

CONFIDENCE IMPROVES

While the UK's bricks and mortar retailers continue to feel the pressure from online alternatives, our reading of current data points to a cautiously positive outlook for retail demand and rents.

Key Headlines March 2015

Lower fuel prices since mid-2014 appear to be boosting retail sales, increasing consumers disposable incomes, with car-borne shopping a major beneficiary. This trend is expected to continue in 2015

We believe out-of-town retail returns will continue to outperform that of in-town and shopping centres in 2015

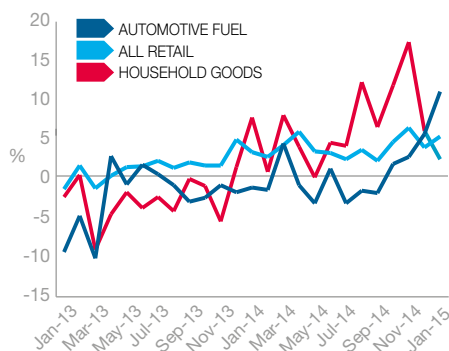
Internet sales as a % of all retail sales will continue to grow to reach over 15% by 2019, but that the rate of annual growth will fall below 7% by this point

While the general index of consumer confidence remains positive, the view for the next 12 months is looking more mixed, and is likely to be influenced by uncertainty surrounding the upcoming election

“Rising house prices tend to provide a boost for consumer confidence, increasing consumer’s perceptions of their own wealth, and also supporting retail spending – especially larger items.”

Sales volumes rise

Annual change in retail sales volumes, SA

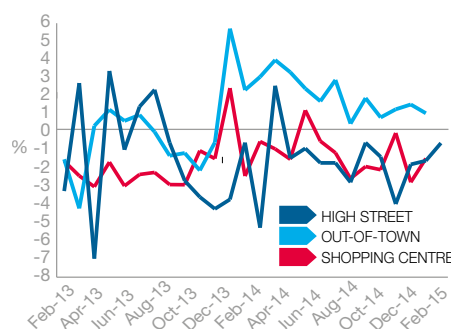


Source: ONS

Retail sales growth has been positive since early 2013, led by sales of household goods.

Retail footfall strongest out-of-town

Annual change in retail footfall, three-month rolling average

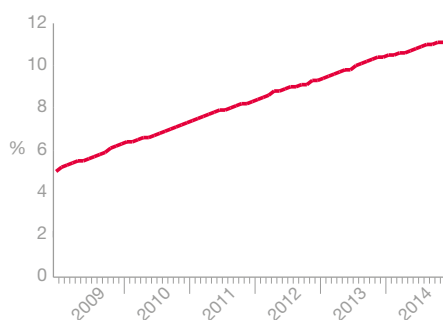


Source: BRC

Despite on-going pressures on most bricks and mortar retailers, out-of-town footfall remained positive through 2014. We see this trend continuing, driven by car-borne shoppers.

The internet's exponential growth...

Internet sales as a % of all retail sales, 12-month moving average

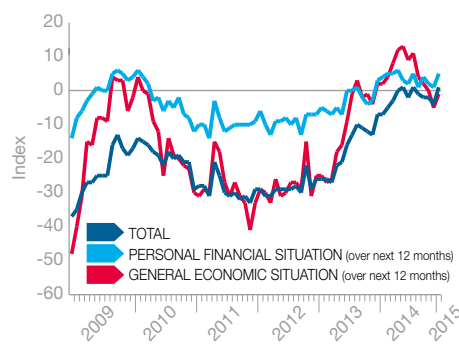


Source: ONS

Online sales, by value, currently accounts for around 11% of total retail sales in the UK. But, the rate of annual growth is slowing.

Consumer confidence on the rise

Index of UK consumer confidence



Source: GfK

Consumer sentiment improved strongly through 2014, reaching its highest level since 2010.

Employment levels hit record highs

Rate of employment, 16 to 64 age group, SA

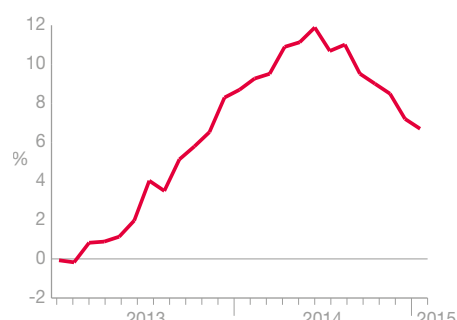


Source: ONS

Record employment levels are benefitting the wider economy, but also explain some of the growth in retail spend over recent months.

House price growth remains positive

UK annual house price change, SA

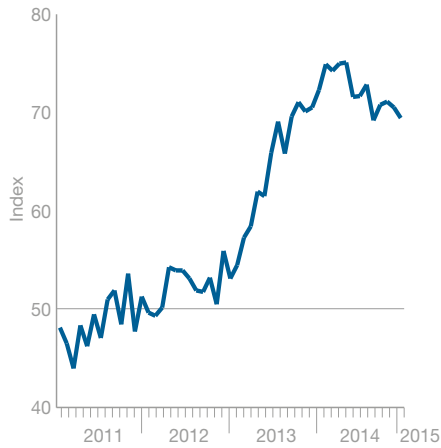


Source: Nationwide

While price growth has slowed in recent months, prices are still on the rise.

Future house price sentiment

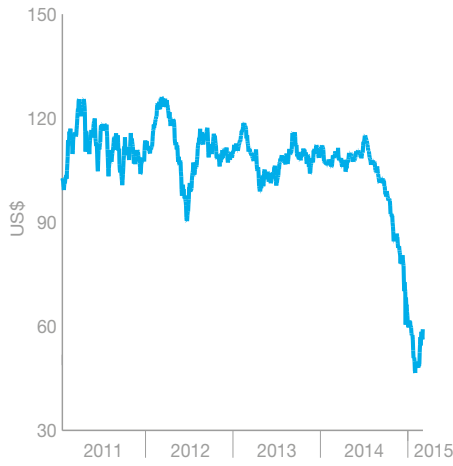
House price sentiment index, "net balance" of respondents expecting house prices to rise over the next 12 months



Source: Knight Frank Residential Research/Markit
Any score above 50 in the Knight Frank / Markit HPSI confirms consumer believe house prices are likely to continue to rise, the current score is supporting positive sentiment in the retail sector.

Oil price drop boosts consumers

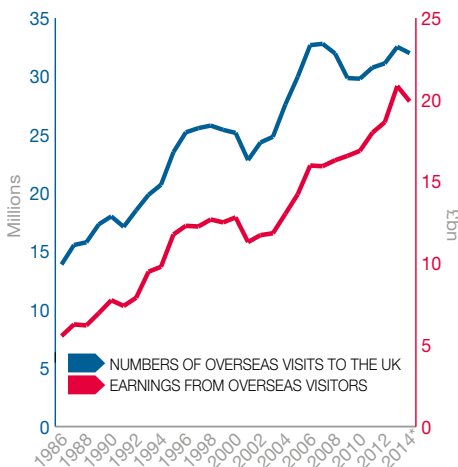
Crude Oil, Brent, Spot, FOB North Sea, Close, USD



Source: Macrobond
The sharp fall in oil prices is providing a significant boost to businesses and consumers, notably through lower transport costs and additional disposable income.

International tourist arrivals underpin retail spend in key hubs

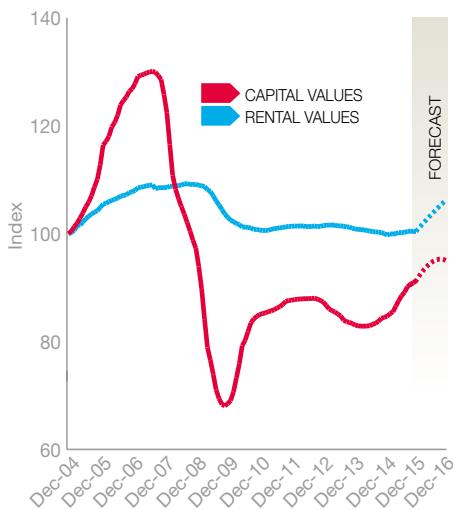
Numbers of overseas visits to the UK (millions, LHS) and earnings from overseas visitors (£bn, RHS)



Source: ONS
Recent inbound tourism numbers for the UK have been strong, indicating an improvement in the wider economy and boosting the potential "spending pot" for UK retailers.

Retail rents and capital values

Index of retail property rental and capital values IPD Base = 100 (Dec 2004)



Source: IPD/Knight Frank Commercial Research
Having been stagnant for a few years, retail rental values has shown signs of growth since the second half of 2014, driven by the out-of-town sector. Capital values are expected to reach their peak in 2015 before easing down slightly in 2016.



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