Q4 2021

Retail Investment Update

The Tide Begins to Turn

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WHAT YOU NEED TO KNOW...

Retail Warehousing

- Record levels of demand has resulted in yield compression of 150bps+ since Q1 2021
- Deal volumes could reach c £3.4 billion as UK funds, REITs and property companies return to the sector
- Potential returns relative to other sectors suggest demand (and therefore pricing) will continue to improve
- Foodstore demand is outstripping supply with limited on-market opportunities to consider

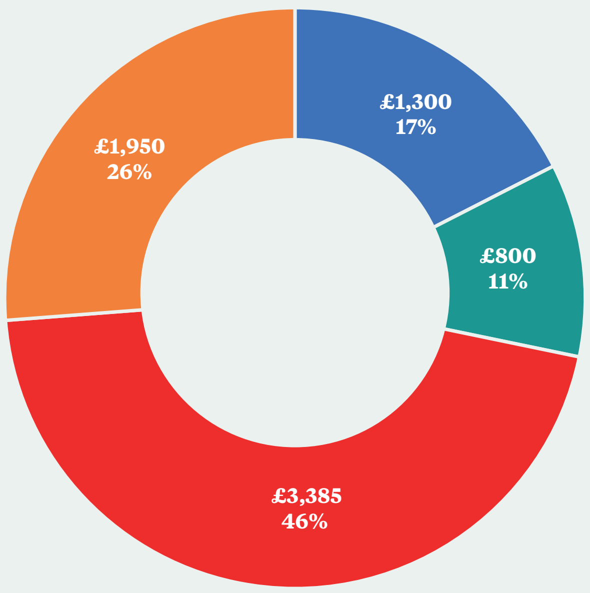
Shopping Centres

- A generational change of ownership is underway with a new wave of buyers coming into the market
- Stock levels were more subdued than expected during Q4 2021 suggesting many will take the opportunity to sell during 2022
- Demand is improving in the smaller lot sizes, with better, largely convenience-led, properties attracting multiple bids
- Absence of debt continues to hold back demand for larger lot sizes, particularly in the major regional schemes

High Street

- Demand remains at its strongest in the South East where repositioning to alternative uses is possible
- Elsewhere, interest is increasingly discerning with covenant strength, rental levels and retail supply all heavily scrutinised
- Valuations have been slower to correct and so buyer and seller pricing aspirations remain an issue
- Historically high yields and low obsolescence expected to draw buyers back in the medium term

Projected Transaction Volumes 2021 (£m)



Source: Knight Frank

Transaction volumes are projected to hit £7.43 billion by yearend. This represents a 69% increase on 2020 and just 3.5% below the 10 year average (£7.72 billion)

RETAIL INVESTMENT UPDATE

Key Transactions - 2021

Shopping centre	Sector	Purchaser	Vendor	Price	NIY %
Washington & Cwmbran	Shopping Centre	LCP (U/O)	M&G Real Estate (U/O)	£140m	10.00%
Boxes Portfolio	Retail Warehouse	Columbia Threadneedle	Blackrock	£131m	8.65%
Touchwood Shopping Centre, Solihull	Shopping Centre	Ardent Companies	Lendlease	£90m	9.50%
The Fort, Birmingham	Retail Warehouse	Invesco Real Estate & George Capital	Nuveen, CBRE IM, M&G Real Estate	£84m	6.40%
Thurrock Shopping Park	Retail Warehouse	British Land	Nuveen	£84m	6.00%
Sainsbury's, Cannock	Foodstore	Supermarket Income REIT	CBRE Investment Management	£76m	4.00%
Chantry Place, Norwich	Shopping Centre	LaSalle	Lenders to intu PLC	£39m	9.70%
Five Ways, Birmingham	Leisure	AEW	Lenders to Valad	£25m	9.00%
72-76 Queen Street, Cardiff	High Street	Topland	M&G Real Estate*	£23m	6.40%
56-60 Broad Street, Reading	High Street	AEW	Columbia Threadneedle	£21m	9.00%

*Advised by Knight Frank

REVIEW OF THE YEAR

- The latter half of 2021 has been characterised by the continued separation of the retail subsectors, with exceptional demand for retail warehousing and foodstores, and subdued interest in the in-town markets. Yields were drifting out to attractive levels albeit this proved to be temporary in the case of retail warehousing, which has witnessed a surge in demand and therefore pricing. Across all sectors, however, there is growing consensus that rents have rebased to affordable levels and with this there is strenghtening investment demand.
- The occupational picture continues to stabilise with most tenants returning to more "normal" levels of trade and arrears balances being largely worked through to the extent that only the remnants of this pandemic nuisance remain. Retailers are preparing themselves for a busy and important Christmas trading period and positive footfall trends (recovering to -13.7% of pre-pandemic levels in October 2021, the strongest rebound in Europe) suggest that shoppers are ready to return to retailing environments in far greater numbers than in previous years.
- Total deal volumes are anticipated to reach £7.43 billion by the end of 2021, close to the 10 year average of £7.72 billion, after a turbulent period impacted by pandemic-induced lockdowns. Within this though, exceptional demand for retail warehousing and foodstores is masking slower years in the in-town high street and shopping centre sectors (albeit both are improving from a very low base).
- Retail warehousing will witness its strongest year since 2017 with deal volumes forecast to reach over £3 billion. The sector has experienced inward yield shift of 150bps+ as investors seek the perceived reliability of income on offer, a stronger recovery from the pandemic due to their outdoor environments and in some cases pricing underwritten by potential for conversion to alternative uses such as residential and industrial.
- For this reason, it continues to be the sector of choice, attracting a "who's who" of institutional investors, REITs and overseas capital. Private equity investors, who opportunistically targeted the sector during 2020, can no longer compete with the lower cost of capital dominating the market and have had to turn their attentions to sectors exhibiting greater distress. Indeed, some investors are already turning assets acquired just 12 months ago, seeking to cash in on the Lazarus-like recovery.
- In a similar vein, foodstores have continued their stellar year with demand far outstripping supply and all on-market opportunities hotly contested. Supermarket REIT and US Realty, along with a host of UK institutions and REITs, continue to drive pricing and remain attracted to the longer leases and strong covenants being offered.

- In town, demand has improved where rents can be seen to be truly rebased although in many cases, investors are still relying on conversion to alternative uses to drive returns rather than believing in an improvement in the yield. Valuations have been slower to correct on the high street than in the shopping centre sector, so buyer and seller aspirations have taken longer to align, although this gap is narrowing and liquidity has improved as a result.

- The high street buyer pool is significantly smaller at lot sizes over £5m and so stronger pricing is achieved in the sub-£5m market. Indeed, recent auctions have seen numerous successful retail sales at extremely strong pricing, compared to larger private treaty processes. Some are taking the view that yields of 8-9% or more are too attractive to resist, especially when compared to yields being paid in other sectors. Shops let to stronger covenants in the major cities have seen the strongest recovery although it is in the South East, where there is a perceived underwrite to alternative uses, where pricing is strongest. Knight Frank's sale of 145-147 High Street North, East Ham at £6.25m / 4.85% NIY is evidence of this.

- There have been only a handful of leisure assets sell during 2021, with sellers seemingly waiting for evidence of demand before testing the market. Traditionally an institutional sector, given the long leases on offer, multiple enforced closures have deterred investment demand so far. However, with an improving occupational environment fuelled by a summer of "staycations", it is likely that more sales will emerge in the New Year.

- Shopping centre performance remains intensely polarised between those assets serving a purely convenience-led audience and those offering a more experiential purpose. Whilst a host of local centres have traded in the market this year (suggesting that some investors are readily buying into their longevity), we have seen very few regional malls test the market, in a sign that vendors remain unconvinced by the level of demand in this arena.

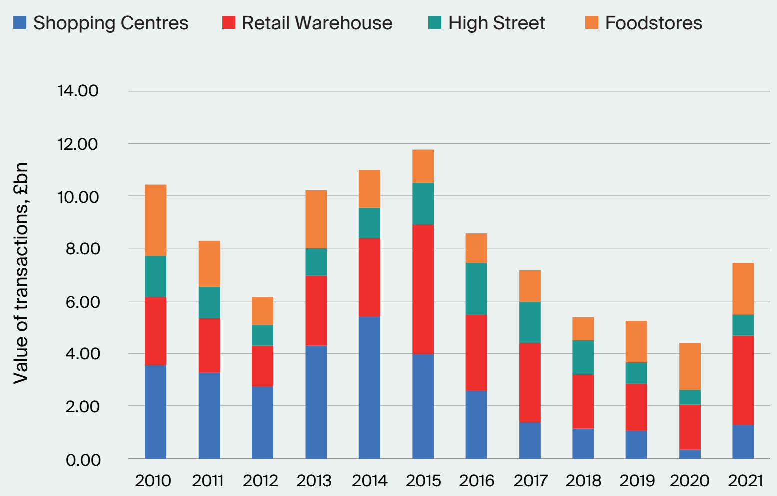
- A generational change of ownership is underway in the shopping centre market, with the sector's traditional landlords (UK institutions, REITs and pension funds) having either sold or being well on the way to selling their shopping centre exposures. As a result, nearly 50% of deals during 2021 were concluded by new entrants into the sector, and we anticipate many of these investors will continue to seek new opportunities in 2022.

- Whilst these funds remain the largest source of supply, most shopping centres acquired with debt since the GFC are now in the hands of their lenders, most of whom are unwilling owners and will seek to sell at the earliest opportunity. We have already seen numerous examples and their successful sales are likely to spur others to follow suit. The sale of St George's, Preston at £21.5m, where Knight Frank advised the lenders on the sale to local property company, Adhan Group, is one such example.

- We are beginning to see the turning of the tide, with some shopping centre sales processes drawing multiple bids. Typically, these sales have been <£20m with initial yields of 12%+, attracting regionally specific property companies or private investors. However, some opportunities, such as sales in Yate, Washington & Cwmbran (under offer as a £140m package) and Reading have shown the growing demand in larger lot sizes, previously not present due to the absence of debt. Lendlease's 25% share of Bluewater is also rumoured to be under offer to sell at >£215m, in what could be a bellwether transaction for the sector.

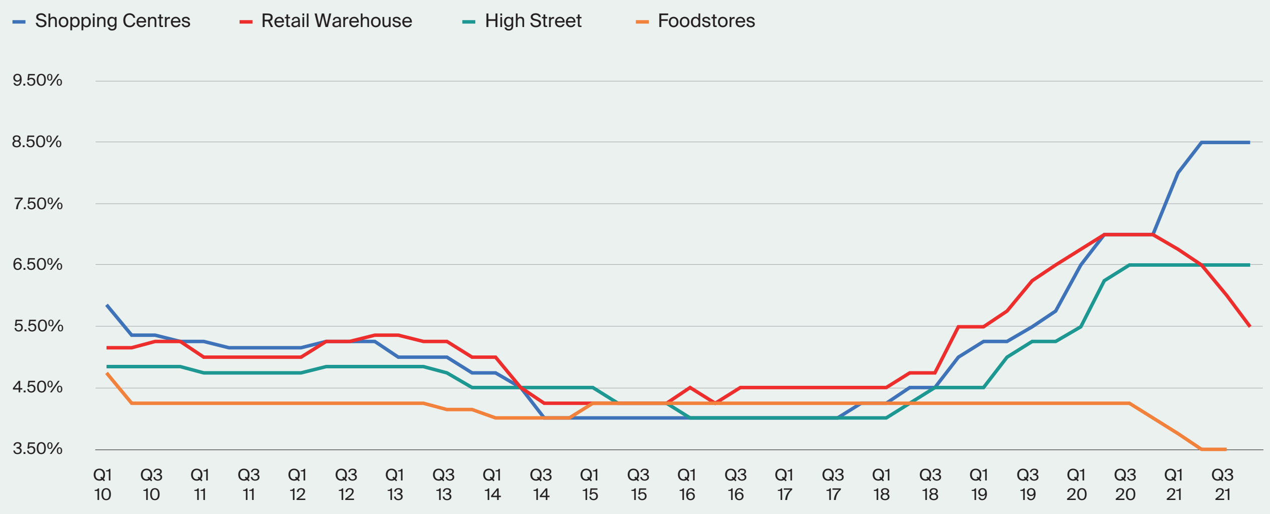
- Outlets, historically much-loved due to the transparency offered to the owner as a result of their turnover-linked leases, are seeing a resurgence with multiple sales testing this market. Best-in-class examples in Bridgend, Cheshire Oaks and Swindon are all expected to sell in the coming months, attracting REIT and institutional interest, in a sign that not all multi-let retail is to be avoided and there remains demand for the right opportunity.

Retail Transaction Volumes 2010-2021



Source: Knight Frank

Prime Retail Yields



Source: Knight Frank

KNIGHT FRANK OUTLOOK…

- Retail warehousing to remain the sector of choice with resilient demand causing yields to compress further

- Foodstores to continue their bull run although on-market stock will be scarce and the specialist funds are increasingly dominating the sector

- High street recovery to take hold in the South East but attractive income returns could tempt investors further afield

- Shopping centres to continue their wholesale change of ownership, with further bank-led and institutional sales expected to test the market in the New Year

- Leisure assets could see renewed demand as occupational performance improves following the year of the "staycation"

- Moratorium of evictions to provide a minor speedbump but otherwise an improving occupational environment should support growing investment demand in the New Year

REIT Share Price Tracker

	Landsec	British Land	Hammerson	NewRiver	Capital & Regional	Supermarket Income REIT	London Metric
Latest Share Price (p)	753.90	530.40	30.81	74.00	63.59	120.50	273.80
Q1 - Q4 2021 Movement	+13%	+13%	+33%	-7%	-14%	+13%	+17%
NAV per share (p)*	985.00	681.00	82.00	151.00	113.00	107.00	213.40
Premium to NAV	-23%	-22%	-62%	-51%	-44%	+13%	+28%

*Latest available published NAV per share

KNIGHT FRANK DEALS

Over the course of 2021, Knight Frank have advised on over £1 billion of retail investment transactions. Across these 54 transactions, we have represented a broad spectrum of clients, ranging from Private Investors to Private Equity, Institutions and Lenders. We thank them for their continued business and look forward to working with them further in 2022.

Railpen (Fritillary) Portfolio - acquisition

August 2021
Client: ISEC
Price: £68m / 9.00% NIY

95-97 Clapham High Street, Clapham - disposal

November 2021
Client: Legal & General
Price: £9.9m / 4.60% NIY

St George's, Preston – disposal

August 2021
Client: Lender
Price: £21.5m / 11.75% NIY

Virgin Active, Chiswick Riverside – disposal

August 2021
Client: British Land
Price: £54.3m / 5.54% NIY

RETAIL INVESTMENT UPDATE

Meteor Retail Park, Derby – acquisition

October 2021
Client: Melford Capital
Price: £31m / 8.50% NIY

Martineau Place, Birmingham – disposal

September 2021
Client: Colony Capital
Price: £40m / 10.00% NIY

Touchwood Shopping Centre, Solihull - acquisition

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

72-76 Queen Street, Cardiff - disposal

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

145-147 High Street North, East Ham - disposal

November 2021
Client: Legal & General
Price: £6.25m / 4.85% NIY

Charter Walk, Burnley – acquisition

October 2021
Client: Burnley Borough Council
Price: £21m / 13.20% NIY

"With all retail sub-markets witnessing increased investment demand during 2021, the tide is undoubtedly turning and liquidity improving.

Transaction volumes are projected to reach £7.43 billion by yearend, even surpassing of our bullish H1 forecast of £6 billion. Knight Frank have been involved in over £1 billion of these deals, representing a 14% market share.

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

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