The recovery of the UK economy continues to outstrip the rest of Europe. BNP Paribas are forecasting GDP growth of 2.7% and household spending growth of 2.7% for the rest of 2015.

Consumer confidence remains positive following the General Election.

Retail sales increased by 4.7% in April 2015 compared with April 2014. Online sales growth continues to outperform the market with 13.1% growth for the same time period.

Fashion and F&B (food and beverage) operators have performed particularly well in the current climate.

Occupier demand returning to the shopping centre sub sector.

Overseas investors dominated shopping centre investment for the first 5 months of 2015, accounting for circa 75% of all purchases.

BNP Paribas Real Estate is forecasting that prime shopping centre yields will compress further in the remainder of 2015, though at a more moderate level than 2014.
ECONOMIC OVERVIEW

Although first quarter GDP figures disappointed somewhat, the economy still expanded by 2.4% year-on-year. Going forward, we expect a rebound in Q2 with growth continuing at a solid pace over the medium-term. In 2015, growth will remain domestic led, underpinned by strong demand from the consumer. Improvements in the labour market and low inflation will continue to boost overall spending and disposable incomes. Next year, as spare capacity in the economy is eliminated, it is expected that firms will look to add growth via new investments which will be productivity augmenting, helping real wages increase further and support continued growth in household spending.

UK RETAIL ECONOMY

- Despite muted first quarter growth, the outlook for 2015 remains strong, with BNP Paribas forecasting GDP growth of 2.7% for the year as a whole. For the same period, household spending is also expected to grow by 2.7%.
- Unemployment fell to 5.5% in March - its lowest level since 2008. We anticipate that this level will fall below 5% by the end of the year.
- Accommodating economic conditions have created an environment which has positively supported retail sales. The combination of low interest rates, which are not forecast to rise until 2016, and falling average shop prices have ensured that the UK consumer has kept spending.
- As a result, retail sales have continued to rise, up by 4.7% in April 2015 compared to April 2014 according to ONS. UK retail sales have enjoyed a prolonged period of growth for the past 25 months - the longest period of sustained growth since before the financial crisis.
- Volatility in food sales continues into 2015, sales volumes increased by only 0.2% for the 12 months to April, and the value of sales fell by 1.4%. This has been triggered by continued price competition between the major grocers and continued pressure from the discount retailers.
- Consumer confidence in May remained positive. Despite a three point decline triggered by uncertainty created by the General Election, confidence is up by 1 point compared to the same period last year- testament to the stability which we have experienced over the past year.
- Over the past few years, footfall within the UK has revealed one consistent trend - that the UK consumer preference for shopping at out of town locations has come at the expense of town centres. Recently, in both shopping centres and out of town locations, increased footfall has been driven by initiatives to improve the consumer experience - something difficult to replicate on high streets in fragmented ownership.
OCCUPIER MARKET

- The UK shopping centre market has in many ways acted as a microcosm of the wider retail market in recent years. The largest regional centres and centres benefitting from an affluent catchment are experiencing stronger performance than smaller more secondary centres. Larger prime centres have attracted renewed investment and in recent quarters, we have also seen the return of occupier demand.
- Generally speaking, retail sales reported by the biggest non-food shopping centre occupiers have been positive. Grocery sales have remained the primary interest point in the UK retail sphere. Fortunately for shopping centre landlords, where in many of their centres the Big 4 are tenants, the mainstream grocers have slowed the growth of the Aldi and Lidl so far in 2015.

- A sample of recent sales figures from the top 40 shopping centre tenants in the UK shows that the retailers who are focussing on their omnichannel offer are outperforming those who are not. Some of the most savvy retailers have come from the fashion segment, with Next, JD Sports and New Look all reporting stellar sales. Given the increasing contribution of the leisure component of shopping centres and high streets, F&B operators such as Costa Coffee, Greggs and Pret a Manger have also been performing strongly.
- We have seen a wide variety of occupiers taking space in shopping centres within the past year, with Vodafone, Pandora, The Fragrance Shop and Blue Inc. amongst the most acquisitive. Take up has not been dominated by a specific occupier sector unlike that witnessed in other retail subsectors, as seen most notably with the discounters in the out of town market.

Compared to the recent low delivery of new floorspace, shopping centre development is now beginning to return to the market. Westfield Bradford, Friars Walk in Newport, Birmingham’s Grand Central and Flemingate in Beverley are all expected to open between September and November this year. We anticipate that this will result in around 1.3m sq ft of new floorspace.

Looking further forward to 2016, Chelmsford’s Bond Street, Battersea Power Station, Victoria Gate in Leeds and the extension to the Arndale Centre in Eastbourne will all add significant new floorspace.

As has been the case for much of the recession, the majority of work within centres has been refurbishing existing space and bringing it in line with both consumer and retailer standards. Centres such as Weston Favell in Northampton are currently adding improved areas of public realm and community facilities and will complete later this year.

KEY SC RETAILER SALES

- Pret a Manger*: 2014
- Greggs: 16 weeks to 25/4/15
- Costa: Year to 26/2/15
- New Look: 39 weeks ending 27/12/14
- Next*: Year ending Jan 2015
- JD Sports: Year ending 31/01/2015

KEY PIPELINE SCHEMES (>100ksqft)

- Floorspace (000s sq ft)

Source: Various
INVESTMENT MARKET

- Shopping centres have once again dominated retail investment in the first half of 2015.
- With £1.51bn being injected into the sector, the value transacted was up by 6.2% compared to the same period in 2014.
- We are aware of just shy of £1bn of shopping centres under offer and £800m on the market, which will ensure robust volumes for the second half of the year.
- Rising levels of demand for all shopping centres has compressed yields for all sub types considerably. Since May 2014, yields for prime centres sharpened by 75bps to 4.75%, secondary centres by 100bps to 6.5% and local centres by 125bps to 8%.
- We anticipate demand to drive further inward yield movement for the remainder of 2015, though not to the same degree as we witnessed in the past year.
- The largest deal of the year to date has been the Telford Shopping Centre, purchased by Orion Capital Managers for £250m, reflecting an initial yield of 6.5%.
- There have been several other prominent transactions so far this year. A Chinese Sovereign Wealth Fund purchased a 50% stake in the Bentall Centre in Kingston-upon-Thames for £190m, at a 4.7% initial yield. In partnership with CBRE GI, the Malaysian Employees Pension Fund bought Fulham Broadway and Hammersmith Broadway Shopping Centres for a combined sum of £270.5m at a 5% initial yield.

KEY SC DEALS

<table>
<thead>
<tr>
<th>Address</th>
<th>Size (000's sq ft)</th>
<th>Purchaser</th>
<th>Vendor</th>
<th>Price (£m)</th>
<th>Yield (%)</th>
</tr>
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<tbody>
<tr>
<td>Fulham Broadway/ Hammersmith Broadway</td>
<td>264</td>
<td>Malaysian Employees PF / CBRE GI</td>
<td>William Ewart Properties</td>
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<td>5.0</td>
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<td>Telford Shopping Centre, Telford</td>
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<td>Orion Capital Managers</td>
<td>Ares Management LP</td>
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<td>6.5</td>
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<td>Bentall Centre, Kingston-upon-Thames</td>
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<td>Chinese Sovereign Wealth Fund</td>
<td>Meyer Bergman</td>
<td>190</td>
<td>4.7</td>
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<td>New Frontier Properties</td>
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<td>New Frontier Properties</td>
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</table>

Source: Property Data

PRIME YIELDS

- The type of investor purchasing centres for the first five months of 2015 changed radically compared to 2014. Overseas investors represented 75.0% of all purchases, compared with only 17.6% for the equivalent period in 2014.
- Overseas investors were also the biggest disposers of shopping centre assets highlighting active management and rebalancing of portfolios.

SC INVESTMENT BREAKDOWN (JAN- END MAY 2015)

£1.51bn

- Overseas Investor 75%
- Property Companies 12%
- UK Institutions 8%
- Private Investor 5%

Source: Property Data, BNP Paribas Real Estate
INVESTMENT TREND: WHAT TYPE OF CENTRE WILL BE DEMANDED IN 2016?

2014 saw record investment into the shopping centres with Bluewater and Merry Hill being two of the largest transactions recorded. The chart below shows activity being maintained across lot sizes with investors retaining confidence in the UK retail story. Activity in larger lot sizes has continued into 2015 with the Bentall Centre and Telford Shopping Centre both transacting in the prime segment. Economic conditions for consumers and retailers are looking stronger than a year ago and this will inevitably contribute to improved consumer activity. The key issue driving investment activity in the shopping centre sector will be how much future performance will be driven by the structural changes impacting retail spending habits and how will that impact prime versus secondary pricing.

2014: SC INVESTMENT BY TYPE

![Chart showing investment by type]

Source: Property Data, BNP Paribas Real Estate

THE AGENT VIEW: STUART CUNLIFFE

The key factors that have strengthened the shopping centre investment market are the improvement in retail demand, the potential for income growth and the low cost of borrowing.

Retail demand, though is fickle. It is strongest in the top 50 cities and in the South East of England. Weaker towns, especially those with a high, or increasing level of out of town fashion are going to underperform. There is now a sense of the slack being taken up in many towns. There has been a noticeable reduction in the number of pure retail units in town centres, whether through change of use, or merging into larger units, but this is filling or consolidating vacancies rather than building for growth.

As we move back towards higher levels of occupancy the opportunity for shopping centres going forwards is in income growth and income diversification rather than yield compression. The variety of retail types looking to expand is very encouraging.

Investor demand for regional centres in the top cities is as strong as ever and likewise other towns and cities in the top 100 locations are popular, especially in the core plus and value add sectors.

Local and convenience retail remains less popular and yields will remain high as most of these centres require substantial investment and with only limited potential return.

An increase in interest rates is likely at some point and it is clear that the secondary and tertiary investors are already mindful of this. Pricing for secondary stock is therefore unlikely to increase much more during 2015, and investors are becoming much more stock selective when considering opportunities in this part of the shopping centre market.