

UK Retail Monitor Q3 2017



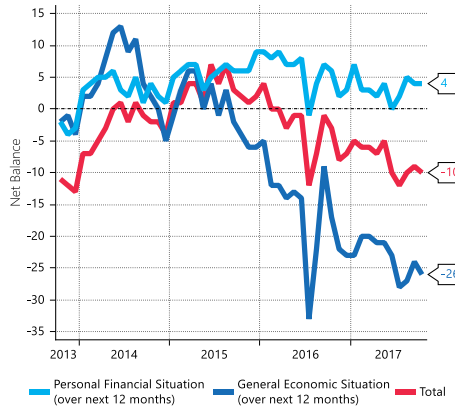
KEY HEADLINES

- The Song Remains the Same – despite all economic logic to the contrary, the UK consumer continues to spend and the retail sector is holding its own.
- The gap between inflation and wage growth has widened, yet this has yet to filter into retail spending patterns. And this does raise some worrying questions as to sustainability of consumer credit.
- Retail sales values (exc fuel) in Q3 grew by a healthy 4.9%. Even stripping out inflation, retail sales volumes (exc fuel) were also ahead by 1.9%. But there are early indications that October was much weaker.
- Having successfully negotiated the three key headwinds identified for the year (higher input costs, business rate revaluations and National Living Wage increases), retailers are still extremely cautious.
- On the one hand, inflation should now ease as last year's price increases annualise and drop out of the equation. However, the prospect of the first interest rate rises in a decade will keep any sense of complacency in check.

“Even mathematics are conspiring against the retail sector going into the final quarter of the year. Q4 2016 will provide a formidable comp base, where any growth is a major achievement.”

Consumer Confidence

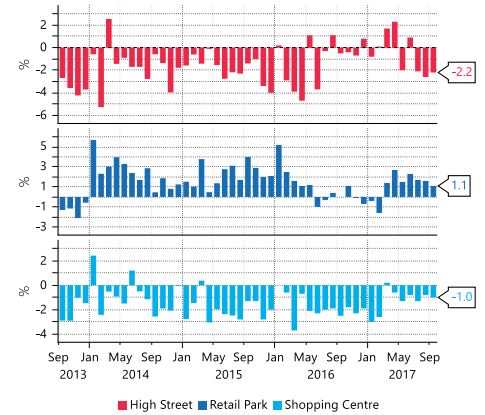
Confidence remains fragile and volatile



Source: GfK

Retail Footfall

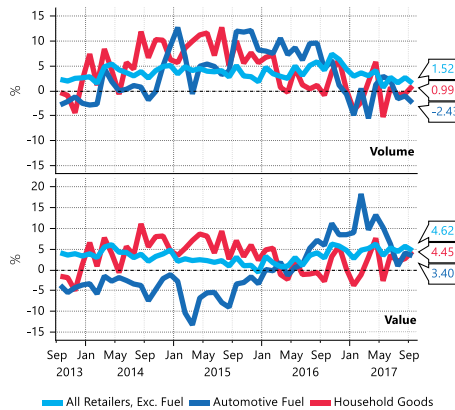
Annual % Change to Q3 2017



Source: BRC

ONS Retail Sales

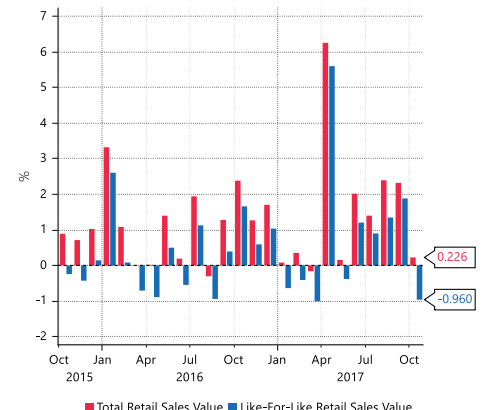
Annual % Change to Q3 2017



Source: ONS

BRC Retail Sales

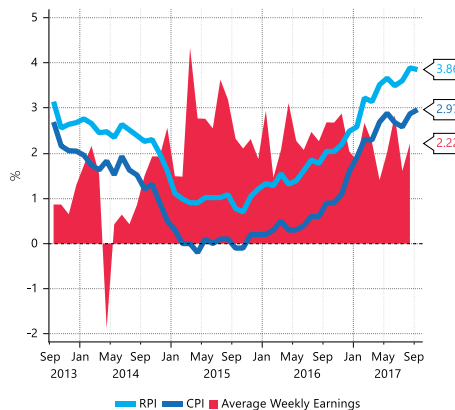
Annual % Change to Q3 2017



Source: BRC

Average Weekly Earnings Growth vs Inflation

Annual % Change to Q3 2017



Source: BRC

Online Retail Spend Index

November is the peak month for online spend



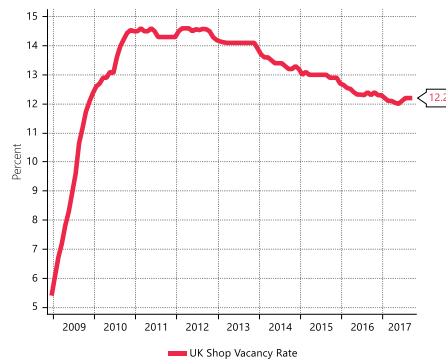
Source: ONS

KEY HEADLINES

- Christmas 2017 is perhaps harder to call than many a year. Retail sales momentum is still strong going into Q4, inflation is slowly receding and there is still volume growth. Consumers are financing this growth through increased borrowings, which are still very cheap on a long term perspective.
- However, confidence is fragile, real incomes are falling and interest rates are poised to rise (albeit in very small increments). Black Friday is likely to be smaller in magnitude than in previous years, but can still play havoc with seasonal trading patterns.
- The comparable period last year was a highly unexpected mini boom – in Q4 2016 retail sales values and volumes surged by 5.6% and 6.2% respectively. This was against an oft-forgotten fact that Christmas 2015 was exceedingly poor, but it will still be tough to leverage growth against such a demanding comparable.
- In some respects, any growth at all would represent a positive outturn (and, indeed, there may be more merit in analysing growth across a two-year perspective). Mintel are predicting that retail sales values (exc fuel) will grow by 1% to 2% in December. Over a two-year time horizon, this would correspond to overall growth of 6% to 7%.

Retail Vacancy Rate

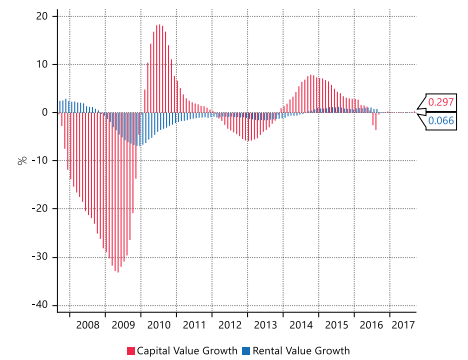
Retail vacancy rates remain stable at just over the 12% mark



Source: Local Data Company

All Retail - Rental and Capital Value Growth

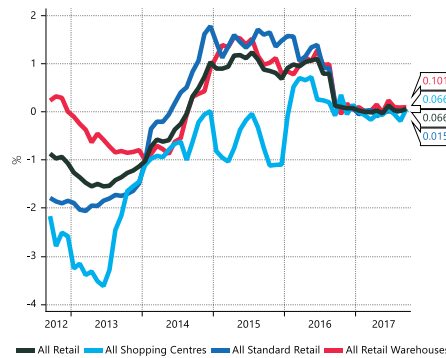
Q-on-q capital value growth for the retail sector as a whole was 0.47% in Q3, led by SE High Streets (1.48%)



Source: MSCI

Retail Rental Growth by sub-sector

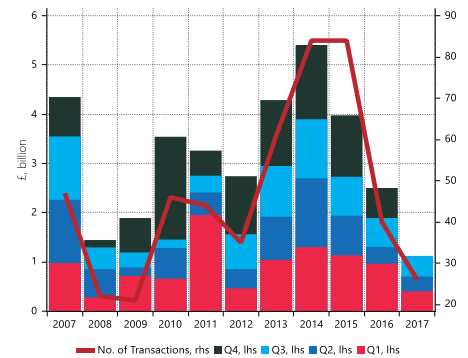
Q-on-q ERV growth for all retail in Q3 was 0.53%, led by Shopping Centres (1.68%)



Source: MSCI

Shopping Centre Transactions

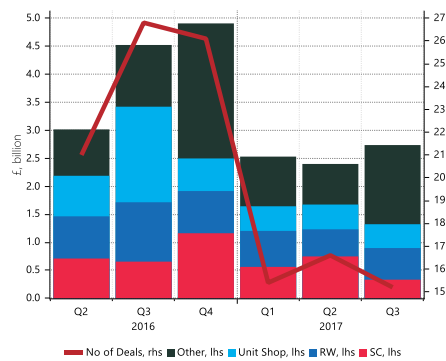
Transactions are at a 7 year historic low, with only 26 deals for the year to date (vs 10 year average of 38)



Source: Knight Frank Research

Investment Volumes by sub-sector

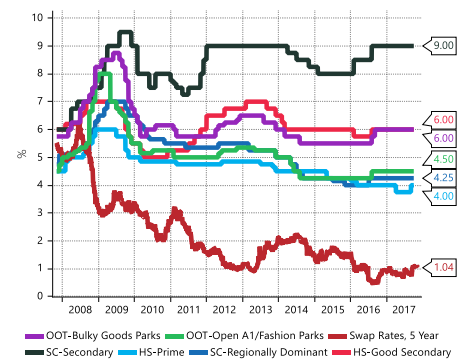
Overall retail volumes were down 39% year-on-year in Q3 to £2.7bn, with 116 fewer reported deals



Source: Property Data

Yields

Yields are stable across the retail sector, although sentiment is most negative around Shopping Centres



Source: Knight Frank Research



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