



RESEARCH

Q2 2012 SHOPPING CENTRE

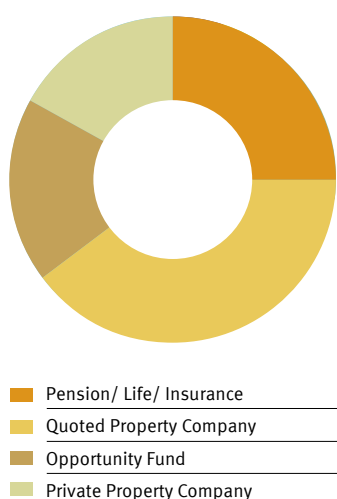
Investment quarterly

Knight Frank

Outlook

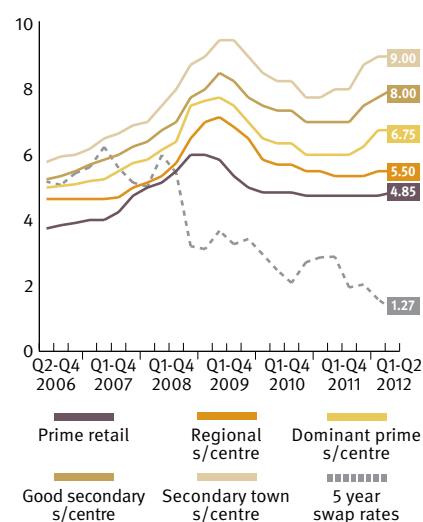
- Investors continue to factor in the Eurozone crisis, concerns over the economy and the general health of the retail sector to their pricing.
- Encouragingly, prime shopping centres are still seeing good demand whilst supply remains insufficient.
- Nonetheless, yields continue to move out for both prime and secondary shopping centres, while the discount on secondary shopping centres is considerably greater than it was 12 months ago. We anticipate that this trend will continue as pressure on retailers persists.
- Investors are anxiously anticipating how retailers will fare in the coming few months. A handful of retailers have gone into administration this last quarter including Clintons and Julian Graves. Many are expecting the Olympics to boost consumer sentiment over the summer, although this will only be maintained if the wider economic situation improves.

Figure 1
Who's buying?
Q2 2011



Source: Knight Frank LLP

Figure 2
Retail & shopping centre equivalent yields
Q2 2006 - Q2 2012



Source: Knight Frank LLP

Q2 shopping centres sold

Shopping centre	Status	Purchaser	Vendor	Price (£m)	NIY %
Kingfisher Centre, Redditch	Sold	Capital & Regional	Scottish Widows	130.0	8.00
The Mall, Norwich	Sold	InfraRed Capital Partners	The Mall/Aviva	77.4	7.75
Broadwalk Shopping Centre, Edgware	Sold	Scottish Widows	Carlyle Properties	68.0	6.00
The Core Shopping Centre, Leeds	Sold	Threadneedle Property	Receiver	38.0	9.00
White River Place, St Austell	Sold	Ellandi Property Limited	Lone Star	25.0	N/A
Mercat Shopping Centre, Kirkcaldy	Sold	Lasalle/Mars Pension Fund	Receiver	19.8	8.40
Captain Cook Shopping Centre, Middlesbrough	Sold	Lasalle/Mars Pension Fund	Aviva	18.9	10.22

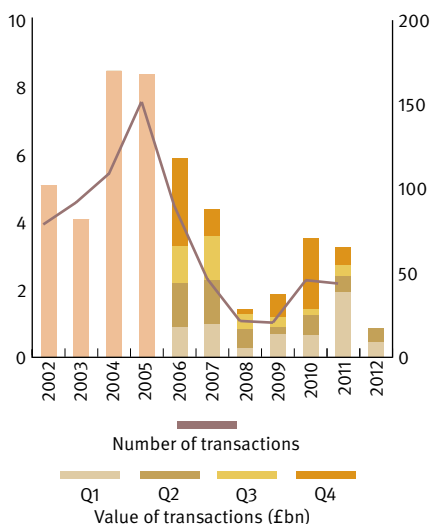
Source: Knight Frank LLP



Figure 3

Shopping centre transactions

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

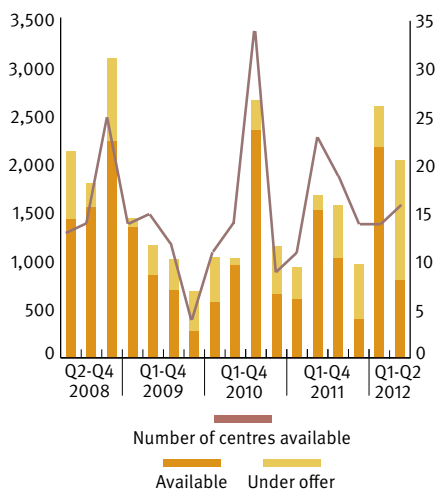


Source: Knight Frank LLP

Figure 4

Shopping centre availability

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



Source: Knight Frank LLP

Market commentary

- The combined transaction volume of Q1 and Q2 totalled £880m. However, Q2 was a modest quarter for the UK shopping centre investment market. Just eight shopping centres with a total value of £385m were transacted. This marks a decrease of 15% on a quarterly basis and 14% on a yearly basis. Several factors have contributed to the drop in investment volume: a lack of prime stock and a gap in the pricing expectations of sellers and buyers on secondary assets, as well as the continuing challenge of obtaining finance.
- The largest deal of Q2 was Capital & Regional's £130m acquisition of the Kingfisher Centre in Redditch. Other key transactions included the sale of The Mall in Norwich and Broadwalk shopping centre in Edgware; both lot sizes were over £60m and had net initial yields of 7.75% and 6.00% respectively.
- In addition, Knight Frank advised Aviva on the sale of Captain Cook Square shopping centre in Middlesbrough, which completed in April. LaSalle Investment Management purchased the scheme on behalf of Mars Pension Fund at a price of £18.875m, which reflected a NIY of 10.22%.
- The purchaser profile in Q2 was dominated by quoted property companies which accounted for 40% of acquisitions by value, followed by the pension/life/insurance funds which accounted for 25% and opportunity funds which accounted for 18%.
- At the end of Q2, 16 shopping centres were being openly marketed, with a combined quoted sales value of £801m, compared with £2.19bn worth of stock comprising 14 assets at the end of Q1. The available assets are predominantly secondary schemes and relatively small lot sizes, with the notable exception of Meadowhall and The Lanes Shopping Centre in Carlisle which we understand is under offer at around £65m.
- Four shopping centres with a combined value of c£1.55bn were under offer at the end of Q2. This buoyant figure is skewed by London & Stamford's and British Land's long anticipated sale of a 75% stake in Meadowhall in Sheffield and Festival Place in Basingstoke. Should these transactions proceed, they will provide the market with much needed evidence of current demand for prime/dominant shopping centre assets.
- Q2 brought a second consecutive quarter of outward yield movement for secondary assets, with a 25bps shift for good secondary assets to 8.00%, while the prime shopping centre yield stood at 5.50% at the end of June.
- Figures from IPD show that shopping centre capital values continued to fall, with the monthly rate of decline accelerating to 1.24% in May. Occupationally, rental levels saw a marginal decline of just 0.3% in May.
- Despite the gloomy picture painted by the recent Nationwide consumer confidence index, the official retail sales figures from National Statistics nevertheless suggest a pattern of continuing growth, with sales volumes up 2.4% over the 12 months to May.
- A noticeable trend has been the withdrawal of unsold schemes with little or no replacement stock, therefore, we anticipate a 'quiet' summer but potentially heightened activity from September due to the considerable weight of money focused upon the sector.

Commercial Research

Anthea To, Senior Research Analyst
+44 (0)20 7861 1236
anthea.to@knightfrank.com

Investments

Anthony Havelock, Partner
+44 (0)20 7861 1533
anthony.havelock@knightfrank.com

Valuations

Peter Barnard, Partner
+44 (0)20 7861 1281
peter.barnard@knightfrank.com

Investments

Bruce Nutman, Partner
+44 (0)20 7861 1107
bruce.nutman@knightfrank.com

Valuations

Graham Spoor, Partner
+44 (0)20 7861 1539
graham.spoor@knightfrank.com

Investments

Geoff Ford, Partner
+44 (0)20 7861 1233
geoff.ford@knightfrank.com

Leasing

Oliver Langston, Associate
+44 (0)20 7861 1569
oliver.langston@knightfrank.com

