

Shopping Centres

Snapshot Q4 2017

Transaction volumes for 2017 were the lowest this century with only 31 deals completed, compared with average deal flow of 64.

- Volumes for 2017 at £1.6bn are around half the 10 year average due to a lack of demand and vendors' reluctance to reprice stock.
- Only four acquisitions were made by Institutions compared to six in 2016. This is in contrast to strong institutional activity in other sectors. Two of these acquisitions, however, were made in Q4 with a further two under offer, showing some encouraging signs at the end of the year.
- Councils acquired three more schemes in Q4, with another two going under offer, and the trend of Councils acquiring schemes within their areas of jurisdiction is set to continue.
- Absence throughout 2017 of the Private Equity opportunistic buyers, with many of the recognised PE investors still holding shopping centres in previous funds and being unwilling to increase their exposure.
- The number of overseas investors has also fallen and going forward there are concerns the change to capital gains tax rules for overseas buyers may impact their pricing of assets.
- There were 18 schemes withdrawn from formal marketing during 2017. In addition many have been quietly offered and then refinanced. This 'failure to sell' has epitomised the constipation in the market over 2017.
- The agreed Unibail-Rodamco / Westfield and Hammerson / Intu deals are a significant change and will shape the prime market for 2018 and beyond. Sales are anticipated in 2018.
- We expect 2018 to be a year of opportunity in the shopping centre investment market. Valuations will continue to catch up true market pricing and, as refinancing at historic valuations is removed from the equation, some of the Private Equity held stock will come through. In conjunction with the likely sales that will come from the corporate activity, we anticipate significant uptick in stock levels for 2018.
- In the short term this could drive lower capital values but as the wider market recognises the disproportionate discount retail is seeing, this should drive an increase in demand towards the middle of the year.
- Smaller lot size, higher yielding assets such as Stroud and Witham already look close to fully repriced and we are seeing increased activity at that end.
- In the mid-market, traditionally the ground of institutions, there remains the greatest differential. Those that trade well and serve a purpose are likely to appeal to buyers, whereas some of the more challenged schemes, which are struggling to retain rent-paying tenants, will continue to see limited investment demand.
- The occupational narrative remains largely negative and we anticipate some distress in Q1.

- ↓ **Volumes** down 40% compared with 2016 and at around half the 10 yr average
- ↓ **Supply** on market supply under £1bn but expected to rise in 2018
- **Demand** remains low but uptick in institutional activity
- ↓ **Capital Values** Primes yield moved 4.25% to 4.50%; secondary stabilising at 9.50%
- ↑ **Spread** Prime to secondary spread 500bps, in contrast to industrial spread (100bps)
- ↑ **Income** returns of 0.49% for November, the highest of any sector
- ↑ **Outlook** more stock in 2018 at lower pricing will lead to higher volumes

Q4 Key Shopping Centres Transactions

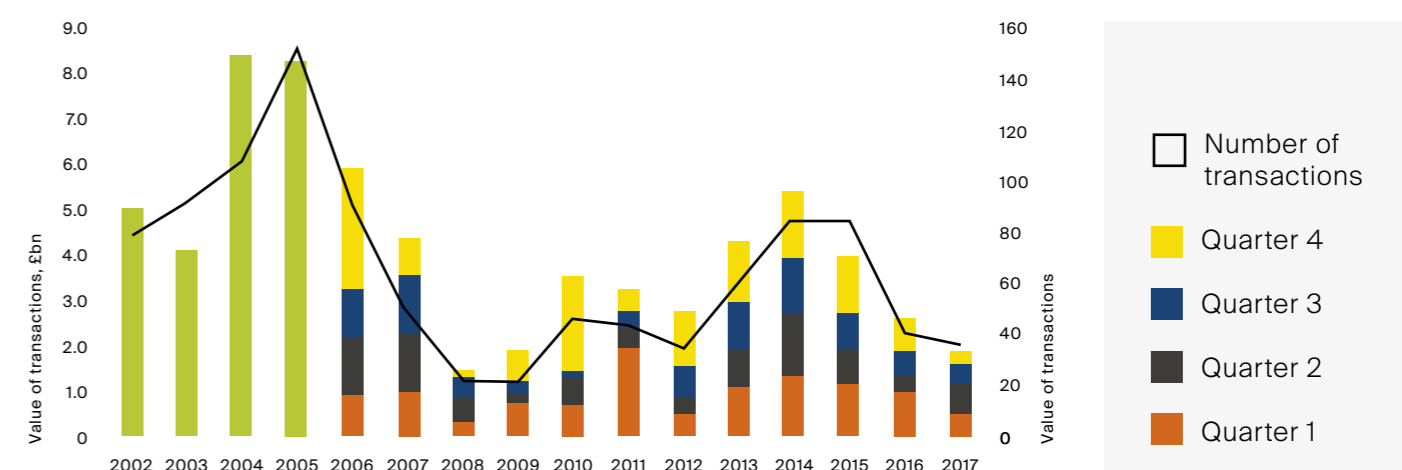
source: Knight Frank LLP

Shopping centre	Purchaser	Vendor	Price (£m)	NIY %
Chapelfield, Norwich	LaSalle IM	Intu	£148m	5.25%
Church Square, St Helens	Council	LaSalle IM	£26.6m	-
The Grove, Witham	Praxis*	Global Mutual / South African Capital	£6m	9.00%
Castle Quay, Banbury	Cherwell District Council	Aberdeen Standard*	£58m	6.80%
Darwin / Pride Hill, Shrewsbury	Shropshire County Council	Aberdeen Standard	£52m	6.50%
Palace Gardens, Enfield	Deutsche	Aberdeen Standard	£51.5m	6.50%

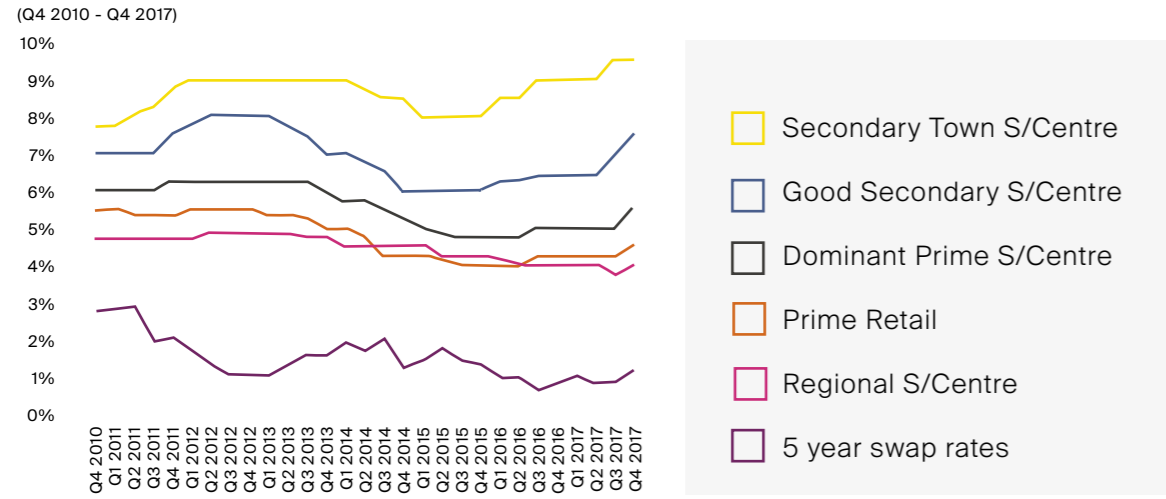
*Advised by Knight Frank

source: Knight Frank LLP

Shopping Centre Transactions



Retail & Shopping Centre Equivalent Yields

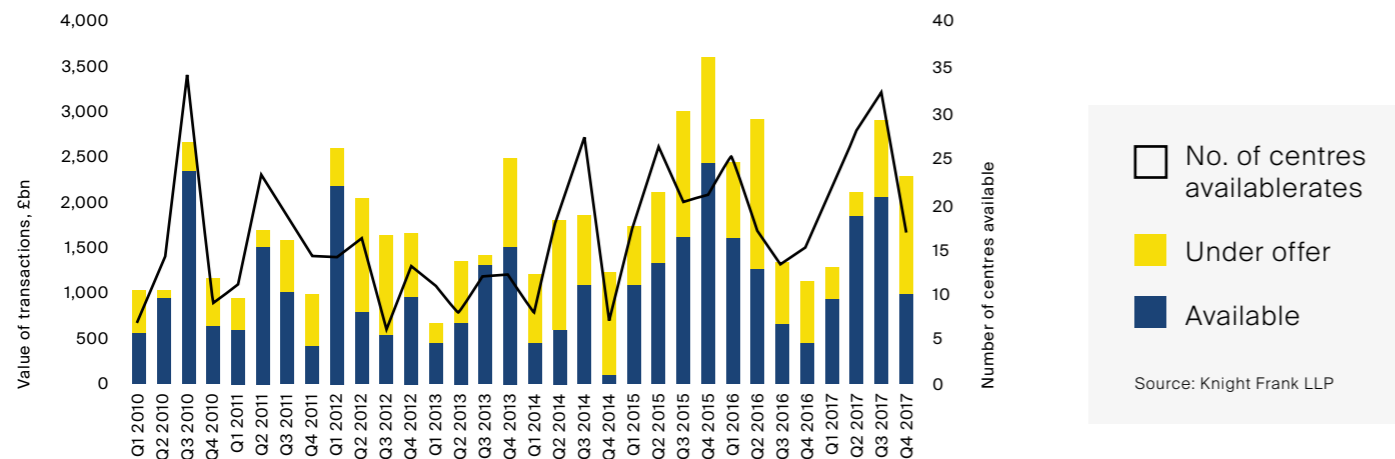


Source: Knight Frank LLP
Swap rates source: <http://www.mortgagesforbusiness.co.uk/content/BuytoLetMortgages/BuytoLetMarketData/MoneyMarkets.aspx>

REIT Share Price versus Net Asset Value (NAV)

	Landsec	British Land	Hammerson	Intu	NewRiver	Capital & Regional
Latest Share Price (p)	994	679	537	248	335	55
Q3 - Q4 Movement	1.95%	12.69%	0.28%	7.47%	-0.53%	-2.87%
NAV per share (p)	1458	915	728	404	290	68
Premium to NAV	-31.82%	-25.77%	-26.20%	-38.74%	15.55%	-19.29%

Shopping Centre Availability



Source: Knight Frank LLP

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