

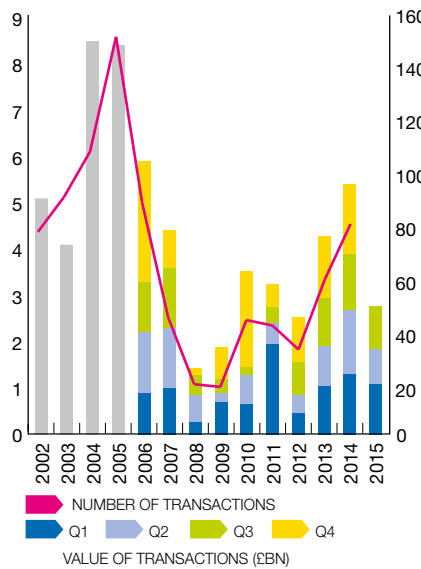
SHOPPING CENTRES

INVESTMENT QUARTERLY Q3 2015

Outlook

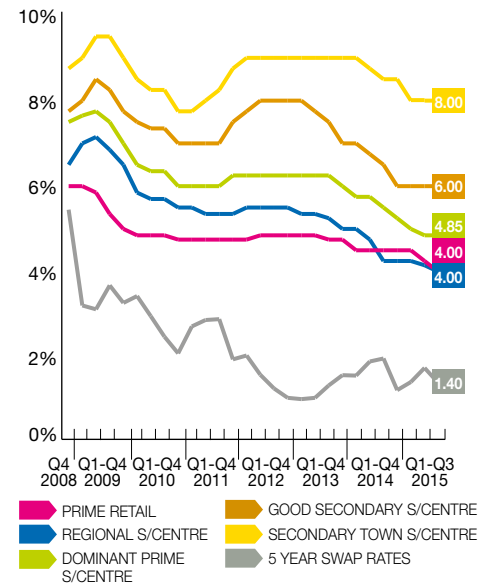
- Buoyed by a strong September, retail sales volumes grew by 4.7% in Q3, according to the ONS. Retail sales values over the same period grew by a more conservative 2.4%, reflecting ongoing shop price deflation (especially in food and clothing). Despite a marginal dip in consumer confidence, the UK shopper remains in good health.
- Q4 is, of course, the peak season for retailers. Although retail sales are expected to show meaningful growth over the festive period (some initial estimates suggest +2.5%), trading patterns are expected to be erratic. Black Friday in particular will undoubtedly attract huge media attention, but the jury remains out as to whether it is actually of benefit to the retail sector.
- At the prime end, the shopping centre investment market is continuing to strengthen. While there is a softening in sentiment away from anything other than super prime, there continues to be relatively high turnover, such that we are now confident that investment volumes for the year as a whole will surpass £5bn, the second best outturn since 2006.

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 Q4 2008 - Q3 2015



Source: Knight Frank LLP

Q3 2015 shopping centres transactions

Shopping centre	Status	Purchaser	Vendor	Price (£m)	NIY %
Angel Central NI, Islington	Sold	CBRE Investors	Henderson	170.0	4.00
Eastgate Centre, Inverness	Sold	Harbert / Scoop	BMO Global Asset Management	116.0	6.70
Houndshill, Blackpool	Sold	New Frontier / Waypoint Capital	Blackstone / Catalyst	105.0	6.50
Grafton Centre, Cambridge	Sold	Legal & General	M&G	99.0	5.65
St Nicholas, Sutton	Sold	AEW	Golfrate	71.6	6.50
Walnuts Shopping Centre, Orpington	Sold	Rockspring	Miller	45.0	6.43
Friars Square, Aylesbury	Sold	Rockspring	West Register	41.0	7.56
Clock Towers, Rugby	Sold	Seven Capital	CBRE Global Investors	23.0	9.00

Source: Knight Frank LLP

MARKET COMMENTARY

- The seasonal pick-up in investment activity started to materialise in Q3. Total sales volumes for the quarter were £924m, an acceleration of 23% on the volumes reported in Q2. The number of deals increased from 13 to 17. However, performance in the year to date is still below that of last year – cumulative volumes for the first three quarters stood at £2.85bn, compared with £3.9bn last time.
- In Q3, the lag versus last year was more a symptom of lack of quality stock (particularly institutional grade schemes in the broad £80m - £150m bracket), rather than a negative reflection of investor demand. Since the quarter end, a flurry of this stock has come through.
- Demand at the prime end of the market remains very strong, as evidenced by the widespread interest in the recently-opened Grand Central scheme in Birmingham. The John Lewis-anchored development is under offer to the Birmingham Alliance for around £325m, reflecting a sub 4.00% NIY.
- Equally, London remains a hotbed for investor interest. During Q3, N1 in Islington was purchased by CBRE Global

Investors for £170m, reflecting a net initial yield of 4.00%. Closer to the centre of town, West One on Oxford Street sold to Norges Bank IM in September for £240m, reflecting a NIY of 3.46%.

- There is generally less depth of demand for secondary and tertiary stock. Nevertheless, these assets remain attractive to a different type of buyer, particularly where there is a perceived requirement for asset management.
- The pipeline for Q4 is strong. Around £1.37bn of stock is already under offer awaiting completion. A further £2.14bn is currently being actively marketed. The list of available investment opportunities includes stakes in two of the UK's highest profile regional malls, namely MetroCentre (10% share, quoting price £125m, quoting NIY 4.00%) and Merry Hill (50% share, quoting price £425m, quoting NIY 4.50%).
- We are confident that the outturn for the year as a whole will exceed £5bn. Although shy of the £5.7bn transacted in 2014, this nevertheless marks a strong accelerating trend through the year, after a slow start and relatively soft Q2. This positive momentum inspires confidence for 2016.

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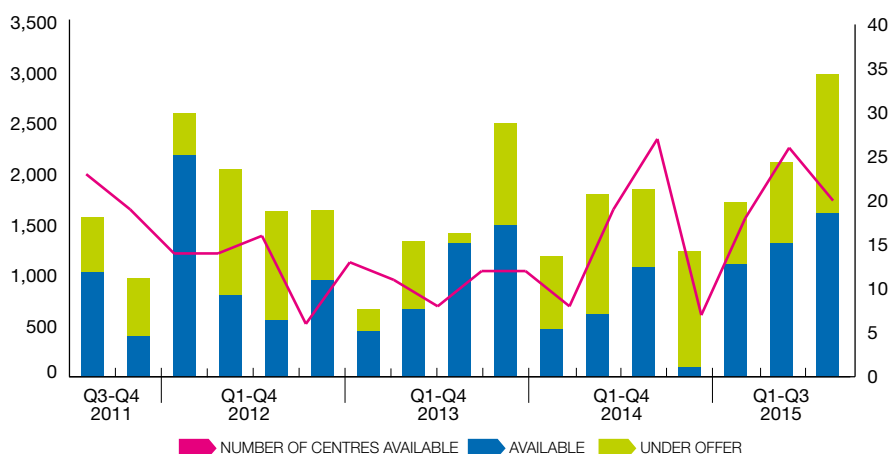
Knight Frank and Time Retail Partners jointly advised the vendor of The Clock Towers Shopping Centre, Rugby



- October 2015
- Freehold
- **Price:** £23m
- **Size:** 220,000 sq ft
- **Vendor:** CBRE Global Investors
- **Purchaser:** Seven Capital
- **NIY:** 9.00%

FIGURE 3

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



Source: Knight Frank LLP



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