



Q3 2012 SHOPPING CENTRE

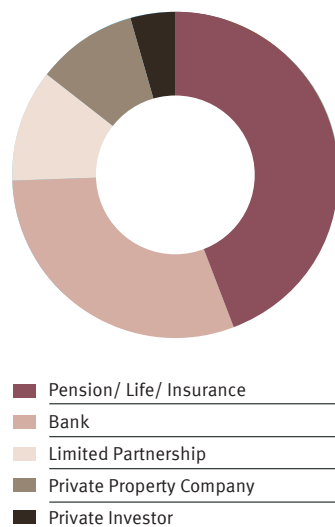
Investment quarterly

Knight Frank

Outlook

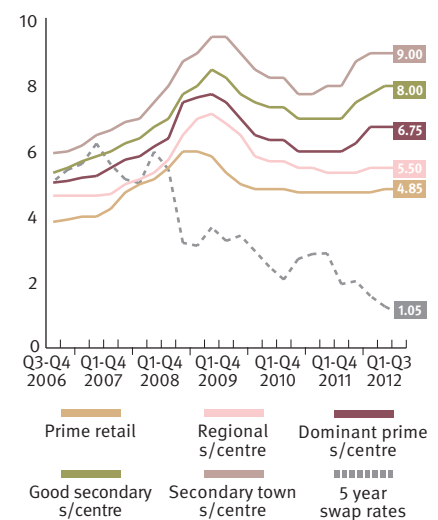
- Generally, investor sentiment has improved in the prime and good secondary sectors. There are now tentative signs that an increasing number of investors will seek to exploit current pricing levels and we expect this could provide a stimulus to market activity.
- We expect supply of openly marketed stock to remain at subdued levels in Q4, although more bank driven non-performing loan portfolio sales are likely to come on to the market which should provide an interesting window of opportunity for investors.
- Investor focus will remain on true rental values, tenant covenants and realistic equivalent yields. This is particularly relevant for secondary product where income profiles remain volatile.

Figure 1
Who's selling?
Q3 2012



Source: Knight Frank LLP

Figure 2
Retail & shopping centre equivalent yields
Q3 2006 - Q3 2012



Source: Knight Frank LLP

Q3 shopping centres sold

Shopping centre	Status	Purchaser	Vendor	Price (£m)	NIY %
Festival Place Shopping Centre, Basingstoke	Sold	TIAA-CREF	Grosvenor Shopping Centre Fund	280.0	6.50
Victoria Quarter, Leeds	Sold	Hammerson	Bank of Ireland	136.0	5.35
Lowry Outlet Mall Salford Quays, Manchester	Sold	Peel Group	Emerson Developments	70.0	n/a
Whitgift Centre, Croydon (25%)	Sold	Hammerson	Royal London Asset Management	65.0	n/a
Eden Walk Shopping Centre, Kingston Upon-Thames (50%)	Sold	British Land	USS	41.5	5.35
Crossgates Shopping Centre, Leeds	Sold	Praxis	Private Irish	29.0	8.75

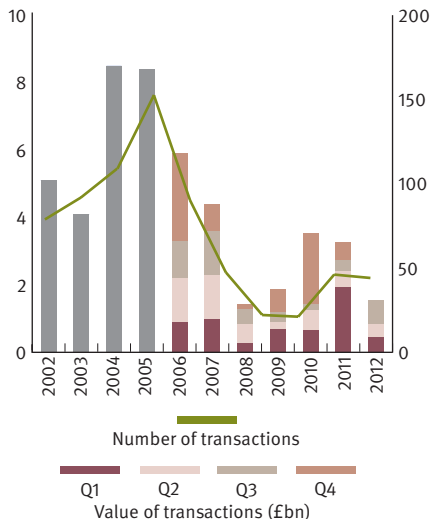
Source: Knight Frank LLP



Figure 3

Shopping centre transactions

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

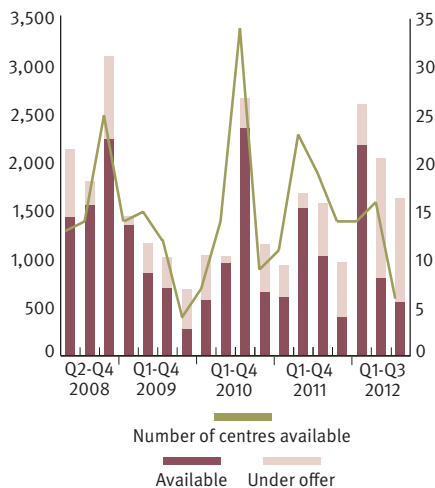


Source: Knight Frank LLP

Figure 4

Shopping centre availability

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



Source: Knight Frank LLP

Market commentary

- A considerable improvement in activity was seen in Q3, with a total sales volume of £710m, more than double the Q2 2012 total of £390m and the Q3 2011 total of £340m.
- Grosvenor's sale of Festival Place Shopping Centre in Basingstoke was key to Q3's increase in volume, accounting for 34% of the Q3 total. This was the largest shopping centre transaction in the UK in nearly two years. The transaction provided the market with concrete evidence of current pricing for dominant prime assets. Another key transaction included Hammerson's purchase of Victoria Quarter in Leeds from Bank of Ireland for £136m reflecting a net initial yield of 5.35%.
- Indeed, banks are undertaking an increasing number of loan disposals. In Q3, the noticeable example was Lloyds Banking Group's disposal of their non-performing loan portfolio to Oaktree Capital, which included Kingsgate in Dunfermline, Vancouver Centre in Kings Lynn and Rushes in Loughborough.
- A broader range of investors is now active in the market which was reflected in the Q3 purchaser profile. Meanwhile, the vendor profile showed that banks have become more active again, accounting for nearly 30% of total Q3 volume, following UK institutions which accounted for 45%.
- Supply levels are on a downward trend, with the quoted value of openly marketed shopping centres decreasing in the last two quarters to stand at £554.5m at the end of Q3. The number of shopping centres openly available decreased from 16 to 6 during Q3 and buying opportunities for prime assets remain scarce. Lion Walk in Colchester is one of the few assets being openly marketed and it demonstrates cautious demand for good secondary assets.
- As was the case last quarter, more shopping centres were under offer than available at the end of Q3. Of the seven assets under offer, Aviva Investors' The Lanes Shopping Centre in Carlisle provides another indication of the current appetite for good secondary shopping centres. The asset is believed to be under offer to F&C REIT for £65m, reflecting a net initial yield of around 7.50%.
- With occupational risks already being reflected into pricing, yields for prime and secondary town centre assets appear to be stabilising. Yields for prime shopping centres and good secondary assets stood at 5.50% and 8.00% respectively at the end of Q3.
- Whilst the trading environment remains tough and further retailer casualties are expected in Q4, recent occupational performance has not been as bad as some predicted. August retail sales volumes rose by 2.7% over the year, a creditable performance given the negative wider economic picture and continued low levels of consumer confidence.

Knight Frank advised the purchaser of Festival Place Shopping Centre, Basingstoke



- September 2012
- Price – £280m
- Size – 1,150,000 sq ft
- Tenants – Debenhams, BHS, Marks and Spencer, Zara, Superdry, H&M, Topshop and Apple
- Net Initial Yield – 6.50%
- Vendor – Grosvenor
- Purchaser – TIAA-CREF

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