RESEARCH

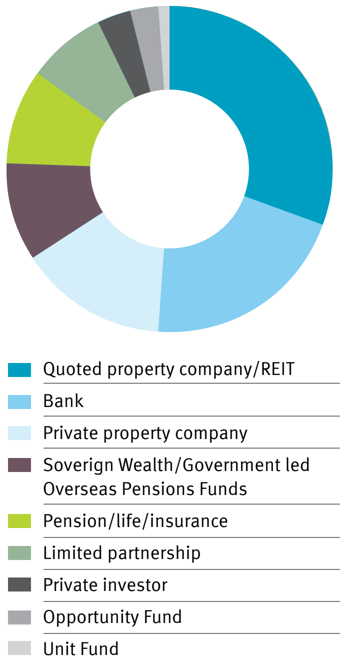
Q4 2010
SHOPPING CENTRE
Investment quarterly

Knight Frank

Outlook

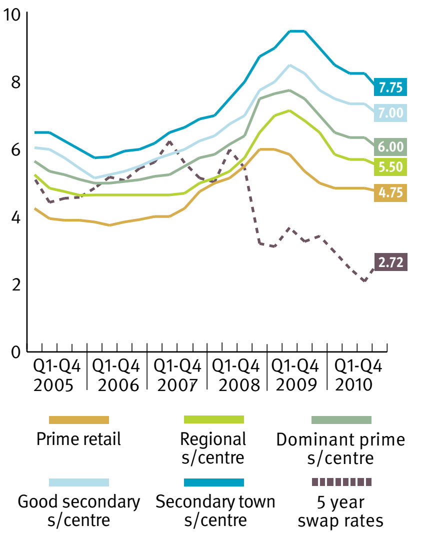
- Transaction volumes are expected to fall from their Q4 peak, constrained by a lack of stock. Demand will remain strong with interest selectively turning to more secondary stock because of the lack of prime opportunities.
- The divergence in yields between prime and tertiary is expected to be more pronounced over the next few months. In our view, prime yields are projected to remain largely stable although they may see a small inward shift.
- The outlook for the occupational market is increasingly positive, although the medium term prospects for retailers is dependent on several factors, such as job security, inflation and interest rate rises. However, continuing the trend of last year, we anticipate 2011 to be another year of steady recovery.

Figure 1
Who is selling?
Q4 2010



Source: Knight Frank LLP

Figure 2
Retail & shopping centre equivalent yields
Q1 2005 - Q4 2010



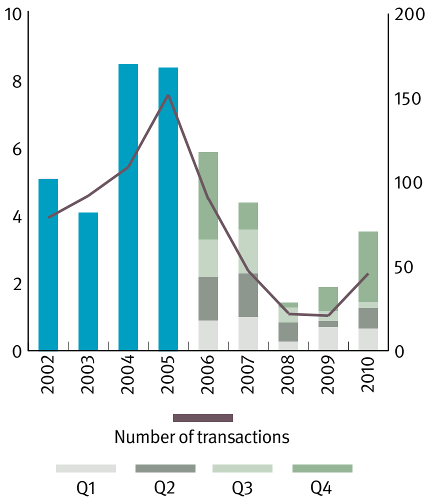
Source: Knight Frank LLP

Q4 shopping centres sold and under offer

Shopping centre	Status	Purchaser	Vendor	Price (£m)	NIY %
Westfield Stratford, London	Sold	Algemene Pension Group & Canada Pension Plan Inv Board	Westfield	871.5	5.80
Drake Circus, Plymouth	Sold	British Land	Lloyds/HBOS	241.0	5.80
Westfield, Derby	Sold	Westfield	Hermes	190.0	6.30
The Sapphire Portfolio	Sold	Addington Capital/AEW	Lloyds/HBOS	145.0	7.50
Overgate, Dundee	Sold	Land Securities	Lend Lease Partnership	141.0	6.70
Fremlin Walk, Maidstone	Sold	Legal & General	Europa Capital Partners	92.0	7.80
Dolphin Shopping Centre, Poole	Sold	Wereldhave	Grosvenor	82.4	6.10
Cream Portfolio	Sold	New River	Barclays Capital	53.0	8.15
The Mall, Bristol	Sold	HSBC Fund Management	The Mall Fund	50.2	7.90
Castlegate, Stockton-on-Tees	Sold	Lathe/Angelo Gordon	Bank/Receiver	27.8	8.00
Grays Shopping Centre, Grays	Sold	Rockspring	Stockland	21.0	9.20
The Priory Shopping Centre, Worksop	Sold	Threadneedle	Lloyds/HBOS	19.8	8.35
The Guineas, Newmarket	Sold	Helical Retail	Lloyds/HBOS	17.8	8.12

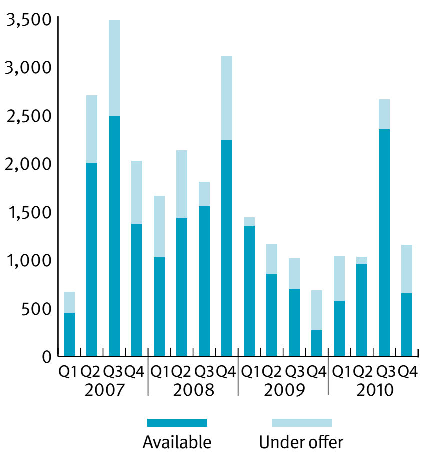
Source: Knight Frank LLP

Figure 3
Shopping centre transactions
(LHS – Value of transactions, £bn)
(RHS – Number of transactions)



Source: Knight Frank LLP

Figure 4
Shopping centre availability
Q1 2007 - Q4 2010 (£m)



Source: Knight Frank LLP

Market commentary

- Q4 saw a significant increase in shopping centre transactions, with 25 individual shopping centre deals completed. Transactional values totalled £2.09bn in Q4, the highest since Q4 2006. With a strong final quarter, the 2010 total sales value of £3.5bn surpassed the 2009 total by 87%, with a total of 46 deals taking place. Transactional activity has been robust for both prime and secondary centres, with healthy demand for all sectors.
- One of the most prominent developments towards the end of Q4 was the strong level of take-up. At the start of the quarter, 38 shopping centres were available but by the end of Q4, 33 of those centres had either sold or were under offer. By the end of Q4, only nine assets were available with a combined quoted sales value of £654.7m, 72% below the Q3 figure and 42% below the quarterly average.
- A number of regional and sub-regional shopping centres were sold during the quarter. Examples included Land Securities' purchase of Overgate, Dundee for £141m (NIY 6.70%), the sale of Drakes Circus, Plymouth by Lloyds/HBOS to British Land for £241m (NIY 5.80%) and the sale of Dolphin Centre, Poole by Grosvenor to Wereldhave for £82.4m (NIY 6.10%). In addition, there were two bank led portfolio transactions.
- Q4 brought yield compression for both prime and secondary assets. The prime yield for regional shopping centres saw a downward shift of 20bps to 5.50% while good secondary assets also saw a downward shift of 35bps to 7.00%.
- The Q4 vendor profile showed that REITS/quoted property companies were the largest sellers, principally as a result of the Westfield Stratford City transaction which accounted for 31% of Q4's total value. As predicted last quarter, banks continued to play an active role, accounting for 21% of sellers in Q4, overtaking the position of private property companies, a trend which we expect to continue through Q1 2011.
- According to IPD, the rate at which capital values for shopping centres are rising has eased slightly in the last few months, as it has for other sectors, recording 5.6% growth over the 12 months to December 2010 compared with 6.9% for commercial property as a whole.
- As recorded by the ONS, the volume of retail sales in December 2010 was unchanged compared to the same month a year earlier. Despite the bad weather and the concerns that retail sales growth will begin to moderate with the hike in VAT in January, the initial feedback from many retailers was generally positive.

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