4.15% and 4.85%. Attracting less investor demand, yields for secondary stock remain static at around 8%.
- Yields for prime stock continue to harden although the rate of yield compression appears to have eased – possibly a reflection of the uncertainty surrounding the General Election midway through the quarter. At the secondary end of the market we have seen a number of weaker secondary centres fail to attract investor interest at the asking terms and yields remain stubbornly in the 8%+ territory.
- Looking ahead we expect Q3 transactional volumes to improve as a number of larger shopping centres are brought to the market. These include Festival Place, Basingstoke (£300m and 6%), Grand Central in Birmingham and a 50% share in Merry Hill.

FIGURE 3

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



Source: Knight Frank LLP

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