

UK Retail Monitor

Q1 2023

The Knight Frank Retail Monitor provides a quarterly update on key data across all retail sub-sectors and current market sentiment.

knightfrank.com/research

“Benign and boring is the new good in retail. Left to its own devices without external shocks, the sector can continue its slow renaissance. Although not universally positive by any means, many of the metrics nevertheless point to a resilience few would ever credit the retail sector as having.”

Stephen Springham, Head of Retail Research

KEY HEADLINES

With no major alarms or surprises, the retail sector was able to regain its footing and some confidence. Consumer demand held up well, with sentiment appearing to have turned a corner. Operator markets were also stable, with retailers even cautiously optimistic for the year ahead. Meanwhile, investment markets remain muted, with demand for Retail Warehousing principally driving the sector forward.

CONSUMER MARKETS

The mood of consumers definitely improved across the quarter, with confidence increasing by +9 percentage points overall. Driven by an improved outlook on the general economy, with the news that high inflation is expected to ease considerably later this year. The mood toward personal finances remains significantly elevated.

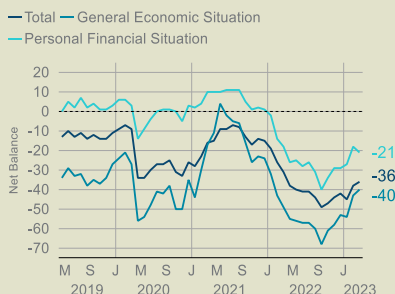
Although wages lag inflation, the majority still enjoy income security, with unemployment at historic lows. Record rates of workers exiting the workforce entirely also signals a level of personal financial confidence.

Retail sales continued on a growth streak, with sales values (amount spent) increasing +5.6%. Volumes (number of items purchased) were impacted by inflation (-3.8%), but to a lesser degree than previous quarters (Q4: -6.3% / Q3: -5.2%).

Demand for many discretionary and large-ticket items remains strong (clothing +13.3% / cosmetics +26.6% / furniture +5.2%) with consumers spending and buying more on these categories. Appetite for the store experience prevails, with online sales penetration plateauing at ca. 25%.

Consumer Confidence

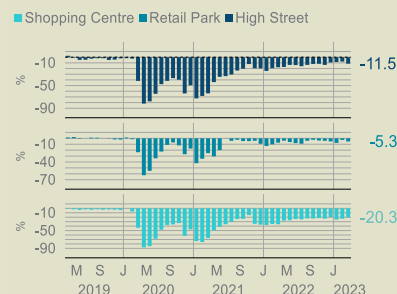
Confidence over the next 12 months



Source: GFK

Retail Footfall

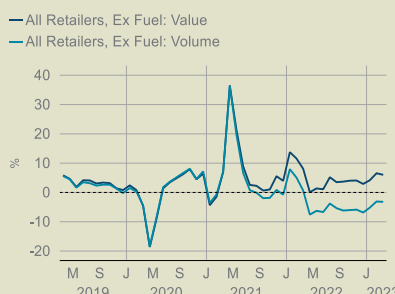
Monthly y-o-y change over the last 4 years, %



Source: BRC

ONS Retail Sales

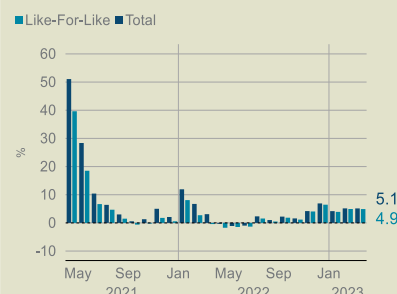
Monthly y-o-y change over the last 4 years, %



Source: ONS

BRC Retail Sales

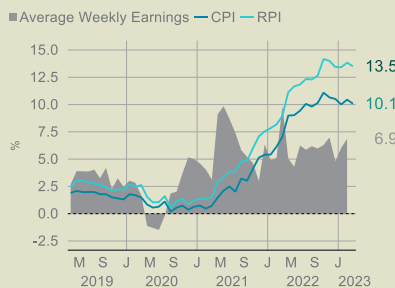
Monthly y-o-y change over the last 2 years, %



Source: BRC

Average Weekly Earnings

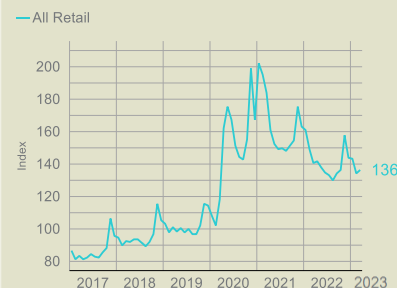
Annual change over the last 4 years, %



Source: ONS

Online Retail Sales Index

July 2019 = 100



Source: ONS

OCCUPIER MARKETS

There has been very little occupier fallout to date, with the market far more benign than predicted.

The only major household retailers to go into administration (Paperchase, M&Co) are both 'repeat offenders' with chequered histories of private equity ownership and a track record of previous administrations. Less a barometer of general economic malaise, and more operational shortcomings particular to those operators.

Although distress has thankfully been minimal, the retail market remains a tough place to be at the moment, with cost inflation still a very real issue for operators.

Whilst some have inevitably seen a hit to their profits, the majority have upgraded guidance rather than issue warnings. Retailers knew what was coming and have prepared and communicated accordingly.

INVESTMENT MARKETS

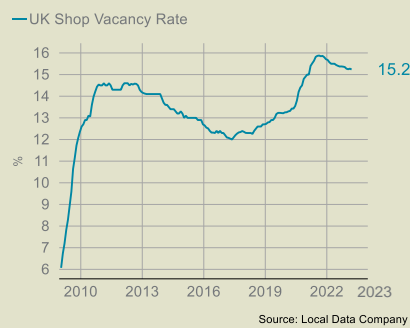
A quiet start to the year, with activity generally muted. Sentiment across capital markets improved only marginally off the back of a very subdued Q4. The quarter did benefit from a spill over of deals which did not complete by 2022 year-end. However overall deal volumes were relatively restrained at £1.8bn, registering below the 5-year quarterly average (£2.1bn).

Retail Warehousing remains the bright spot of the sector, with total returns (6.3%) forecast to outpace All Retail (4.7%) and All Property (2.1%) this year. Although the preferred sub-sector by those seeking exposure to Retail, Q1 volumes were frustrated by a lack of available stock.

Stock availability and cost of debt will be key challenges over the next few quarters, as vendors' concerns over the ability of buyers to raise debt to support bid pricing remains front and centre.

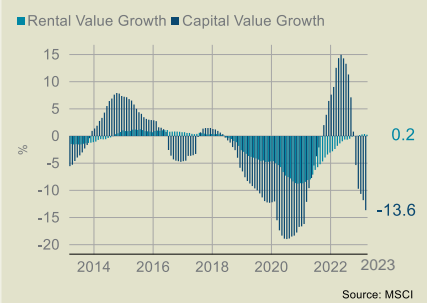
Retail Vacancy Rate

Last 10 years, %



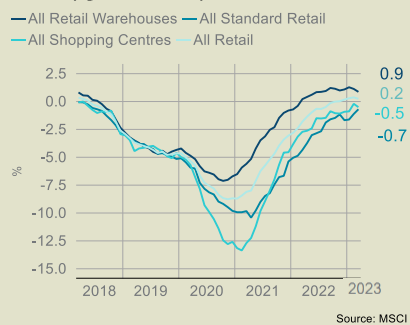
All Retail - Rental / Capital Value Growth

Rolling 12 month growth, last 10 years, %



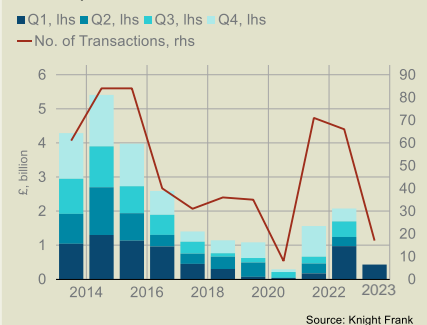
Retail Rental Growth by sector

Monthly growth, last 5 years, %



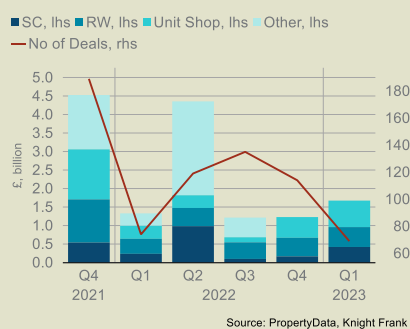
Shopping Centre Transactions

Last 10 years



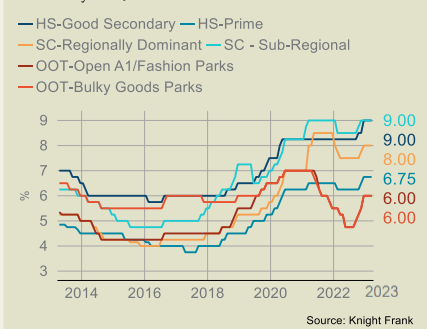
Investment Volumes by sub-sector

Last 6 quarters, £ billions



Yields

Last 10 years, %



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CAPITAL MARKETS



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