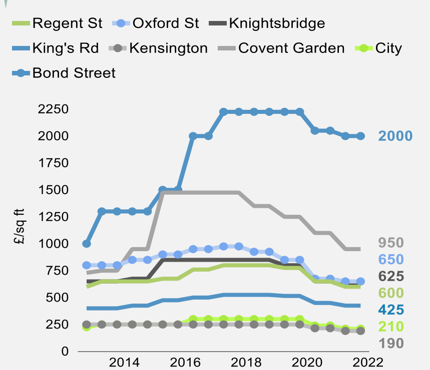
Central London Retail Market Q4 2022

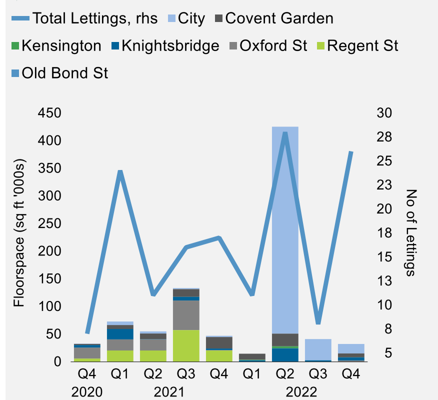
The Knight Frank Central London Retail Market quarterly update on key data and current market sentiment.

Prime Zone A Rents



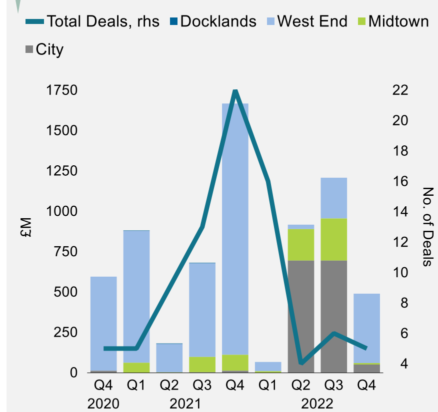
Source: PMA, Knight Frank

Lettings by Sub-market



Source: EGI, Knight Frank

Investment Volumes

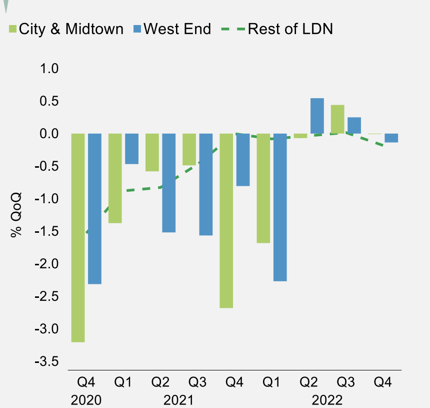


Source: Property Data, Knight Frank

KEY TAKEAWAYS

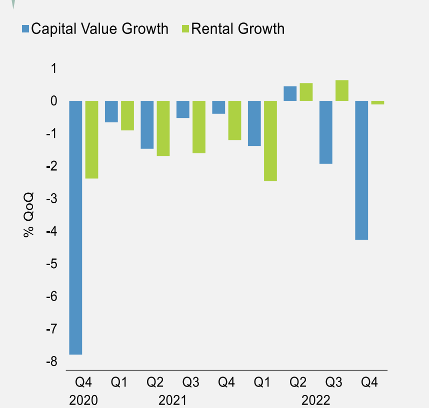
- Consumer spend in the capital improved to -9.0% below 2019 levels (vs. -38.6% in January 2022), with the return of high spending international tourists from the US (+45%), Saudi Arabia (+26%) and UAE (+8%). Footfall also achieved its best performance at -17.8% below pandemic 2019 levels (vs. ca. -40% in Q1).
- Lettings saw an uptick, with several international brands acquiring retail and leisure sites. Los Mochis acquired a 14,000 sq ft flagship rooftop restaurant at British Land's 100 Liverpool Street; and heritage hat brand Stetson took 1,165 sq ft on Neal Street for its flagship UK debut.
- Some £489m of investment was made in Q4, taking 2022 annual volumes to £2.29bn. The majority (88%) of Q4 investment comprised just one deal: Lazari Investments' £430m purchase of Fenwick's New Bond Street store.
- Capital value declines deepened (-4.2%) but are still some way off the depths reached during the pandemic (Q4 2020: -7.7%). Rental growth decelerated (-0.1%) following two consecutive quarters of growth in Q2 / Q3. Yields on Oxford Street softened +25bps, less than Prime UK High Streets (+50bps). Bond Street held steady at 2.75%.

Rental Growth by Sub-market



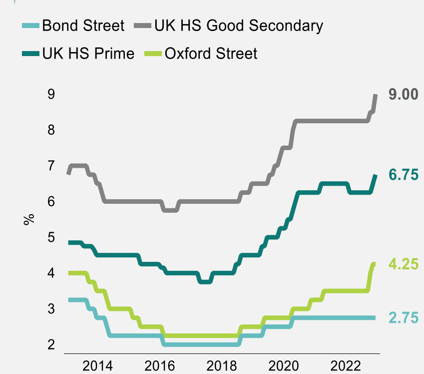
Source: MSCI, Knight Frank

Central London Rental / Capital Value Growth



Source: MSCI, Knight Frank

Prime Yields



Source: Knight Frank

> "Prime London streets are currently witnessing some of **the highest levels of demand** seen for several years, even pre-pandemic, fuelled by rebased rents and the reduction in business rates BUT there remains a continued **flight to quality** in respect of configuration, location and condition of spaces"

– ROB HARGREAVES
PARTNER, RETAIL AGENCY

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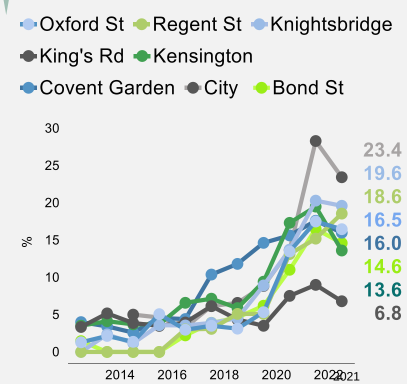
COMMENTARY

The prospect of recession loomed large in Q4, but there was still plenty to be positive about in West End retail markets. Bright spots included the return of high spend international tourism; the best footfall performance since COVID-19; and a new business rates relief package - to name but a few.

Footfall and sales continued on an upward trajectory and demonstrate just how far the market has recovered over the course of 2022. Worker and visitor patterns continued to settle and benefit from improved connectivity provided by the new Elizabeth Line. The various political U-turn(s) on tax free shopping were undoubtedly disappointing to retailers and consumers alike. But growth in international visitor numbers prove that the unique mix of retail, hospitality and culture in the West End continues to be a strong draw, placing the capital top of destination lists.

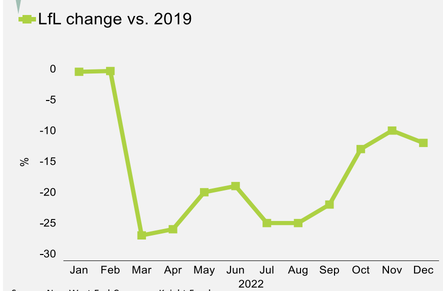
Occupier markets enjoyed significant revival, with several sub-markets (e.g. Oxford Street) witnessing their highest level of activity in recent years. Opportunities to acquire quality space at rebased, sustainable rents were not fully derailed by the macro-economic backdrop. Operators who survived the pandemic are taking the view that recession is a more quantifiable and predictable environment than COVID-19. The announcement of more affordable business rates in November convinced many to act sooner rather than later, sensing opportunities to acquire quality pitches at reasonable rents were narrowing. Knight Frank calculates occupiers across the most popular West End retail pitches could see rates collectively slashed by £96m in 2023, with international and independent brands with smaller portfolios set to benefit most given relief cap restrictions.

Vacancy



Source: PMA, Knight Frank

West End Footfall



Source: New West End Company, Knight Frank

	Footfall vs. 2019
October	-13.0% ▲
November	-10.0% ▲
December	-12.0% ▼

Key Investment Deals

Location	Price	Yield	Purchaser
63 New Bond Street	£430m	-	Lazari Investments
Royal Exchange	£50m	-	Ardent
39 – 41 Grays Inn Road	£4.6m	4.65	Overseas Investor

Source: Property Data, Knight Frank

Key Lettings

Location	Unit Size (sq ft)	Tenant
100 Liverpool Street	14,000	Los Mochis
18 Hanover Square	3,000	Bang & Olufsen
58 Neal Street	857	Stetson

Source: EGI, Knight Frank

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