

# UK Retail Monitor Q3 2019



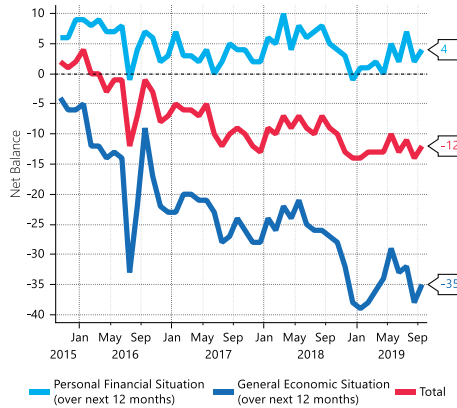
## KEY HEADLINES

- The general economy remained in a state of limbo ahead of the revised Brexit deadline of 31 October. The date has since been pushed back to 31 January and a General Election has been called for 12 December. Although the likelihood of a “No Deal” Brexit has receded slightly, there is still no sense of clarity.
- However, ongoing political and economic upheaval continue to have very limited impact on consumer markets. Consumer confidence is relatively resilient and wage growth is comfortably above inflation.
- Consumers continue to spend. In Q3, retail sales values grew by 3.4% and volumes (‘real’ growth, net of inflation) were ahead by 2.8%. This marked a degree of deceleration on the previous two quarters, an inevitable by-product of tough comparables the previous year.
- Although there was limited CVA activity during Q3 (Jack Wills the main protagonist), the risk of occupier unrest has not dissipated. Since the quarter end, Bonmarché, Mamas and Papas and Mothercare have all succumbed to administration. The issue of “CVA contagion” is also ongoing.

“Retail property capital markets remain trapped between the rock of continuing political and macro-economic uncertainty and the hard place of ongoing occupier unrest.”

### Consumer Confidence

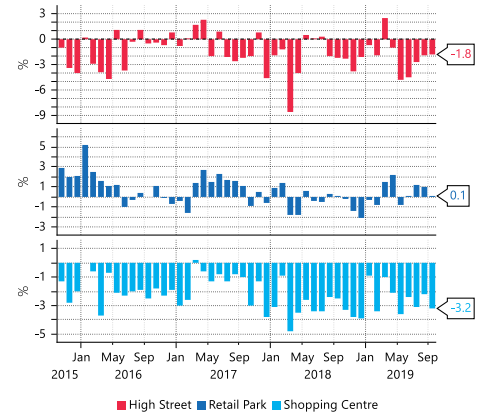
Far more Confidence in Personal Financial Situations



Source: GfK

### Retail Footfall

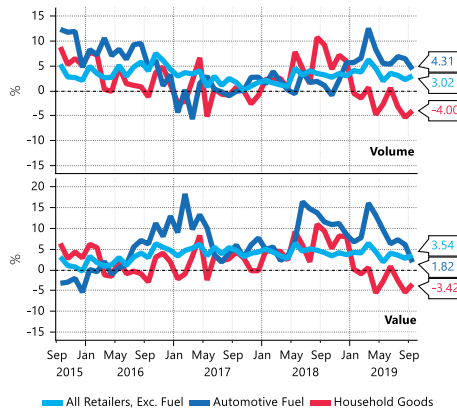
Annual % Change to Q3 2019



Source: BRC

### ONS Retail Sales

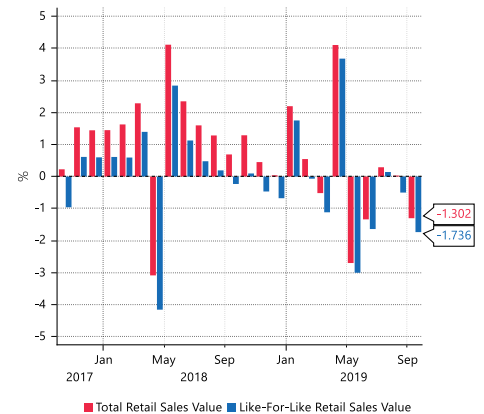
Annual % Change to Q3 2019



Source: ONS

### BRC Retail Sales

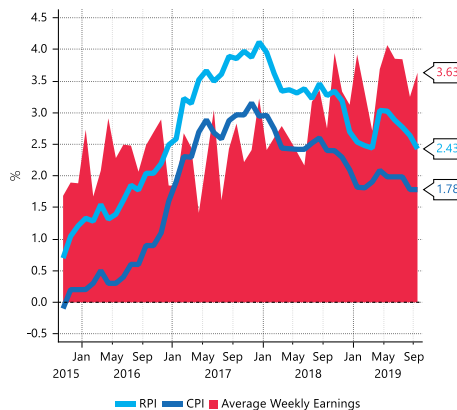
Annual % Change to Q3 2019



Source: BRC

### Average Weekly Earnings Growth vs Inflation

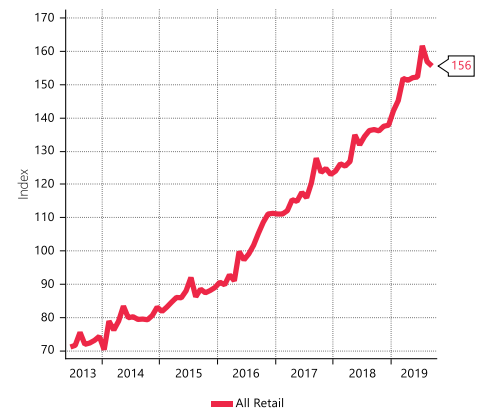
Annual % Change to Q3 2019



Source: BRC

### Online Retail Spend Index

Month-on-month declines in both Aug and Sep



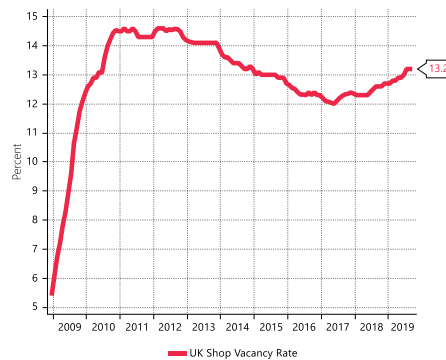
Source: ONS

## KEY HEADLINES

- Retail property investment markets remain highly challenged, hamstrung by a toxic mix of occupier distress, negative market sentiment and macro-economic and political uncertainty.
- All retail capital values declined by a further -2.93% in Q3. Retail warehouses saw the sharpest quarterly correction (-4.05%), followed by shopping centres (-3.95%).
- For the year to date, all retail capital values have fallen by -7.76%, with department stores (-13.12%) and shopping centres (-11.69%) experiencing the steepest declines. Supermarkets are the only retail sub-sector to achieve stable capital values (YTD +0.01%).
- Despite this drastic rebasing, there are still mismatches between valuations and buyers' expectations, keeping investment volumes further in check. Total retail investment volumes totalled just £4.2 billion in the first three quarters of the year, down ca. 40% on the corresponding period last year. Barring an unlikely rally in Q4, transaction volumes for 2019 as a whole are destined to hit an all-time low.
- The retail sector's attention is now focussed squarely on the festive period. We believe spending will hold up well over Christmas and are forecasting that Q4 retail sales values will increase year-on-year by between +3.0% and +3.5% and volumes by between +2.5% and +3.0%. But even this will only provide temporary respite rather than resolution of much deeper structural issues.

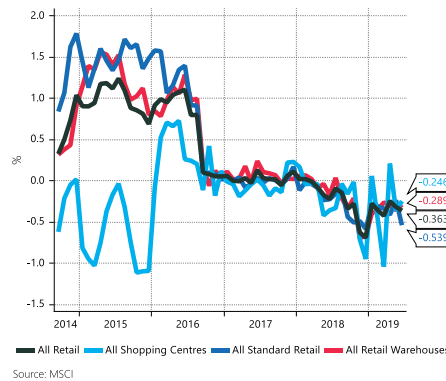
### Retail Vacancy Rate

National vacancy rates have trended up to their highest levels since Q4 2014



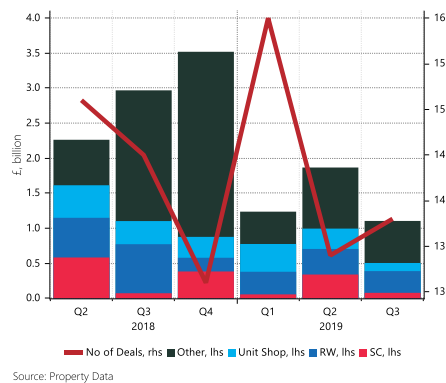
### Retail Rental Growth by sub-sector

Q-on-q ERVs for All Retail were down -1.11%, with retail warehouses worst affected (-1.27%),



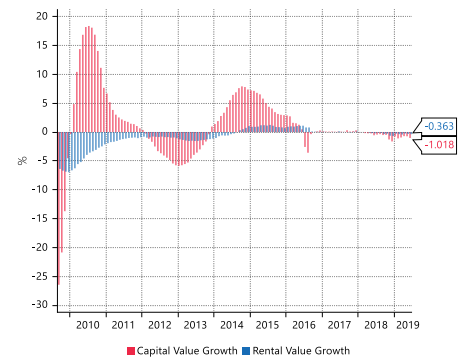
### Investment Volumes by sub-sector

Total retail investment volumes were just £1.1bn in Q3, around one third of those recorded in Q3 2018



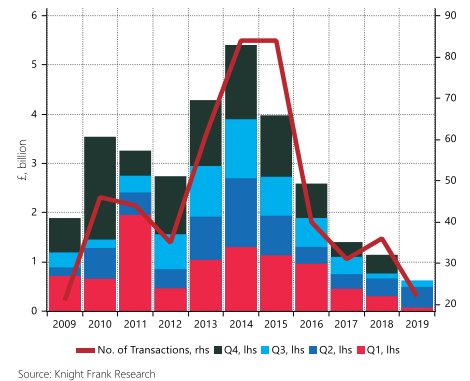
### All Retail - Rental and Capital Value Growth

Q-on-q capital values for the retail sector as a whole were down -2.93% in Q3



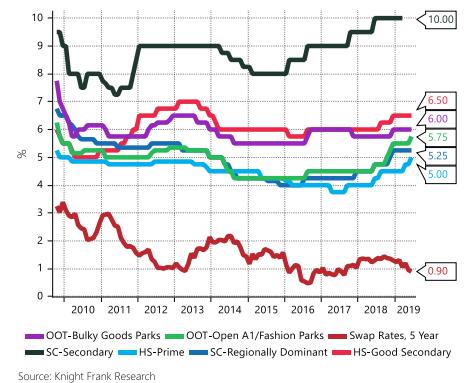
### Shopping Centre Transactions

Q3 volumes were just £132m and 2019 remains on course to be the weakest year on record



### Yields

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



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