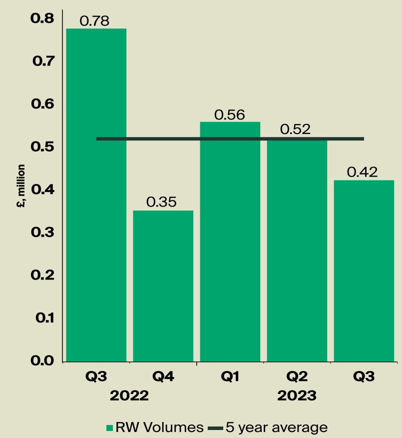
# Retail Warehouse Dashboard

Q3 2023 | A concise quarterly synopsis of activity in the UK retail warehousing market.

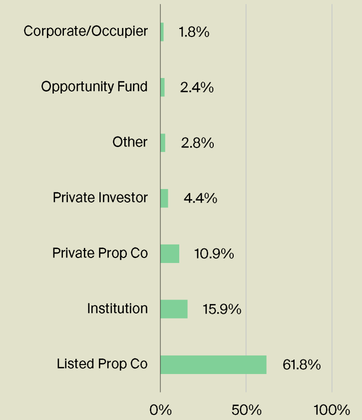
## Key Takeaways

- Globally the RICS' Commercial Property Sentiment Index was broadly unchanged at -15 pts, with the Investment Sentiment Index at -18 pts.
- Retail warehousing investment volumes fell for a third consecutive quarter to £423m, below the rolling 5-quarter average (£520m).
- Listed Prop Co's were the dominant purchasers, acquiring more than 61.8% of assets by deal volume.
- Prime yields softened +25 bps across both Open A1 and Bulky Goods to 6.00%. Secondary Open A1 and Bulky also moved out by 25 bps to 7.75%.
- Capital values stumbled -2.3% QoQ, but rental growth strengthened marginally to +0.5%.
- Unit vacancy rates improved by -30 bps, falling to 7.8% - the best quarterly rate seen since Q2 2019. Vacancy rates are now well below their pandemic peak (Q2 2021: 11.5%).
- Footfall fluctuated (July +1.4% YoY / August 0.0% / September -2.4%) but generally showed greater resilience than All Retail (July +1.8% / August -1.6% / September -2.9%).
- Retail sales were generally resilient (values +5.6% YoY) but volumes are still impacted by inflation (-2.0%). Performance by category was generally mixed, with some evidence of softening demand for big-ticket items (e.g. Computers & Telecomms (-11.5%) Household Electricals (-2.2%), DIY (-0.4%)). But positive sales growth amongst Sports Equipment (+1.4%), Furniture (+7.2%), and Floor Coverings (+8.0%).

### Investment Volumes
(Knight Frank) Last 5 quarters




### Buyer breakdown
(Knight Frank) By deal volume

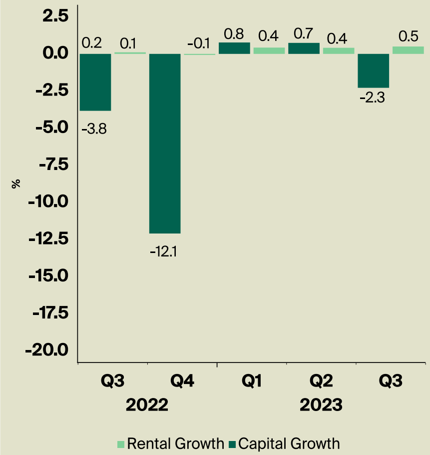



## Key Deals YTD (Year to Date)

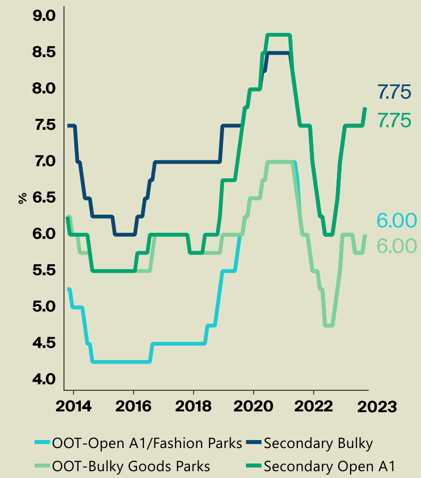
*KF DEAL

| ASSET | PRICE £M | YIELD (%) | VENDOR | PURCHASER |
|---|---|---|---|---|
| PORTRACK RETAIL PARK (STOCKTON ON TEES)* | £6.35M | 7.50% | UK LAND INVESTMENTS LTD | BANAFA PROPERTIES LTD |
| CRAIGLEITH RETAIL PARK (EDINBURGH) | £65.0M | 7.50% | NUVEEN | REALTY INCOME CORP |
| TEMPLARS SHOPPING PARK (OXFORD) | £53.2M | 6.30% | FEDERATED HERMES | CBRE IM |
| NEXT – HEDGE END (SOUTHAMPTON) | £18.6M | 7.80% | ABERDEEN ASSET MANAGEMENT | PRIVATE OVERSEAS |
| B&Q – STATION ROAD (YATE) | £0.67M | 5.75% | DMGT | BROCKLESBY ESTATE |

### Rental & Capital value growth
(MSCI) QoQ change




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



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## Research Commentary

**Retail Parks and Warehousing continue to be a bright spot in the retail sector, with Q3 delivering (relatively) positive news.** Consumer sentiment improved by +9pts during the quarter, and despite remaining negative overall, did not hinder retail sales, which grew by a robust +5.6%. Some categories softened (DIY: -0.4% YoY / Household Goods: -2.2%), while others saw robust sales (Furniture: +7.2% / Carpets +8.0%), creating a mixed picture. Much clearer was shoppers' view of their personal finances, which improved by +38pts over the last 12 months, tracking down at just -2pts (versus wider economy -24pts). High wages growth (+7.8%), historically low unemployment (4.3%) and easing inflation (6.3%) all contributing to these positive trends.

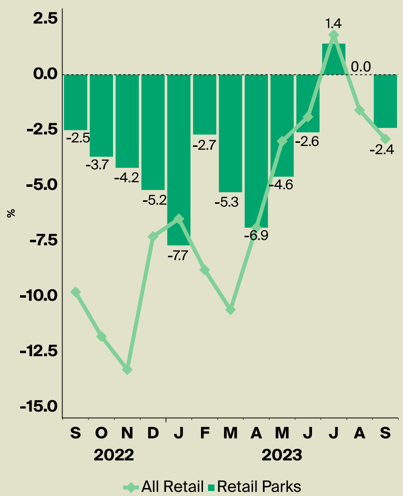
**Operators similarly expressed growing confidence in their outlook and expansion plans**. Most reported better-than-expected trading in spite of the current macro-economic conditions, alongside lower input costs, leading to raised profit guidance beyond previous cautious expectations. For those looking to expand, the demise of Wilko presented a major opportunity to acquire space, given the lack of new development and increasingly low vacancy rates, now below pre-pandemic levels (7.8%). According to LDC, Retail Parks were the only retail sub-sector to see an increase in occupied units during H1 2023, driven by grocers, health clubs, and food-to-go operators. Positive rental pressure is now building in select, under-supplied locations, with British Land increasing its rental growth outlook by a third, to between +3% and +5%.

**Capital markets showed ongoing disconnect from the performance of consumer and occupier markets.** Yields increased by +25 bps as capital values dipped further into negative territory (-2.3% QoQ), and transactions slowed well below the 5-year average. Elevated debt costs still pose a significant challenge, despite broad investor enthusiasm for the format, substantially limiting the activity of most (leveraged) buyers. Encouragingly, interest rates remained stable at 5.25% for a second consecutive month, signalling stability. However, Governor Andrew Bailey's dismissal of rate cuts in the near future highlighted that investors might need to adapt to a 'higher for longer' scenario. That said, the RWH sub-sector has been relatively insulated from events over the past year, with total returns in the 12 months to September 2023 registering at -7.6%, notably better than negative returns in Industrial (-15.8%) and Offices (-18.9%).

### Footfall

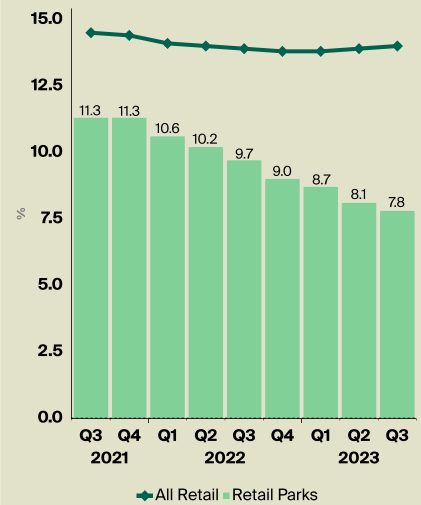
(BRC) Monthly YoY change *

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




### Vacancy Rate

(BRC-LDC) Units

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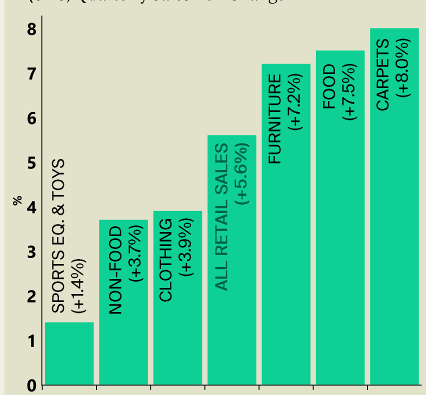
> The disconnect between investment and occupier markets may be less severe in retail warehousing than it is in other retail sub-sectors - but it is still there. On the plus side, when investment markets do return (as they will in 2024), they will have something positive to return to.

**RESEARCH VIEW**
STEPHEN SPRINGHAM
Partner, UK Markets Research

### Top Performing Categories

(ONS) Quarterly Sales YoY Change



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