

# Retail Investment 2020

The dust begins to settle?



# WHAT YOU NEED TO KNOW...

## Retail Warehousing

- Countercyclical strategy to attract investors
- Demand in the South East/London more resilient
- Acquisitions underwritten by high income return or alternative use values
- Foodstore demand red hot

## Shopping Centres

- Significant capital and rental value correction underway
- All schemes rebasing to potentially attractive new levels
- Relevant schemes – prime experiential and local convenience – will stabilise first
- Repositioning opportunity increasing as values tumble

## High Street

- Reasonable liquidity in smaller lot sizes
- Demand returning for historic prime/rent-paying tenants
- New level of pricing accounting for overrent
- New use class “E” to improve flexibility

## Key Transactions - 2020

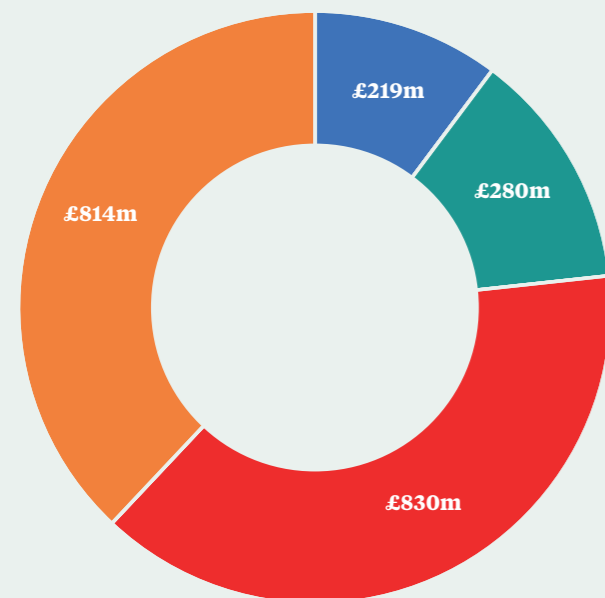
Property	Sector	Purchaser	Vendor	Price	NIY
Broadwalk, Edgware	Shopping Centre	Ballymore	Aberdeen Standard Investments*	£71m	4.90%
Project Rock Portfolio	Shopping Centre	MDSR	Aviva Finance	£80m	10.50%
Clifton Down, Bristol	Shopping Centre	Sovereign Housing Association	Blackrock*	£27m	7.40%
Waitrose Portfolio	Foodstore	London Metric	Waitrose	£62m	4.30%
Waitrose Portfolio	Foodstore	Supermarket Income REIT	Waitrose	£74m	4.40%
Sainsbury's Portfolio	Foodstore	Supermarket Income REIT	British Land	£102m	-
RDI Portfolio	Retail Warehouse	M7	RDI	£157m	7.50%
Tritax Portfolio	Retail Warehouse	Tritax	Aberdeen Standard Investments	£290m	7.25%
Pentavia Retail Park, London	Retail Warehouse	Amazon	Meadow Partners	£65m	-
1-8 The Broadway, Ealing	High Street	Investra Capital	PGIM	£34m	5.00%
Union Gate, Bristol	High Street	AEW	Hunter REIM*	£10m	7.30%

\*Advised by Knight Frank

# THE YEAR SO FAR...

## Key Transactions - 2020

■ Shopping Centres ■ Retail Warehouse ■ High Street ■ Foodstores



Source: Knight Frank

◆◆  
**£2.143 billion of stock has traded across the shopping centre, retail warehousing, foodstore and high street sectors in 2020 so far**  
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- At the start of 2020 we were starting to see signs of demand returning to the retail markets. This was primarily focussed on repositioning opportunities inside the M25 and low rented retail warehousing, but some investors were beginning to consider retail as a countercyclical buying opportunity.
- The lockdown period following the advent of the Covid-19 pandemic caused many retail occupiers and owners to drastically rethink their business plans. With retailers in “survival-mode”, most looked to defer rental payments, agree rent free arrangements, or simply not pay rent at all.
- Landlords were largely focussed on rent collection as scrutiny over rental arrears began to delay sale

- processes. Most sales were paused or abandoned at this stage, as the shockwaves from a national lockdown rippled through the markets. Q2 deal volumes across all of the sectors were exceptionally low.
- With the moratorium over tenant evictions extended to year end, many occupiers continue to opportunistically renegotiate leases and close stores either organically or via CVA and administration processes. Most tenants are rationalising their portfolios and are taking advantage of lease breaks or expiries to significantly reduce the rent they pay.
- This uncertainty over future cashflows continues to significantly impact liquidity. Many sales processes continue to be stymied by

- the lack of debt financing available in the market and indeed most multi-let transactions proceeding at present are doing so either with debt stapled or guarantees over future payment of rent.
- One area of renewed focus for many investors is the foodstore market, where traditionally longer leases and stronger covenants are seeing many UK institutions, REITs and overseas capital vying for new investment opportunities.
- Two sale & leaseback portfolios of Waitrose foodstores, totalling £134m and acquired by Supermarket Income REIT and London Metric, are the most significant deals in this market, with many others seeking similar opportunities.

- There is more liquidity in smaller assets of <£10m, where the lack of debt is perceived to be less of an issue. Portfolios or larger lot sizes, where debt was historically taken on to fund acquisitions, remain very challenging. Shops let to banks, essential retailers and convenience stores are all seeing renewed demand where there is greater certainty over continuity of trade and payment of rent.
- We are beginning to see demand return for historic prime centres. On the high street, historic cities such as Guildford are seeing transactions starting to take place, but a new level of pricing is seeing overpriced into transactions, with initial yields now reaching 8.00%+ - a significant discount on their peak at c.4.00% in 2015.
- We also continue to see demand for well located multi-let retail assets in the South East, driven largely by the opportunity to repurpose the space into higher value alternative uses. Sales such as The Broadwalk shopping centre adjacent to Edgware underground station (a process led by Knight Frank) saw intense competition from residentially motivated investors seeking the opportunity to convert the site.
- With the introduction of the new flexible planning use class "E", we expect town centre investors and regeneration experts to cast an eye over many retail asset in the coming months.
- With capital values reducing and income yields seemingly peaking, we are seeing income investors return to the market primarily for retail warehousing, let to stronger covenant food, DIY, discount or bulky goods operators, which are perceived to be more insulated from the impacts of e-commerce.
- We expect the heightened returns on offer from this sector to continue to attract more investors, with the countercyclical buying opportunity more readily acknowledged here.

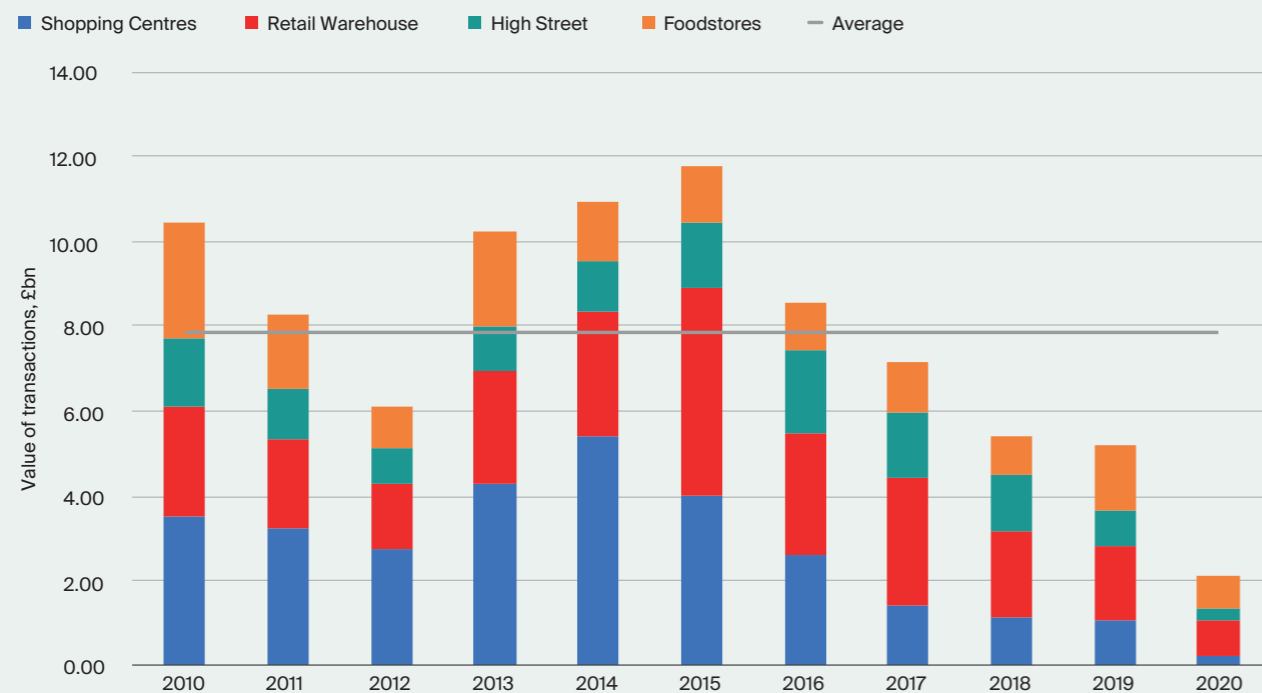
**Prime Retail Yields**



Source: Knight Frank

**KNIGHT FRANK OUTLOOK ...**

**Transaction Volumes**



Source: Knight Frank

- E-commerce penetration to peak at c.30%, equivalent to the levels seen during periods of lockdown, and begin to plateau at long term averages of c.22-24%.
- Rebasing of rental and capital values will see a new level of pricing in 2021. We anticipate rental declines of 30-50% and capital declines of 50% or more in extreme cases over 2020.
- Polarisation to become more severe with prime, experiential and local, community retail assets to remain robust, but with the middle market increasingly squeezed.
- Potential local lockdowns to have a lesser impact on retail trade but the food & beverage/leisure sectors to remain challenging through 2020.
- Smaller lot sizes will continue to find a market, especially where there is flexibility over future use afforded through conversion.
- Stock in the market to increase – Knight Frank research suggests 75% of shopping centre owners would consider a sale should a sensible buyer present themselves.
- Bank-led sales processes also to increase as debt covenants are tripped in leveraged portfolios.
- Investors to cautiously return to the retail sector but we expect many more to acknowledge the countercyclical investment opportunity by mid-2021.

**REIT Share Price Tracker**

	Landsec	British Land	Hammerson	NewRiver	Capital & Regional	Supermarket Income REIT	London Metric
Latest Share Price (p)	518.00	338.00	16.00	47.00	38.00	107.00	220.00
Q1 - Q3 2020 Movement	-48%	-46%	-89%	-77%	-85%	-3%	-8%
NAV per share (p)*	1192.00	774.00	601.00	201.00	229.00	101.00	172.00
Premium to NAV	-57%	-56%	-97%	-77%	-83%	6%	28%

\*Latest available published NAV per share

## KNIGHT FRANK DEALS

*Despite the challenges presented during 2020, Knight Frank have continued to close transactions. We have completed 3 of 4 shopping centre sales above £10m done in the UK this year. A selection of our deals are shown below.*

### Clifton Down Shopping Centre, Bristol



**October 2020**  
**Client:** Blackrock  
**Price:** £27.2m / 7.40% NIY

### Broadwalk Shopping Centre, Edgware



**September 2020**  
**Client:** Aberdeen Standard Investments  
**Price:** £71m / 4.90% NIY

### Downlands Retail Park, Worthing



**August 2020**  
**Client:** Melford Capital  
**Price:** £18m / 10% NIY

### Union Gate, Bristol



**August 2020**  
**Client:** Hunter REIM  
**Price:** £10m / 7.30% NIY

### B&Q, Bolton



**August 2020**  
**Client:** Colony Capital  
**Price:** £16m / 10.25% NIY

### Captain Cook, Middlesbrough



**June 2020**  
**Client:** Middlesbrough Council  
**Price:** £8m / 12% NIY

### B&Q, Romford



**April 2020**  
**Client:** Knight Frank IM  
**Price:** £23m / 5.50% NIY

### Elmsleigh Centre, Staines



**February 2020**  
**Client:** Aberdeen Standard Investments  
**Price:** £39m / 8.65% NIY

### 19-24 Queen Street & 1-10 St Ebbs Street, Oxford



**Under Offer**  
**Client:** Aberdeen Standard Investments  
**Price:** £10m / 9.65% NIY

### Superdrug, Newcastle



**Under Offer**  
**Client:** M&G Real Estate  
**Price:** £7m / 8.00% NIY

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