



# Q1 2011 SHOPPING CENTRE

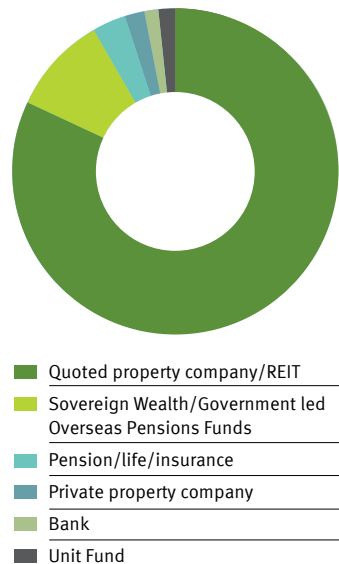
Investment quarterly

**Knight Frank**

## Outlook

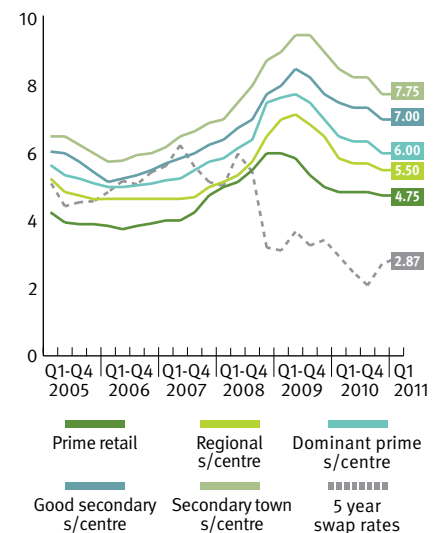
- Demand will continue to remain strong with interest selectively turning to more secondary stock because of the lack of prime opportunities. We expect to see sales volumes increase as owners take advantage of strong investor demand. Banks will continue their planned withdrawal from the sector.
- The shortage of quality stock on the market, in conjunction with a continued strong demand for the sector will put further pressure on yields.
- Amid news of downward revisions to the official GDP growth forecasts for this year and negative commentary surrounding the retail and consumer sector generally, retail sales growth has clearly slowed. The short term outlook for the occupational market is one of tough trading conditions and reduced margins.

Figure 1  
**Who is selling?**  
Q1 2011



Source: Knight Frank LLP

Figure 2  
**Retail & shopping centre equivalent yields**  
Q1 2005 - Q1 2011



Source: Knight Frank LLP

## Q1 shopping centres sold

| Shopping centre                               | Status | Purchaser                      | Vendor                 | Price (£m) | NIY %  |
|---|--------|--------------------------------|------------------------|------------|--------|
| Trafford Centre, Manchester                   | Sold   | Capital Shopping Centres Group | Peel Group Holdings    | 1,600.0    | 5.17   |
| Centrale, Croydon                             | Sold   | Hammerson                      | St Martins             | 100*       | 7.00 * |
| Ayr Central, Ayr                              | Sold   | Sovereign Land                 | Henry Boot             | 35.2       | 8.14   |
| Three Spires, Lichfield                       | Sold   | Hammerson                      | St Martins             | 33*        | 6.50 * |
| Green Lanes, Barnstaple                       | Sold   | British Land                   | Glanmore Property Fund | 30.0       | 8.60   |
| Halton Lea Shopping Centre, Runcorn           | Sold   | F&C REIT                       | Morgan Stanley         | 29.1       | 8.25   |
| Princes Mead, Farnborough                     | Sold   | Knight Frank Investors         | Standard Life          | 26.3       | 8.05   |
| Waterside Centre, Lincoln                     | Sold   | Capital & Regional             | Prupim                 | 24.8       | 7.68   |
| Idlewells Shopping Centre, Sutton-in-Ashfield | Sold   | Helical Bar                    | LaSalle                | 16.1       | 8.60   |

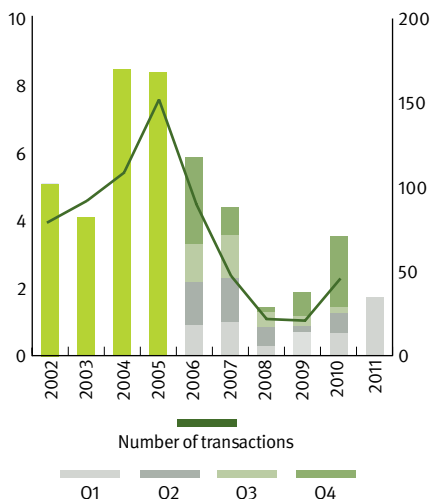
Source: Knight Frank LLP \* Estimated apportioned price



Figure 3

### Shopping centre transactions

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

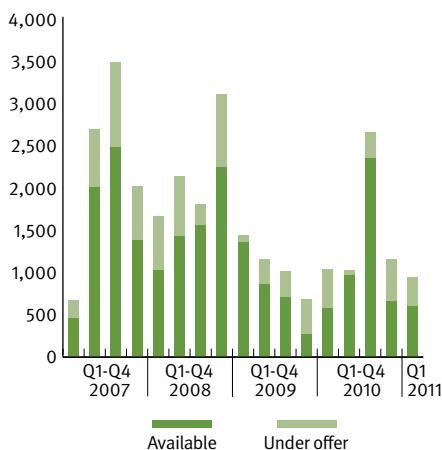


Source: Knight Frank LLP

Figure 4

### Shopping centre availability

Q1 2007 - Q1 2011 (£m)



Source: Knight Frank LLP

## Market commentary

- Following a very strong quarter in Q4 2010, transactional activity slowed in Q1. The number of transactions was significantly down, with just ten individual shopping centre deals during the quarter, totalling £1.95bn.
- Capital Shopping Centre Group's £1.6bn purchase of the Trafford Centre in Manchester from Peel Group Holdings was the headline deal of the quarter. Reflecting a net initial yield of 5.17%, this deal alone accounted for 82% of total transaction volumes in Q1.
- Supply levels are similar to the previous quarter, with stock availability amounting to £605.5m in quoted value terms. A total of 17 shopping centres were available or under offer by the end of the quarter.
- With limited transactional evidence, shopping centre yields were largely stable across all the sub-sectors in Q1. There is now a differential of as much as 150 basis points between prime regional and good secondary schemes, with prime and secondary yields currently standing at 5.50% and 7.00% respectively.
- Three of the 10 assets sold in Q1 were within a single portfolio. St Martins, one of the market's most active sellers over the past 3 months, sold their Croydon, Lichfield and Newcastle-Upon-Tyne assets to Hammerson who, conversely, are presently one of the most active buyers in the market. In terms of new purchasers, Capital & Regional made their first acquisition since 2007, namely the Waterside Centre in Lincoln.
- Figures from IPD show that shopping centre capital values have continued to increase on an annual basis, albeit at a substantially reduced rate compared with a few months ago. Over the 12 months to February, capital values rose by 3.3%, although they actually declined marginally on a monthly basis.
- According to the ONS, the volume of retail sales in February increased by 1.3% year-on-year. Whilst there are still concerns about the wider UK economy, some recent indicators have been better than expected, notably slightly lower unemployment, lower inflation and improved trade figures.

Knight Frank advised the purchaser of Princes Mead, Farnborough



- January 2011
- Sector - Shopping Centre
- Freehold
- Price – £26.3m
- Size – 110,000 sq ft
- Rent – £2,239,950 per annum
- Tenants: Boots, WHSmith, New Look, Sports Direct, HSBC, M&Co, H Samuel
- Net Initial Yield – 8.05%
- Vendor – Standard Life
- Purchaser – KF Investors

## Commercial Research

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