A concise quarterly synopsis of activity in the UK retail warehousing market

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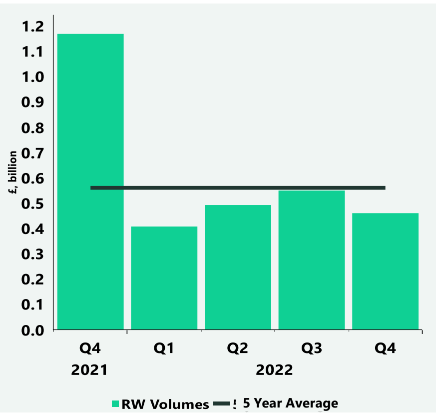
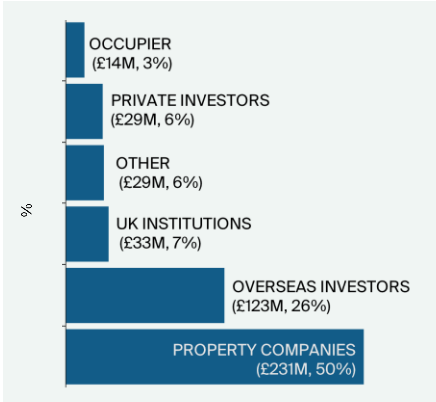
Retail Warehouse Monitor

Q4 2022

INVESTMENT VOLUMES
(PROPERTYDATA) LAST 5 QUARTERS



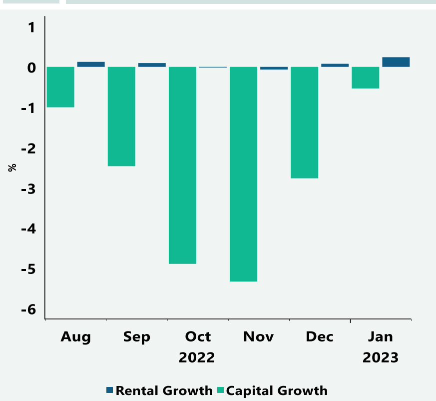
BUYER BREAKDOWN
(PROPERTYDATA) BY DEAL VOLUME



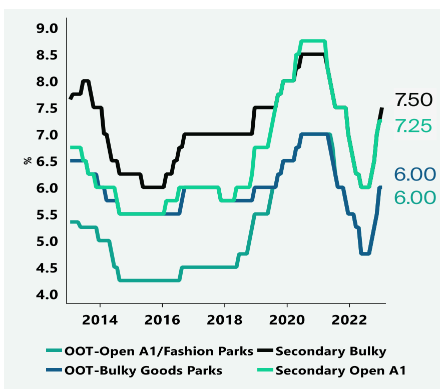
KEY TAKEAWAYS

- Sentiment across all CRE markets weakened in Q4 (-15 pts) according to RICS Commercial Property Sentiment Index (vs. -11 in Q3);
- Investment volumes totalled £459.2m, marking a -16.3% slowdown on Q3 levels;
- PropCos and Overseas Capital dominated, collectively acquiring around £354m (77%) worth of assets. Three buyers (SEGRO, Realty Income and Melford Capital) were responsible for ca. 60% of total Q4 volumes;
- Yields moved out +100bps to reach 6.00% with capital values falling into negative territory (Q4: -6.4%). Rents held steady in marginal growth territory (+0.4%), outperforming the wider Retail market (cap values -9.6%; rental values -0.2%);
- Unit vacancy rates improved -90bps to 9.0%, well below the All Retail rate of 13.8%. This marked the best quarterly improvement of all the sub-classes (High Streets -10bps / Shopping Centres -60bps);
- Footfall benefitted from the disruption of rail strikes, with consumers shifting trips to more convenient locations accessible by car. Footfall improved substantially to reach -0.8% below pre-pandemic levels (vs. -4.3% in Q3).
- Retail sales values grew +3.6% in Q4. Grocery sales accelerated +6.6%, whilst Non-food held steady at +4.1%. Garden Centres (+7.0%) and Carpets (+7.8%) both enjoyed healthy sales, whilst Clothing (+12.6%) and Furniture (+18.0%) achieved double digit sales growth.

RENTAL / CAPITAL VALUE GROWTH
(MSCI) MONTHLY YOY CHANGE



YIELDS *(GUIDE AVAILABLE ONLINE HERE)*
(KNIGHT FRANK) LAST 10 YEARS %



KEY DEALS

*KF DEAL

ASSET	PRICE £M	YIELD (%)	VENDOR	PURCHASER
BATH ROAD SHOPPING PARK (SLOUGH)	£120M	-	RLAM	SEGRO *
CANTIUM RETAIL PARK (OLD KENT ROAD, LONDON)	£38M	5.40	AVIVA	LONDON METRIC
CANNON LANE RETAIL PARK (TONBRIDGE)	£22M	5.25	LONDON METRIC	CBRE CAPITAL ADVISORS
WICKES (EDINBURGH)	£6.1M	5.10	CBRE IM *	WATKIN PROPERTY VENTURES
THE DROVE RETAIL PARK (NEWHAVEN)	£12.0M	6.34	BETTER PROPERTIES LTD *	REALTY INCOME

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COMMENTARY

The final quarter of a turbulent second half, which saw recent yield gains quickly eroded, and a brief pause in transactional activity. 2023 presents a brighter outlook, as recognition of the sector's durability grows and markets adjust to a new (but more stable) macro-economic backdrop.

The occupational story remains robust despite the media obsession with retail sale volume declines (i.e. items purchased). Retail sales are holding up well overall with operators themselves firmly focused on cash coming through the till (sale values, i.e. amount spent). The majority posted positive Christmas trading statements, highlighting a strong return to in-store, with online sales heavily down. Several OOT retailers have already benefitted from the demise of online operators (e.g. Bensons for Beds & Eve Sleep; ScS & Snug), where fall-out is expected to be most concentrated.

Deal volumes may have suffered a hangover following the chaos of Q3 - but investors are slowly sobering up to a new debt backdrop, adjusting return expectations accordingly. Interest in the sector is showing signs of reawakening, with three distinct buyer pools emerging. 1) Core Institutions seeking 'best in class assets' around the South East; 2) 'Middle Money' buyers seeking core plus returns of 7.50%+ and; 3) leveraged purchasers, seeking yields above 8.50%+, given the all in cost of debt.

GET IN TOUCH WITH US

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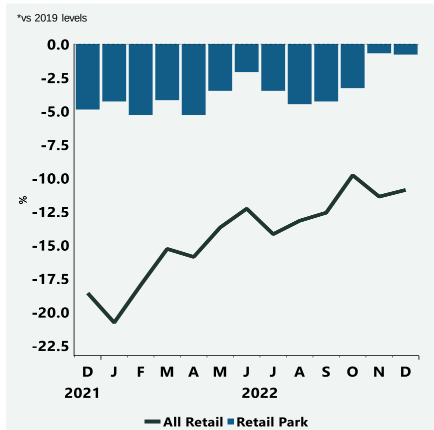
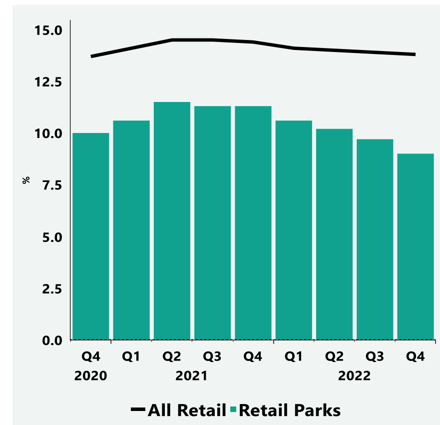
FOOTFALL
(SPRINGBOARD) MONTHLY YOY CHANGE



UNIT VACANCY RATE
(BRC- LDC)



> "A **big wobble** in Q4 in the wake of the disastrous mini Budget, but **swift and decisive correction** and a positive return to the 'as you were' dynamics we saw in H1 2022."
>
> – STEPHEN SPRINGHAM
> PARTNER, HEAD OF RETAIL RESEARCH

TOP PEFORMING CATEGORIES
(ONS) QUARTERLY SALES YOY CHANGE