

SHOPPING CENTRE

INVESTMENT QUARTERLY Q4 2013

Outlook

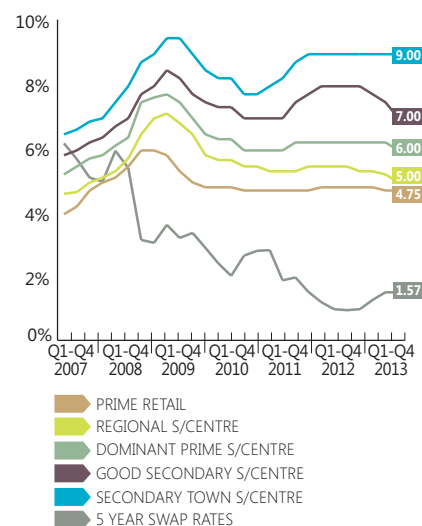
- We believe the shopping centre investment market is poised for solid growth in 2014 with more stock being made available throughout the year.
- The impact of robust demand will continue to push yields down across all sub-sectors of the market and we expect to see a diverse range of investors chasing stock in 2014.
- The UK's economic outlook has improved significantly compared with twelve months ago and GDP growth forecasts for 2014 have been revised up by official and independent forecasters. Importantly, for the retail sector specifically, a number of key indicators are now more positive. Indeed, consumer confidence and retail sales have improved in recent months.

FIGURE 1
Who's buying?
Q4 2013



Source: Knight Frank LLP

FIGURE 2
Retail & shopping centre equivalent yields
Q1 2007 - Q4 2013



Source: Knight Frank LLP

Q4 shopping centres transactions

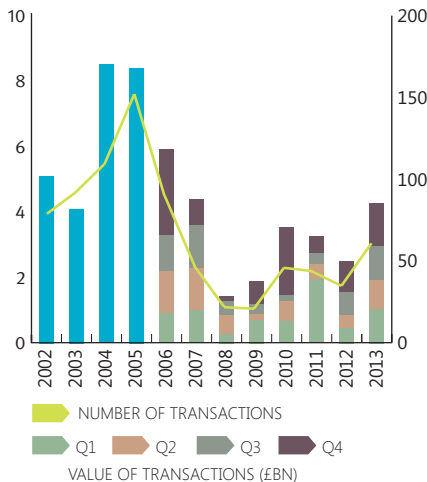
| Shopping centre | Status | Purchaser | Vendor | Price (£m) | NIY % |
|---|--------|-------------------------------|------------------------------|------------|-------|
| Bon Accord & St Nicholas, Aberdeen | Sold | F&C REIT | Scottish Partnership | 188.8 | 7.40 |
| Weston Favell, Northampton | Sold | Redefine | Mutual Finance | 84.0 | 7.20 |
| Market Gates, Great Yarmouth | Sold | Ellandi | Miller (Receivership) | 28.0 | 9.00 |
| Kingdom Centre, Glenrothes | Sold | LaSalle Investment Management | AXA | 34.4 | 9.70 |
| Lakeside Village, Doncaster | Sold | DTZ IM | LIM | 25.6 | 8.50 |
| Market Place, Bolton | Sold | Moorgarth | Warner Estate (Receivership) | 24.0 | 8.00 |
| Market Walk, Chorley | Sold | Chorley Borough Council | Orchard Street | 20.0 | 6.80 |
| Elephant & Castle Shopping Centre, London | Sold | Delancey/APG | St Modwen | 80.0 | 4.35 |
| St Elli Centre, Llanelli | Sold | New River | AXA | 29.2 | 8.00 |

Source: Knight Frank LLP

FIGURE 3

Shopping centre transactions

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

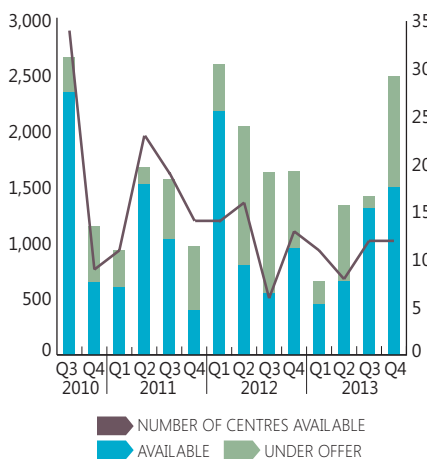


Source: Knight Frank

FIGURE 4

Shopping centre availability

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



Source: Knight Frank

Market commentary

- Following a healthy Q3, the UK shopping centre investment market had an exceptional final quarter, with provisional quarterly transactional volumes totalling approximately £1.4bn (up from £1.18bn in Q4 2012). In line with Knight Frank's previous forecast, the estimated figure for 2013 as a whole will be around £4.2bn, the strongest performing year since 2007.
- The most striking characteristic of the market in 2013 was the upsurge in transactional volumes compared with the last five years, driven by robust demand for both prime and good secondary shopping centres. We expect the out-turn for 2013 to show c.70 transactions.
- F&C REIT's £188.8m purchase of the Bon Accord & St Nicholas Shopping Centre in Aberdeen from the Scottish Partnership was the largest deal of the quarter, reflecting a net initial yield of 7.40%. The sale of the Elephant & Castle shopping centre in London is an interesting deal reflecting central London prime yields, albeit this is a residential play going forward. St Modwen sold this 327,000 sq ft shopping centre to Delancey/APG for £80m, reflecting a net initial yield of 4.35%.
- A number of sub-regional shopping centres were sold during Q4. Examples included Chorley Borough Council's purchase of Market Walk, Chorley for £20m (NIY 6.80%), the sale of Market Place, Bolton by Warner Estates (Receivership) to Moorgarth for £24m (NIY 7.90%) and the sale of Kingdom Centre, Glenrothes by AXA to Mars Pension Fund for £34.4m (NIY 9.70%).
- There are 12 shopping centres currently being offered to the market on an open or confidential basis, with a combined quoted sales value of c.£1.4bn. For the most part, availability has been dominated by large/dominant schemes such as Cabots Circus in Bristol (50%), Westfield in Derby, The Chimes in Uxbridge and 50% of Telford shopping centre. There are a further £1bn of schemes under offer, thus indicating a good transactional start for 2014.
- We have witnessed a considerable weight of money chasing assets and there have been some new entrants to the market, including overseas investors. The purchaser profile during Q4 was dominated by UK institutions, accounting for 45% of transaction values, followed by sovereign wealth (19%) and private property companies (16%).
- There has been a major turnaround in investor appetite since Q3 which has put downward pressure on yields. The prime shopping centre yield moved in 25bp over the quarter to stand at 5.00% (50bp down on a year earlier). Good secondary shopping centre yields also moved in 100bp to stand at 7.00%, compared with 8.00% a year ago.
- Retail sales growth has accelerated, with October data from the ONS showing a 1.8% annual increase in sales volumes. Consumer confidence has also seen a dramatic improvement, with GfK's UK Consumer Confidence Index standing at -12 in November, compared with -22 last year. With Q4 seeing the largest quarterly spike in shopping centre investment activity, there is every reason to view these figures more positively and believe that the sector is gathering further momentum.

COMMERCIAL RESEARCH

Anthea To, Associate
 +44 20 7861 1236
 anthea.to@knightfrank.com

INVESTMENT

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

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

David Willis, Associate
 +44 20 7861 1208
 david.willis@knightfrank.com

Mark Smith, Partner
 +44 20 7861 1533
 mark.smith@knightfrank.com

VALUATIONS

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

LEASING

Ian Barbour, Partner
 +44 20 7861 1223
 ian.barbour@knightfrank.com

www.KnightFrank.com

© Knight Frank LLP 2013. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.