

Shopping centres:

Snapshot Q3 2019



Volumes still below long term averages



Supply increasing with greater willingness to put assets into the market



Demand likely to improve with increasing interest in the sector



Capital Values of -13.75% in the 12 months to September 2019



Spread beginning to reflect changing purposes and new scheme definitions



Income remains under pressure where rents are unaffordable to retailers



Outlook quantum of equity raised and greater confidence that a "hard Brexit" has been taken off the table could see investors break cover

- This quarter was another disappointing one in terms of deal volumes, as investors continue to grapple with the many negative forces impacting the UK retail market at present. With just £132m traded, transaction volumes are still well below long term averages.
- There is simply a lack of prime sales to test this end of the market. A combination of the larger lot size and exposure to income from department store and fashion operators means that these assets are being treated with more caution than others. If there was meaningful demand, many assets are loosely available off market and so the lack of deals is an indicator of a lack of demand at the primer end of the spectrum.
- Securing debt financing remains a key challenge to liquidity in the current market. Many lenders are still exposed to large legacy loan books and so are reluctant to lend on new stock. New lenders are coming into the market (driven largely by debt funds, challenger banks and alternative lenders) but with them additional scrutiny. As a result of this, the cash buyer continues to be king, with bids from these parties carrying more weight than leveraged offers.
- We are not yet seeing widespread distress in the shopping centre market, which is likely to be the catalyst for investment for many interested parties who are monitoring the sector. The first such sale, Project Rock, was led by Aviva finance and included largely foodstore anchored community schemes. The sale attracted multiple bidders albeit pricing was some way off the anticipated levels
- A number of sales have been launched and subsequently withdrawn showing that it is crucial to get guide pricing correct at the first time of asking. There is a risk of disengaging the market, which needs to see a discount to long term pricing, otherwise assets can fail to generate any meaningful interest from the outset.
- Elsewhere, Growthpoint Capital has agreed to buy a 51% stake of Capital & Regional. Echoing the stance of many potential buyers in the market today, they have cited the UK being a buying opportunity and dislocation in pricing for retail assets making now an opportune time to invest. We understand a number of overseas investors are considering large investment plays and so we expect to see more of this type of activity going forwards.
- However, we were pleasantly surprised by the depth of interest for better quality assets such as Aviva's Swan Walk in Horsham and The Walnuts shopping centre in Orpington. The vast majority of transactions this year have taken place in the south east and around the M25, so it is not surprising that these assets found more demand than others in the market.
- Looking ahead, we continue to pass milestones in the UK political saga and the implications of this are being felt across the investment markets. With increasing confidence that a "hard Brexit" has been taken off the table and with the quantum of equity raised to target the UK markets we expect to see investors begin to break cover, as pressure to spend increases. This could materialise in greater confidence and ultimately create more liquidity, leading to more transactions in our sector.
- Equally, demand for The Fort Shopping Park in Birmingham and Brookfield Shopping Park in Cheshunt show that there is demand for larger assets that are appropriately priced and with an investment story to entice interest.

Read more about global capital flows in the latest Knight Frank research piece ["Active Capital"](#)

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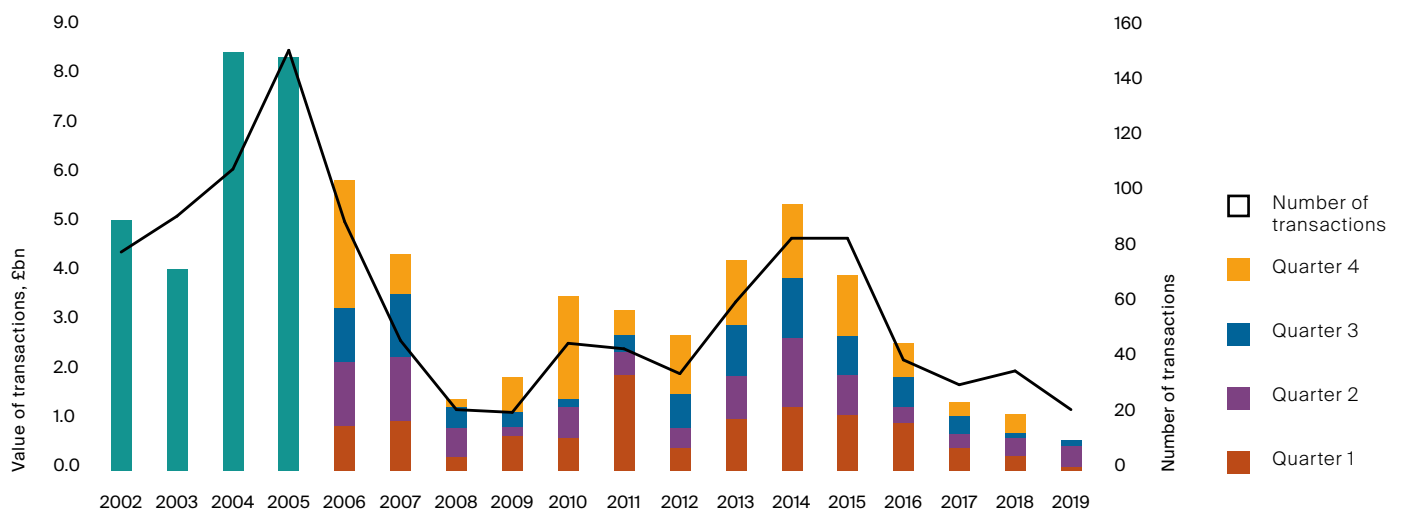


Q3 Key Shopping Centres Transactions

Shopping centre	Purchaser	Vendor	Price (£m)	NIY %
Cameron Toll, Edinburgh	Franklin Templeton/ Hunter	Oaktree Capital & Hunter Asset Management	£38.5	8.75%
Knightswick Centre, Canvey Island	Knightswick Council	LaSalle	£11.3	8.75%
Stamford Quarter, Altrincham	Trafford Council	Apollo	£14.0	-

Source: Knight Frank LLP
*advised by Knight Frank

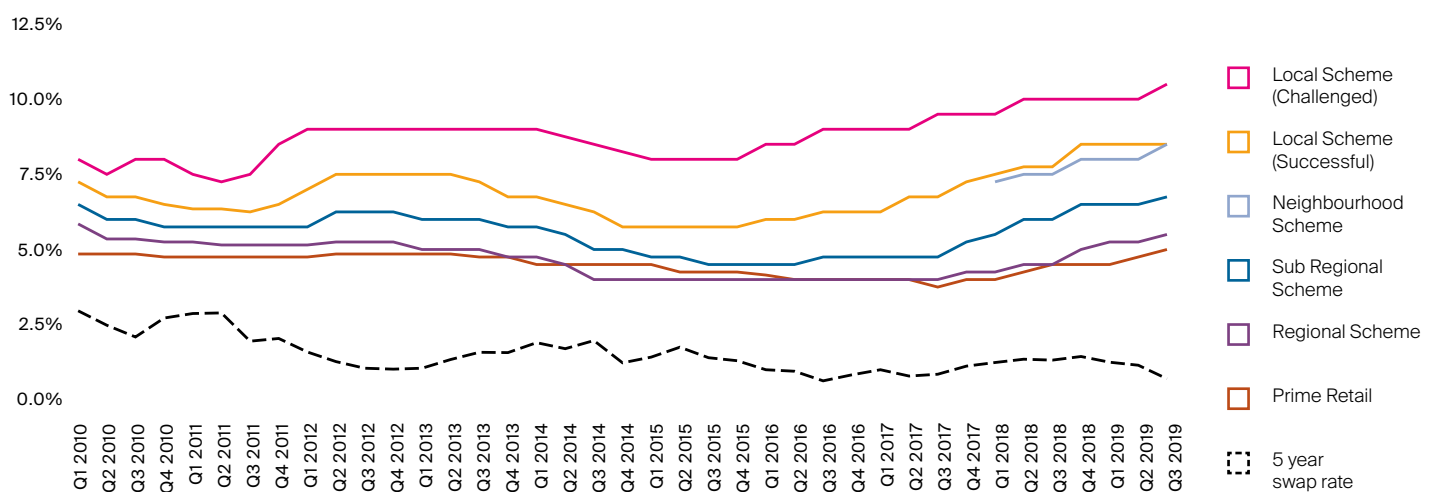
Shopping Centre Transactions



Source: Knight Frank LLP

Retail & Shopping Centre Yields

Q1 2010 - Q3 2019



Source: Knight Frank LLP

Shopping centres:

Snapshot Q3 2019

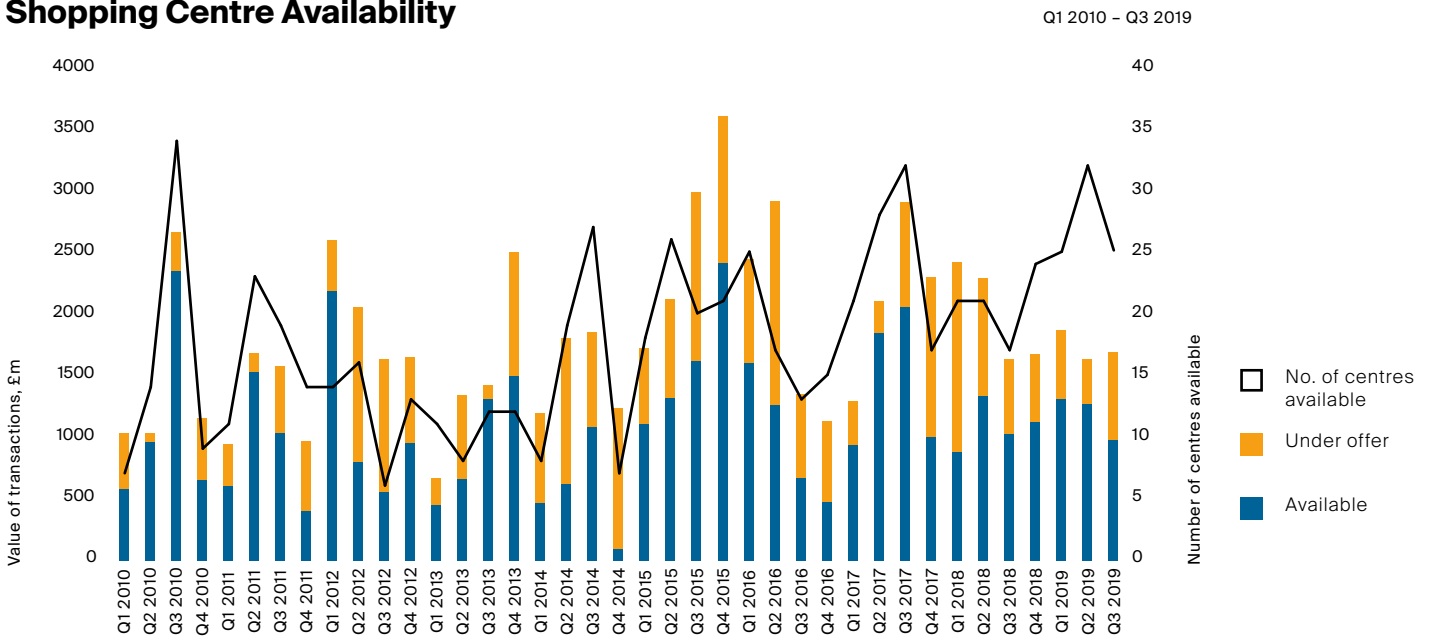


REIT Share Price Versus Net Asset Value (NAV)

	Landsec	British Land	Hammerson	intu	NewRiver	Capital & Regional
Latest Share Price (p)	833.60	563.60	275.90	44.00	190.00	18.14
Q2 - Q3 2019 Movement	1%	4%	0%	-72%	6%	25%
NAV per share (p)*	1339.00	905.00	685.00	252.00	261.00	52.00
Premium to NAV	-38%	-38%	-60%	-83%	-27%	-65%

*Latest available published NAV per share

Shopping Centre Availability



Source: Knight Frank LLP

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