

SHOPPING CENTRES

SNAPSHOT Q3 2017



VOLUMES

DOWN 39% COMPARED WITH 2016 AND 37% COMPARED WITH 10 YR AVERAGE



SUPPLY

ON MARKET SUPPLY £2BN, SKEWED BY A £900M SHARE IN BLUEWATER



DEMAND

REMAINS DOWN BUT SIGNS OF NEW ENTRANTS FOR 2018



CAPITAL VALUES

PRIME YIELD HELD 4.25%; SECONDARY MOVED 9.00% TO 9.50%



SPREAD

PRIME TO SECONDARY SPREAD 500BPS, IN CONTRAST TO INDUSTRIAL SPREAD OF 175BPS



INCOME

INCOME RETURNS OF 1.8% FOR Q3 HIGHEST OF ANY IPD SECTOR



OUTLOOK

VALUATIONS TO CATCH UP PRICING FALLS LEADING TO MORE ACTIVITY

- Transactions are at a 7 year historic low with only 26 deals for the year to date, compared with Q1-Q3 average deal flow of 38 for the 10 year period.
- A stand-off: investors only seeing value in the sector at levels below vendors' aspirations. This reflects in the 11 sales already withdrawn for the year to date.
- This is also reflected in the low number of schemes under offer, with only 10 schemes at a total value £300m (excluding the proposed funding of Brent Cross by CPPIB).
- With strong income returns and no pressure to exit, would be vendors are choosing to hold, with refinancing options at 'valuation levels' appealing over selling at today's lower market pricing.
- Looking forward to Q4 2017-Q1 2018 there is currently £2bn available on or off market, skewed by a £900m share in Bluewater. Excluding that sale, supply remains low compared to historic levels and we forecast total volumes for the year to be in the region of only £2.5bn, reflecting the lowest level since 2009.
- We anticipate some increase in secondary stock in Q4, potentially creating evidence to raise valuation yields. This will be reflected in a continued fall in the Shopping Centre Capital Values index, but not in a further fall in actual market pricing. The decline in valuations will limit the attractiveness of refinancing freeing up more sales at revised pricing and improving liquidity to the market.
- Despite the occupational narrative remaining largely negative, the actual results reported by retailers remained robust for Q3 2017. For the three months to August, non-food retail sales increased by 0.9% overall and by 0.6% on a like-for-like basis (source: BRC). National town centre vacancy rates remained stable at 12.1% (source: LDC).
- In a market of low returns, Shopping Centres again showed the strongest income return for the Quarter (IPD). A realisation of rising yields for Q4 and improved retailer sentiment should see the income returns further strengthen into 2018, potentially helping the sector draw in a deeper buyers pool.

FIGURE 1

Q3 2017 shopping centres transactions

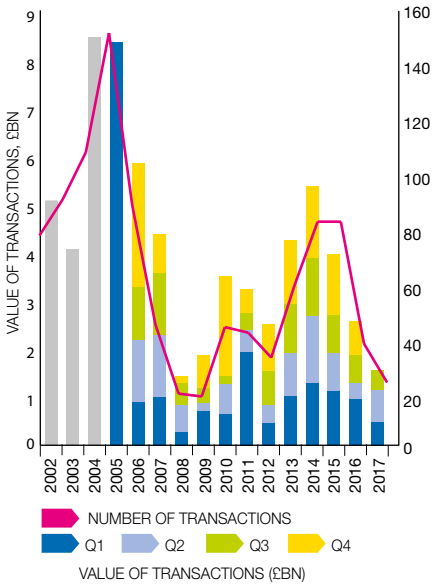
Shopping centre %	Purchaser	Vendor	Price (£m)	NIY
Kings Walk, Gloucester	REEF Estates	Aviva	£20.5m	6.00%
Castle Court, Belfast	Wirefox	Hermes	£125m	6.50%
Saddler Centre, Walsall	Walsall Council	Topland	£12.5m	9.30%
Bluewater, Kent (7.50%)	Royal London	Hermes	£155m	4.25%

Source: Knight Frank LLP

FIGURE 2

Shopping centre transactions

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

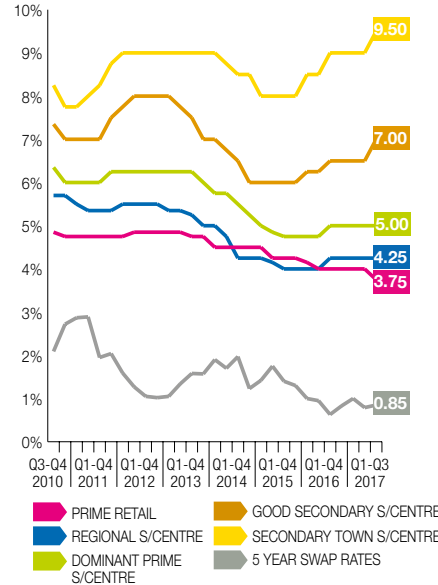


Source: Knight Frank LLP

FIGURE 3

Retail & shopping centre equivalent yields

Q2 2010 - Q2 2017



Source: Knight Frank LLP

Swap rates source: <http://www.mortgagesforbusiness.co.uk/content/BuytoLetMortgages/BuytoLetMarketData/MoneyMarkets.aspx>

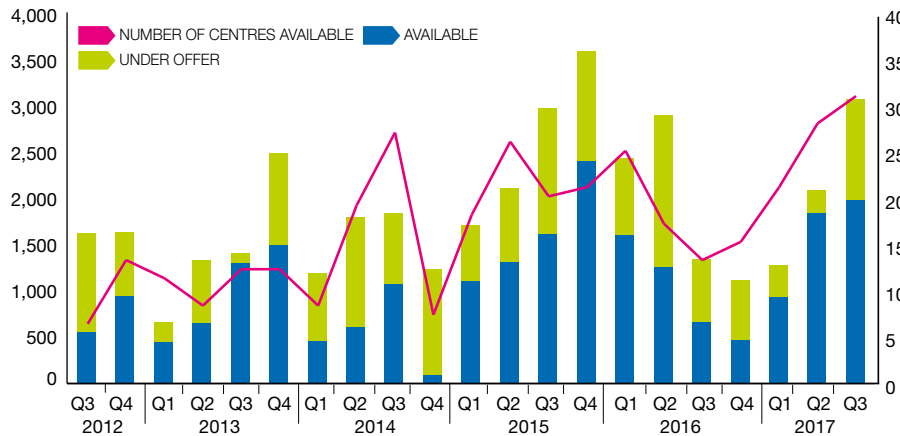
FIGURE 4

REIT Share Price versus Net Asset Value (NAV)

	Landsec	British Land	Hammerson	Intu	NewRiver	Capital & Regional
Latest Share Price (p)	975	603	536	230	337	57
Q2 - Q3 Movement	-11%	-3%	-8%	-15%	-4%	-3%
NAV per share (p)	1458	915	728	404	290	68
Premium to NAV	-33%	-34%	-26%	-43%	16%	-17%

FIGURE 5

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



Source: Knight Frank LLP

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