

CAPITAL SHOPPING CENTRES

Shopping not dropping

Since Liberty International split into two separate listed entities 18 months ago, central London property play Capital & Counties Properties has been a more popular bet than retail-focused Capital Shopping Centres.

In fact the share price of Capital & Counties, which owns the mixed-use precinct Covent Garden and a sizeable office portfolio in London's West End, has rallied 50% since the demerger while Capital Shopping Centres has remained at around the R40 mark for much of that time.

But it seems investors are starting to take a fresh look at Capital Shopping Centres, as the global search for income intensifies. The share price is up about 15% over the past three months. Capital Shopping Centres offers a more attractive dividend yield than that of Capital & Counties — 4.5% compared to around 1%. The latter is primarily a capital growth play.

Coronation Fund Managers property analyst Anton de Goede says UK retail property was out of favour over the past 12-18 months, while investors focused on the central London office market. But he notes there's been an about-turn in recent weeks. The bull run in office prices is seemingly coming to an end. More than £5bn worth of London office properties has reportedly come up for sale since September.

"There's a definite return to yield, no doubt on the back of renewed jitters around the European debt crisis. And Capital Shopping Centres is likely to be a major beneficiary of that trend, as the stock offers a more secure income stream than many of its UK peers."

De Goede refers to, among others, the fact that the counter is still managing to increase the rents in many of its 14 shopping centres across the UK. The company is the UK's biggest shopping centre owner.

Its retail portfolio is worth £6.9bn and includes major out-of-town centres such as Trafford Centre in Manchester, Lakeside in Thurrock, Metrocentre at

Gateshead, Braehead in Glasgow and The Mall at Cribbs Causeway.

De Goede says the weak retail sales environment is prompting UK retailers to focus on fewer but bigger stores, a trend that Capital Shopping Centres is well

Centre earlier this year for £1.575bn is likely to further boost income streams over the next few years, says De Goede.

Management is equally upbeat about future prospects. In a trading update last week, Capital Shopping Centre CEO David Fischel says despite a tough overall market, regional shopping centres in prime destinations continue to perform strongly in lettings, occupancy and footfall.

He notes local brands as well as international retailers, including Banana Republic, Apple, Hollister, Top Shop, Dune and Primark, continue to open new stores and expand existing ones at Capital Shopping Centre's flagship malls.

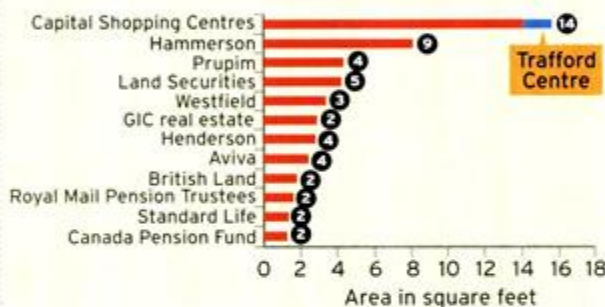
The portfolio's overall vacancy rate thus remains at a low 3% compared to the UK average of 14%. Moreover, says Fischel, latest official retail data indicates a decline in overall footfall in the UK of 1% for the year to September 30. "In contrast, footfall in our centres grew 2% year on year for the 10 months to October 31."

Fischel says the UK retail property environment is likely to remain "challenging" for some time, and the eurozone crisis is bound to influence investment decisions. "However, we are reassured by the robust operational performance and defensive financial structure of Capital Shopping Centre's business."

Joan Muller

BIGGEST UK MALL OWNERS

Number of centres > 400 000 square feet



Number of shopping centers SOURCE: CORONATION FUND MANAGERS

placed to capitalise on. He also likes the company's proactive management approach. "Existing centres are continuously being upgraded and extended, which will create earnings and share price upside over the next two to three years."

Buying the trophy 190 000 m² Trafford

David Fischel Robust operational performance



Business Day