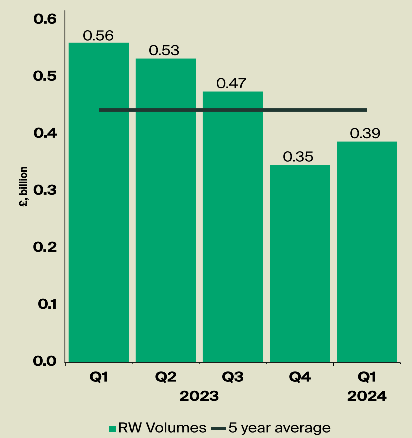
Retail Warehouse Dashboard

Q1 2024 | A concise quarterly synopsis of activity in the UK retail warehousing market.

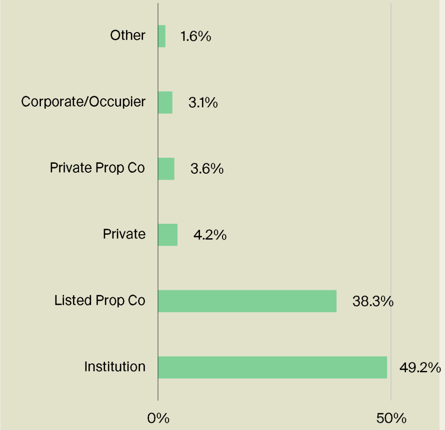
Key Takeaways

- Globally, the RICS' Commercial Property Sentiment Index stood at -10pts, the least downbeat reading since Q2 2022. The Investment Sentiment Index also improved to -13pts (vs. -18 pts in Q4).
- Retail warehousing investment volumes improved +12% quarter-on-quarter to £386m, although this was still below the rolling 5-quarter average (£441m).
- Institutions and Listed PropCos were the dominant purchasers, acquiring 49.2% and 38.3% of assets by deal volumes respectively. Private buyers made up just 4.2%.
- Prime yields sharpened -25bps across both Open A1 and Bulky Goods Parks to 6.00%. Secondary Open A1 and Secondary Bulky Goods were stable at 8.00%.
- Capital values improved +0.4% quarter-on-quarter, whilst rental values grew +0.4%.
- Unit vacancy rates improved for a 10th consecutive quarter to reach 7.5% - well below their pandemic peak (11.5% Q2 2021) and pre-Covid rate (8.1% Q4 2019).
- Footfall varied (Jan -1.8% / Feb -5.8% / March -3.5%) with one of the wettest February's on record, but generally showed greater resilience than Shopping Centres and High Streets.
- Q1 retail sales were erratic (values +3.8% YoY) with volumes returning to positive growth (+0.2%). Category performance was mixed with Sports Equipment & Toys (+3.6%) much stronger than bulky goods (Furniture -5.9% / Carpets -1.0%) and Clothing (-0.8%).

Investment Volumes
(Knight Frank) Last 5 quarters



2023 Buyer breakdown
(Knight Frank) By deal volume

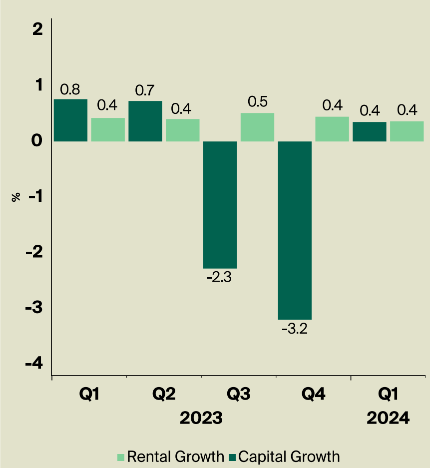


Key Deals YTD (Year to Date)

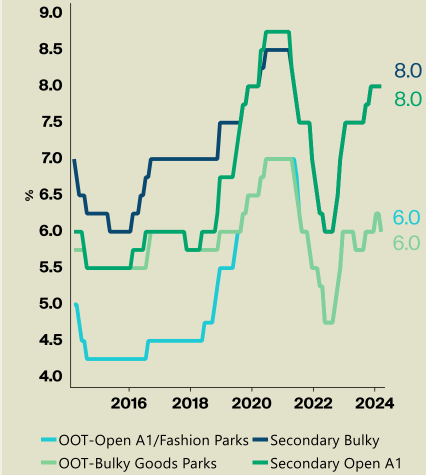
*KF DEAL

ASSET	PRICE £M	YIELD (%)	VENDOR	PURCHASER
SPRINGVALE RETAIL PARK, ORPINGTON *	£44.8M	7.33%	BLACKROCK	NFU
BIRSTALL SHOPPING PARK, LEEDS	£60.0M	8.40%	L&G	REALTY INCOME
GROVE FARM RETAIL PARK, CHADWELL HEATH	£12.3M	5.99%	DTZ INVESTORS	MAYFAIR CAPITAL
THE RANGE, WINCHESTER ROAD, SOUTHAMPTON *	£5.46M	7.40%	CCLA INVESTMENT MANAGEMENT	THE WILLIAM PEARS GROUP

Rental & Capital value growth
(MSCI) QoQ change



Yields (guide available online here)
(Knight Frank) Last 10 years



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Research Commentary

The stars are starting to align for retail - and even more so for retail warehousing - but are yet to spark widespread action amongst investors – meaning now could be the time to act.

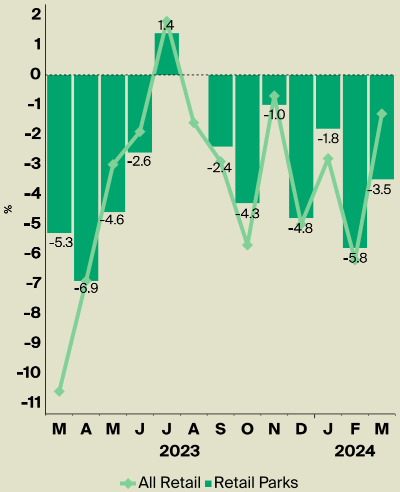
The consumer outlook on personal finances reached its highest level since December 2021, thanks to strong wage growth (+6.0%) and easing Shop Price Inflation (1.3%). Accordingly, retail sales were generally robust overall in Q1 (values +3.8% / volumes +0.2%) though clothing slumped (vals -0.8%/ vols -5.7%) and Food sales growth slowed to +5.3%, the lowest in six quarters, partly reflecting easing inflation.

Occupationally, Retail Parks were the only retail sub-class to see net occupancy growth of +0.3% in 2023, outshining Shopping Centres (-2.5%) and High Streets (-3.3%). Fastest growing outlet types included takeaways (+151 units), food-to-go (+131), supermarkets (+40) and petrol stations (+48). This growth spurred rental growth of +0.4% quarter-on-quarter.

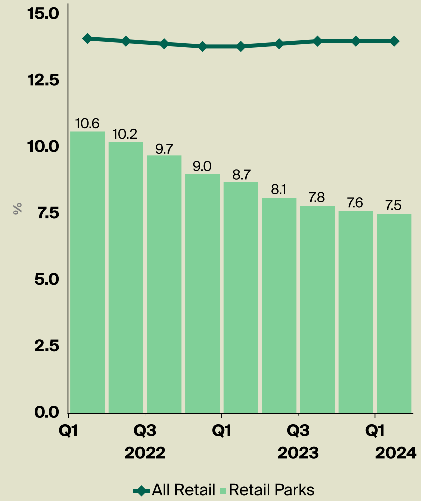
The investment market is where the figurative spark is missing most, although Retail Warehousing did outperform the wider retail market as the only sub-sector to see an uptick (+12%) in transactions in Q1, totalling £386m. Institutional demand accounted for approximately 49% of this volume. Stock shortages are expected to further sharpen yields to sub 6.00%, against a backdrop of low voids, anticipated rental growth, and supported by substantial institutional requirements, led by local authority mandates and pension funds.

Looking ahead, forecast data underscores the investment case for the sector. Retail Parks are now expected to deliver the highest annual return (9.4% p.a.) over the next five years, surpassing other commercial sub-sectors, including Offices (7.7%) and even Industrial (8.4%).

Footfall
(BRC) Monthly YoY change *
*March 2021 – March 2023 figures are compared to 2019 levels



Vacancy Rate
(BRC-LDC) Units



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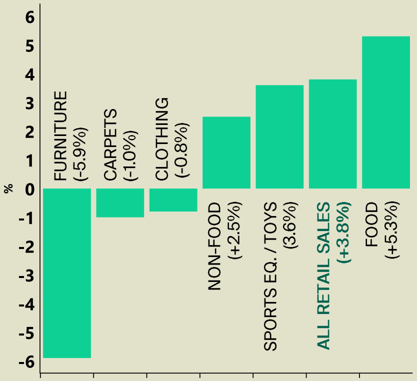
> “How soon is now? Buy now and pay less than in six months’ time – for an asset class that is destined to deliver higher total returns than any other over the next five years (9.4% p.a.).”

RESEARCH VIEW
STEPHEN SPRINGHAM
Partner, UK Markets Research

Top Performing Categories
(ONS) Quarterly Sales YoY Change



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