

UK Retail Monitor

Q4 2016

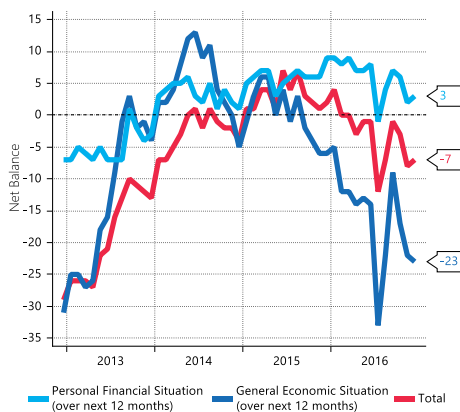
KEY HEADLINES

- Q4 is the so-called 'Golden Quarter' in the retail market on the basis that it contains the festive trading period. More significantly, it marks the second full quarter of activity since the Referendum vote.
- Christmas trading was generally strong. ONS figures showed that retail sales volumes and values grew by 4.9% and 5.1% respectively in December. Q4's figures of +6.2% (volumes) and +5.6% (values) marked a significant acceleration on both Q3 and the first half of the year.
- The figures were partially flattered by a weak comparable in 2015. Nevertheless, the retail market grew by 3.1% for the year as a whole, comfortably higher than wider GDP growth (2.0%).
- The fact that retail sales values are now growing at a faster rate than volumes indicates a return to an inflationary environment for the first time since July 2014. However, there is still a significant gap (ca. 150bps) between CPI and Shop Price Inflation. The anticipated price hikes on the back of Sterling weakness have yet to materialise.

"2017 will be far tougher for UK Retail in the face of three key cost headwinds – business rate revaluations, Sterling-related inflation and the National Living Wage."

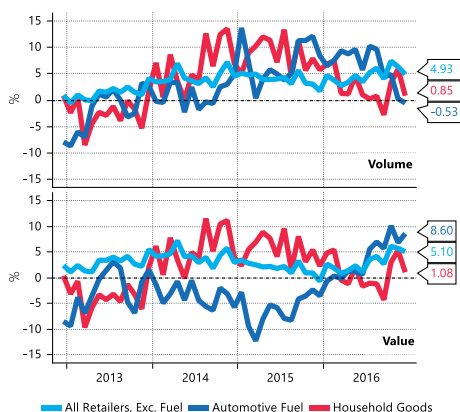
Consumer Confidence

Consumer confidence remains volatile and fickle



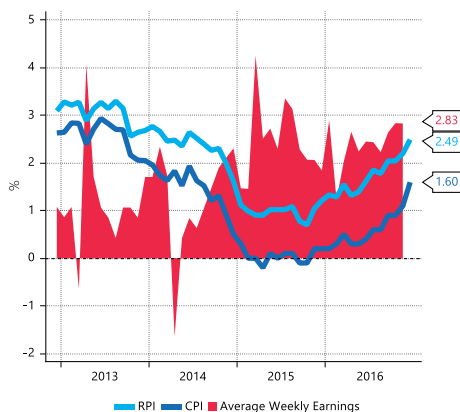
ONS Retail Sales

Annual % Change to Q4 2016



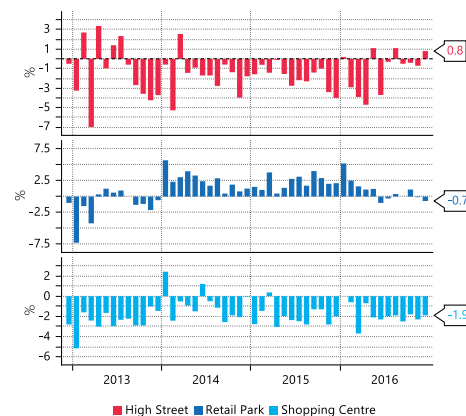
Average Weekly Earnings Growth vs Inflation

Annual % Change to Q4 2016



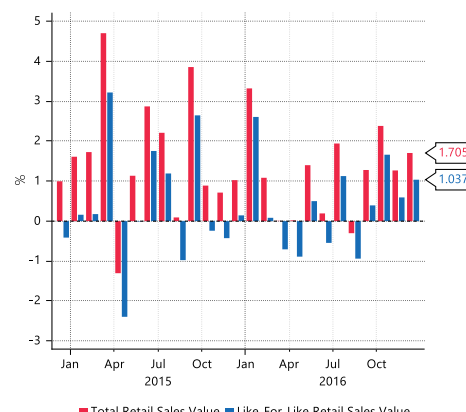
Retail Footfall

Annual % Change to Q4 2016



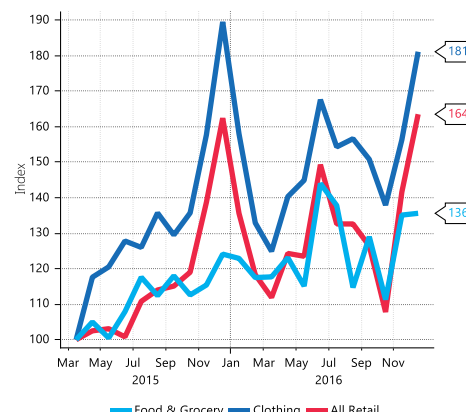
BRC Retail Sales

Annual % Change to Q4 2016



Online Retail Spend Index

A big spike in online spend around Black Friday week

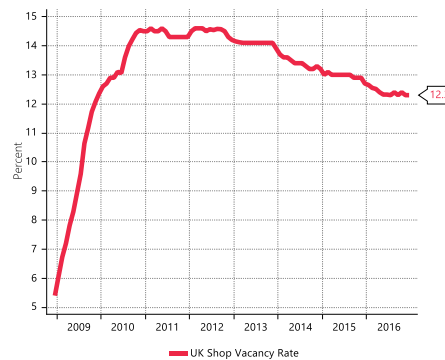


KEY HEADLINES

- Retailers generally reported strong trading figures for the Christmas period. There were no major retailer casualties in either Q3 or Q4. There may be a handful of small administrations in Q1 / Q2 of 2017 (probably around quarterly rent day), but these are likely to be minor in scale.
- Retail property market performance remains mixed. On the positive side, capital values for all retail property returned to positive growth in Q4, although the rate achieved (+0.4%) was the lowest of the commercial property sectors. Of the retail sub-sectors, only supermarkets remained in negative capital growth territory (-0.2%).
- Retail rents grew by 0.3% in Q4. This headline figure masks considerable variances between regions and sub-sectors. High street rents in the South East increased by 0.7% in Q4; in the rest of the country, they declined by 0.1%. Shopping centre and retail warehousing ERVs grew by 0.3% and 0.2% respectively in Q4.
- Liquidity continues to be an issue in the face of ongoing Brexit uncertainty. This is particularly true of the shopping centre investment market. 2016 saw transaction volumes decline 28% on the previous year to reach their lowest level since 2009.

Retail Vacancy Rate

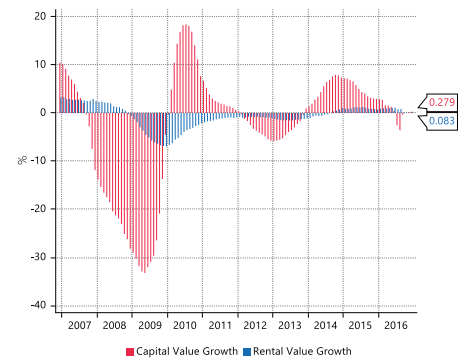
National retail vacancy rates have stabilised at just over 12%, but are higher in-town than OOT.



Source: Local Data Company

All Retail - Rental and Capital Value Growth

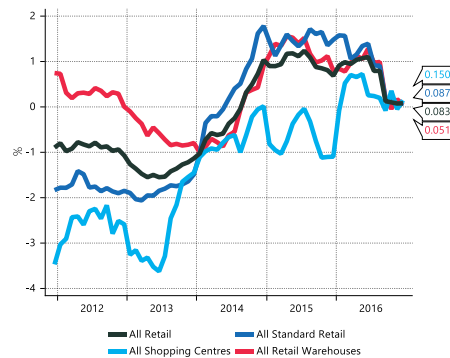
Retail capital values declined by 4.7% in 2016. Overall retail rents increased by 0.8% for the year as a whole.



Source: MSCI

Retail Rental Growth by sub-sector

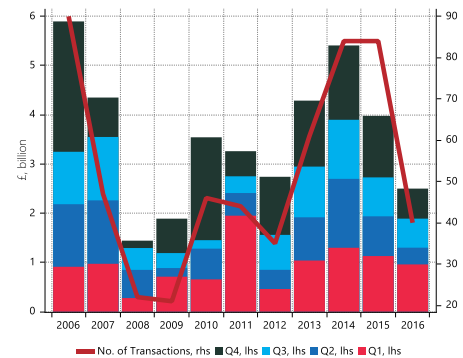
Rental performance across retail sub-sectors has converged – all grew by ca. 0.1% in December.



Source: MSCI

Shopping Centre Transactions

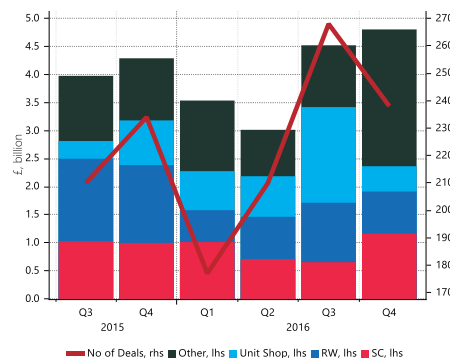
Shopping centre investment volumes were depressed before the Referendum vote and have yet to recover.



Source: Knight Frank Research

Investment Volumes by sub-sector

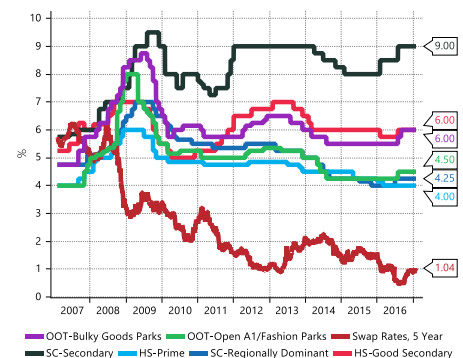
Overall retail investment volumes were up 12% in Q4 on the same quarter in 2015.



Source: Property Data

Yields

After some initial post-Brexit re-pricing, yields were largely stable in Q4 across all retail sub-sectors.



Source: Knight Frank Research



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RESEARCH

Stephen Springham

Partner, Head of Retail Research
+44 20 7861 1236
stephen.springham@knightfrank.com

RETAIL

Charlie Barke

Partner, Shopping Centre Investment
+44 20 7861 1233
charlie.barke@knightfrank.com

Andrew McGregor

Partner, Out-of-Town Investment
+44 20 7861 1531
andrew.mcgregor@knightfrank.com