

# SHOPPING CENTRE

## INVESTMENT QUARTERLY Q2 2014

### Outlook

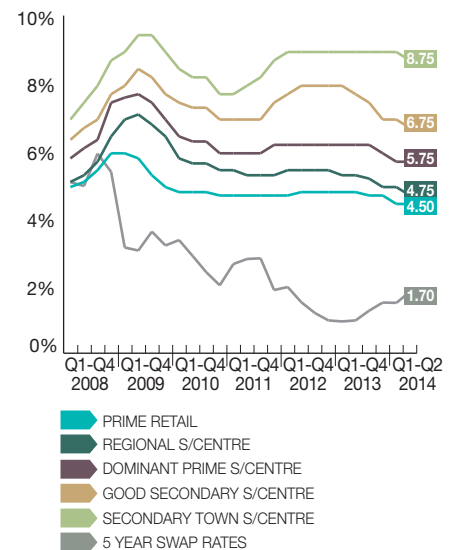
- Forecasters have been increasingly upbeat on the prospects for the UK economy. The consensus among analysts in June was for 3.0% GDP growth in 2014, up from 2.9% in May.
- Retail sales continued to grow but at a slower pace, with ONS's all retail sales showing a 3.9% y-o-y increase in May, compared to 6.9% in April (which had been boosted by Easter).
- We expect improving consumer confidence, healthy employment growth and heavy discounting will continue to drive retail sales volume in the months ahead, however the continued price deflation is a posing challenge to retailers.
- Given the current stock under offer at the moment and the amount of shopping centres being lined up for sale, we expect transaction volumes are on track to exceed 2013's level.

FIGURE 1  
**Who's buying?**  
Q2 2014



Source: Knight Frank LLP

FIGURE 2  
**Retail & shopping centre equivalent yields**  
Q1 2008 - Q2 2014



Source: Knight Frank LLP

### Q2 shopping centres transactions

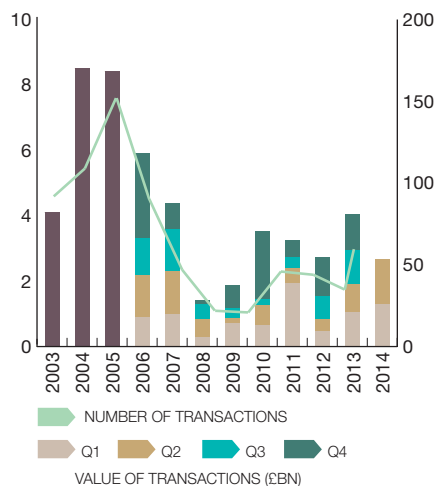
Shopping centre	Status	Purchaser	Vendor	Price (£m)	NIY %
Bluewater Shopping Centre (30%), Kent	Sold	Land Securities	Lend Lease	646.0	3.85
Intu (80%), Uxbridge	Sold	KWAP	Intu	175.0	5.80
The Bridges, Sunderland	Sold	Q Super (Australia)	Land Securities	152.0	6.90
Golden Square, Warrington	Sold	LaSalle IM	L&G / Lend Lease	141.5	6.75
Kensington Arcade, London	Sold	Threadneedle	Meadow Partners	125.0	5.25
Mill Gate, Bury	Sold	InfraRed/Hark	Scottish Widows	53.0	7.75
Washington Square, Workington	Sold	Europa/Scoop	Blackstone	31.5	7.50
Dukes Walk, Waterlooville	Sold	Threadneedle	Scottish Widows	18.5	7.50

Source: Knight Frank LLP

FIGURE 3

## Shopping centre transactions

(LHS – Value of transactions, £bn)  
(RHS – Number of transactions)

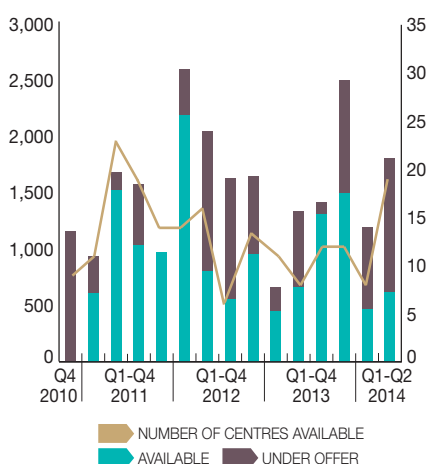


Source: Knight Frank

FIGURE 4

## Shopping centre availability

(LHS – Value of availability, £m)  
(RHS – Number of centres available)



Source: Knight Frank

## Market commentary

- The UK shopping centre market has been the standout performer over the past three months. Q2 was characterised by a number of large transactions.
- While total transaction volumes were strong in Q2, investors were still very selective with their acquisitions. The investment strategy of a range of buyers was largely dictated by low levels of risk appetite. Demand was subsequently heavily skewed towards prime stock, however, a continuing pool of value-add and opportunistic investors were also active.
- The total sales volume in Q2 was £1.40bn across 12 deals, a robust improvement on Q2 2013's £880m and indeed the highest quarterly record since Q1 2011. Total transaction volumes for the first half of this year so far reached £2.7bn, compared to £1.98bn recorded in H1 2013.
- Whilst transaction volume for Q2 stands 7.7% higher than Q1, this was largely due to a key transaction at the top end of the market – the sale of a 30% stake in Bluewater Shopping Centre, Kent, which accounted for 46% of total transaction volume in Q2. Leading UK REITs and institutions were among the top contenders who showed strong interest for the centre. The asset was sold to Land Securities after competitive bidding. The purchase price of £646m demonstrated a net initial yield of 3.85% which provides a new benchmark for established assets with a strong lease profile and also underlines the strength of demand for large scale regional shopping centres.
- Other large lot size transactions in Q2 include; the sale a 80% stake of InTu in Uxbridge at £175m, reflecting a net initial yield of 5.80%, LaSalle IM's acquisition of Golden Square in Warrington for £141.5m (NIY 6.75%), Q Super's off-market purchase of The Bridges shopping centre in Sunderland from Land Securities for £152m, reflecting a net initial yield of 6.9% and Threadneedle's off-market acquisition of Kensington Arcade in London for £125m (NIY 5.25%).
- We continue to see the trend to off-load bad debts/receivership via (direct or debt) portfolios and interest is coming from a wider list of buyers.
- Ten individual assets and one portfolio were under offer at the end of Q2, with a combined quoted price of £1.19bn. Also of note has been the timing of some of the deals being under offer taking a long time to close. For example, InTu in Uxbridge and Cabot Circus in Bristol have taken 6 to 9 months, with exchange still awaited on Cabot Circus. Part of the reason is market pricing catching up with the quote price and also overseas buyers in both cases getting comfortable with the UK retail market.
- While the overall availability of shopping centres has increased substantially from the previous quarter, there is still a shortage relative to the level of capital seeking assets. There are currently 19 shopping centres being openly marketed, with a combined value of approximately £618.7m, compared with 8 assets at the end of Q1 2014. We anticipate that a vast majority of these will be under offer within the month.
- Yields at the prime end of the market remain low and under downward pressure, while yields for good quality secondary product have also hardened. Prime regional shopping centre yields moved in by 25bps to 4.75% over the quarter while good secondary shopping centre yields also come in by 25bps to 6.75%.

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