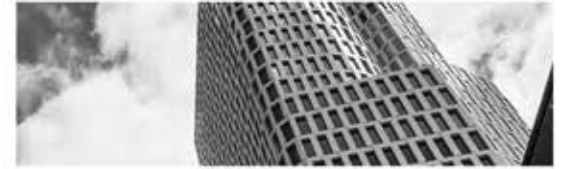


2020
APRIL



RETAIL SECTOR UPDATE:
SISYPHEAN STRUGGLE



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MANAGING DIRECTOR

Retail Sector Update



Green Street Advisors

31 March 2020

GPR 250 Europe: 15.08 | STOXX Europe 600: 320.06

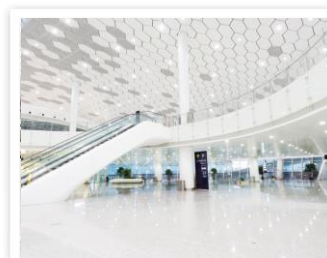
10-Year French Gov't Bond: -0.02% | 10-Year Germany Gov't Bond : -0.47%

10-Year UK Gov't Bond: 0.36% | 10-Year Spanish Gov't Bond: 0.68%

10-Year Swedish Gov't Bond: -0.13% | 10-Year Swiss Gov't Bond: -0.33%

Sisyphean Struggle

- Landlords' uphill struggle never-ending; COVID-19 the latest weight on their shoulders
- Widespread rent deferrals today likely to translate to outright rent relief tomorrow
- Lfl NRI crushed this year (c.-20%); next year's bounce back will not fully recompense
- Social distancing could profoundly change consumers' behaviour over the medium term
- PropCo balance sheet chickens have come home to roost; no one can be offensive
- Indiscriminate selling is probably behind us; all eyes on free-cash-flow liquidity now
- 5-year levered return projections are low (~4% p.a.); GAV discounts not wide enough
- Continental Retail to deliver better risk-adjusted return spreads to bond rates (vs. UK)



Important disclosure on page 35

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Key Points

Operating Fundamentals

Terrible

- Lockdown across Europe (except the Nordics) has brought economies to a standstill; physical stores are shut
- Unlike 2009, retail landlords' negotiating position noticeably weaker; frail tenants still have the upper hand
- Rent deferrals a forgone conclusion; rent concessions are likely forthcoming, albeit sheer magnitude is unclear
- COVID-19 has exacerbated operational cracks already evident to the vigilant during the past few years
- LfL NRI decimated for FY20 (c.-20%), bounce back in FY21/22 does not recompense lost cashflows
- How social distancing will change consumer behaviour longer term is unknown, but unlikely to be a net positive

Asset Values

More Than Just An Air Pocket

- FY19 reported values took a ~4% LfL step-down - the most significant change since ~9% declines in 2009
- Spot values are currently impossible to pin down: ~20% below reported UK GAVs, ~10% below for Continent
- The retail transaction market has frozen; multiple institutional sellers far outnumber few opportunistic buyers
- Market rents to rebase lower while equivalent yields will expand; **A++ / A+** quality centres not immune

Capital Allocation & Balance Sheet

Dire

- PropCos had enough time to prepare for a cyclical downturn but chose the sirens of low interest rates instead
- B/S issues (excessive leverage) have morphed into operational concerns (liquidity) in servicing near-term debt
- Landlords' COVID-19 reaction has been brutal (e.g. dividend cuts) but necessary to boost liquid equity buffers

PropCo Valuations

Poor Near-Term Outlook

- Retail rightly priced as ex-growth; many listed retail stocks remain value traps, yet not all are doomed
- Retail PropCos to deliver low ~4% p.a unlevered perpetual returns. Five-year returns not much better
- Continental retail PropCos' preferred to UK REITs; company-specific balance sheets will ultimately decide

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The analysis contained herein is based on pricing as of 31-Mar-20. Exchange rates: GBP to USD=1.25, EUR to USD=1.10, SEK to USD=0.10.

COVID-19: Corporate Actions Summary

Battening Down the Hatches: Landlords' COVID-19 reactions have been swift, including undisclosed terms for rent deferrals - in part backstopped by Government support measures, but also suspending dividends and deferring non-essential capital expenditure. Appendix D details dividend cuts we forecast based on sources and uses of cash analysis (which at a minimum now achieve FY20 AFFO coverage of >1x). Government fiscal packages will stem the tide of tenant bankruptcies, however, it is inevitable that landlords will share the pain through rent forgiveness.

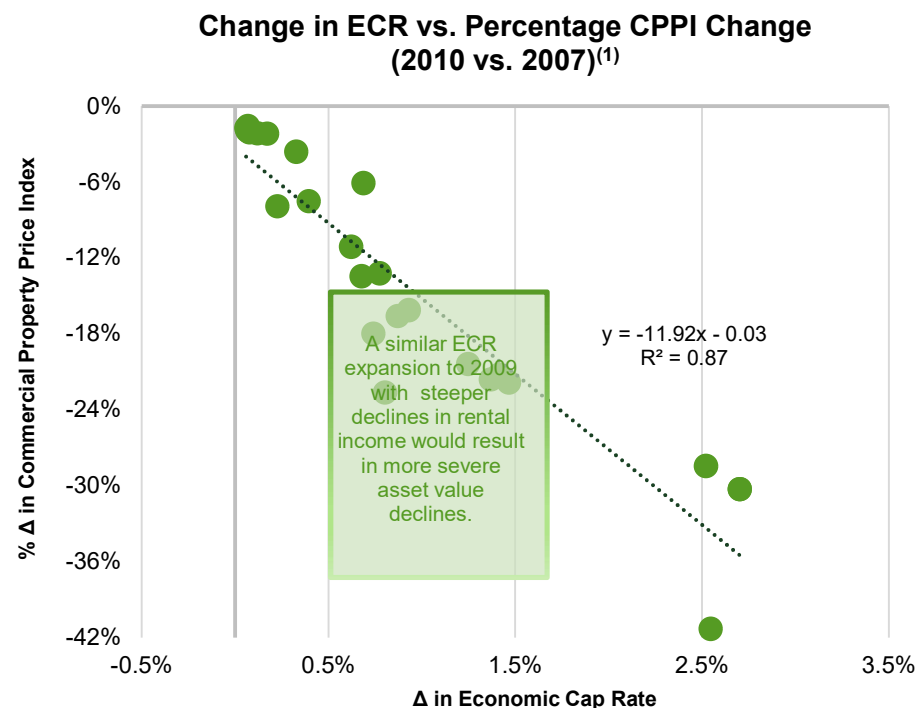
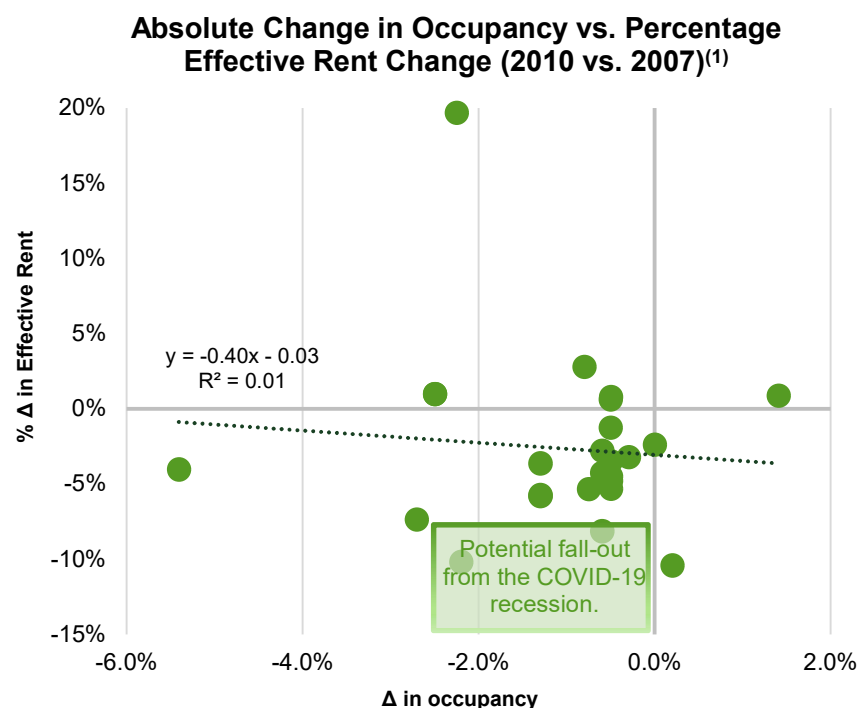
Company	Ticker	Announcement Date	Dividend Suspension/Reduction	CapEx Suspension	Rent Deferral/Reducing Service Charges	Q2 Rent Collection Disclosed ⁽⁵⁾	Tenant Bankruptcy Risk ⁽⁶⁾
Deutsche EuroShop	DEQ	16-Mar/19-Mar	✓	✓	✓	✗	↔
Eurocommercial	ECMPA	16-Mar	✓ ⁽¹⁾	✗	✓	✗	↓
Capital & Counties	CAPC	26-Mar	✓ ⁽²⁾	✗	✓	✗	↓
INTU ⁽⁴⁾	INTU	26-Mar	✗	✓	✓	✓	↑
Shaftesbury	SHB	24-Mar	✓	✓	✓	✗	↓
Hammerson ⁽⁴⁾	HMSO	30-Mar	✓	✓	✓	✓	↔
Mercialys	MERY	16-Mar	✗	✓	✓	✗	↔
Unibail-RW ⁽⁴⁾	URW	16-Mar/19-Mar/23-Mar	✓ ⁽³⁾	✓	✓	✗	↓
Wereldhave	WHA	16-Mar	✗	✓	✓	✗	↑
Citycon ⁽⁴⁾	CTY1S	26-Mar	✗	✗	✗	✗	↔
Vastned	VASTN	23-Mar	✗	✓	✓	✗	↓
Klépierre	LI	12-Mar/17-Mar	✗	✓	✓	✗	↓

(1) Dividend policy change from annual payment to semi-annual suspended. (2) Suspension of £100m share buyback programme. (3) Suspension of FY20 final dividend guidance of Eur5.40/sh. (4) Withdrawal of FY20 guidance. (5) Q2 rent billed in early April except for INTU and HMSO. (6) Tenant bankruptcy risk: ↔ neutral ↑ high ↓ low

Source: Company disclosure, Green Street Advisors

COVID-19 Fallout Worse Than That of Global Financial Crisis

It's Different This Time: History never repeats but it rhymes and this time it is likely to be worse. The GFC was a credit crunch – tenant bankruptcies were limited to those without liquidity. Tenants unable to pay could be replaced, dampening the impact on effective rent. Asset values primarily fell from increases in yield, not lost income. 2020 recession is demand-led, consumers are unable to spend, not for want of trying. PropCo's proposition is weaker – already buffeted by ecommerce – resulting in permanently lost cash flows and more severe asset value declines.

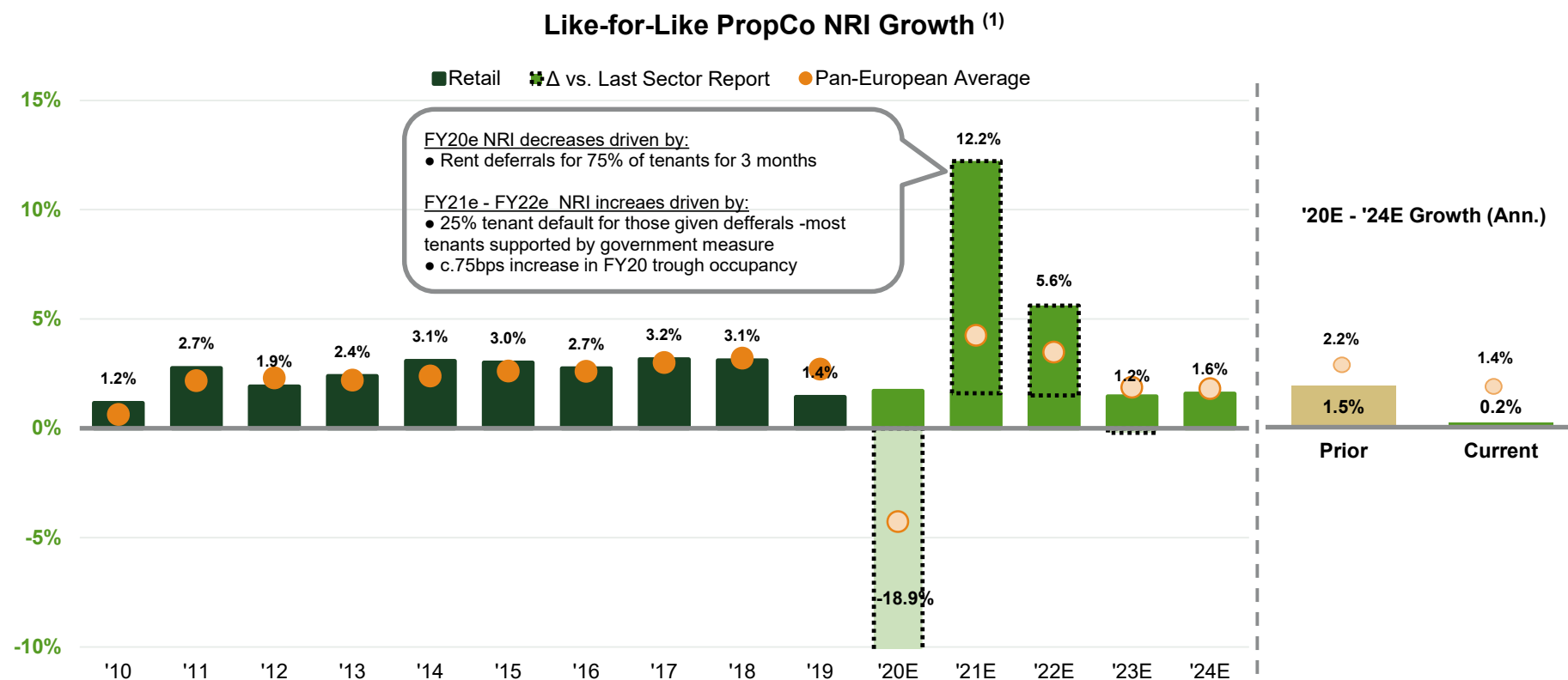


(1) Green Street Commercial Property Price Index (CPPI) is eREA property data time series for average B/B+ quality shopping centres across top 25 cities in Europe. ECR is Economic Cap Rate.

Source: Green Street Advisors

Like-For-Like Net Rental Income Growth Outlook

Pales Into Insignificance: Pan-European LfL NRI growth peaked in 2017 and has long been forecast to be on a downward trajectory. COVID-19 has accelerated this decline in a gargantuan manner. In-place lease agreements offer some shelter; however FY20 rent deferrals likely lead to rent holidays leading to permanently lost cash flows. Retail PropCo's LfL NRI is forecast to be c.120bps below the pan-European average for 20-24.



(1) Pan-European and sector average LfL NRI growth is weighted by total asset value.

Source: Company disclosure, Green Street Advisors

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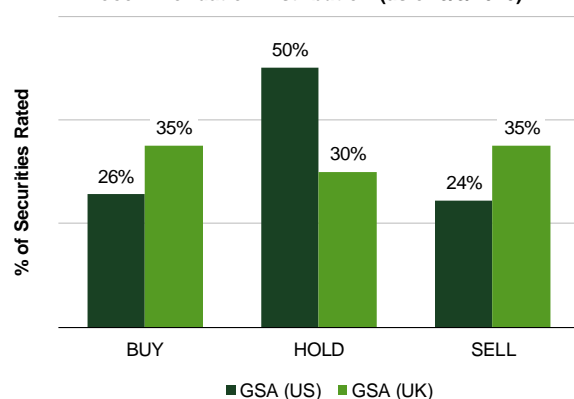
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Year ³	Buy	Hold	Sell	Universe
2020 YTD	-8.8%	-6.9%	-9.8%	-8.3%
2019	40.8%	26.1%	23.5%	29.0%
2018	1.8%	-6.9%	-20.9%	-8.5%
2017	30.9%	19.2%	11.1%	19.9%
2016	5.4%	2.1%	-2.3%	1.9%
2015	22.8%	14.4%	10.5%	16.1%
2014	35.6%	28.3%	24.1%	29.8%
2013	16.3%	7.6%	9.4%	11.2%
2012	39.8%	29.3%	17.0%	29.8%
2011	-7.6%	-8.2%	-12.7%	-9.2%
2010	13.1%	0.3%	7.9%	9.2%
2009	10.0%	5.5%	1.6%	7.0%
Cumulative Total Return	515.9%	183.6%	78.2%	232.8%
Annualized	18.9%	10.4%	5.7%	12.1%

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