Knight Frank

Shopping Centres

Snapshot Q4 2018

Total deal volumes at £1.14 billion for 2018 represent the lowest annual total since 2008

- **Volumes** down 65% on 10 year average at £1.14 billion
- **Supply** will be dictated by willingness to accept market pricing
- **Demand** is greater for repriced quality assets evidenced in Q4 2018
- **Capital values** continue to fall each month with a cumulative 5.4% reduction in values since October 2017
- **Spread** prime to secondary spread at 500 bps but yield gaps to other sectors at historic highs
- **Income** polarised by suitability of the shopping centre and exposure to CVA activity
- **Outlook** low activity during Q1 2019 but will pick up with increasing pressure to sell later in the year

- The market in 2018 was characterised by a lack of activity, with most significant investment decisions put on hold as a result of political and economic uncertainty. Total deal volumes at £1.14 billion represent the lowest annual total since 2008.
- Over one third of this total is in three deals, with Norinchukin's acquisition of 50% of Highcross, Leicester with M&G at £236 million, DTZ IM's acquisition of Shop Stop, Clapham Junction at £136 million and British Land's acquisition of Royal Victoria Place, Tunbridge Wells at £91 million. Without these deals, the average lot size traded this year was £21 million.
- There are signs that the political and economic malaise is beginning to impact other sectors too with the number of buyers thinning for more secondary stock. Q1 2019 transaction volumes are likely to be low across all sectors as the deadline for leaving the European Union looms.
- The largest seller group in 2018 was Private Equity with 29% of the market. Institutions were the second largest sellers with 26% of the market. There remains a significant number of shopping centres within Private Equity ownership, for which they are seeking a solution be that alternative uses, refinancing where available or discounted sales.
- The year ahead is likely to see further disposals of non-core assets from institutional and REIT sellers, with the latter announcing restructuring of their portfolios. However, the REIT sales are likely to be largely within the retail warehouse sector where Hammerson, Landsec and British Land have large portfolios.
- Occupationally, retailers are still facing well-publicised headwinds and remain conservative over future projects. Facing such challenges, retailers are being forced to look for savings within their property portfolios – marginal stores are being dropped and rents are being squeezed wherever possible.
- All eyes are on Christmas trading results, which will dictate where the next administration or CVA will come from. Following Mike Ashley's intervention in the House of Fraser CVA, there will be increased focus on the future of Debenhams which may seek to shut stores or agree a reduction in rents be that through an informal process or formal CVA.
- The second half of 2018 has seen a steady reduction in valuations. Analysts at Fidelity are predicting anywhere between a 20%-70% reduction in retail property values, although this far reaching comment pays no attention to the suitability of the asset, location and rental value. Arguably the investment market is already pricing in much of the necessary adjustment.
- Recently we have seen a collection of good quality interesting assets receiving multiple bids, largely from private equity investors with dedicated asset managers – a sign that when better assets reach a floor in pricing, there exists demand at a level. Examples of this include the recent bidding processes for Maidenhead, Newmarket, Cameron Toll and Welwyn Garden City, albeit these still did not always reach vendor aspirations.
- There remains a question mark around the influence that banks will have on the sector in 2019. Existing sponsors are coming under increasing pressure from their debt providers as interest cover ratios are squeezed and values slashed. Whether the banks take control or allow borrowers to work towards a solution will depend on their faith in the cashflow and the sponsor's ability to deliver the business plan. This will dictate liquidity in the market for 2019.

We have set out our views on the 2019 retail market in our latest report, which you can download here.

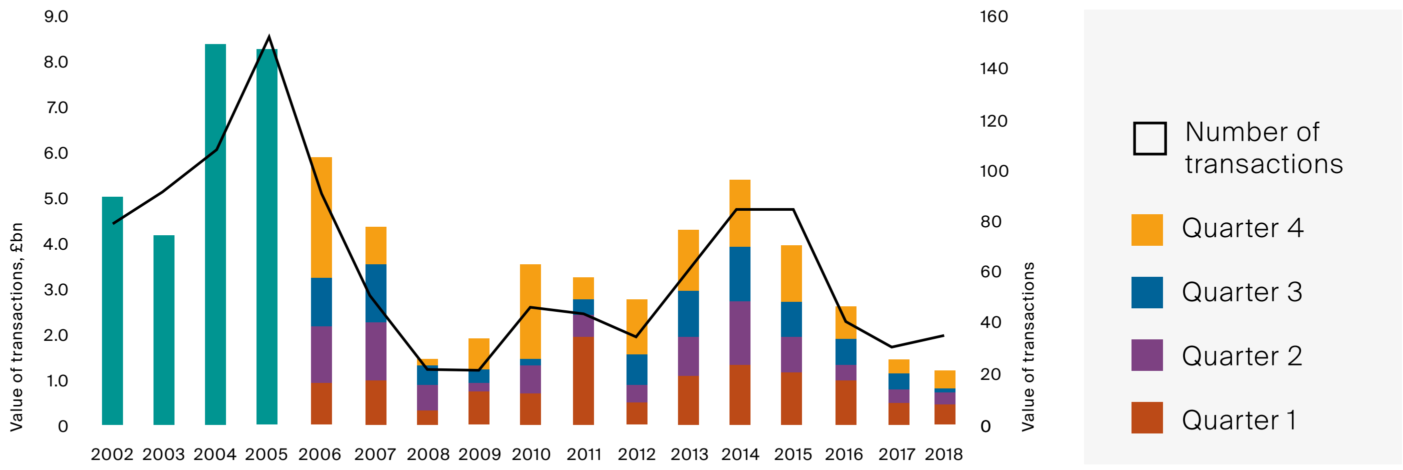
Q4 Key Shopping Centres Transactions

source: Knight Frank LLP

Shopping centre	Purchaser	Vendor	Price (£m)	NIY %
Edmonton Green, London	Crosstree	St Modwen	£72.0	6.75%
Blaydon Shopping Centre, Newcastle	Praxis*	Lonestar	£30.5	8.15%
Highcross, Leicester (50%)	Norinchukin/M&G	Hammerson	£236.0	5.50%

*Advised by Knight Frank

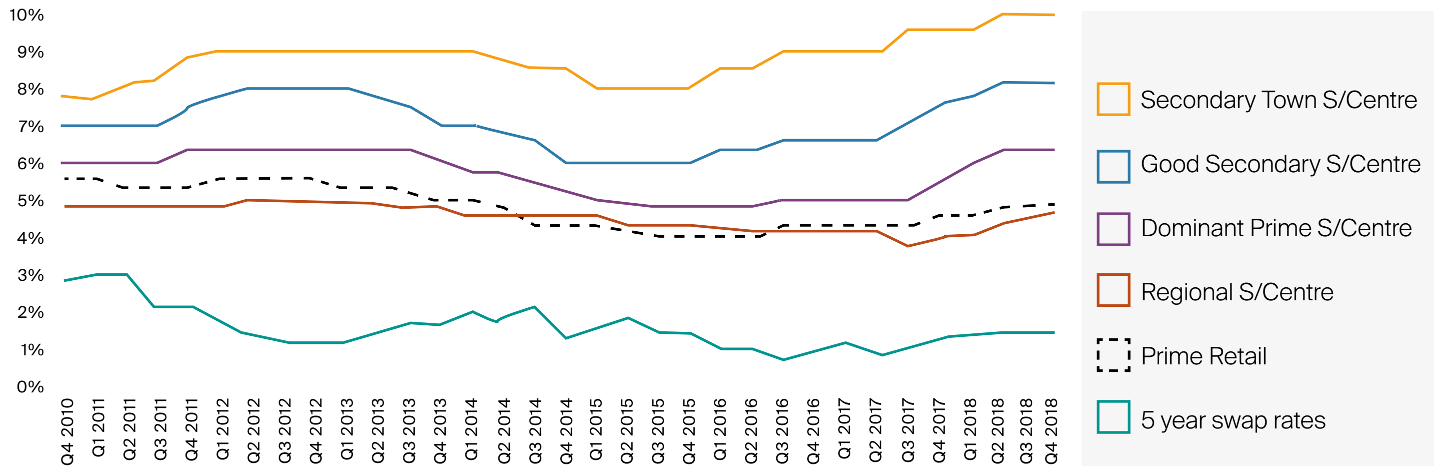
Shopping Centre Transactions



source: Knight Frank LLP

Retail & Shopping Centre Yields

Q4 2010 – Q4 2018



Source: Knight Frank LLP

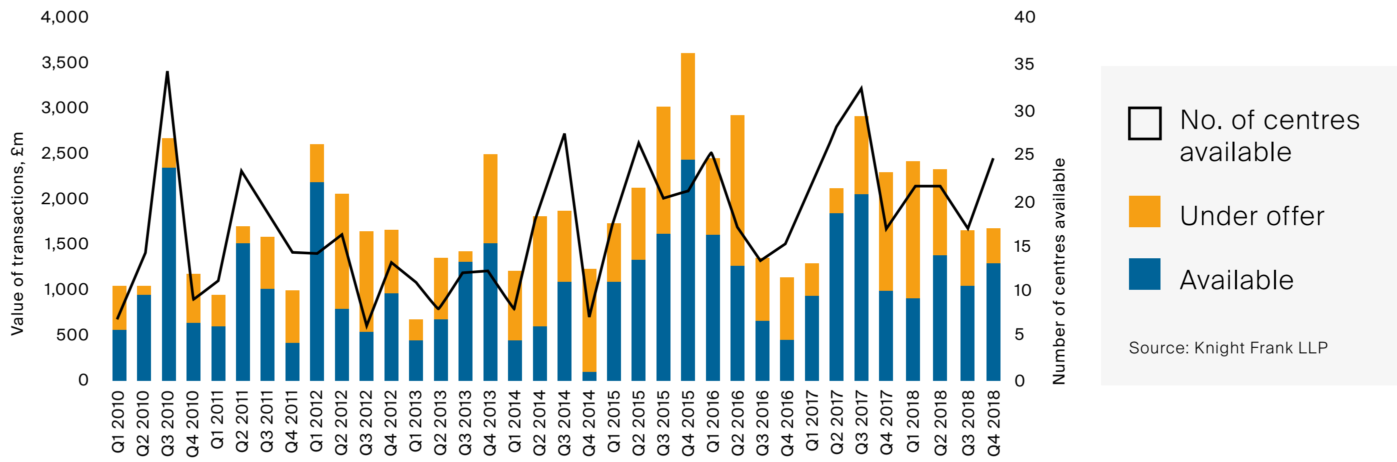
REIT Share Price Versus Net Asset Value (NAV)

	Landsec	British Land	Hammerson	Intu	NewRiver	Capital & Regional
Latest Share Price (p)	804.40	533.20	329.40	113.40	211.50	27.55
Q3 - Q4 Movement	-10%	-14%	-29%	-27%	-18%	-36%
Q1 - Q4 Movement	-18%	-21%	-39%	-55%	-34%	-53%
NAV per share (p)*	1384.00	939.00	776.00	344.00	283.00	67.00
Premium to NAV	-42%	-43%	-58%	-67%	-25%	-59%

*Latest available published NAV per share

Shopping Centre Availability

Q1 2010 – Q4 2018



Source: Knight Frank LLP

Key Contacts

Shopping Centre Capital Markets

Charlie Barke, Partner
+44 20 7861 1233
charlie.barke@knightfrank.com

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

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

Shopping Centre Valuation

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

Gavin Spreyer, Partner
+44 20 7861 1585
gavin.spreyer@knightfrank.com

Shopping Centre Leasing

Patrick Keenan, Partner
+44 20 7861 1099
patrick.keenan@knightfrank.com

Rowen Grandison, Partner
+44 20 7861 5191
rowen.grandison@knightfrank.com

David Legat, Partner
+44 20 7861 5119
david.legat@knightfrank.com

Retail Research

Stephen Springham, Partner
+44 20 7861 1236
stephen.springham@knightfrank.com