

# UK Retail Monitor

Q3 2022

## KEY HEADLINES

Consumers finally began to tighten their belts this quarter, with some evidence of squeeze in the numbers. But the health of the retail market is far more nuanced than the 'cost of living crisis' depicted by the media. Whilst the effects of inflation are hard to ignore, retailers are battle hardened and ready for recession, with Retail forecast to be the only major CRE sector set to achieve a positive total return in 2022.



Consumer confidence nosedived, with concern over personal finances tumbling 140bps. The scale of pessimism is hard to fathom given the misery of multiple lockdowns, but perhaps justified given the scale of economic and political chaos unleashed by the 44-day tenure of (now former) PM Liz Truss.



Seemingly in stark contradiction to the gloom, Q3 retail sales remained in positive territory. Consumers spent +4.0% more this quarter than last year (values), although purchased -4.7% fewer items (volumes). Sweeping assumptions that consumers solely made cutbacks on discretionary goods simply do not hold true. Several categories witnessed value and volume growth (e.g., electricals +7.4% / +9.6%).



Inflation effects are plain to see, but sales values will not collapse in Q4, even as the well-documented 'consumer squeeze' finally takes hold after months of anticipation. As previous recessions show, history is very much on the side of retail (e.g. 1990: sales values +7.3% / volumes +1.4% / CPI 8.0%)



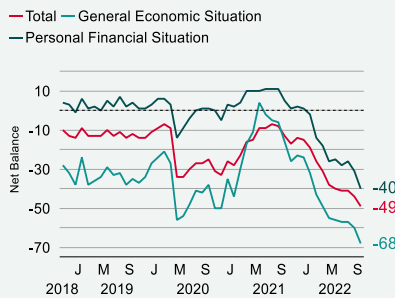
*"The passing of HM The Queen and the revolving door in Downing Street both impinged upon the retail sector in differing ways. Resilient to date, the retail sector will face real acid tests in Q4."*



STEPHEN SPRINGHAM  
HEAD OF RETAIL RESEARCH

### Consumer Confidence

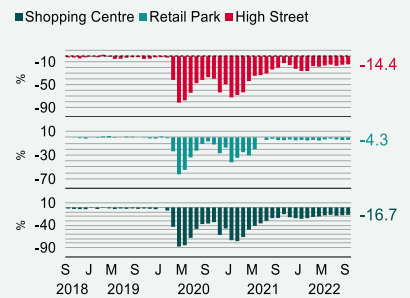
Confidence over the next 12 months



Source: GfK, Macrobond

### Retail Footfall

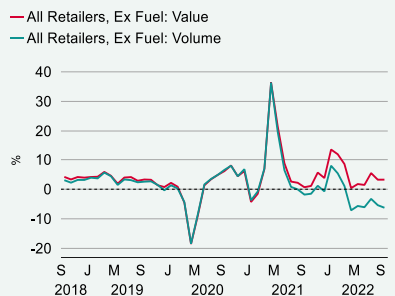
Monthly y-o-y change over the last 4 years, %



Source: BRC, Springboard, Macrobond

### ONS Retail Sales

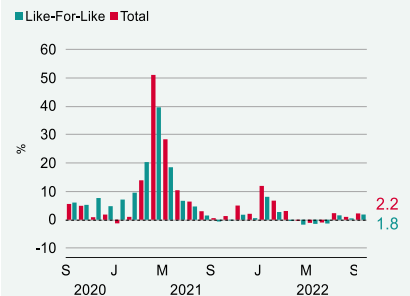
Monthly y-o-y change over the last 4 years, %



Source: ONS, Macrobond

### BRC Retail Sales

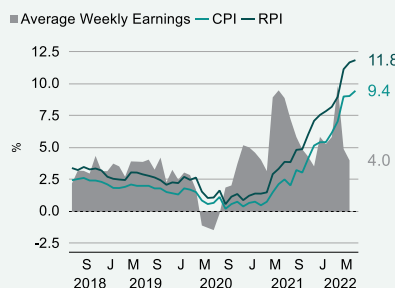
Monthly y-o-y change over the last 2 years, %



Source: BRC, Macrobond

### Average Weekly Earnings

Annual change over the last 4 years, %



Source: ONS, Macrobond

### Online Retail Sales Index

July 2019 = 100



Source: ONS, Macrobond

## KEY HEADLINES

Occupier markets remained stable despite a multitude of political and economic challenges. As unwelcome as inflation may be, it is 'less bad' than deflation. And significantly more manageable than enforced lockdowns, which saw a complete collapse of retail sale values / volumes (e.g. April 2020, -18.6% / -18.5%).



The pandemic-induced shakeup of the sector proved the ultimate survival of the fittest. Those retailers left standing are battle hardened, having shored up their balance sheets. As a result, there have been very few casualties this year, with vacancy rates improving for a fourth consecutive quarter to 15.4%.



In contrast to previous recessions (where occupier markets have traditionally been the first to spook), investment markets have reacted swiftly to political unrest and economic crisis. All commercial yields moved out ca. 25 bps. But having re-based significantly over the preceding years, retail has been less exposed to sudden corrections in pricing.



Total returns in retail in the 12 months to Q3 were +9.7%, with income return (+5.3%) stronger than capital growth (+4.3%). Investment volumes fell -70% overall vs. Q2 (£1.21bn vs. £3.98bn), Retail warehousing remained the most resilient sub-sector, with investment volumes dipping QoQ by just -8.8% (£447.9m). RWH total returns for the year to Q3 (+20.1%) even eclipsed the performance of Industrial (+17.6%).

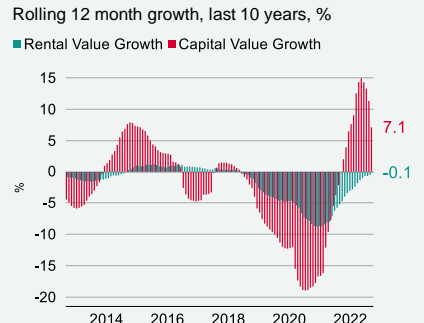


Overall, investor demand has been checked rather than destabilised and sentiment is likely to remain subdued for the rest of the year. Despite the slowdown, Retail is forecast to achieve a significant positive total annual return (+3.6%) vs. Offices (-0.3%), and Industrial (-0.1%)

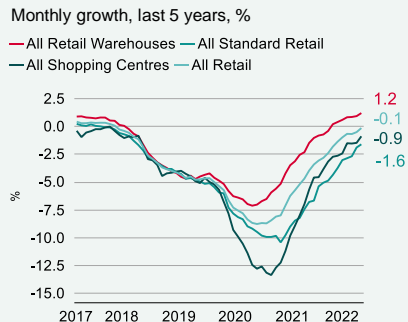
### Retail Vacancy Rate



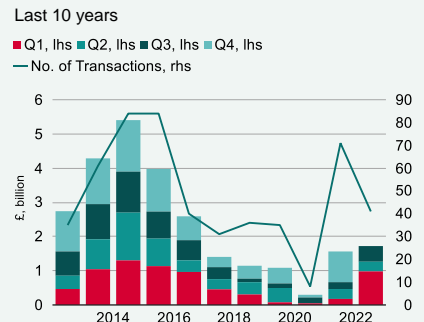
### All Retail - Rental / Capital Value Growth



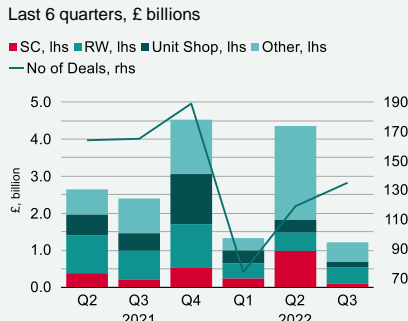
### Retail Rental Growth by sub-sector



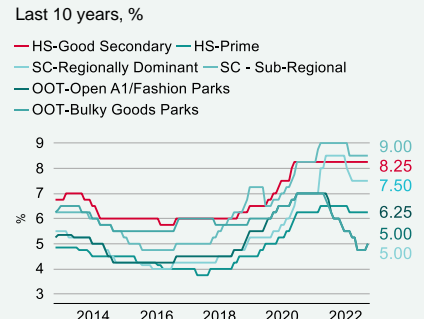
### Shopping Centre Transactions



### Investment Volumes by sub-sector



### Yields



Please get in touch with us

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