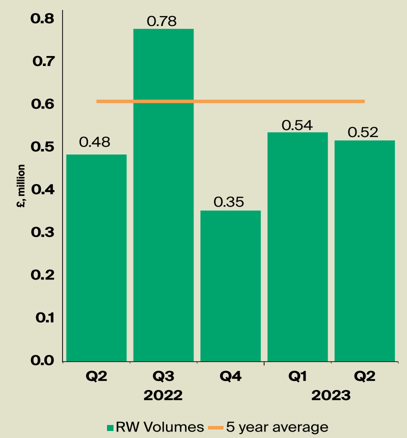
Retail Warehouse Dashboard

Q2 2023 | A concise quarterly synopsis of activity in the UK retail warehousing market.

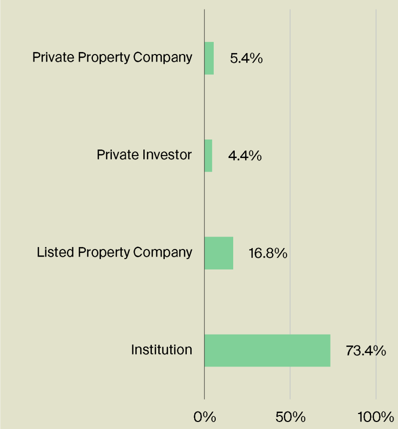
Key Takeaways

- Globally, the RICS' Commercial Property Sentiment Index remains downbeat at -14 pts: the fifth consecutive quarter registering negative.
- Retail warehousing investment volumes eased slightly quarter-on-quarter (QoQ), but a still healthy £520m transacted, slightly below the rolling 5-quarter average (£608m).
- Institutions were the dominant purchasers, acquiring more than 70% of assets by deal volume.
- Prime yields hardened by -25 bps to 5.75%, with QoQ recovery in both capital growth (+0.7%) and rental values (+0.4%). Secondary yields remained stable at 7.50%.
- Unit vacancy rates improved by 60bps, falling to 8.1% - the best quarterly performance of all the retail sub-sectors and the only format with vacancy lower than its pre-pandemic rate (8.3%).
- Footfall fluctuated across the quarter, with hot weather attracting shoppers to High Streets in greater numbers (June: RW -2.6% vs. HS +0.6%). Overall shopper numbers grew +1.8% across Q2 (3-month rolling average).
- Total retail sales grew by +7.4% YoY, with volume declines improving versus previous quarters. Food sales were strong at +11.4% (although buoyed by double-digit inflation) vs. Non-Food sales which registered growth of +4.8%. Category performance was mixed but many discretionary sectors saw robust sales grow (e.g. Clothing +7.3% / Furniture +4.1%).

Investment Volumes
(Knight Frank) Last 5 quarters



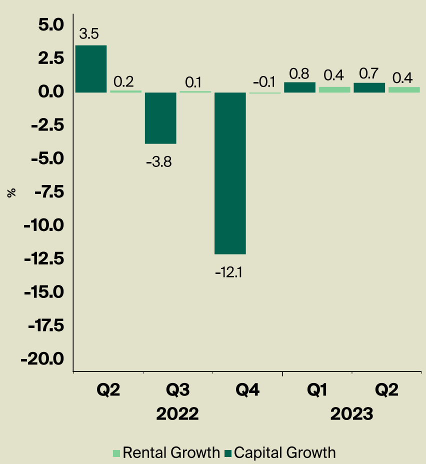
Buyer breakdown
(Knight Frank) By deal volume



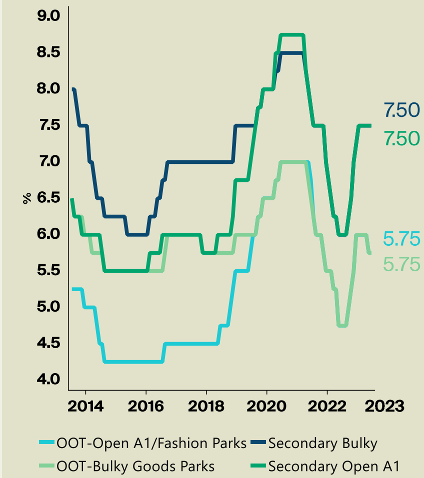
Key Deals YTD (Year to Date)

ASSET	PRICE £M	YIELD (%)	VENDOR	PURCHASER
CASTLE MARINA RETAIL PARK (NOTTINGHAM)	£43.4M	7.90%	BLACKROCK (50%) LASALLE (50%)	COLUMBIA THREADNEEDLE
KITTYBREWSTER RETAIL PARK (ABERDEEN)	£43.5M	7.20%	NEW RIVER	REALTY INCOME CORPORATION
LIDL & THE RANGE DRAGON LANE (DURHAM)	£14.1M	5.30%	LONDONMETRIC	MAYFAIR CAPITAL
WICKES, MIDDLE ENGINE LANE (NEWCASTLE)	£5.5M	7.25%	CROWN ESTATE	PRIVATE BUYER
NEXT, HEDGE END (SOUTHAMPTON)	£18.6M	7.87%	ABRDN	PRIVATE OVERSEAS

Rental & Capital value growth
(MSCI) QoQ change



Yields (guide available online here)
(Knight Frank) Last 10 years



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Research Commentary

Retail Warehousing outperformed all CRE once again, delivering a stellar total return (Q2: +2.20%) for a second consecutive quarter. Retail Warehousing's performance eclipsed even the Industrial sector (2.15%), fuelled by a swift and enduring rebound in capital values (+0.6%) compared to sluggish performance in other major CRE sectors.

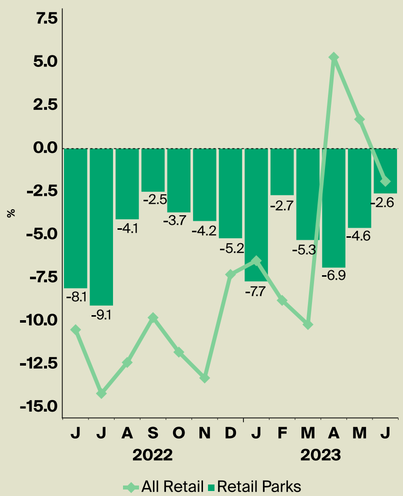
Consumer and occupier enthusiasm for Retail Warehousing is proving that its popularity is more than a pandemic-induced trend. Desire for 'easy access' retail has intensified under high inflation: shoppers wanting access to multiple retailers to price compare. Operators have responded by opening new stores, driving vacancy rates down to below pre-pandemic levels for the first time. Nor is expansion appetite limited to discounters / value operators, with F&B, leisure, and even beauty operators (e.g. Greggs, Hobbycraft, Superdrug) all acquiring space, diversifying the OOT retail offering. With keen occupational demand, availabilities are diminishing, positioning the sector well for future rental growth.

The gap between occupational and investment activity persists. A healthy number of deals did transact (only slightly below the 5-quarter average), but downbeat sentiment across capital markets generally blunted activity in Q2. Investors are eagerly awaiting improved macro-economic indicators – although the BoE's series of interest rate hikes continued in August (5.25%). Deals are proceeding cautiously, despite belief in the sector's fundamentals, with clear buyer expectations around void periods, income profile, WAULT and EPC performance. Still, confidence is slowly trickling back as the bravest investors "keep calm and carry on".

Footfall

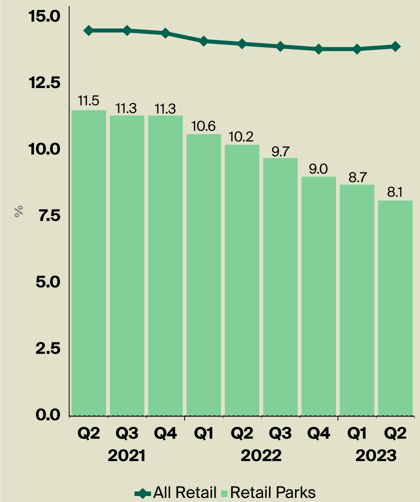
(BRC) Monthly YoY change *

*March 2021 – March 2023 figures are compared to 2019 levels



Vacancy Rate

(BRC-LDC) Units



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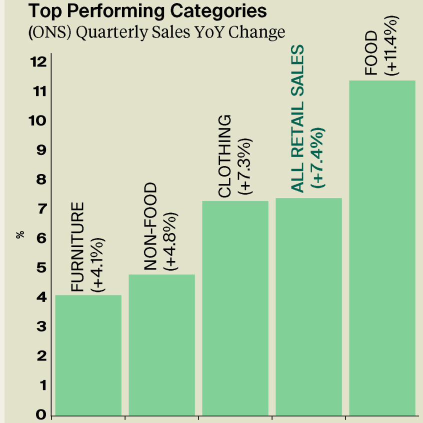
> The fundamentals of the sector are still proving to be highly resilient. We are seeing an unusual disconnect between the occupational and investment markets, but don't expect this to continue for long once positive macro-economic data emerges.

MARKET VIEW
Freddie MacColl
Partner, Capital Markets

Top Performing Categories

(ONS) Quarterly Sales YoY Change



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