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Spotlight
UK shopping centre investment

July 2012

Consumer economy

■ The consumer economy in the UK has arguably been through one of its worst ever downturns, with real average earnings contracting for the first time in over 30 years. However, there are signs that the outlook for consumer spending might be improving.

■ The first hints came last year when consumer spending rose by 0.5% in the final quarter, with retail sales growth even stronger than that. However, the recent rises in retail sales volumes can be attributed to deep discounting, and the retail sales deflator continues to fall.

■ We remain of the view that consumer confidence and spending will improve in line with the reducing drag of inlfation on earnings. Furthermore, changes to the tax and benefits systems will generally support spending for medium to lower income households.

■ On the flip-side there is still a lot of debt to be paid off, and "precautionary saving" will continue as long as the negative headlines on the economy and Eurozone are prevalent. Also, in the medium term interest rates will rise back to "normal" levels, and this could surprise some households.

■ However, on balance we remain optimistic that the squeeze on real incomes will ease in the remainder of 2012, and this sets up 2013 as the beginning of a proper consumer recovery.

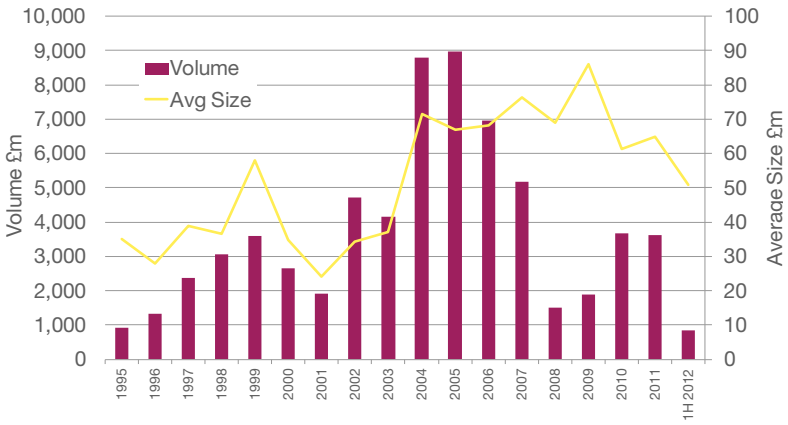
Shopping centre investment

■ The slow start to the shopping centre investment market has continued through the second quarter. Just 7 deals have been transacted in Q2 accounting for £335.96m in capital value terms (19 deals so far this year equating to £844m).

■ The average capital value of assets traded has increased in Q2 to £50.8m from £38.46m. The average initial

GRAPH 1

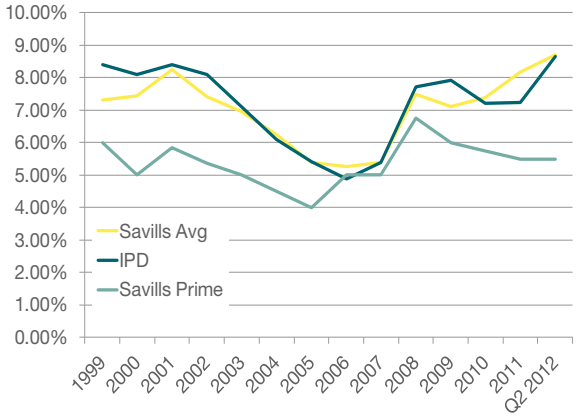
UK shopping centre investment turnover



Graph source: Savills

GRAPH 2

UK shopping centre yields



Graph source: Savills

yield in Q2 has continued to increase from 8.3% in Q1 2012 to 8.7% in Q2, reflecting market sentiment and nature of the secondary stock being traded.

■ Notable transactions in Q2 2012 included:
■ Acquisition of Kingfisher centre, Redditch for £128m, reflecting 8% NIY, by Capital & Regional with Oaktree Capital backing;
■ Acquisition of Broadwalk, Edgware for £67.29m, reflecting 6% NIY, by Scottish Widows;
■ Acquisition of the Mall, Norwich for £72.50m, reflecting a 7.65% NIY by Infrared and Hark;
■ Acquisition of Captain Cook Shopping Centre in Middlesbrough for £18.875m, reflecting 10.29% by LaSalle Investment Management (Mars Fund).

■ To date this year we have recorded 18 shopping centres under offer accounting for £1.150bn, (excluding Meadowhall), and 10 shopping centres in the market accounting for £140m.

■ 2012 continues to be dominated by a lack of stock at both ends of the spectrum, the banks are not releasing assets as may have been expected at this point in the cycle but in many cases merely seeking 'asset reviews' consensually with the borrower - this process is taking up to a year to achieve. The issue of course is that the asset values in many such properties continue to slide while the banks decide what to do with the asset and digest the asset reviews.

■ A recent article from IPD cited "in the next two years 21% of shopping centre tenants will have a break clause or a rent expiry putting £231m of income under threat". This is I am afraid the stark reality of the situation.

■ As I have said before shopping centres are a living business plan and they need a cohesive structured asset management plan and access to equity to refresh the offer, renew leases, help tenants to undertake new shop fits, bring in new tenants and inject vitality to improve the shopping experience for their customers.

■ In many of these assets the next 2-3 years will witness income destruction and it will not be until the raft of lease expiries, break clauses and pre-pack administrations are through that we will begin to see some stability and assets rebased off the appropriate initial yield.

■ The banking market continues to tighten with loan to values falling to between 40% - 60% and certainly at the secondary end of the market there is little interest to lend at all.

■ Super prime and prime remain resilient. The Lanes shopping centre in Carlisle which recently came to the market received four bids and is under offer at 7.5% initial yield. We believe that a positive correction will come in strong town centre dominant assets such as this depicting strong fundamentals as we move through the cycle.

■ The disparity between super prime and tertiary is now in the order of 1000 bps whilst the number of active buyers has fallen to around 40.

■ It is difficult to see where the stock will come from in the second half of the year – perhaps from the closed ended funds.

■ We believe that we will also witness an increasing number of off market deals partly as a result of the dwindling buyer pool but also in the better quality assets it may achieve up to a 25 bps improvement in yield.

TABLE 1

Shopping centre yields

	Q1 2012	Q2 2012
Super-Prime	5.00%	5.00%
Prime	5.50%	5.50%
Town Centre Dominant	6.50%	6.75%
Secondary	9.00%	9.00%
Tertiary	13.00%+	14.00%+

Source: Savills

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