RESEARCH

UK Retail Monitor Q1 2019

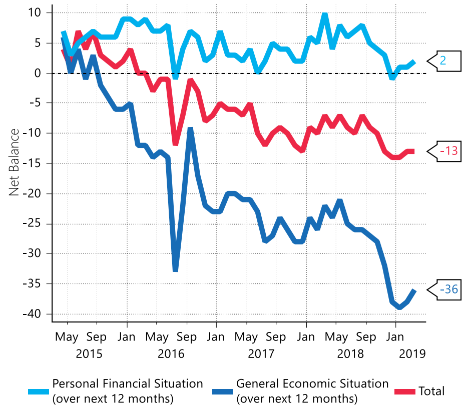
KEY HEADLINES

- No respite in Q1 – the challenges facing the UK retail sector transcend the macro-economic backdrop and political arena. While these remain the focus of the media, the issues facing the high street are far more structural and will take considerable time to resolve.
- Ongoing unrest and fall-out amongst retail occupiers continues to weigh very heavily on property market performance and retail property investment markets, although this is taking time to be fully reflected in some asset values.
- Conversely, the UK consumer remains surprisingly defiant. Retail sales generally have held up astonishingly well in the face of wider macro-economic and political turmoil. Indeed, Q1 even saw an acceleration in retail spending growth.
- Q1 retail sales values (exc. fuel) grew year-on-year by 5.1%. There was minimal uplift from inflation, with retail sales volumes also up by a very healthy 4.8%. March proved particularly strong (values +6.6%, volumes +6.2%), despite Easter falling in April in 2019. Clothing (+4.8%) had its best quarter since 2017.

"The UK retail sector has far bigger fish to fry than Brexit. Ongoing structural change will take many years to fully play out, but the high street is anything but dead."

Consumer Confidence

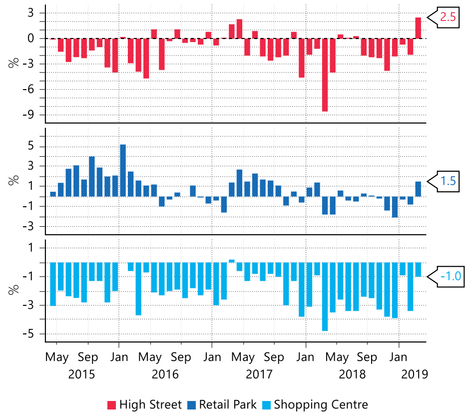
Some recovery in Confidence since the start of the year



Source: GfK

Retail Footfall

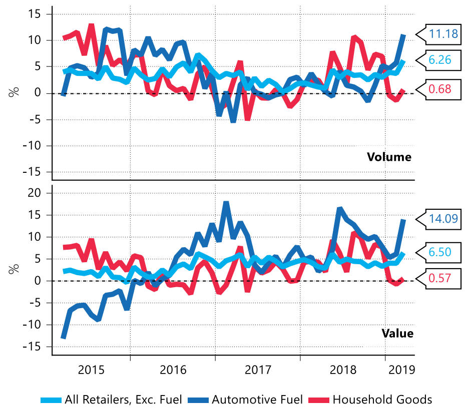
Annual % Change to Q1 2019



Source: BRC

ONS Retail Sales

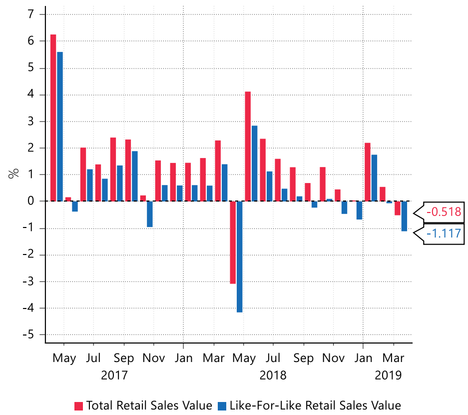
Annual % Change to Q1 2019



Source: ONS

BRC Retail Sales

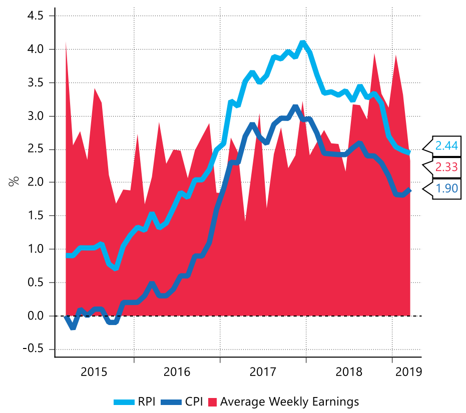
Annual % Change to Q1 2019



Source: BRC

Average Weekly Earnings Growth vs Inflation

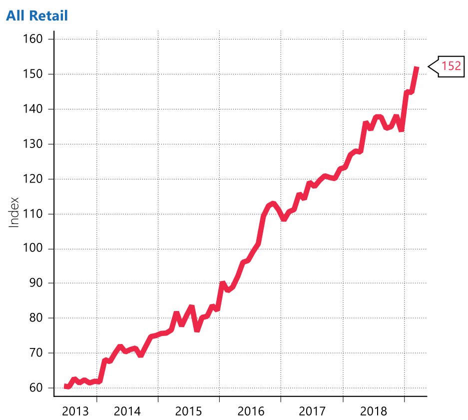
Annual % Change to Q1 2019



Source: BRC

Online Retail Spend Index

Online accounts for ca. 18% of annual retail sales



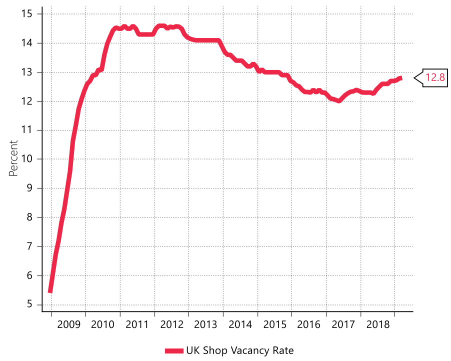
Source: ONS

KEY HEADLINES

- The long-awaited pre-pack administration and subsequent CVA of Debenhams inevitably set a very negative tone in retail occupier markets. The first 22 store closures were announced as part of the CVA, towards an indicative target of "up to" 50 sites.
- Arcadia remains the other major high street retailer on the "watch list", with a CVA / administration likely to materialise in Q2. Other CVAs may follow later this year, but few are likely to be of the disruptive magnitude of those of Debenhams and Arcadia.
- Retail property values continue to freefall. All retail capital values declined by a further 0.9% in March alone, bringing the rolling 12 month figure to -8.2%. Rebasing of values in shopping centres has been more severe (-10.5%) than in retail warehouses (-8.5%).
- Investor sentiment towards retail is understandably weak, although there is a tendency to tar all assets with the same negative brush, even those with solid fundamentals. Shopping centres remain the most challenged sub-segment, as evidenced by all-time low volumes in Q1.
- Conversely, other retail sectors are increasingly becoming a sound counter-cyclical play. The common denominator of these is relatively simply – "relevance" to the catchment or market that they serve. The investment case for retail remains income. Retail is forecast to deliver income returns of 5.1% in 2019, versus 4.2% for Industrial and 3.9% for Offices.

Retail Vacancy Rate

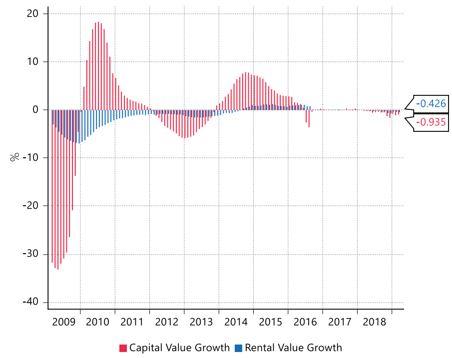
National vacancy rates are starting to trend up, albeit only slightly at this stage



Source: Local Data Company

All Retail - Rental and Capital Value Growth

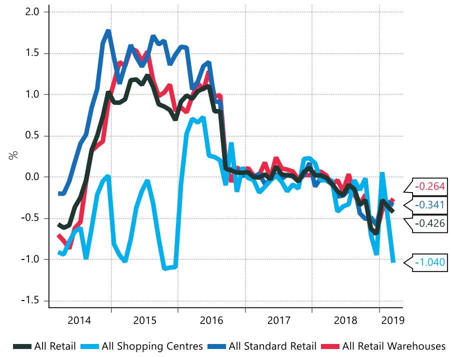
Q-on-q capital values for the retail sector as a whole were down -1.19% in Q1



Source: MSCI

Retail Rental Growth by sub-sector

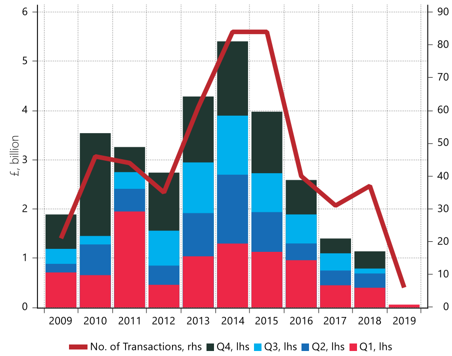
Q-on-q ERVs for All Retail were down -0.43%, with shopping centres worst affected (-1.04%)



Source: MSCI

Shopping Centre Transactions

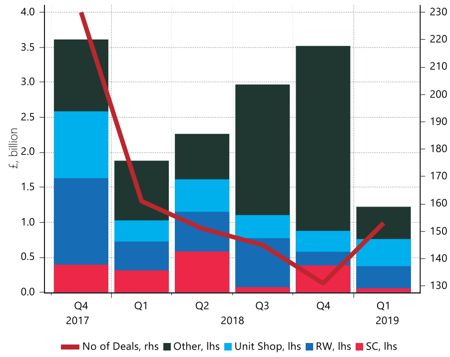
Q1 volumes hit an all-time quarterly low (ca. £77m), with valuations and buyer aspirations very miss-matched



Source: Knight Frank Research

Investment Volumes by sub-sector

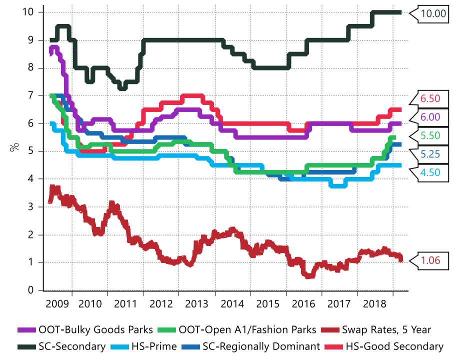
Q1 investment volumes were up for unit shops and warehouses, down for mixed-use and shopping centres



Source: Property Data

Yields

As negative sentiment engulfs the retail sector generally, yields are starting to soften, albeit very gradually



Source: Knight Frank Research

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