RESEARCH

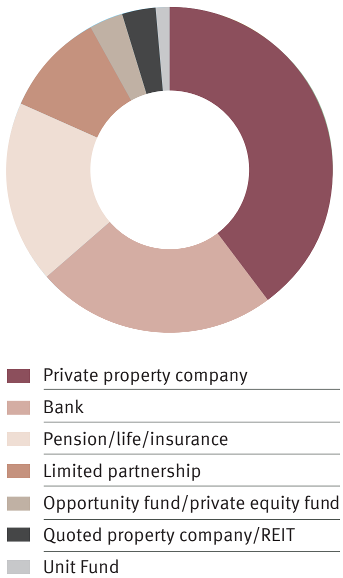
Q3 2010
SHOPPING CENTRE
Investment quarterly

Knight Frank

Outlook

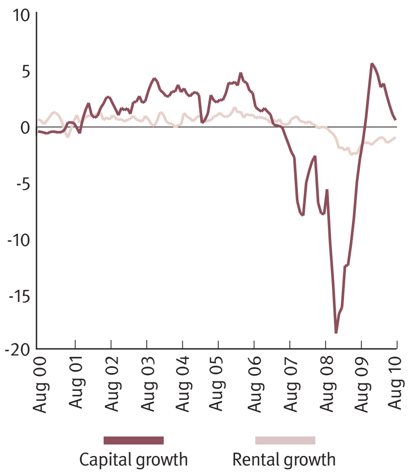
- With a healthy number of buyers and an increasing number of sellers, we expect transaction volumes to accelerate as we approach the year end.
- Prime yields are expected to remain largely stable towards the year end. However, with the volume of secondary assets currently on the market the pressure for outward yield movement in the secondary market is now growing.
- The outlook for the occupational market is also positive particularly in the run up to Christmas. The hike in VAT arriving in January 2011 may even boost retail sales performance prior to the tax increase.
- Occupier and investor demand is set to polarise towards the more affluent retail centres and those that have strong private sector employment bases in the face of the public sector cuts. London in particular is proving to be a resilient occupier market with rental growth recorded in key central London locations.

Figure 1
Who is selling?
Q3 2010



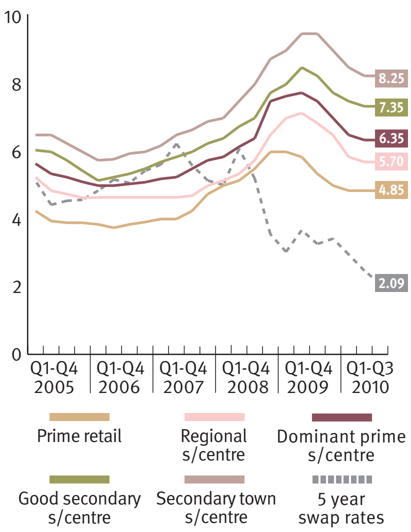
Source: Knight Frank LLP

Figure 2
Shopping centres: capital and rental growth
Three month % change



Source: IPD

Figure 3
Retail & shopping centre equivalent yields
Q1 2005 - Q3 2010



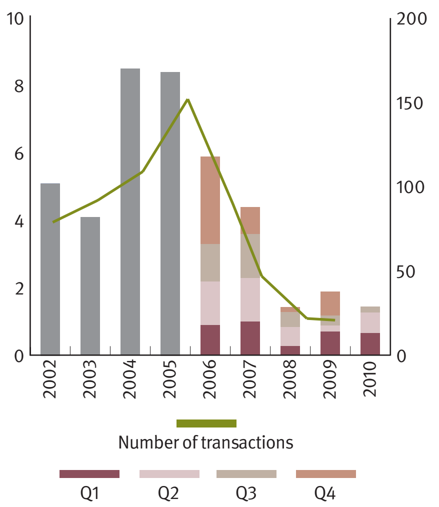
Source: Knight Frank LLP

Q3 shopping centres sold and under offer

Shopping centre	Status	Purchaser	Vendor	Price (£m)	NIY %
Stratford Centre, London	Sold	Catalyst European	Land Securities	92.6	7.25
Arc, Bury St Edmunds	Sold	ING (West Midlands PF)	Delancey	79.5	5.60
Victoria Place, London	Under offer	Network Rail	William Ewart Properties	95.0	6.00
Ayr Central, Ayr	Under offer	Sovereign Land	Henry Boot Developments	35.0	6.25
White River Place, St Austell	Under offer	Bridehall	Lloyds Banking Group/ White River Development	28 .0	6.15

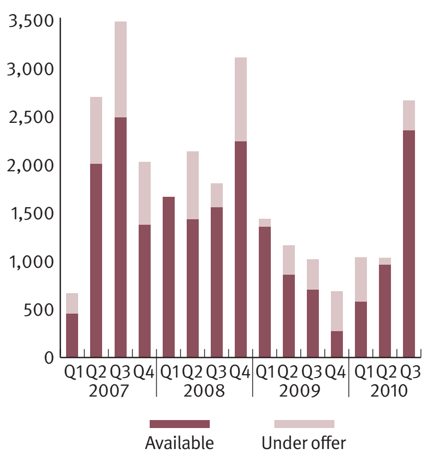
Source: Knight Frank LLP

Figure 4
Shopping centre transactions
2002-2010 (LHS – Value of transactions, £bn)
(RHS – Number of transactions)



Source: Knight Frank LLP

Figure 5
Shopping centre availability
Q1 2007 - Q3 2010 (£m)



Source: Knight Frank LLP

Market commentary

- The most striking development towards the end of Q3 was the sharp increase in the number of shopping centres available on the market, rising from 14 at the end of Q2 to 34 by the end of Q3. The available shopping centres totalled £2.3bn in quoted sales terms, the highest level since Q3 2007.
- Supply levels are on an upward trend, with a number of large centres recently hitting the market. For example, Hermes is offering to sell its 7.5% stake in Bluewater for £115.6m, Grosvenor is looking to sell its Dolphin Centre in Poole for £80m and Lloyds is driving the sale of Drakes Circus in Plymouth for £230m.
- The Q3 vendor profile showed that private property companies continued to dominate the market. Nonetheless, banks have become increasingly active in Q3, accounting for 24% of total Q3 volume, a trend which we expect to continue through Q4.
- There were £312m assets under offer at the end of Q3, a significant increase on Q2, which illustrated the current strength of demand in the market.
- A quiet summer for the investment market generally culminated in just two shopping centre transactions in Q3, compared with 15 in Q2. The two deals amounted to £172m, leaving total turnover completed in 2010 to date of £1.45bn, broadly in line with the position in 2009.
- Investor demand has seen a modest pick-up albeit with the majority focusing on prime stock. The prime yield for regional shopping centres remains unchanged from the end of Q2 and currently stands at 5.7%. Yields for secondary shopping centres also appear to be stabilising although there is now greater scope for yield softening in the short-term.
- According to IPD, shopping centres have provided total returns of 21% in the last 12 months. While capital value growth for shopping centres remained in the positive territory (0.2%), the rate of increase has eased back, mirroring the performance of the other retail sub-sectors.
- Following a return to positive annual growth in February, retail sales continued to improve during Q3 – albeit slower than Q2. Although August retail sales data showed marginal growth, the health of the UK retail sector appeared to have been resilient for most of 2010 and this has been particularly evident in the capital where retailers are trading better than in other regions.

Knight Frank advised the purchaser of Arc, Bury St Edmunds

- September 2010
- **Price** – £79.45m
- **Size** – 271,000 sq ft
- Long Leasehold
- **Rent** – £4,648,784 per annum
- **Net Initial Yield** – 5.60%
- **Tenants** – Debenhams, Next, River Island, H&M and New Look
- **Vendor** – Delancey
- **Purchaser** – ING (on behalf of West Midlands Metropolitan Authorities Pension Fund).

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