Q2 2021

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Retail Investment Update

Green Shoots Emerging

WHAT YOU NEED TO KNOW…

Retail Warehousing

- Increased investor demand is compressing yields
- Strongest demand for rebased, discount-led parks
- Selective UK Funds back in the market
- Foodstore yields hitting new lows

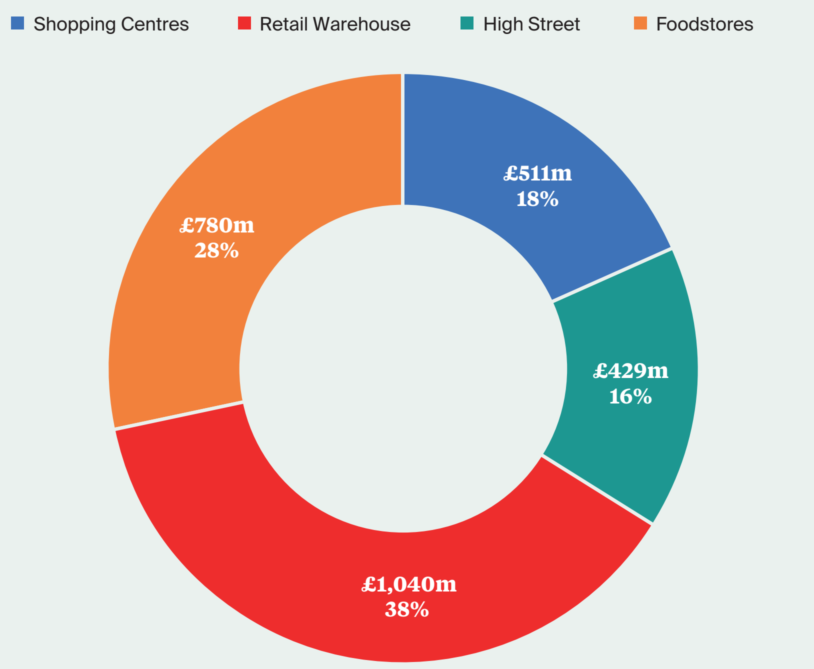
Shopping Centres

- Pricing for relevant schemes – prime experiential and local convenience – starting to stabilise
- Valuation write-downs opening the door for re-purposers
- Bank led sales risk flooding the market later in the year
- All schemes rebasing to potentially attractive new levels

High Street

- Strongest demand for historic prime assets let to secure, rent-paying tenants
- Better liquidity for smaller lot sizes
- High NIYs accounting for overrent
- Buyers attracted to alternative use potential

Transaction Volumes - YTD 2021



Source: Knight Frank

Transaction volumes reached £2.76bn in the first half of 2021, up 80% from £1.54bn over the same period in 2020

Key Transactions - 2021

Shopping centre	Sector	Purchaser	Vendor	Price	NIY %
Hammerson Portfolio	Retail Warehouse	Brookfield	Hammerson	£330m	-
Touchwood, Solihull	Shopping Centre	Ardent*	Lendlease	£90m	9.50%
Centre Court, Wimbledon	Shopping Centre	Romulus Construction	Aberdeen Standard Investments	£71.5m	5.90%
A1 Retail Park, Biggleswade	Retail Warehouse	British Land	Aberdeen Standard Investments	£49m	8.50%
Monument Mall, Newcastle	High Street	Rueben Brothers	Aberdeen Standard Investments	c. £37m	c. 7.40%
Sainsbury's, Ealing	Foodstore	IM Properties	Aprirose*	£33.7m	3.45%
Beacon Retail Park, Milton Keynes	Retail Warehouse	Knight Frank Investment Management*	Nuveen	£23.2m	7.38%
The Spires, Barnet	Shopping Centre	BYM Capital	AIMCO	£28m	6.70%
M&S, 72-76 Queen St, Cardiff	High Street	Topland	M&G Real Estate*	£23.25m	6.42%
Lidl, Weybridge	Foodstore	CBRE Global Investors	Aviva Investors	£12m	3.66%

*Advised by Knight Frank

THE YEAR SO FAR…

- Occupational demand is improving with well-capitalised tenants beginning to selectively take space. This improvement is particularly prevalent in the leisure and discount/essential retailer spheres. Leisure operators are gearing up for a summer bounce-back. Discounters/essential retailers are capitalising on market share gained during the pandemic and the attractive rental terms on offer.
- E-commerce market share has continued to steadily decline from its February 2021 peak, following the reopening of non-essential retail and consumers' shopping habits adapting to the "new normal". The February 2021 high-water mark stood at 36%, with the latest data (May 2021) showing a fall to a more modest 28.50%.
- With the moratorium over tenant evictions extended to March 2022, many occupiers continue to withhold back-rent from periods of enforced closure whilst seeking to opportunistically renegotiate leases. Retailer failures have slowed through 2021 with tenants aided by Government support and the large number of "at risk" occupiers failing earlier in the pandemic. We expect to see these failures grow again as retailers' running costs dramatically increase as staff come off furlough and the business rates holiday ends.
- Rent collection continues to be challenging with collection rates ranging from 30%-60% during the pandemic affected quarters. New deals to return tenants to rent paying position (often by writing off historic arrears), coupled with more stable trading conditions, should see a material improvement in collection rates now that retail is fully open once again.
- Rents have fallen by 50% or more in some centres and this is not a short-term correction. There may, however, be instances of over-correction and rental growth is possible (albeit from a very low base).
- Investors are cautiously returning to the retail sector, buoyed by high yields and prospects of a counter-cyclical buying opportunity. This ship is starting to sail with prime yields already under downwards pressure in the Out-of-Town and Foodstore subsectors.

- Sentiment is polarising between In-Town and Out-of-Town retail. Whilst undeniably stronger towards Out-of-Town, we are witnessing steadily improving investment demand and competitive bidding on selected city centre assets, particularly where re-purposing opportunities exist. Some investors, attracted to retail as a market recovery play but no longer able to compete Out-of-Town, are turning to Shopping Centres and multi-let parades for higher yields/ lower capital values.

- High Street demand stems from HNW Private Investors and PropCo's seeking historic, prime opportunities at significantly discounted pricing. Secure income and certainty of rent are key drivers of demand. As such, shops let to banks, essential retailers and convenience stores are all experiencing increased demand.

- Dramatic valuation declines have caused debt covenants to be breached in leveraged portfolios. This has led to a number of bank-led sales processes, particularly in the Shopping Centre market. Administrators and banks, taking on secondary portfolios, are likely to be the largest source of stock in 2021. UK Institutions and Funds have also been active sellers so far and we anticipate further stock from this ownership group as the year progresses.

- With retail historically being the highest value use, the opportunity to convert space to alternative uses only existed in certain markets. However, the crash in values of retail property (often 50% or more) has opened the door to re-purposers looking for development opportunities. With numerous assets trading at <£100 psf, conversions are becoming more viable in locations where this was not previously possible.

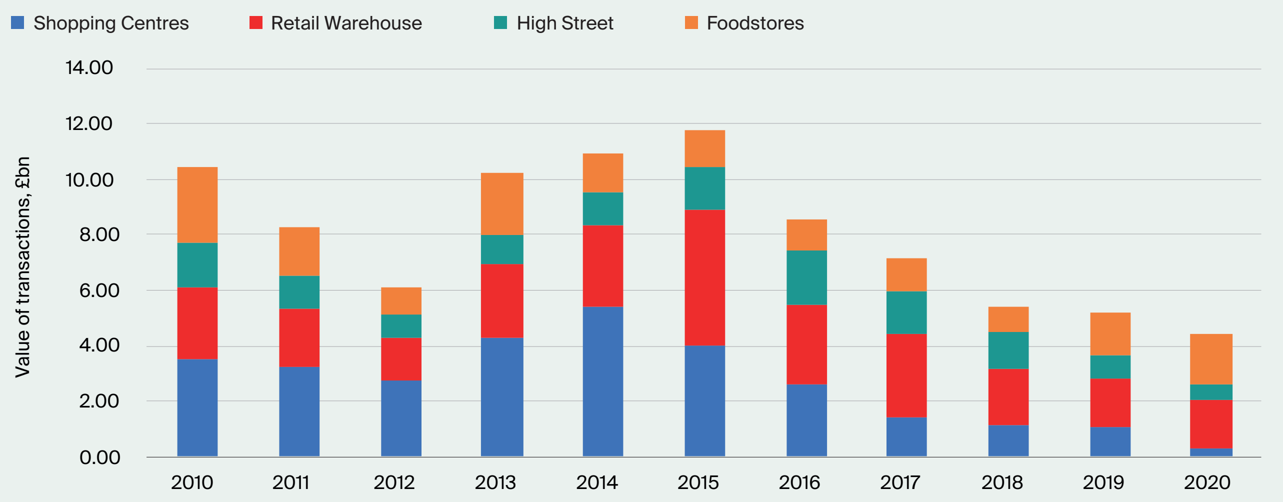
- The Out-of-Town market has seen a resurgence of demand from UK Funds and, as we predicted in our 2021 Retail Outlook, yields are under downwards pressure. Since the turn of the year, we estimate Prime Yields to have hardened by 75bps but the polarisation of demand is marked.

. Re-based, discount-led/bulky retail parks and solus units are most sought-after, whereas the perceived riskier fashion parks are yet to witness such inward yield shift.

- In all retail sub-sectors we are witnessing stronger liquidity for smaller lot sizes. This is largely driven by the lack of debt available to finance acquisitions. Few lenders are willing to underwrite retail acquisitions and those that are demand high interest rates (often 5.00%+) and low gearing (<50%), meaning many investors are choosing to fund acquisitions with cash. For this reason average lot sizes (excluding Out-of-Town /Foodstores) are low and portfolio sales are scarce.

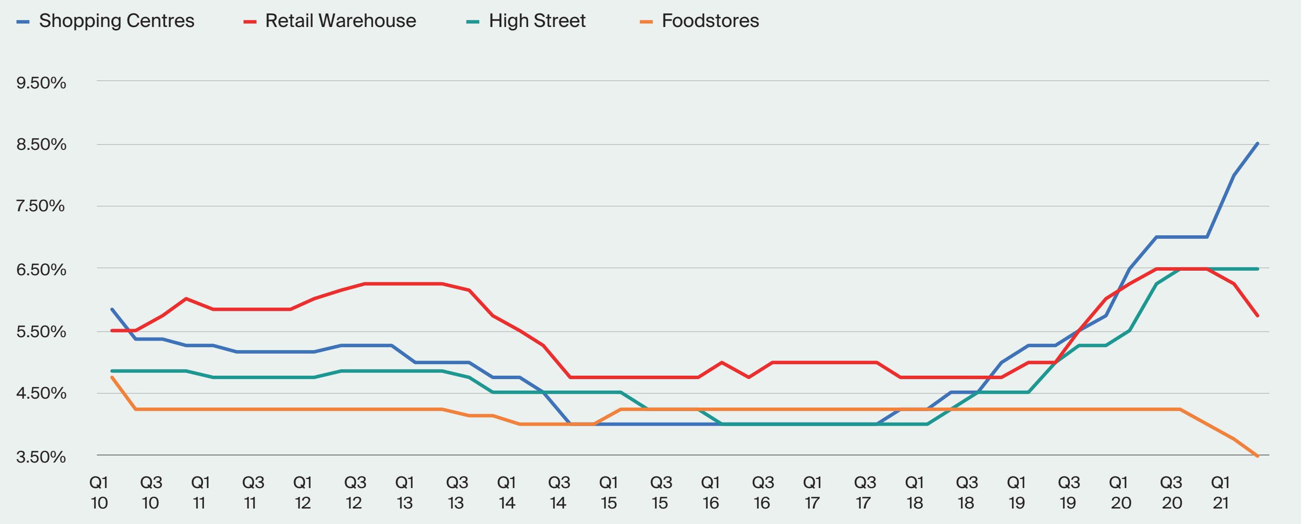
- Demand for Foodstores is red hot and this market continues to set new records. Investors are attracted to the longer leases (often index linked) and stronger covenants than conventional retail and we are seeing many UK Institutions, REITs and overseas investors vying for new investment opportunities.

Transaction Volumes



Source: Knight Frank

Prime Retail Yields



Source: Knight Frank

KNIGHT FRANK OUTLOOK...

- Significant stock expected to come to market in Q4 2021. We fear this supply could overwhelm demand in some areas of the In-Town market and pricing could be impacted.

- Despite a risk of oversupply, we anticipate retail transaction volumes will surpass £6m in 2021, a level not seen since 2017.

- The stabilising occupational market and low levels of stock will put further downwards pressure on Out-of-Town yields. We expect to see a further 25-50 bps of compression by yearend, which will mean 100-125bps of inward yield shift over the course of 2021.

- E-commerce penetration to continue to decline over 2021, plateauing at <25%.

- Polarisation to become more severe with prime, experiential and local, community retail assets to remain robust, but with the middle market increasingly squeezed.

- Retailer casualties to increase as occupiers' running costs dramatically increase as staff come off furlough and the business rates holiday ends.

- Bank-led sales processes to continue in the Shopping Centre and High Street sub-sectors.

- We expect to see an increasing number of investors considering retail as a counter-cyclical buying opportunity as the year progresses.

REIT Share Price Tracker

	Landsec	British Land	Hammerson	NewRiver	Capital & Regional	Supermarket Income REIT	London Metric
Latest Share Price (p)	702	518	39	86	74	118	238
Q1 - Q3 2020 Movement	+6%	+10%	+69%	+8%	0%	+10%	+2%
NAV per share (p)*	985	650	82	151	150	101	190.3
Premium to NAV	-29%	-20%	-52%	-43%	-51%	+17%	+25%

*Latest available published NAV per share

KNIGHT FRANK DEALS

*Over the past 12 months we have transacted over **£1bn** of retail assets across **58 deals** and encompassing all retail sub-sectors. A selection of these transactions are shown below. Thank you to all those clients who have worked with us.*

Touchwood, Solihull - acquisition

July 2021
Client: Ardent
Price: £90m / 9.50% NIY

Sainsbury's, Ripley - acquisition

January 2021
Client: Aberdeen Standard Investments
Price: £31.5m / 4.70% NIY

Cork Tree Retail Park, Chingford – disposal

December 2020
Client: M&G Real Estate
Price: £35.75m / 5.92% NIY

Sainsbury's, Ealing – disposal

March 2021
Client: Aprirose
Price: £33.7m / 3.45% NIY

Riverside Retail Park, Northampton – acquisition

April 2021
Client: Melford Capital
Price: £55m / 8.37% NIY

The Moor, Sheffield – acquisition

April 2021
Client: NewRiver / PIMCO
Price: £41m / 9.10% NIY

72-76 Queen Street, Cardiff – disposal

June 2021
Client: M&G Real Estate
Price: £23.25m / 6.42% NIY

Beacon Retail Park, Milton Keynes – acquisition

May 2021
Client: Knight Frank Investment Management
Price: £23.2m / 7.38% NIY

62-74 Burleigh Street, Cambridge – acquisition

January 2021
Client: Confidential
Price: £21.7m / 5.44% NIY

The Thistles, Stirling – disposal

December 2020
Client: Aberdeen Standard Investments
Price: £22.5m / 14.50% NIY

"Despite the challenges the retail market has faced, Knight Frank have closed over £1bn of retail transactions in the last 12 months.

Looking ahead, we anticipate retail transaction volumes will grow to £6bn+ in 2021, a level not seen since 2017.

Please do not hesitate to get in touch if we can assist with your Retail Investments."

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