

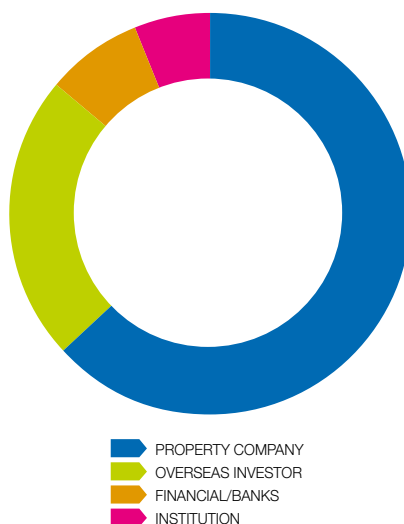
# SHOPPING CENTRES

## INVESTMENT QUARTERLY Q3 2014

### Outlook

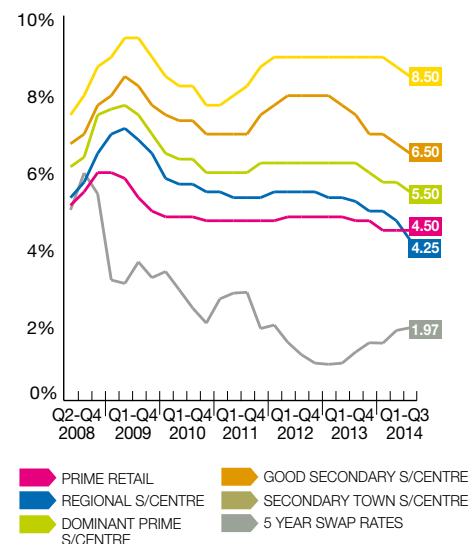
- Forecasters continue to be optimistic on the prospects for the UK economy. The consensus GDP growth rate in September was 3.1% for 2014, which is unchanged on August.
- Retail sales increased by an impressive 3.9% on an annual basis in August, reversing a recent deceleration in the rate of growth in the last few months.
- Given the current level of stock under offer, Knight Frank predicts UK shopping centre investment to reach pre-recession transaction levels in 2014.
- The strong competition for assets has continued to put downward pressure on yields across all segments. Prime regional shopping centre yields fell 50bps to 4.25% over Q3, while good secondary shopping centre yields hardened from 6.75% to 6.50%.

FIGURE 1  
**Who's buying?**  
Q3 2014



Source: Knight Frank LLP

FIGURE 2  
**Retail & shopping centre equivalent yields** Q2 2008 - Q3 2014



Source: Knight Frank LLP

### Q3 shopping centres transactions

Shopping centre	Status	Purchaser	Vendor	Price (£m)	NIY %
Cabot Circus, Bristol (50%)	Sold	Ginko Tree and Axa	Land Securities	267.8	6.30
East Kilbride	Sold	Orion	RBS	171.0	6.75
Project Leopard (consists of 6 shopping centres)	Sold	Edinburgh House / Cerberus	Glanmore Property Fund	81.5	8.75
Foyleside, Londonderry	Sold	Kildare Partners	RBS Receivership	74.6	7.75
Palace Exchange, Enfield	Sold	Standard Life	RBS Receivership	65.0	5.50
Abbey Centre, Newtownabbey	Sold	NewRiver Retail and PIMCO	RBS Receivership	64.4	8.25
Priory Meadow, Hastings	Sold	NewRiver Retail and PIMCO	RBS Receivership	47.0	6.75
Cameron Toll, Edinburgh	Sold	Oaktree Capital & Hunter AM	Warren Private / Loanstar	46.3	7.00

Source: Knight Frank LLP

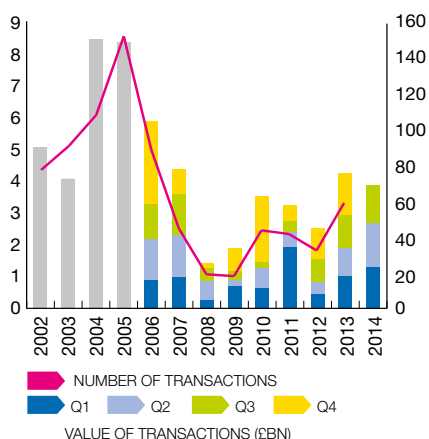
# MARKET COMMENTARY

- The £1.17bn worth of shopping centres transacted during Q3 2014 is up 16.5% on Q3 2013. Indeed, over the first three quarters of 2014 combined, transactional volumes totalled £3.90bn, 32.2% up on the equivalent period in 2013.
- Continuing the trend from the past three months, Q3 was characterised by a number of large single-asset transactions and portfolio sales.
- The largest single transaction in Q3 was Ginko Tree and Axa's £267m acquisition of 50% of Cabot Circus in Bristol reflecting a blended net initial yield of 6.30%.
- Other notable deals include Orion's £171m purchase of The East Kilbride Shopping Centre, which completed in September and Edinburgh House's purchase of Project Leopard which consisted of 6 shopping centres with a combined value of £81.5m.
- The current trend to sell via portfolios is growing. Project Leopard and Swallow-Tail are good examples offering varying quality of centres and a choice of yield and UK geographical spread. The Swallow-Tail portfolio sold by RBS demonstrated the depth of investor demand with interest coming from a wide variety of buyers.
- Currently, there are 10 shopping centres under offer, with a combined quoted sales value of c.£768m and 27 shopping centres being openly

marketed, with a combined value of approximately £1.08bn.

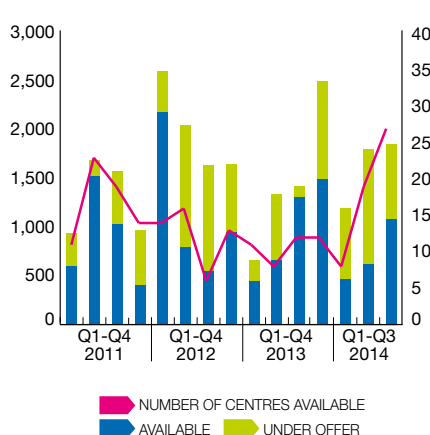
- For the most part, availability has been dominated by the continued sale of large centres and portfolio sales such as the Tiger Portfolio (consisting of 7 schemes), The Centre in Livingston (c.£200m), 50% of the Bentall Centre in Kingston (c.£180m), the Praxis Portfolio (also consisting of 7 schemes), Eagles Meadow in Wrexham and Bank of Ireland's portfolio (consisting of 5 shopping centres).
- There are also a number of shopping centres being traded off market. This is difficult for the Receivers and bank vendors, however, it remains a viable option for those who are willing and able to secure premium prices without a wider marketing campaign.
- The overall availability of shopping centres has increased substantially compared with the beginning of this year and we anticipate that stock levels will remain positive through this year and into 2015.
- Improving consumer confidence, healthy employment growth and steady retail sales performances will continue to drive demand and investor confidence upwards. The shopping centre market will remain robust, boosted by a steadier occupier market and positive economic outlook.
- We predict that the out-turn for this year could reach c.£6bn.

FIGURE 3  
**Shopping centre transactions**  
(LHS – Value of transactions, £bn)  
(RHS – Number of transactions)



Source: Knight Frank

FIGURE 4  
**Shopping centre availability**  
(LHS – Value of availability, £m)  
(RHS – Number of centres available)



Source: Knight Frank

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