

UK Retail Monitor Q1 2018

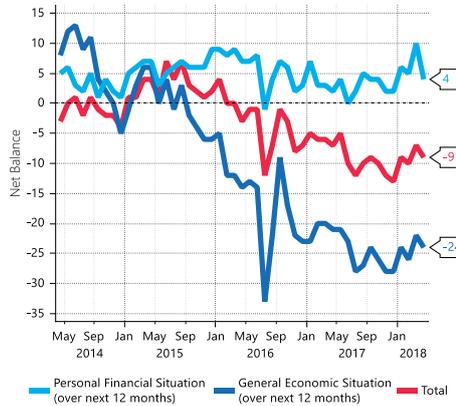
KEY HEADLINES

- The retail doom mongers had much to feast on in Q1, with a few high profile administrations (Toys 'R Us, Maplin and East) and a number of controversial CVAs (New Look, Carpetright and post quarter-end, House of Fraser and Mothercare) shining an unwelcome spotlight on the retail sector.
- Cue predictable retail soul-searching, calls of Retail Armageddon and renewed proclamations of the Death of the High Street. Sadly lacking generally is a sense of perspective as to why the retail sector is so challenged.
- Contrary to virtually every media report, the malaise is not consumer driven. The supposed 'consumer squeeze' actually ended in Q1, with wages growth again outstripping inflation. But this has been a red herring all along and will have no more material impact now that it did over the preceding 18 months.
- The UK consumer continues to spend, despite all commentary to the contrary. ONS figures showed that overall retail sales values in Q1 were up 3.7% year-on-year. Even stripping out inflation, retail sales volumes were still up 1.2%.

"Q1 2018 will go down in the annals of time as 'the Quarter of the Retailer CVA'. But it could also conceivably also be a turning point in what is an increasingly inequitable process."

Consumer Confidence

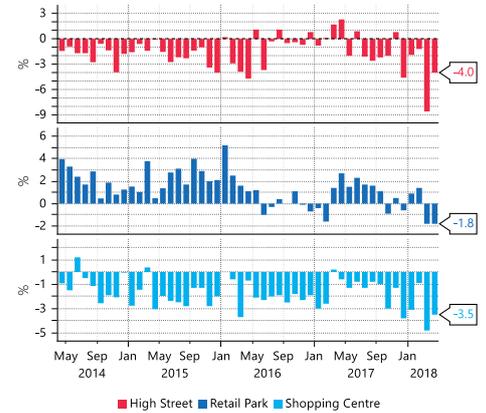
Stronger for personal finances than the macro economy



Source: GfK

Retail Footfall

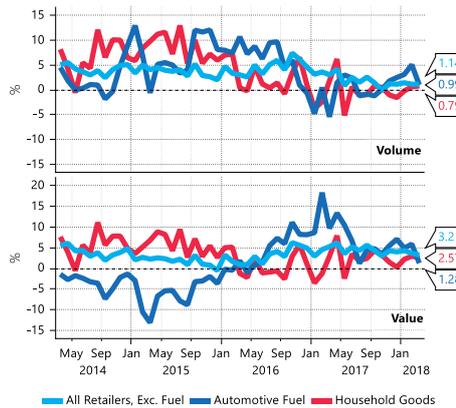
Annual % Change to Q1 2018



Source: BRC

ONS Retail Sales

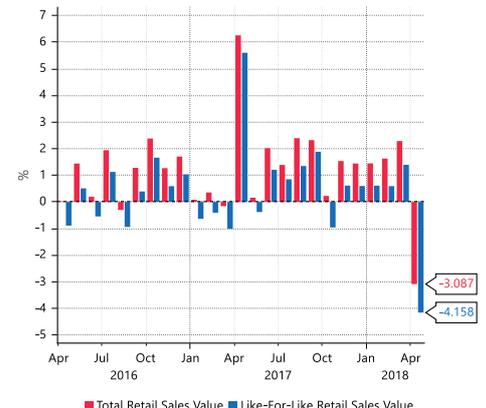
Annual % Change to Q1 2018



Source: ONS

BRC Retail Sales

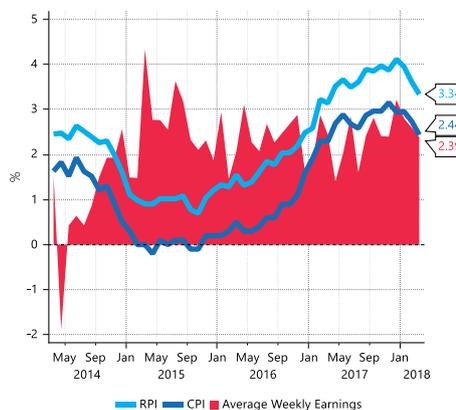
Annual % Change to Q1 2018



Source: BRC

Average Weekly Earnings Growth vs Inflation

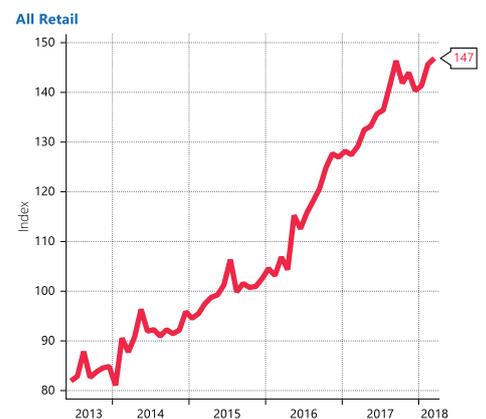
Annual % Change to Q1 2018



Source: BRC

Online Retail Spend Index

March saw a new peak for online spend



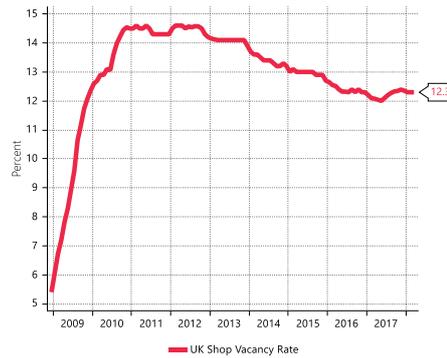
Source: ONS

KEY HEADLINES

- The distress amongst some operators cannot be attributed to any single one factor, rather a toxic mix of multiple cost and competitive pressures.
- Some of these are fairly recent (e.g. rising staff costs, business rates revaluations, higher input costs), but most are longer-standing, deeper-seated failings coming home to roost (e.g. over-expansion, lack of investment, failure to move with the times, product shortcomings, lack of brand relevance).
- The wave of CVAs in Q1 has reignited the debate as to whether they reflect genuine distress, or whether retailers are abusing the system to simply exit underperforming stores and renegotiate lease liabilities that they previously entered into of their own free will.
- CVAs also have a damaging knock-on effect across retail property markets, which prospering operators seeking to establish comparable terms with their 'distressed' counterparts. This is putting further constraint on what limited rental growth there is across the sector. In turn, this is partially feeding into investor sentiment.
- With something of a groundswell amongst landlords, CVAs are likely to face greater challenge and scrutiny going forward. Retail occupier markets will remain challenged, but retailing has always been survival of the fittest – and some operators are fitter than others.

Retail Vacancy Rate

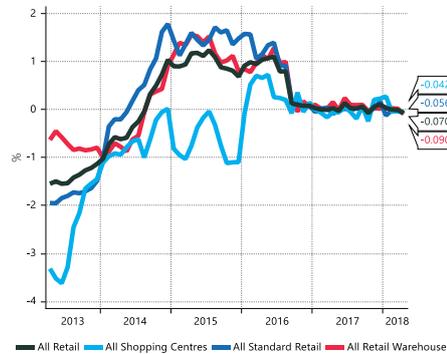
Occupier fall-out has yet to manifest itself in retail vacancy rates, which remained stable in Q1 at 12.3%



Source: Local Data Company

Retail Rental Growth by sub-sector

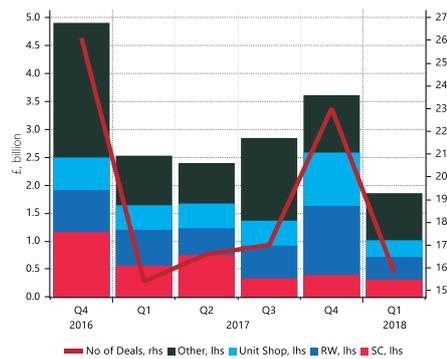
Q-on-q ERV growth for all retail in Q1 was a meagre 0.03%, led (surprisingly) by Department Stores (0.58%)



Source: MSCI

Investment Volumes by sub-sector

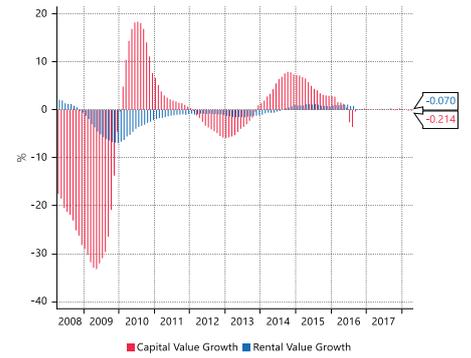
The number of transactions (158) was broadly similar to Q1 2017, but actual volumes were down 26% y-o-y



Source: Property Data

All Retail - Rental and Capital Value Growth

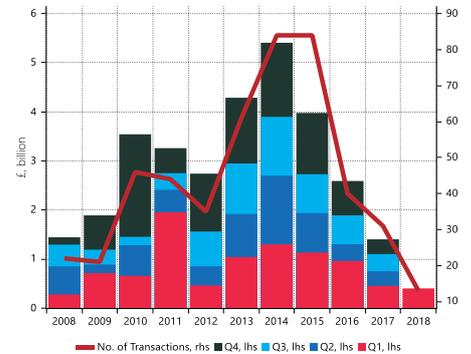
Q-on-q capital value growth for the retail sector as a whole was down -0.25% in Q1



Source: MSCI

Shopping Centre Transactions

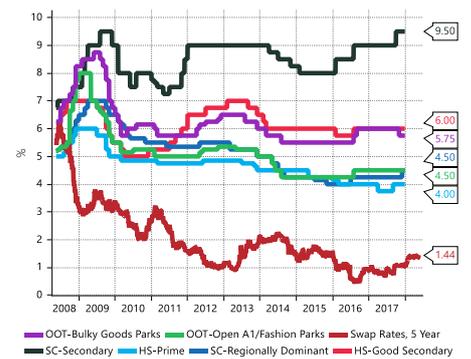
Volumes were down 20% on Q1 2017 and market supply remains very low



Source: Knight Frank Research

Yields

Yields are stable across the retail sector, but sentiment remains most negative around Shopping Centres



Source: Knight Frank Research



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