Shopping Centres

Snapshot Q2 2018

Buyers and sellers are adopting a "wait & see" attitude, with c.£290m of transactions in Q2 2018

- Deal volumes in the 2nd quarter of the year were nearly 28% lower than Q1 at c.£290m in 10 transactions.
- The quarter was again characterised by low levels of activity on both the buy and sell side as the malaise surrounding the occupational market continues to deter investment decisions.
- Buyers and sellers are taking a "wait & see" attitude to determine where the market will bottom out before committing to transactions.
- At the prime end of the market, Clapham Junction set the benchmark with a NIY of c.3.00% although due to its unique proposition, it drew a wide spectrum of bidders that would not consider more typical shopping centres.
- Prime yields have moved out to 4.75% with secondary yields now standing at 10%.
- A number of key players (and traditional buyers of retail) are still committing significant capital to the retail sector despite its challenges, namely British Land in Tunbridge Wells, DTZ Investors in Clapham Junction and M&G (advised by Knight Frank), who acquired a 50% share in Fort Kinnaird, Edinburgh from The Crown Estate for £167m.
- Forward-thinking, proactive councils also continue to acquire schemes within their jurisdictions, comprising nearly 50% of the total deal volume this quarter.
- There remains a compelling argument for local authorities to continue to invest in their town centres, providing they are well advised on the asset and pricing, and appoint specialist management teams to deliver a clear business plan.
- Greater London and the South East continue to dominate the transaction volumes with assets in Wembley, Grays Essex, Tunbridge Wells and most notably Clapham Junction attracting overseas, institutional and REIT demand.
- Better catchment fundamentals (greater affluence and catchment size) and strong underlying alternative use values mean that these assets are perceived as having better investment prospects in the current uncertain market.
- There remains a huge amount of stock from which sellers would seek to exit, but their pricing aspirations are disconnected from current market sentiment making many of these portfolios illiquid.
- With asset valuations being moved out by most of the valuation houses and funds coming under increasing pressure to sell, we expect to see improving liquidity in the second half of the year and through to 2019.
- Demand for repriced, smaller lot size investments remains reasonable. Higher yielding community schemes, arcades and supermarket anchored precincts continue to see demand from private equity and prop co investors.
- In contrast, investors remain cautious where centres have a department store anchor or a large proportion of fashion tenants as these are suffering most from CVAs.
- The most notable retailer casualty this quarter was House of Fraser, which has won approval to close 31 of its 59 stores via a CVA. Whilst the majority of these are standalone stores, 12 including Aylesbury, Birkenhead and High Wycombe are within shopping centres.
- Away from the headline grabbing CVAs, there is more positive occupational feedback from Lidl and Aldi, who continue their acquisition programs, Zara and Primark who both reported increases in sales this quarter and lifestyle brands Joules and Ted Baker who also posted strong results.

Volumes down 40% compared with Q2 2017

Supply low due to "wait & see" attitude

Demand remains low but investors monitoring the sector for Q3/Q4

Capital values fell nearly 4% in the 12 months to May 2018 with an average deal size this quarter of £36m

Spread prime to secondary spread increased to 525 bps with all yields moved out this quarter

Income attractive when stabilised but harder to underwrite CVA uncertainty

Outlook signs of a short, sharp correction should lead to a liquid market later in the year

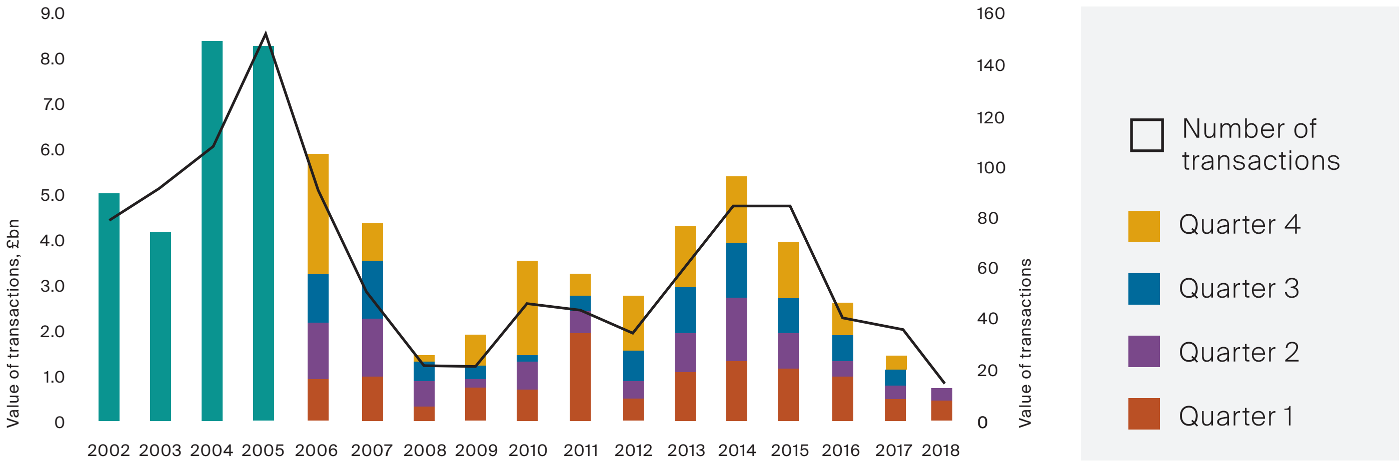
Q2 Key Shopping Centres Transactions

source: Knight Frank LLP

Shopping centre	Purchaser	Vendor	Price (£m)	NIY %
Shop Stop, Clapham Junction	DTZ Investors	Delancey	£135m	3.00%
Grays Shopping Centre, Essex	New River Retail	Lone Star	£20.2m	9.40%
Wembley Central	Talisker	St Modwen	£36.5m	6.00%
Merrywalks, Stroud*	Dransfield Properties	Wrather & Co	£10m	9.50%

*Advised by Knight Frank

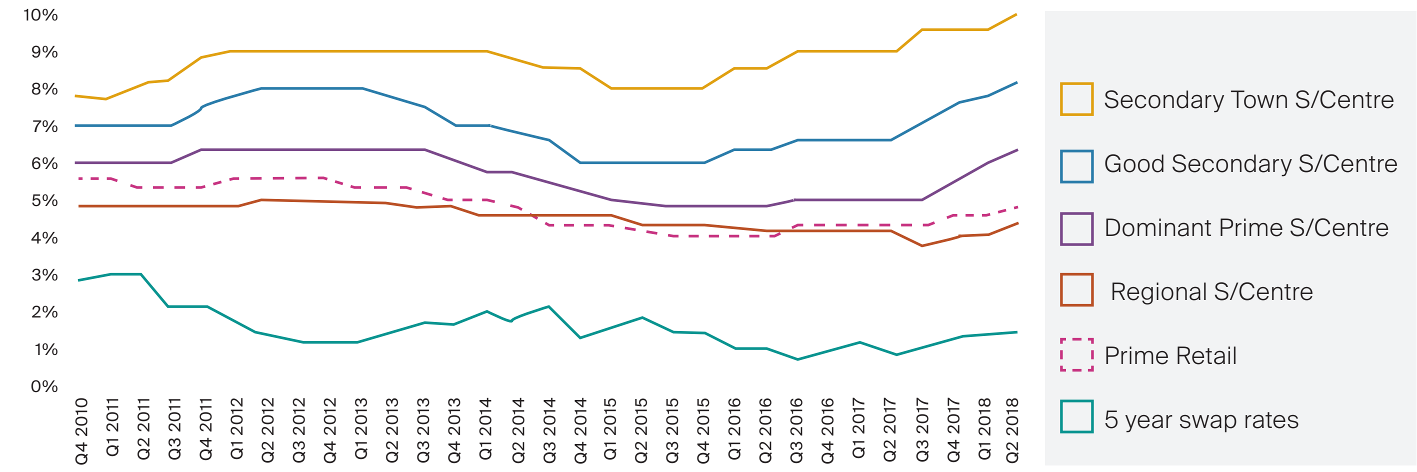
Shopping Centre Transactions



source: Knight Frank LLP

Retail & Shopping Centre Yields

Q4 2010 – Q1 2018



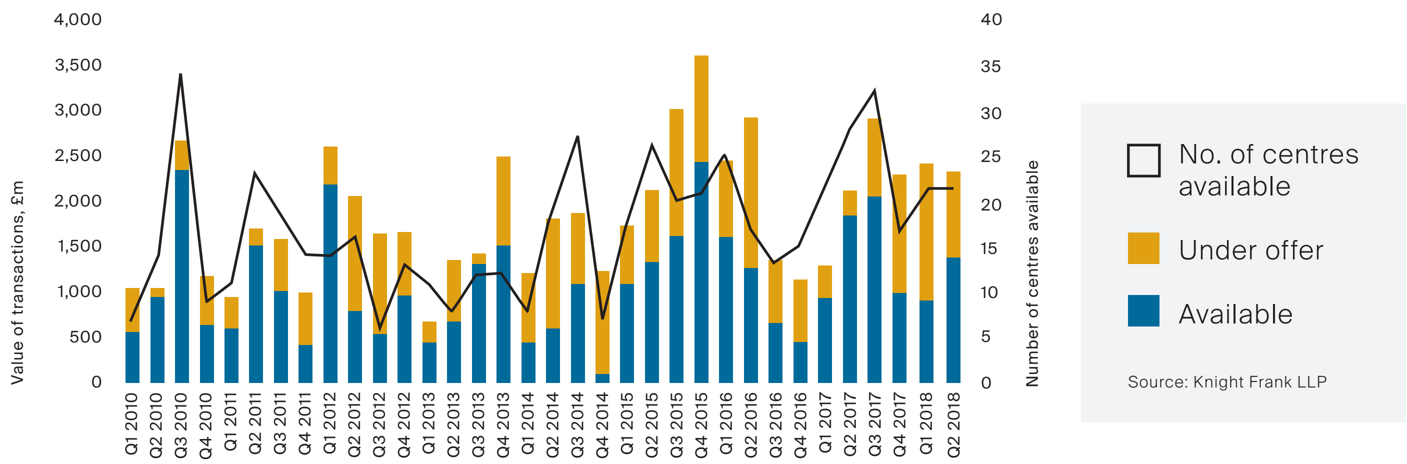
Source: Knight Frank LLP

REIT Share Price Versus Net Asset Value (NAV)

	Landsec	British Land	Hammerson	Intu	NewRiver	Capital & Regional
Latest Share Price (p)	959.10	685.20	534.00	193.40	274.69	50.82
Q4 - Q1 Movement	2.35%	6.73%	-0.48%	-6.88%	-4.62%	-5.89%
NAV per share (p)	1418	967	771	411	292	67
Premium to NAV	-32.36%	-29.14%	-30.74%	-52.94%	-5.93%	-24.15%

Shopping Centre Availability

Q1 2010 – Q1 2018



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