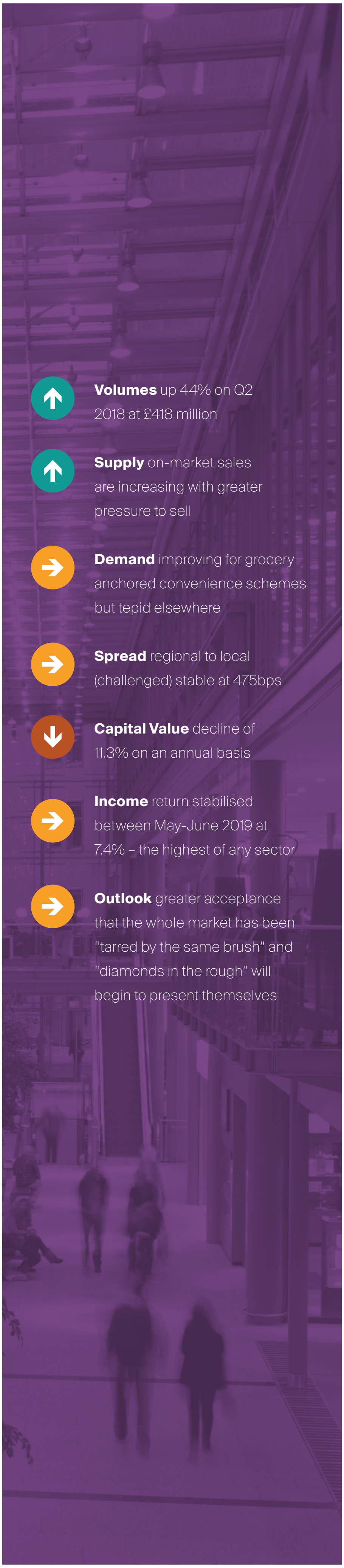
Shopping centres:

Snapshot **Q2 2019**



Volumes up 44% on Q2 2018 at £418 million

Supply on-market sales are increasing with greater pressure to sell

Demand improving for grocery anchored convenience schemes but tepid elsewhere

Spread regional to local (challenged) stable at 475bps

Capital Value decline of 11.3% on an annual basis

Income return stabilised between May-June 2019 at 7.4% – the highest of any sector

Outlook greater acceptance that the whole market has been "tarred by the same brush" and "diamonds in the rough" will begin to present themselves

- Deal volumes remain well below the long-term average with just £418m transacted in Q2 this year. The bulk of this was in two transactions: Cale Street's acquisition of intu Derby at £186m and Ashby Capital's acquisition of Kensington Arcade at £120m. Without these larger deals, the average deal size was low at just £14m.

- Knight Frank were pleased to advise Cale Street Partners on the innovative intu Derby transaction. Other notable deals included Medway Borough Council's acquisition of Pentagon, Chatham at £35m (also advised by Knight Frank) in another sign that Local Authorities are prepared to step in and take action to cure the issues in their town centres.

- We are now seeing greater willingness to put stock into the open market – a change from the "grey market" we have experienced for the past 6-12 months. Portfolios of legacy private equity stock and higher yielding assets have all reached the market in the last quarter, contributing to the £1.3bn of stock openly available.

- Increasing lender pressure has driven most of these sales – 55% of sales by volume in the open market today involve either a Private Equity seller or the lender. The degree to which this increases is dependent on the attitude of the banking sector towards the retail exposure they have. UK institutions are behind 35% of sales as the reweighting of their portfolios continues.

- Nicholsons, Maidenhead was one such example where the lender (Hermes) took control of the situation and forced a sale but elsewhere there are many portfolios where the exit is more difficult and so other measures, such as cash sweeps or appointing new asset managers to halt the capital and income decline in their assets, are implemented.

- However, there is increasing confidence in the convenience and value sectors as more insulated retail investments. Shopping centres dominated by these occupiers tend to experience lower online penetration, lower exposure to CVA activity and more often than not a sustainable source of footfall. Grocery retailers for example produced just 7% of their total sales via online channels last year (source: Mintel/ Knight Frank). Their many delivery channels are well documented (including click & collect and home deliveries) but it is clear that these occupiers will continue to need a significant physical store presence in the UK.

- In many cases, these schemes never experienced the rapid rental growth seen elsewhere in the market and so rents remain affordable for retailers. With yields across the retail subsectors moving out to seemingly attractive levels, we are beginning to see greater acceptance that the whole market has been tarred with the same brush and some investors are alive to the reality that there are diamonds in the rough and certain opportunities in the market are starting to present good value.

- Knight Frank have been working with Revo to develop and implement a new shopping centre classification. We have replaced the broad "prime-secondary" yield classification with more appropriate descriptions to recognise the different purposes that locations fulfil, be that "destination/lifestyle", "convenience" or "community" focussed. The new classifications have been reflected in our yield guide, which is highlighted in the graph below.

Where has it all gone wrong for the retail sector? And, more importantly, what needs to happen for the market to get back on its feet?
Download our latest Retail News report to find out more download here.

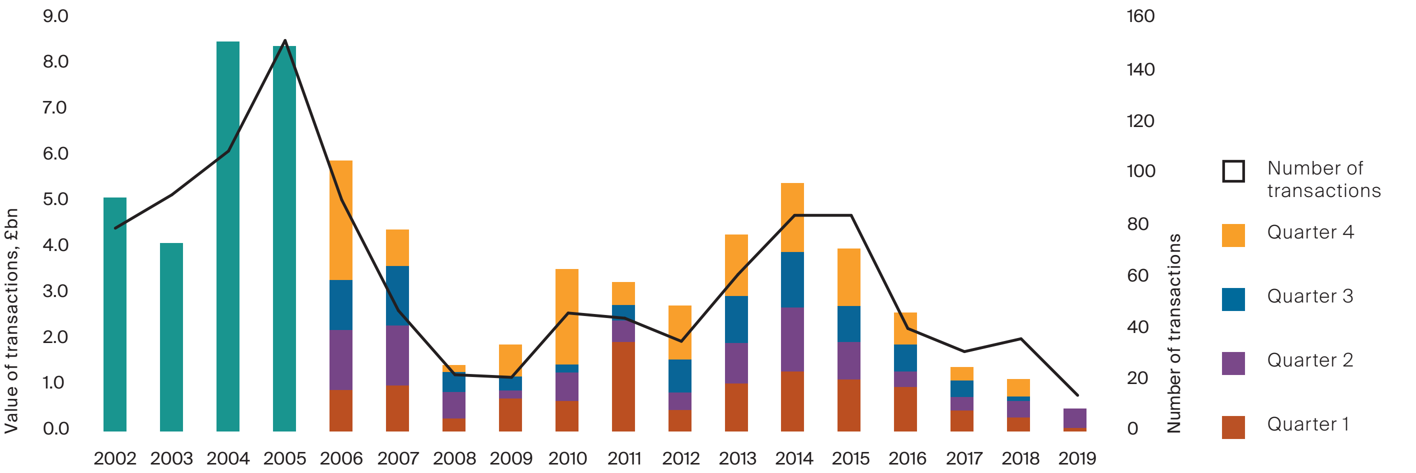
Shopping centres:
Snapshot **Q2 2019**

Q2 Key Shopping Centres Transactions

Shopping centre	Purchaser	Vendor	Price (£m)	NIY %
intu, Derby	Cale Street*	intu	£186.2	6.75%
Pentagon, Chatham	Medway Council*	Bridges Ventures	£35.4	8.50%
Ram's Walk, Petersfield	East Hampshire District Council	M&G	£29.4	6.00%

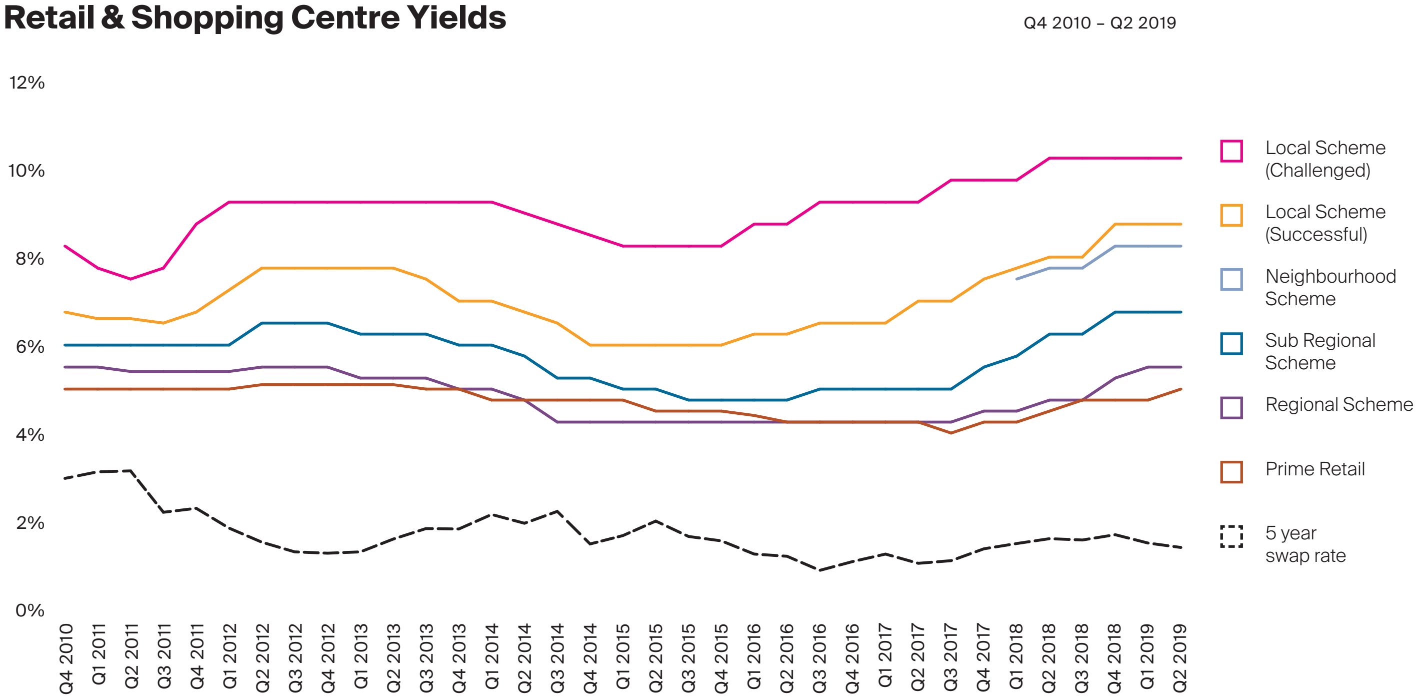
Source: Knight Frank LLP
*advised by Knight Frank

Shopping Centre Transactions



Source: Knight Frank LLP

Retail & Shopping Centre Yields



Source: Knight Frank LLP

Shopping centres:
Snapshot **Q2 2019**

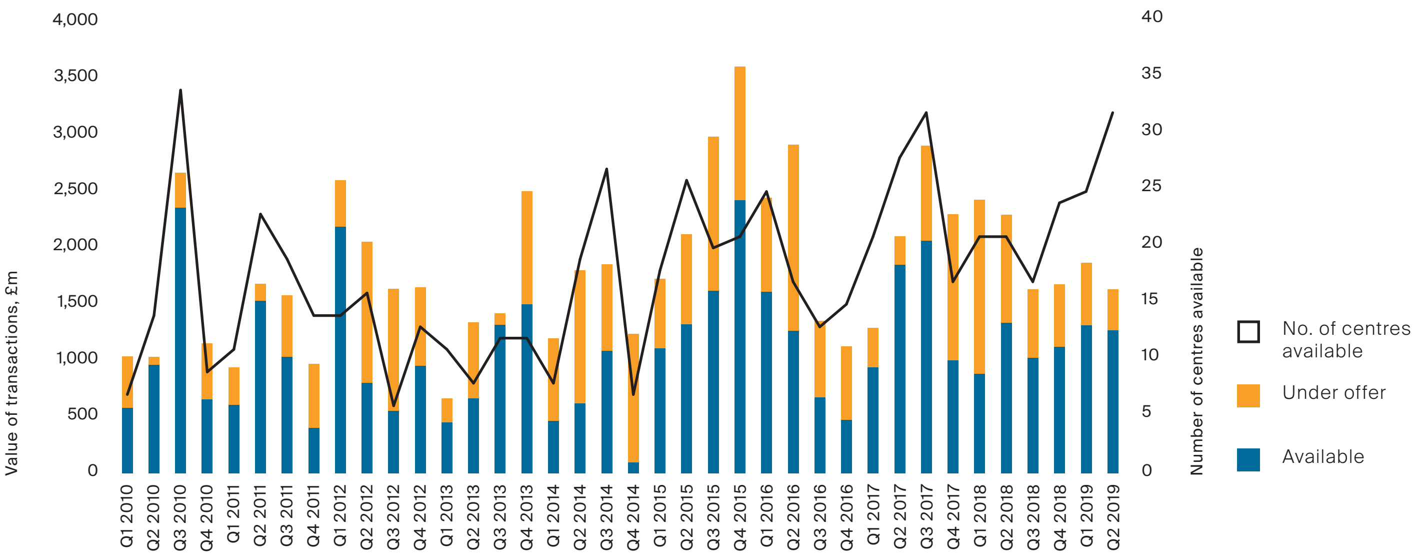
REIT Share Price Versus Net Asset Value (NAV)

	Landsec	British Land	Hammerson	intu	NewRiver	Capital & Regional
Latest Share Price (p)	828.40	538.60	277.10	75.52	178.40	13.60
Q1 - Q2 2019 Movement	-9%	-9%	-1%	-6%	-25%	-47%
NAV per share (p)*	1339.00	905.00	738.00	312.00	261.00	59.00
Premium to NAV	-38%	-40%	-62%	-76%	-32%	-77%

*Latest available published NAV per share

Shopping Centre Availability

Q1 2010 – Q2 2019



Source: Knight Frank LLP

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