



Q3 2011 SHOPPING CENTRE

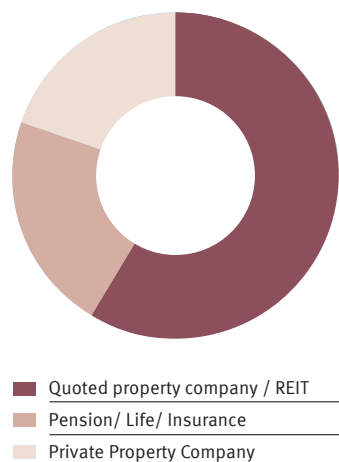
Investment quarterly

Knight Frank

Outlook

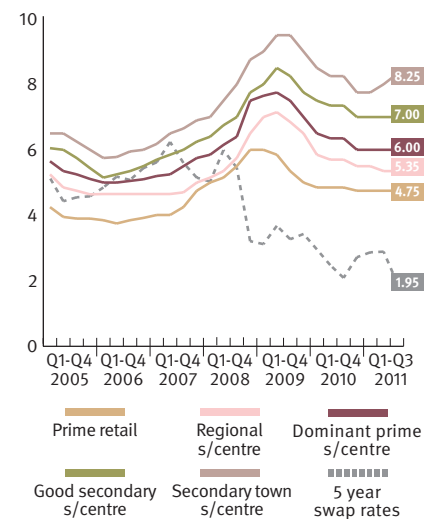
- A lack of suitable product will continue to restrict transaction volumes of dominant prime shopping centres although demand still exists. The reality of large lot sizes combined with lack of debt means that, in the next few months, activity is likely to remain constrained to those very few investors with strong equity positions.
- Despite the occupational risks, yields for prime stock have stabilised. Due to the on-going turbulence in the financial markets and concerns over the euro zone, we expect investor sentiment towards good secondary schemes to ease. Yields for weaker secondary stock are likely to come under further outward pressure.
- The economic climate is expected to remain challenging for the rest of the year, with high inflation and limited growth in real disposable income acting as a drag on retail sales; concerns over job security are likely to further impact on consumer confidence. We anticipate occupiers to remain very cost-conscious.

Figure 1
Who's buying?
Q3 2011



Source: Knight Frank LLP

Figure 2
Retail & shopping centre equivalent yields
Q1 2005 - Q3 2011



Source: Knight Frank LLP

Q3 shopping centres sold

Shopping centre	Status	Purchaser	Vendor	Price (£m)	NIY %
Victoria Place Shopping Centre, London	Sold	Network Rail	William Ewart Properties	91.2	5.00
The Mall, Middlesbrough	Sold	REIT	The Mall Fund	82.0	8.60
The Mall, Barnsley	Sold	REIT	The Mall Fund	26.0	7.07
Jackson Square, Bishop's Stortford	Sold	Legal & General	Lloyds Banking Group / Kandahar	54.9	6.35
Newlands Shopping Centre, Kettering	Sold	Tristan Capital & Ellandi	UBS Wealth Management	33.3	8.25
The Grosvenor Centre, Macclesfield	Sold	Eskmuir	AXA	21.0	7.50
The Sovereign Shopping Centre, Boscombe	Sold	New River Retail	UBS Global Asset Management	12.0	9.60

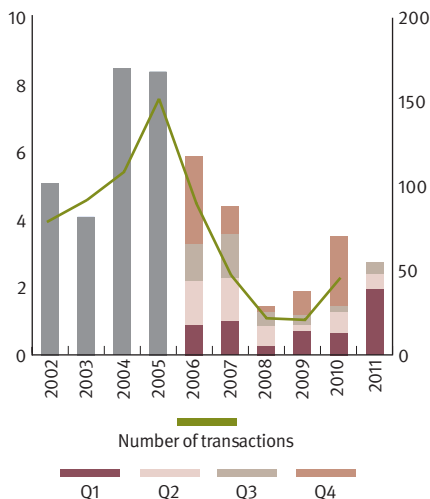
Source: Knight Frank LLP



Figure 3

Shopping centre transactions

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

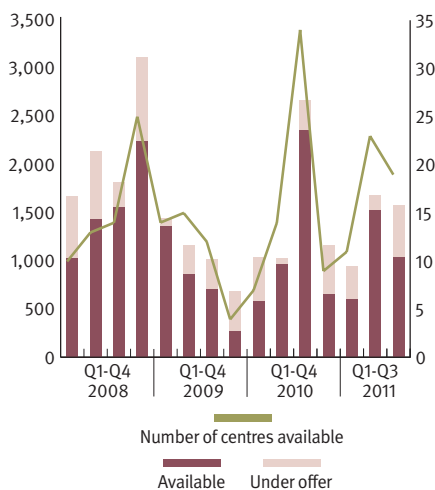


Source: Knight Frank LLP

Figure 4

Shopping centre availability

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



Source: Knight Frank LLP

Market commentary

- With a combined sales value of £338m, just ten deals occurred in Q3 2011. Transactional activity is down 26% on Q2 however, over the first three quarters of 2011 combined, transactional volumes are up 3.5% on the equivalent period in 2010.
- There remains steady levels of demand for larger dominant schemes with strong income profiles and solid retailer demand, however, there is currently an acute shortage of good quality prime assets to prove pricing levels.
- Eskmuir's £21m purchase of The Grosvenor Centre in Macclesfield (NIY 7.50%) and RREEF's £18.8m purchase of St Market's Place in Market Harborough (6.60%) demonstrates there is good demand for the small dominant schemes in wealthy towns, a trend which we see continuing.
- During Q3 2011, the purchaser profile has been largely dominated by REITS/quoted property companies which accounted for 58.6% of Q3's total value. Pensions/life/insurance also played an active role, accounting for 21.6% of purchasers in Q3, overtaking the position of private property companies.
- At the end of Q3, 19 shopping centres were being openly marketed, with a combined quoted sales value of £1034m, compared with 23 assets at the end of Q2. The majority of the available stock are poor secondary shopping centres. Many of those that have come to market in Q3 are of relatively small lot size, typically ranging from £15m to £35m. We anticipate more of this stock will come to market.
- Nine shopping centres were under offer at the end of Q3. The market is closely watching stocks which have been under offer during Q3 but have not yet transacted. This includes a number of large schemes in secondary locations: Kingfisher Centre in Redditch (£140m), Houndshill Centre in Blackpool (£90m) and Corby Town Centre (£80m).
- Q3 brought a second consecutive quarter of yield softening for secondary assets, with a 25bps shift for secondary schemes to 8.25%. With prime shopping centre yields holding at 5.35% in Q3, the gap to the secondary shopping centres has widened to 290bps which is likely to move out further in the short term.
- According to IPD, negative capital growth returned to shopping centres in August following 15 months of increasing values. Values reduced by -0.9% over the 12 months to August, easing down from the -0.4% fall recorded over the 12 months to July. On a monthly basis, shopping centre capital values fell by -0.44% in August, the highest month-on-month decline in the sector since August 2009.
- Occupationally, the overall picture remains one of London versus the rest of the country, with the capital continuing to outperform in terms of sales, footfall and general property market activity. The August riots led to a short term dip in activity and footfall, although this was primarily in the capital's suburbs, with Central London largely unaffected.

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