RESEARCH

UK Retail Monitor Q4 2018

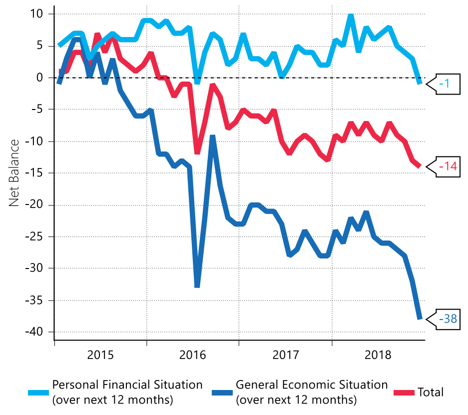
KEY HEADLINES

- The UK media had already made up their minds that Christmas would be a disaster for the retail sector and they have generally not deviated from their negative narrative, despite considerable evidence to the contrary.
- Despite the BRC erroneously declaring Christmas "the worst for 10 years", official data from the ONS showed that year-on-year retail sales values actually increased by 3.1% in December, while volumes (i.e. real growth, net of inflation) grew by 2.6%.
- For the wider Q4 period, retail sales values were up 3.5% and volumes were ahead by 2.9%. For 2018 as a whole, retail spending grew by 4.2%. Stripping out inflation, real growth of 2.8% was around double that achieved by the UK economy (1.4%).
- Although the UK consumer continues to spend, there are still major causes for concern. There was a significant demand spike in November around Black Friday. As well as disrupting spending patterns, it also set a deeply negative tone for the rest of the festive period in terms of widespread discounting. Sales growth was achieved, but at the expense of margins.

"Christmas was by no means the bloodbath many expected. But as the challenges the retail sector faces are structural, any respite will only be temporary."

Consumer Confidence

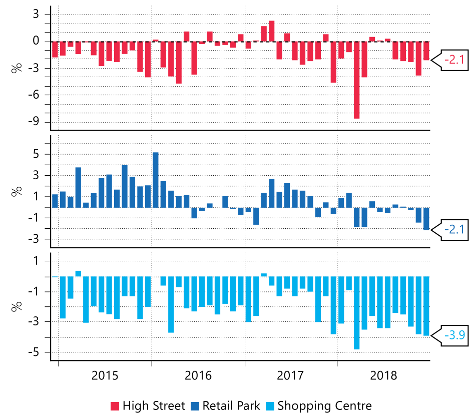
Consumers have less confidence in the general economy than in their own personal financial situations



Source: GfK

Retail Footfall

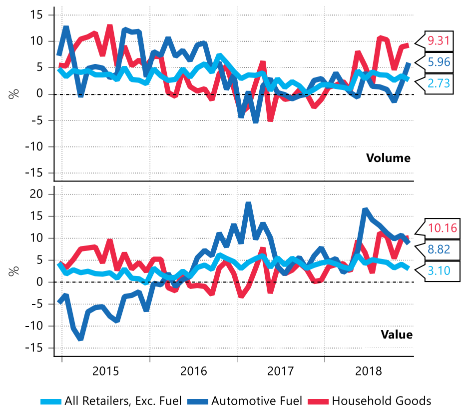
Annual % Change to Q4 2018



Source: BRC

ONS Retail Sales

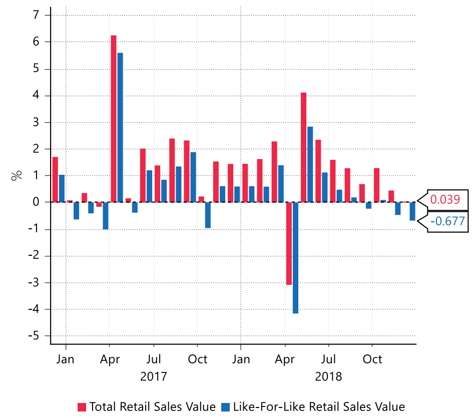
Annual % Change to Q4 2018



Source: ONS

BRC Retail Sales

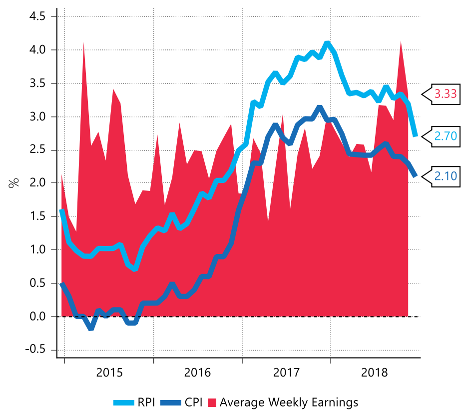
Annual % Change to Q4 2018



Source: BRC

Average Weekly Earnings Growth vs Inflation

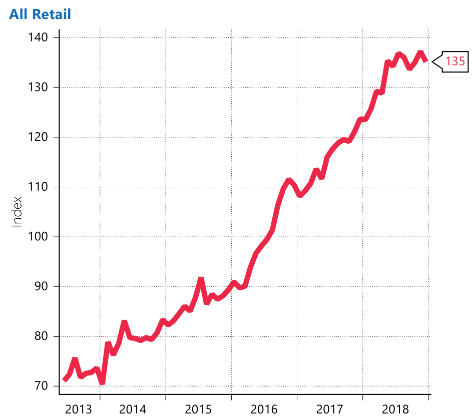
Annual % Change to Q4 2018



Source: BRC

Online Retail Spend Index

Online accounted for 18% of all retail sales in 2018



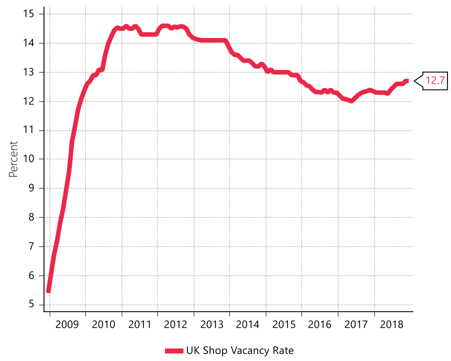
Source: ONS

KEY HEADLINES

- There has been a degree of occupier fall-out since Christmas. Blue Inc, Greenwoods, Patisserie Valerie, Oddbins and HMV have all entered administration. Some of these brands will live on (in a slimmed-down form and under new ownership), but the spectre of further CVAs still looms large.
- The fate of Debenhams remains the largest concern. Rumours surrounding Jack Wills and Paperchase, coupled with Monsoon's demands to landlords to cut rents, have also served to further undermine confidence in retail occupier markets.
- Ongoing occupier unrest continues to cast a very long shadow over retail property investment markets. According to MSCI (formerly IPD), total returns for all retail were negative in 2018 (-0.5%) for the first time since 2008. This was driven by a 5.3% decline in retail capital values, with shopping centres seeing the sharpest rate of annual price correction (-9.5%).
- Denial is not an option: the UK retail sector faces huge structural challenges and proactive intervention is desperately needed to right wrongs of the past.
- That said, there is already some over-reaction to occupational malaise amongst investors. There is a danger that all retail property is being tarred with the same brush. Markets are failing to differentiate between weaker and stronger retail assets -the latter potentially becoming mispriced will increasingly present investment opportunities.

Retail Vacancy Rate

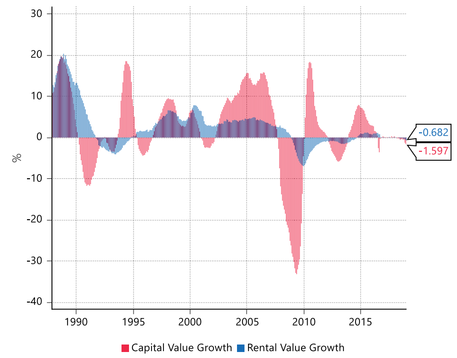
National vacancy rates are starting to trend up, albeit only very marginally at this stage.



Source: Local Data Company

All Retail - Rental and Capital Value Growth

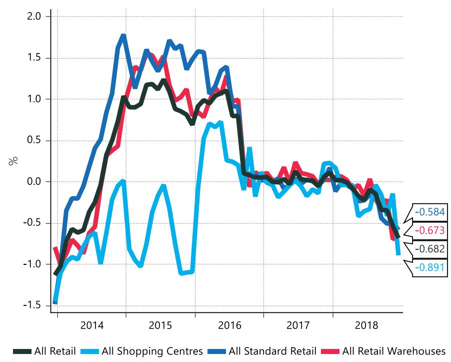
Q-on-q capital values for the retail sector as a whole were down -2.8% in Q4, versus -1.9% in Q3.



Source: MSCI

Retail Rental Growth by sub-sector

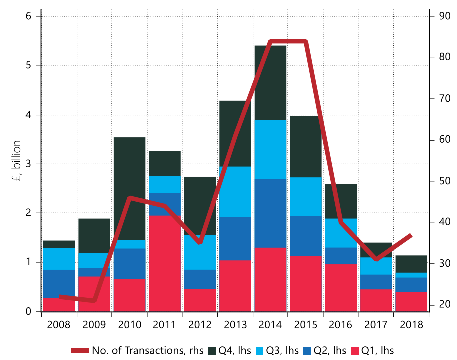
Q-on-q ERVs for All Retail were down -1.3%, with retail warehouses worst affected (-1.6%).



Source: MSCI

Shopping Centre Transactions

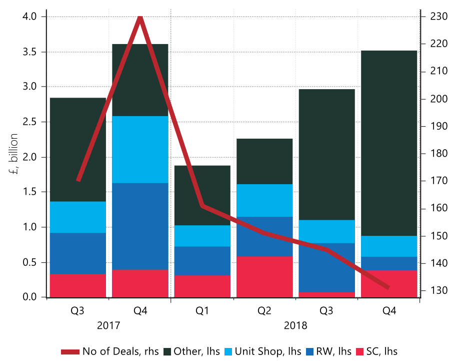
Q4 deals (ca. £380m) picked up slightly from an all-time low in Q3 (ca. £100m).



Source: Knight Frank Research

Investment Volumes by sub-sector

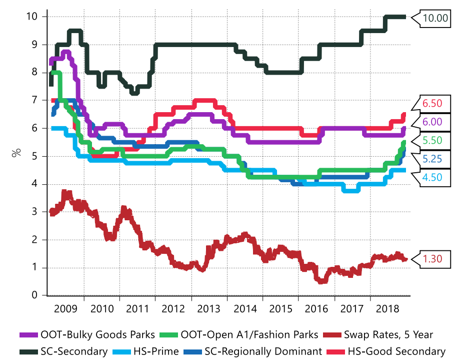
Q4 saw very few deals, but higher values. Mixed-use continues to outperform pure retail sub-sectors.



Source: Property Data

Yields

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



Source: Knight Frank Research

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RESEARCH

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

RETAIL

Charlie Barke
Partner, Shopping Centre Investment
+44 20 7861 1233
charlie.barke@knightfrank.com

Andrew McGregor
Partner, Out-of-Town Investment
+44 20 7861 1531
andrew.mcgregor@knightfrank.com