

PROPERTY TIMES

Subdued start to 2016 as volumes down 38%

UK Shopping Centres Q1 2016

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- Shopping centre transactions were **£591m** in Q1 2016 with **12 shopping centres** having exchanged or completed. This reflects a **38% reduction** in transactions compared to Q1 2015. There is, however, **£776m** worth of shopping centre stock under offer and a further **£2.7bn** shopping centre stock currently available or being prepared for marketing.
- Cushman & Wakefield acted on two of the 12 transactions in Q1 2016. This included the largest transaction of the quarter; the sale of **Grand Central, Birmingham** on behalf of Birmingham City Council and Network Rail for £335m (3.75% NIY), which represented 57% of the total Q1 2016 market volume. Cushman & Wakefield also acted on the sale of **Shawlands Shopping Centre, Glasgow** on behalf of AWG for £8m (8.93% NIY).
- Another notable transaction this quarter includes the purchase of Lion Walk, Colchester by CBRE Global Investors for a purchase price of £76.5m (6.00% NIY).
- Consumer confidence remains positive**, although has stalled over the last two months, in part over nervousness relating to the upcoming EU referendum. The volume of retail sales growth **remains strong** on back of ongoing low inflation and rising real household incomes.

The key investment transactions for Q1 2016 are outlined in Table 1 below, ranked by lot size:

Table 1

UK shopping centre investment transactions Q1 2016

Month	Shopping Centre	Vendor	Purchaser	Price (£m)	NIY (%)
Mar	Grand Central, Birmingham*	Birmingham City Council / Network Rail	Hammerson	335.0	3.75
Feb	Lion Walk, Colchester	Ares/Sovereign Land	CBRE GI	76.5	6.00
Mar	Clayton Square Shopping Centre, Liverpool	Hark / Infrared	Rockspring	37.7	6.17
Jan	Marlowes Shopping Centre, Hemel Hempstead	Standard Life	Capital & Regional	35.5	6.92
Mar	Grays Shopping Centre, Grays	Lonestar/Ellandi	Ellandi	25.0	7.89
Mar	Langney Shopping Centre, Eastbourne	Columbus UK Real Estate	Vale Retail / Tyburn Lane	19.2	7.25
Mar	Metquarter, Liverpool	Columbus UK Real Estate	Queensbury/ Revcap	19.0	7.50
Feb	Market Walk, Newton Abbot	La Salle IM	Teignbridge District Council	13.1	8.00
Feb	Cumbernauld Shopping Centre, Scotland	La Salle IM	Hamilton Portfolio / Revcap	8.5	13.00
Feb	Five-Rise Shopping Centre, Bingley	Private	Cordatus	8.3	7.37

Source: Cushman & Wakefield Retail Investment

*C&W Advised

UK Shopping Centres Q1 2016

Transaction Volumes

- UK shopping centre investment totalled **£590.7m (12 shopping centres)** in Q1 2016 (Figure 1). This is a **38% fall** from Q1 2015.
- 12 shopping centres** or portfolios were under offer at the end of Q1 2016, totalling **£776.2m**. A further **£2.7bn** of shopping centres are being openly marketed or prepared for the market.
- Q2 2016 is likely to be a stronger quarter** with some relatively large lot sizes set to close. Moreover, with a resolution to the uncertainty and hesitancy regarding a possible Brexit in June, we expect the second half of 2016 to increase to the longer term investment average.

Yields

- Dominant secondary yields **softened 25 bps** in Q1 2016 to 6.25%. All other shopping centre subsector yields remained steady (Figure 2).
- We see super prime and prime shopping centre yields **trending stable** with firm demand from a range of investors chasing a limited supply of assets. However, there is outward pressure on all other shopping centre sub-sectors.

Key Players

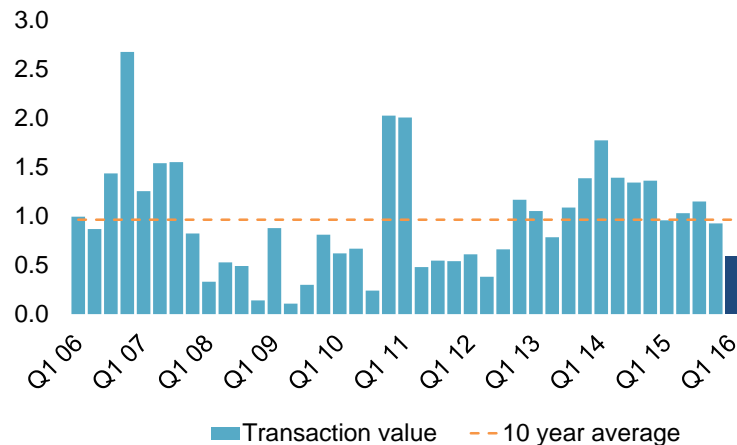
- Due to the size of the Grand Central Birmingham transaction, the purchaser profile was **heavily dominated by REIT's**, at 63% (Figure 3). Funds comprised 22% of purchasers with £127.4m, while Private Equity comprised 12%.
- Again, due to the Grand Central transaction, **Councils** were the largest vendor type at £335m (57%). **Funds** were the second largest sellers in Q1, **disposing £176.8m** worth of shopping centres. Private Equity sold £62.7m accounting for 11% of stock sold.

Rental Growth

- According to the IPD Q4 Quarterly Digest, 'all retail' saw **rental growth** over the whole of 2015, rising 1.4%. The shopping centre subsector continued the **positive momentum** in Q2 and Q3, seeing gains of 0.1% in Q4 and 0.2% over 2015.
- Comparing Q4 2015 to Q4 2014, low yield (prime) shopping centres saw the **highest growth** with rents **rising 1.4%** over the 12 month period (Figure 4). However, mid yield centres both saw declines over the 12 months period with rents **falling 1.0%** respectively while high yielding centre rental growth remained static.

Figure 1

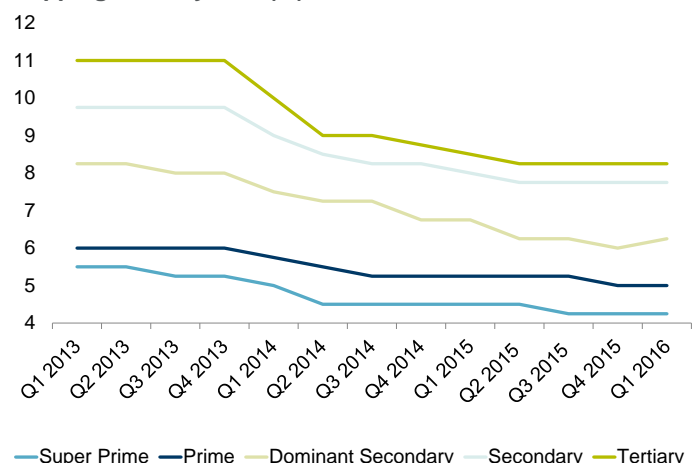
Total transaction value (£bn) & volume by quarter



Source: Cushman & Wakefield Retail Investment

Figure 2

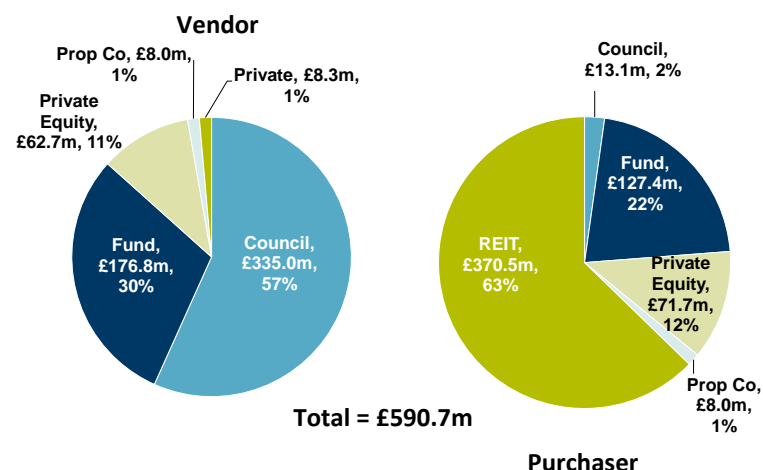
Shopping centre yields (%)



Source: Cushman & Wakefield Retail Investment

Figure 3

Transactions Q1 2016 by vendor & purchaser



Source: Cushman & Wakefield Retail Investment

UK Shopping Centres Q1 2016

Retail Sales & Consumer Confidence

- The volumes of retail sales growth **remains strong** on back of continual low inflation and an improving labour market supporting real income growth.
- February saw the volume of **sales increase 4.1%**, the 34th consecutive month of positive year-on-year growth (ONS, Figure 5).
- Consumer confidence remained unchanged in March with concerns about Britain's referendum on EU membership dampening confidence about the general economic situation (Figure 6). However, confidence about personal finances **remains upbeat**, particularly appetite for big ticket purchases.

Occupational Market

- Retailers continued to seek out shopping centre stores in the first quarter of 2016, with **international retailers** leading the way
- We continue to see a **healthy demand from the large store operators** with H&M continuing its welcomed multi-brand expansion programme. Victoria's Secret, Inditex, Sports Direct and Nexr also continue to acquire substantial stores in the right locations.
- There also remains a **lot of demand from retailers looking at 800-1,200 sq ft spaces**. Kiko and Smiggle continue their UK expansion plans along with Pandora, T2, Urban Decay, Accessorize and the jewellery brands all also looking for this size in the right locations.
- Q1 2016 has also seen the **automotive industry** look to take permanent retail units within shopping centres. The likes of Tesla, Rockar and VWG are all developing new concept stores, planning to transform how and where we shop for our cars.
- The **food and beverage sector continued to perform well** at the start of 2016. A new study published by ECE has shown that 40% of visitors base their choice of shopping centre primarily on the available dining options and not on the variety of other stores while 60% of those surveyed eat at the centre nearly every time they visit.
- New food and beverage occupiers to the shopping centre market include; Limeyard, Jackson & Rye, ThaiKhun, Big Easy, Sticks N Sushi and Ivy.
- However, concerns remain with respect to the EU referendum, the National Living Wage and global economic uncertainty. The Restaurant Group (TRG) reported deteriorating trading at the start of 2016 as like-for-like sales fell 1.5% in the first 10 weeks of 2016.

Figure 4

Year-on-year rental growth (IPD Q4 Quarterly Digest)

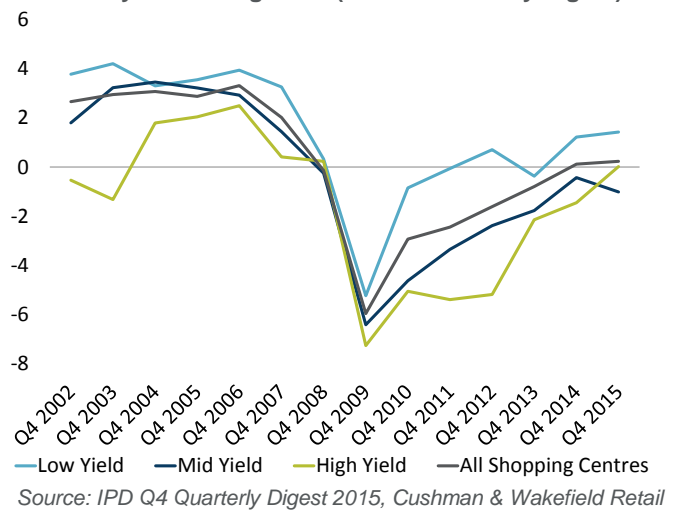


Figure 5

ONS & BRC year-on-year retail sales growth

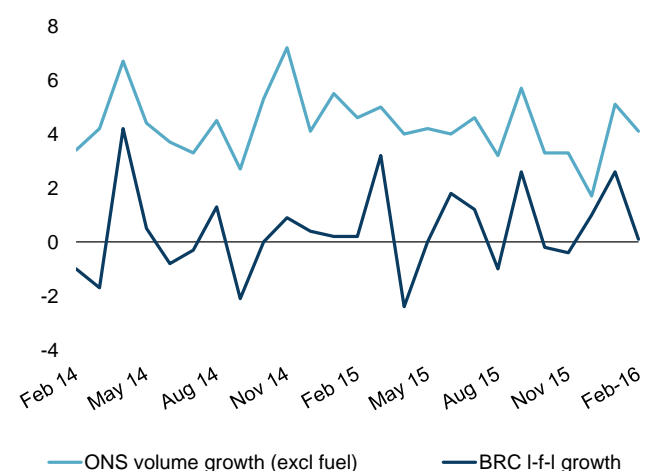


Figure 6

GfK consumer confidence



UK Shopping Centres Q1 2016

Q1 Highlights



BIRMINGHAM, GRAND CENTRAL
SOLD
PURCHASER: HAMMERSON
£335M (NIY 3.75%)



COLCHESTER, LION WALK
SOLD
PURCHASER: CBRE GI
£76.50M (NIY 6.00%)



LIVERPOOL, CLAYTON SQUARE
SOLD
PURCHASER: ROCKSPRING
£37.65M (NIY 6.17%)



HEMEL HEMPSTEAD, MARLOWES SHOPPING CENTRE
SOLD
PURCHASER: CAPITAL & REGIONAL
£35.53M (NIY 6.92%)



GRAYS, GRAYS SHOPPING CENTRE
SOLD
PURCHASER: ELLANDI
Q: £25.00M (NIY 7.89%)



EASTBOURNE, LANGLEY SHOPPING CENTRE
SOLD
PURCHASER: VALUE RETAIL / TYBURN LANE
£19.2M (NIY 7.25%)



LIVERPOOL, METQUARTER
SOLD
PURCHASER: QUEENSBURY/REVCAP
£19.00M (NIY 7.50%)



NEWTON ABBOT, MARKET WALK
SOLD
PURCHASER: TEIGNBRIDGE DISTRICT COUNCIL
£13.05M (NIY 8.00%)



CUMBERNAULD, CUMBERNAULD SHOPPING CENTRE
SOLD
PURCHASER: HAMILTON PORTFOLIO/REVCAP
£8.50M (NIY 13.00%)



FIVE-RISE SHOPPING CENTRE, BINGLEY
SOLD
PURCHASER: CORDATUS
£8.25M (NIY: 7.37%)

Outlook

Despite GDP growth slowing, UK consumer spending growth remained resilient through 2015 and into 2016. Although consumers have become less confident about the economy in general (partly fuelled by the EU referendum), they remain confident about their personal finances which has in turn correlated to continued growth in the volume of retail sales.

Looking forward we expect shopping centre investment volumes to remain relatively subdued in Q2 in the lead up to the EU referendum. There are a number of larger schemes under offer which should ensure volumes in Q2 surpass Q1 figures but we expect increased volumes in H2 following the lifting of some uncertainty.

We continue to expect strong demand for super prime and prime assets with yields remaining stable, reflecting this demand. However, we have seen dominant secondary yields shift out 25bps with outward pressure on dominant secondary, secondary and tertiary assets. Buyers are becoming more selective with assets while vendors hold onto assets where their pricing aspirations are not met. Government changes to buy-to-let taxation may lead to greater personal investment in commercial property funds, listed property companies and REITS which will create a wider investment base.

Table 2

UK shopping centre yields by centre type

Shopping Centres	Mar 2015	Nov 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016	Trending
Super Prime	4.50%	4.25%	4.25%	4.25%	4.25%	4.25%	Stable
Prime	5.25%	5.00%	5.00%	5.00%	5.00%	5.00%	Stable
Dominant Secondary	6.25%	6.00%	6.00%	6.25%	6.25%	6.25%	Outward
Secondary	8.00%	7.75%	7.75%	7.75%	7.75%	7.75%	Outward
Tertiary	8.50%	8.25%	8.25%	8.25%	8.25%	8.25%	Outward

Source: Cushman & Wakefield Retail Investment

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