

UK Retail Monitor

Q2 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

“Retail is riding the storm – a H1 that anyone in retail would have taken at the turn of the year. The key metric to look out for in H2 is a return to positive retail sales volume growth, which should precipitate the easing of inflationary pressures and, in turn, provide less stimulus for further interest rate rises.”

Stephen Springham, Head of Retail Research

KEY HEADLINES

The retail sector continues to steer a surprisingly steady course, despite prevailing headwinds. Consumer and occupier markets are leaning into economic challenges with newfound resilience – seemingly adopting a ‘que sera sera’ attitude - tackling challenges head-on with the view that ‘uncertainty’ is now an omnipresent feature, a given. Investment markets are where the sector remains most challenged, although Retail Warehousing continues to propel the sector forward.

CONSUMER MARKETS

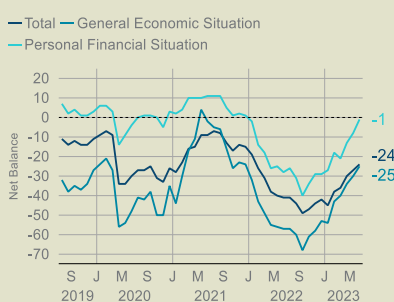
Displaying remarkable resilience, retail sales accelerated +2.8% vs. Q1, demonstrating consumers’ ongoing ability to withstand higher costs. Indeed, something of a ‘feel-good’ factor undeniably intensified: consumer confidence improving by 12 percentage points to hit -24 pts in June, marking the fifth consecutive monthly improvement.

Sentiment and spending upticks can be attributed to several quantifiable factors, including a) an increase in householders’ disposable income (ONS showing regular average earnings, excluding bonuses, grew +7.3% in the three months to May) and b) the easing of utility prices, resulting in the diversion of essential spend (down -1.1 ppts) to more discretionary items (+4.9 percentage point increase, according to Deloitte’s Consumer Tracker).

Perhaps less quantifiably, the consumer mood was enhanced by the enjoyment of multiple bank holidays, the King’s coronation and the hottest June on record – factors cited in many retailers’ generally upbeat performance updates.

Consumer Confidence

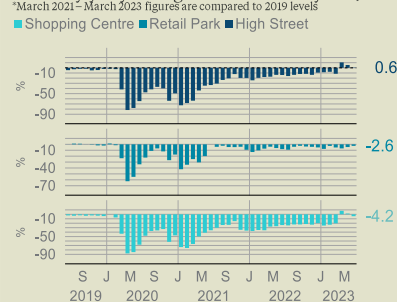
Confidence over the next 12 months



Source: GFK

Retail Footfall

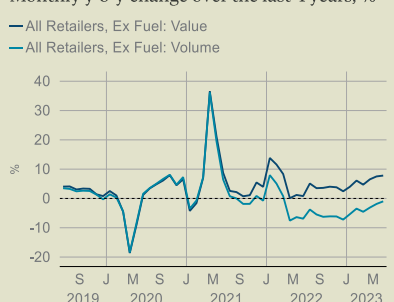
Monthly y-o-y change over the last 4 years, %



Source: BRC, Springboard

ONS Retail Sales

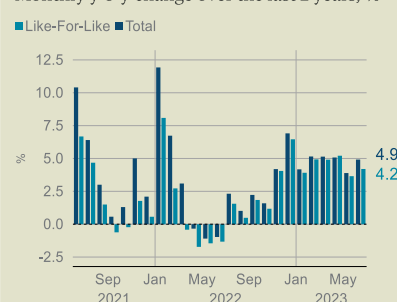
Monthly y-o-y change over the last 4 years, %



Source: ONS

BRC Retail Sales

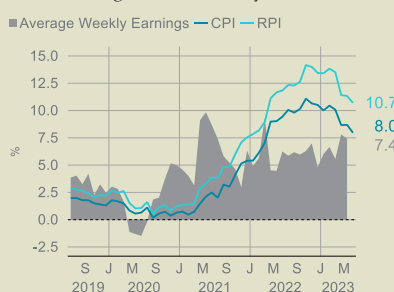
Monthly y-o-y change over the last 2 years, %



Source: BRC

Average Weekly Earnings

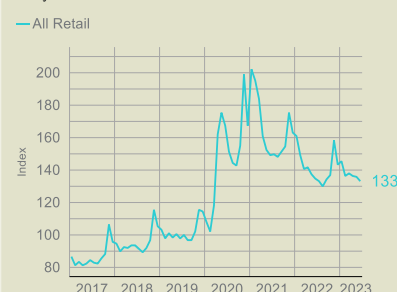
Annual change over the last 4 years, %



Source: ONS

Online Retail Sales Index

July 2019 = 100



Source: ONS

OCCUPIER MARKETS

Quiet, but growing, optimism took hold amongst occupier markets, with retailers steadily 'plodding on'. Several mainstream operators revealed better-than-anticipated sales - albeit against moderated forecast expectations, but nonetheless supported by solid consumer demand. Easing energy and shipping costs also supported improvements in product margins and profitability.

Occupier failure continued to be limited in H1, with 31 retail businesses failing affecting 523 stores, versus 49 businesses and 6,055 stores in the whole of 2022. Several brands facing distress in Q2 (e.g. Hotter Shoes, Planet Organic) have already been acquired and are set to remain trading.

Retail vacancy rates inched up marginally QoQ (by 10bps) to 15.3%, with minor deterioration in High Streets (13.9% vs. 13.8% in Q1). Shopping Centres rates were stable (17.8%) whilst Retail Parks improved to 8.1% from 8.7%. Overall vacancy remains 10bps lower than Q2 2022 (15.4%).

INVESTMENT MARKETS

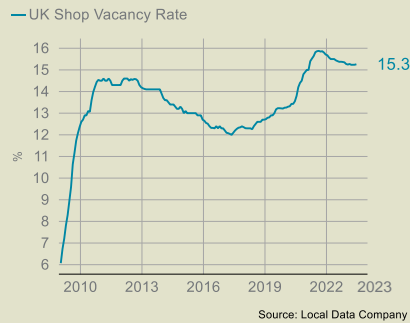
Investment markets showed growing signs of stability, with demand and liquidity improving across nearly all retail subsectors. Sentiment towards retail grew increasingly positive, with rents and values appearing to have turned a corner.

Retail total returns in the three months to June (+1.9%) significantly outpaced the Offices sector (-2.8%). Standard Retail lagged (+0.7%), however, whilst Shopping Centres (+1.9%) and Retail Warehousing (+2.5%) led the way, the latter surpassing even Industrial (+2.4%).

However, in line with wider capital markets, transactional activity remained largely depressed, due to a lack of stock and elevated debt costs. Transaction volumes registered an underwhelming £0.75bn, marking a substantial -65% decrease on Q1 levels (£2.13bn). Total Retail transactions volumes totalled £2.89bn in H1, but stripping out Foodstores (which were bolstered by a number of portfolio deals), transaction volumes were down -43% versus H1 2022 and -24% versus H2 2022.

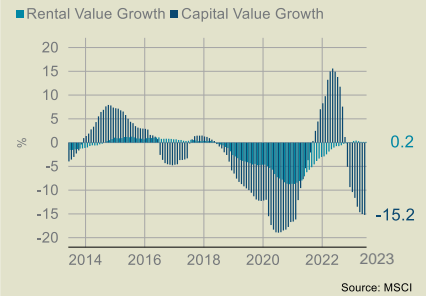
Retail Vacancy Rate

Last 10 years, %



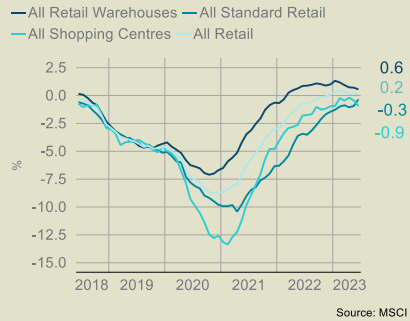
All Retail - Rental / Capital Value Growth

Rolling 12 month growth, last 10 years, %



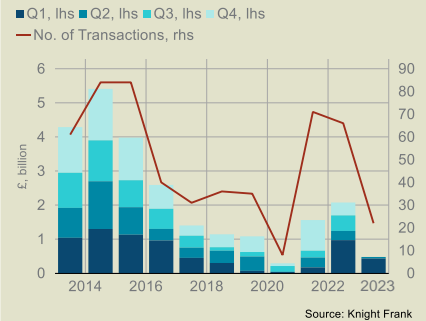
Retail Rental Growth by sector

Monthly growth, last 5 years, %



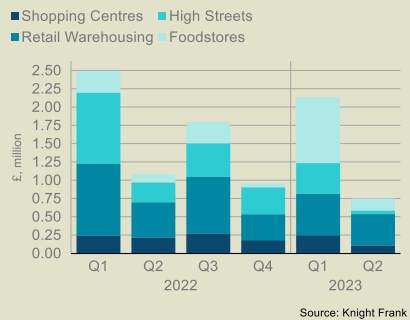
Shopping Centre Transactions

Last 10 years



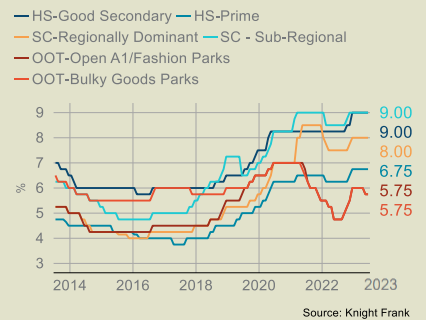
Investment Volumes by sub-sector

Last 6 quarters, £ billions



Yields

Last 10 years, %



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COMMERCIAL RESEARCH



Stephen Springham

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



Emma Barnstable

Associate, Commercial Research
+44 20 8106 1385
emma.barnstable@knightfrank.com

CAPITAL MARKETS



Charlie Barke

Partner, Head of Retail Capital Markets
+44 20 7861 1233
charlie.barke@knightfrank.com



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