
Shopping Centres

Snapshot Q1 2018



The first quarter of 2018 witnessed total deal volumes of c.£400m across 13 transactions.

- The largest transaction of the quarter was British Land's acquisition of Royal Victoria Place in Tunbridge Wells, which has conditionally exchanged, subject to head leaseholder consent.
- Local Authorities were again the largest buyer group in the market, with nearly 40% of the total deal volume. The most significant of these was Canterbury City Council's acquisition of the remaining 50% share of the leasehold interest in Whitefriars, adding to its existing 50% leasehold and freehold ownerships.
- There are over £1.5bn of transactions under offer, which will significantly boost the deal volumes for the coming quarters when they complete.
- The buyers in Q2 could be more diverse: institutions, REITS and new entrants to the market.
- In a sign of further repricing, there were three deals done with double-digit yields, which could point to improved liquidity in the non-prime sectors later this year.
- In the short term, we can see further outward movement in capital values (which have been consistently falling since February 2016) and an increase in the yield gap between prime and secondary.
- For investors focused on income return, retail appears to be a more attractive proposition than

the office and industrial sectors, with prime yields exhibiting an outward movement from 4.50% and secondary yields at 9.50%+. The sustainability of this income varies vastly between schemes.

- We are yet to see meaningful on-market stock as buyers adopt a cautious approach to openly marketing their assets, often opting to reinvigorate or repurpose the asset to halt further decline rather than sell. Q1 is traditionally quiet for new sales and we anticipate more new sales to launch in Q2 onwards.
- The Hammerson/intu/Kleppierre story appears to be over with Hammerson withdrawing its offer for intu, suggesting that the risks of the acquisition now outweigh the merits. This removes the threat of a £2bn sales pipeline that had been overhanging the sector.
- In the occupational market it has been a very challenging quarter. CVAs are making some retailers push even harder in negotiations as they continue to be undercut by their competition. As such, the damage these CVAs do is above and beyond the immediate rent reduction.
- In the investment market, assets with strong local growth stories (such as infrastructure developments) and tenant demand continue to perform well, as shown by the highly competitive bidding and price offered for Clapham Junction.

- ↓ **Volumes** down 20% compared with Q1 2017
- ↓ **Supply** on market supply remains very low
- **Demand** low but signs of a more diverse buyer pool in Q2
- ↑ **Capital values** 50% of transactions were above £30 million but overall capital values still falling (-0.84% month on month)
- **Spread** Prime to secondary spread remains at 500bps
- ↑ **Income** still the highest of any sector with 3 deals at 10%+ NIY
- ↑ **Outlook** greater liquidity as repricing continues

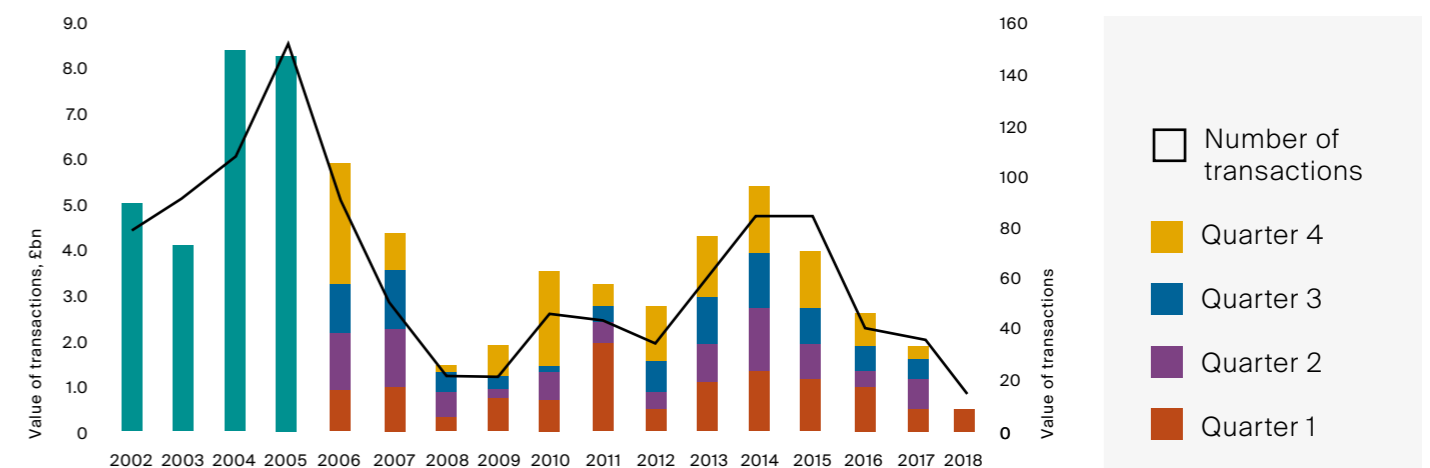
Q1 Key Shopping Centres Transactions

source: Knight Frank LLP

Shopping centre	Purchaser	Vendor	Price (£m)	NIY %
Royal Victoria Place, Royal Tunbridge Wells	British Land	Hermes	£96m	5.00%
Whitefriars, Canterbury (50%)	Canterbury City Council*	TH Real Estate	£75.5m	6.50%
Winsford Cross, Winsford	Cheshire West & Chester Council	Winsford Cross Developments	£19.75m	10.50%
Chineham Shopping Centre, Basingstoke	Tellon Capital	L&G	£58.8m	5.85%

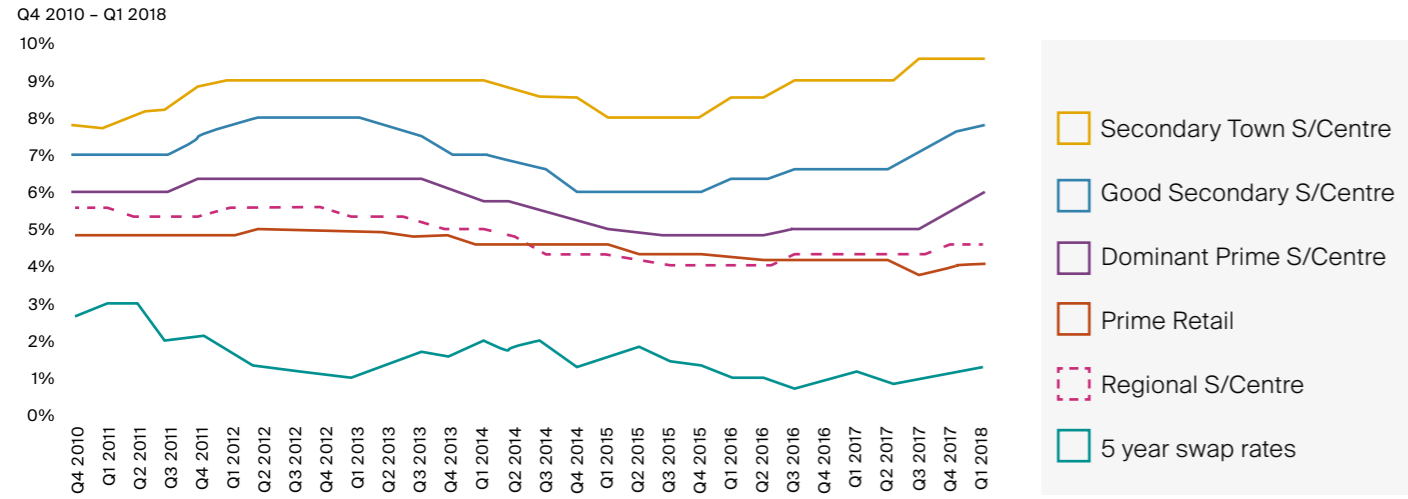
*Advised by Knight Frank

Shopping Centre Transactions



source: Knight Frank LLP

Retail & Shopping Centre Yields

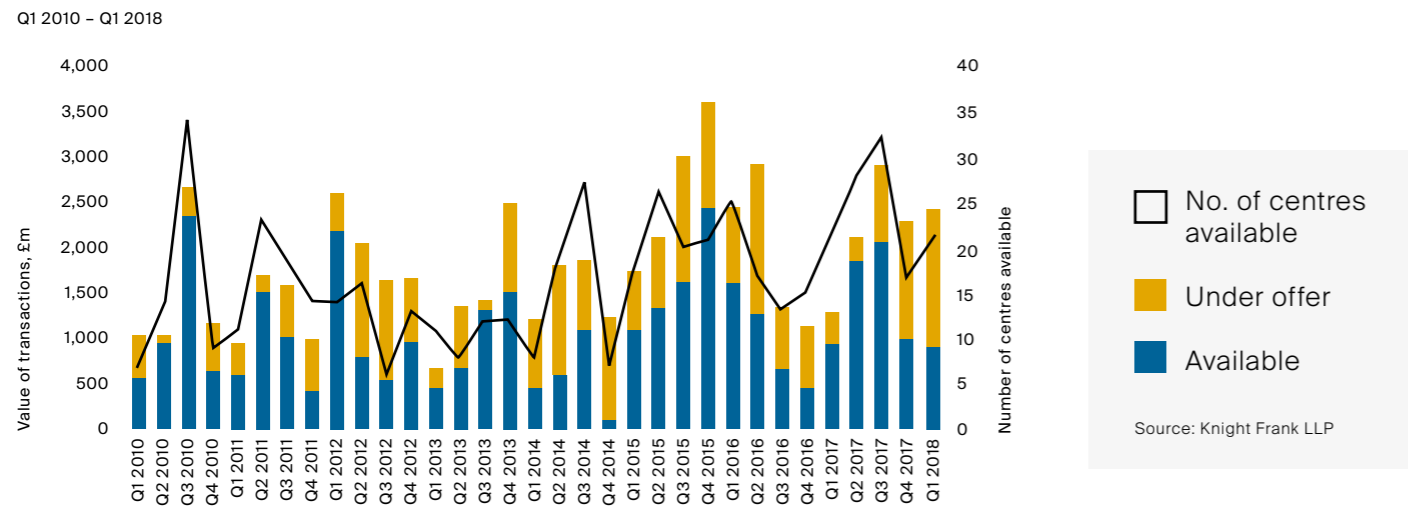


Source: Knight Frank LLP

REIT Share Price Versus Net Asset Value (NAV)

	Landsec	British Land	Hammerson	Intu	NewRiver	Capital & Regional
Latest Share Price (p)	967	664	547	199	295	52
Q4 - Q1 Movement	-2.72%	-2.20%	1.86%	-19.76%	-13.73%	-5.45%
NAV per share (p)	1432	939	776	411	292	67
Premium to NAV	-32.47%	-29.29%	-29.51%	-51.58%	1.03%	-22.39%

Shopping Centre Availability



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