RESEARCH

SHOPPING CENTRES

INVESTMENT QUARTERLY **Q2 2016**

Outlook

Supply volumes set to increase

While deal volumes remain well below average levels, stock volumes have picked up a little in the run up to the EU Referendum, with deals timed to exchange post the outcome of the vote. Furthermore, a number of centres are currently being considered for sale, although the timing of their release will be heavily dependent on the outcome of the Referendum.

Outcome of Brexit vote key to levels of investment activity for H2 2016

There are currently 18 schemes under offer, with exchange dependent on the result of the vote in many cases. Whilst we anticipate a resurgence of demand post a 'Remain' vote, a 'Leave' vote is more likely to depress conventional activity and pricing, at least in the short term.

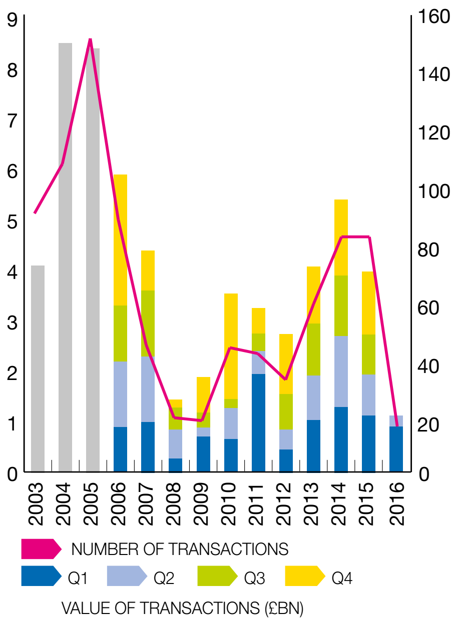
Retail sales defy Brexit predictions

Whatever the outcome of the Brexit vote, a collapse in retail sales is unlikely. As the last recession proved, retail sales tend to out-perform the wider economy in times of uncertainty, as consumers realign spending priorities, rather than stop spending at all. In May, retail sales held up remarkably well, with volumes up 5.7% and values up 3.4%.

FIGURE 1

Shopping centre transactions

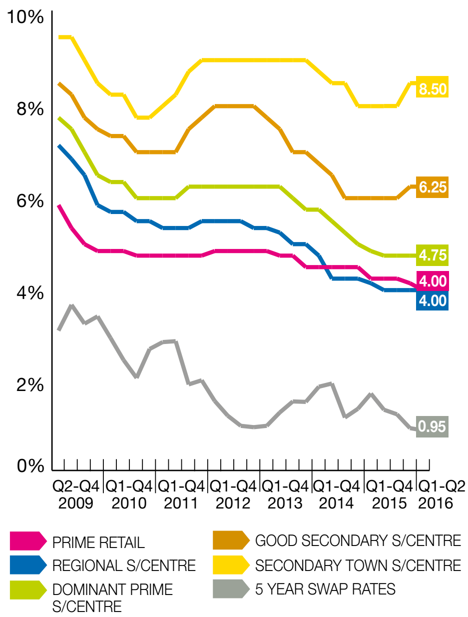
(LHS – Value of transactions, £bn)
(RHS – Number of transactions)



Source: Knight Frank LLP

FIGURE 2

Retail & shopping centre equivalent yields Q1 2009 - Q2 2016



Source: Knight Frank LLP

Q2 2016 shopping centres transactions

Shopping centre	Status	Purchaser	Vendor	Price (£m)	NIY %
Langney, Eastbourne	Sold	Vale/ Pramerica	Schroders	£19m	6.29%
Broadway, Bexleyheath	Sold	New River	LaSalle IM	£120.25m	6.50%
Met Quarter, Liverpool	Sold	Queensberry / Revcap / Bywater	Colombus	£18.6m	7.70%
Market Centre, Crewe	Sold	Real Estate Investors	Aberdeen	£21m	9.00%

Source: Knight Frank LLP

MARKET COMMENTARY

Q2 volumes the lowest since Q3 2010

Q2 is traditionally an active investment period but Q2 2016 has been particularly quiet with just eight transactions, with Broadway in Bexleyheath the only deal over £25m. However, 18 schemes are currently under offer, and with several marketing campaigns about to draw to a close, we anticipate a strong improvement in volumes for Q3 in the event of a 'Remain' vote.

Will the funds return in H2?

A number of funds are holding significant cash reserves of around 20% as they prepare for potential outflows. In the absence of redemptions will the funds be looking to reinvest as the cost of holding cash begins to drag on performance? Alternatively, in a Brexit scenario we could witness further sales as funds need to raise capital.

Prime demand remains strong

There continues to be a lack of available prime product and this, combined with a number of buyers continuing to target prime stock, has maintained pricing at the prime end of the market. However, asset management control is key and even the stronger schemes have proved challenging where passive stakes have been marketed.

Secondary demand centre-specific

There is still a good depth of demand for 'right-priced' secondary stock, with a range of private equity backed asset managers and private property companies with active requirements. However, where an asset is perceived to be overpriced or there are fundamental concerns over trading performance these centres are proving more challenging.

Brexit has minimal direct impact on occupier markets

The administration of Austin Reed and the ongoing saga of BHS, coupled with the Brexit vote, have created an environment of great uncertainty in retail occupier markets. While further occupier fall-out is a distinct possibility, the tipping factors for BHS and Austin Reed were particular to those operators, rather than an indicator of wider retailer malaise.

The outcome of the Brexit vote may have a surprisingly neutral effect on UK retail sales. The worst case economic scenario of a 'Leave' vote and subsequent recession may not necessarily result in a significant slump in retail sales, as proved the case during the last recession. Although retail sales growth will continue to be erratic (as, indeed, it is already), an outright collapse is highly unlikely.

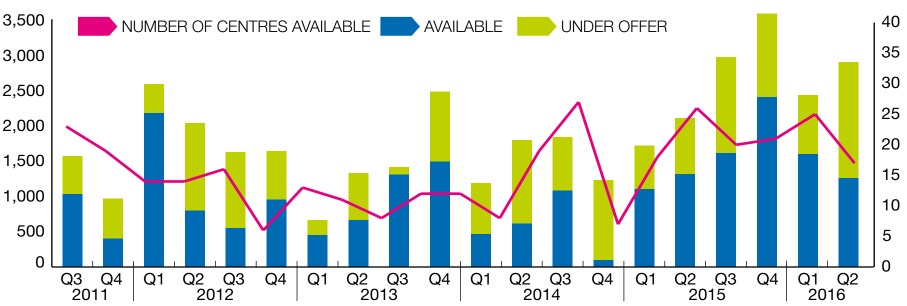
Although some retail occupiers have tied their colours to the 'Remain' or 'Leave' masts, the outcome is unlikely to destabilise occupier markets either way. Large multi-nationals already present in the UK but headquartered in the EU (e.g. H&M, Inditex) are unlikely to reappraise their position in light of the result. Nor will overseas retailers from other, non-EU geographies, such as the US or Asia.

Whether or not the UK remains in the EU will likewise be a very secondary factor to internationalising retailers potentially looking to the UK for future expansion. The key factor is whether they can make money trading in what will remain a large, progressive and consumer-driven retail market. (Non) Membership of the EU will be neither attraction nor deterrent.

Continued stability in the debt market

Perhaps unsurprisingly in the context of the upcoming referendum, both 5 year swap rates and LIBOR have moved in over the last quarter. Whilst a number of lenders remain active and finance continues to be available for the right product, average loan to value ratios have moved in to around 60% from around 65% last quarter.

FIGURE 3
Shopping centre availability (LHS – Value of availability, £m. RHS – Number of centres available)



Source: Knight Frank LLP

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