Shopping centres:

Snapshot Q4 2019

Volumes in 2019 are the lowest since records began

Supply to continue to increase throughout 2020

Demand improving through interest in repositioning assets but thin away from this

Capital Value growth of -15.51% in the 12 months to December 2019 (IPD)

Spread stable given relative outward movement in all yields

Income will continue to fall in 2020 as the occupational market rebalances

Outlook cautious optimism – greater confidence in the investment market but balanced by further occupational uncertainty

- 2019 will mark a historic low in shopping centre deal volumes. At just under £1.1 billion, this will be the lowest amount transacted since our records began.

- Among the key deals this year were Cale Street Partners' innovative acquisition of a 50% stake in intu Derby, Areli's mixed-use proposals at The Walnuts in Orpington and Ikea's first mixed-use, downtown acquisition at Kings Mall in Hammersmith, which buoyed deal volumes in the latter quarter of the year. Nevertheless, at £30 million, the average deal size is down on previous years - a symptom of the continued write down in capital values making lot sizes smaller.

- January is traditionally the month with the highest number of retailer casualties so inevitably we are expecting to see further occupational bad news over the coming weeks. However, it is clear that consumer demand is holding up relatively well as a whole, although some divisions are performing more strongly than others (grocery sales for example are outstripping clothing and home departments).

- Amongst the wider retail malaise, some retailers are defying the gloom by providing positive trading results in early 2020. Next (+5.3% in Q4), Dunelm (+6.2%) and Tesco (+0.4%) are displaying consistent growth along with others, including JD, Marks & Spencer, Mountain Warehouse and B&M, posting strong trading performances.

- The occupational market remains very challenging with many retailers seeking rent reductions either formally through CVA processes, or informally through dialogue with Landlords. That being said the growing resistance to the CVA process is likely to result in fewer taking place but as a consequence more administrations given the options available to retailers are reducing. Rents are likely to show further reductions during 2020 as the occupational market continues to rebalance.

- Looking ahead, there is consensus that the UK is now well-placed to receive investment (both from within and from overseas investors). The election result has put to bed any imminent threat of a change in government and has given direction to the Brexit situation.

- Indeed, among the commentators now predicting a bright future for the UK economy, Blackstone lists the UK being the "winner in the divorce" and outperforming Europe as one of its "surprises" for the year ahead (an event they describe as probable but investors only assign a probability of 1 in 3 of it happening). Deal volumes across the UK are expected to exceed £50 billion in 2020 in a significant boost on 2019 transactions.

- The other major UK investment sectors are all reporting an improvement in sentiment as the property market commences a new year of activity. We expect some of this positivity to wash through into the retail sectors, although this is likely to be targeted at retail warehousing before shopping centres.

- Headlines were made when big players from other sectors began to target retail assets. Tritax acquired three retail assets, and Prologis (advised by Knight Frank) have acquired Ravenside Retail Park in Edmonton underwritten by a long term potential logistics conversion. Ikea also made a significant acquisition in Hammersmith and is set to develop its first mixed-use scheme around a new "city store".

- Retail is the principal sector to present itself as an opportunity for repurposing given the relative arbitrage between asset values. Retail "repositioners" are now casting their eye over the

retail warehouse and shopping centre markets but are also looking at offices and even the industrial sector on the hunt for large, under-utilised sites capable of redevelopment towards higher density uses.

- Many who were once reluctant to consider the retail sector are now actively targeting retail assets. Over half of the deals done in 2019 were in the South East and this is a trend that will undoubtedly continue as retail values continue to fall and residential values begin to grow again.

- There is growing acceptance that some areas of the market are outperforming others and capital values have rebased dramatically across all retail property market segments. Such drastic price corrections will make retail increasingly good value versus other property investment classes, but effective stock selection will be a pre-requisite in the coming year more than ever.

- It is for this reason that we expect to see higher deal volumes in 2020, with some commentators suggesting that we could look back on 2019 as the bottom of the shopping centre investment market.

- Councils will remain active buyers of shopping centres in 2020 having made 22% of all acquisitions in 2019. Knight Frank continue to support those local authorities who are prepared to take control of the direction of shopping centres in their town centres. Councils also have a crucial role to play in the evolution of their town centres as ambitious, mixed-use plans are worked up to redevelop shopping centres. Those who are proactive and forward-thinking will be the beneficiary of innovative schemes bringing other uses into town centres and taking under-used retail out of circulation in over-supplied towns and cities.

- 2020 could be the year that Private Equity investors, not tarnished by the performance of legacy shopping centre portfolios, make a "play" on the market. This could be via corporate activity or the creation of a portfolio through targeted acquisitions.

- We expect to see further stock from the UK institutions who continue to reweight their portfolios away from retail but also selective sales from retail focussed REITs seeking to raise capital as a result of the ongoing malaise. As we have suggested throughout 2019, a large amount of stock is in the hands of the banks, who continue to be reluctant to force sales but an improvement in sentiment both nationally and in the retail sectors could see this come to market.

- We anticipate 2020 being a better year for transaction volumes than 2019 as greater stability, and therefore confidence, returns to the investment markets. More openly marketed stock combined with innovative mixed-use solutions to challenged retail assets should improve liquidity. That being said, buyers targeting the retail sector will still seek to de-risk acquisitions with high entry yields and underwrite alternative uses to protect against downside risks. The onus will therefore still be on sellers to accept the new pricing levels being evidenced.

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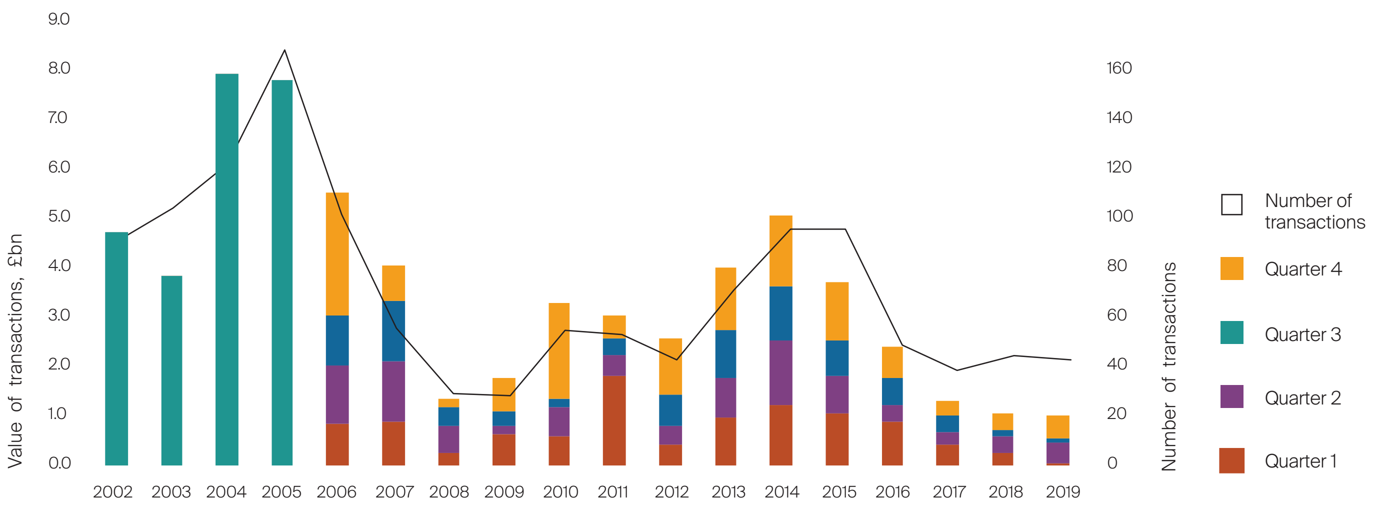
Snapshot Q4 2019

Q4 Key Shopping Centre Transactions

Shopping centre	Purchaser	Vendor	Price (£m)	NIY %
Kings Mall, Hammersmith	Ikea	Schroders	£105.00	4.00%
The Walnuts, Orpington	Areli / Tikehau*	Patrizia	£30.50	8.00%
Houndshill, Blackpool	Blackpool Council	New Frontier	£47.50	10.15%
Mailbox, Birmingham	M7	Brockton	£190.00	5.75%

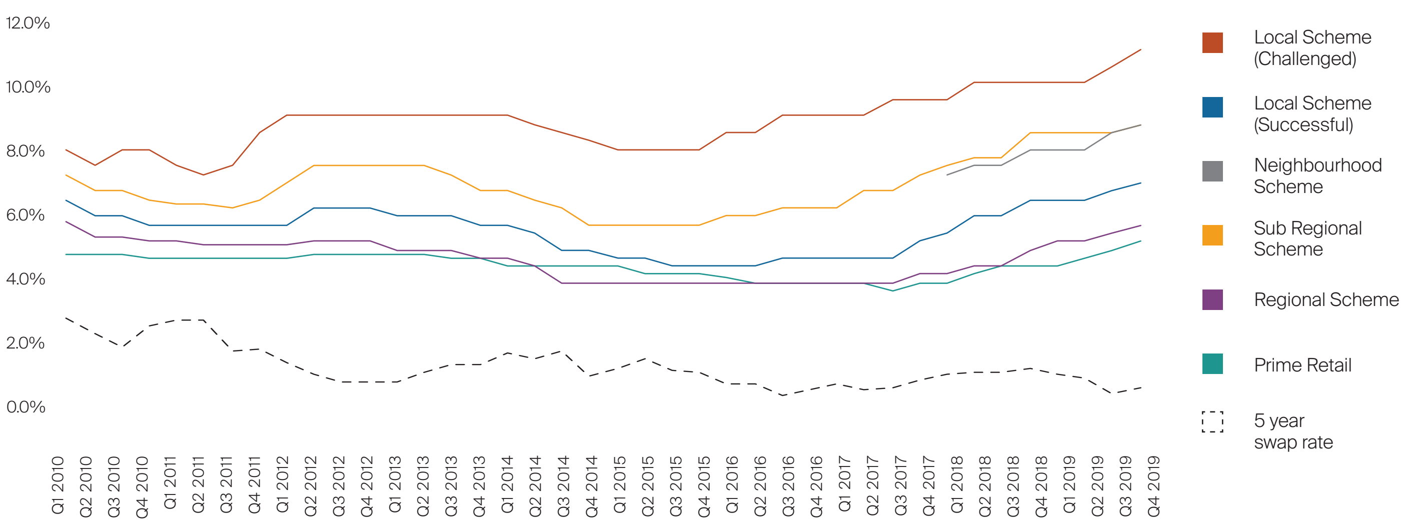
*Advised by Knight Frank

Shopping Centre Transactions



Retail & Shopping Centre Yields

Q1 2010 - Q4 2019



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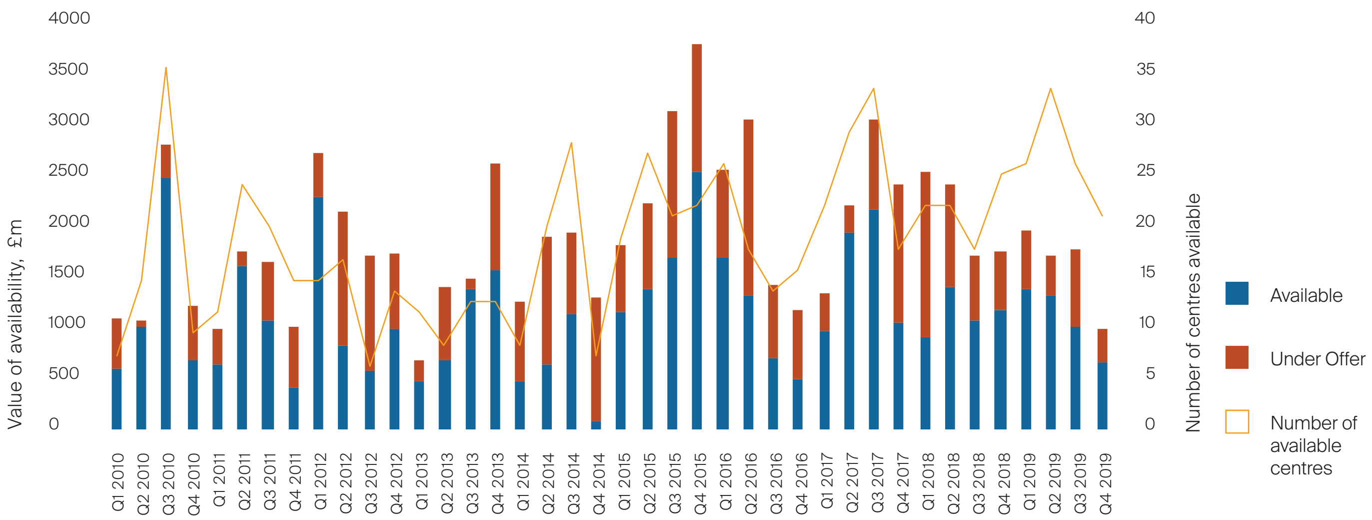
REIT Share Price vs Net Asset Value (NAV)

	Landsec	British Land	Hammerson	Intu	New River	Capital & Regional
Latest Share Price (p)	989	636	312	34	205	25
Q2 - Q3 2019 Movement	19%	13%	13%	-23%	8%	38%
NAV per share (p)*	1298	856	685	233	244	52
Premium to NAV	-24%	-26%	-54%	-85%	-16%	-52%

*Latest available published NAV per share

Shopping Centre Availability



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