

UK Retail Monitor

Q1 2024

The Knight Frank Retail Monitor provides a quarterly update on key data across all retail sub-sectors and current market sentiment.

knightfrank.com/research

“You can’t start a fire without a spark. And despite an improving macro-economic backcloth, receding inflation and interest rate cuts on the horizon, that spark seems to be lacking currently. But soon there’ll be something happening somewhere, I just know that there will.”

Stephen Springham, Head of Retail Research

KEY HEADLINES

Sentiment is increasingly positive, though this hasn’t been fully reflected in retail sales or capital market data yet. Economic indicators are definitely moving in the right direction. In April, Shop Price Inflation hit its lowest rate since 2021 at 1.3%, with strong wage growth of 6.0% enhancing both consumer and retailer confidence. However, recovery in retail sales volumes remains uneven, with some sectors even showing signs of softening demand. Despite quiet capital markets, stabilising yields suggest we may be approaching (or even be past) the low point in the cycle.

CONSUMER MARKETS

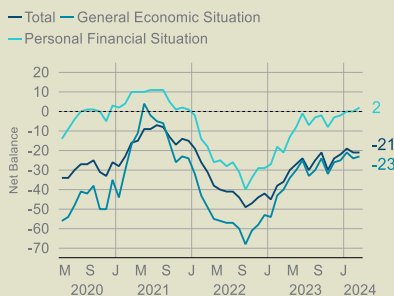
Consumer confidence has been on the rise, improving from -36 points in Q1 2023 to -21 points in Q1 2024. Despite fluctuations during the quarter (-19 pts points in Jan, -21 points in Feb and March) due to concerns about the broader economy (-23 points in March), perceptions of personal finances improved to +2 points, the highest level since December 2021.

Q1 retail sales were lacklustre, covering the traditionally quiet months of January and February. However, year-on-year sales values grew by 3.8%, and volumes encouragingly returned to positive territory (+0.2%). Monthly YoY trends were erratic however, with volume recovery showing considerable inconsistencies (Jan +0.4%, Feb -0.4%, March +0.4%)

Category demand was mixed, with some worrying trends emerging. Non-Food sales rose by +2.5% (values) and +0.5% (volumes), the first positive volume increase in seven quarters. But clothing experienced a significant slump (-0.8% / -5.7%), marking its first fall to negative growth since 2021, and a continued decline in volumes. Meanwhile, Food sales growth slowed to +5.3%, the lowest in six quarters, with a modest volume decrease of -0.3%, underperforming Non-Food.

Consumer Confidence

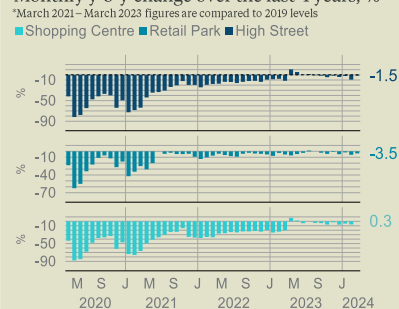
Confidence over the next 12 months



Source: GFK

Retail Footfall

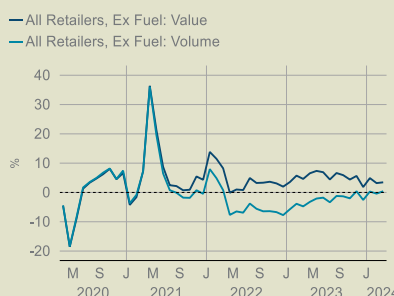
Monthly y-o-y change over the last 4 years, %



Source: BRC, Springboard

ONS Retail Sales

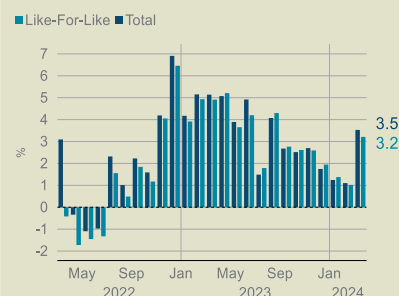
Monthly y-o-y change over the last 4 years, %



Source: ONS

BRC Retail Sales

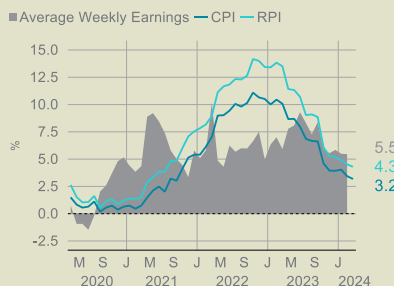
Monthly y-o-y change over the last 2 years, %



Source: BRC

Average Weekly Earnings

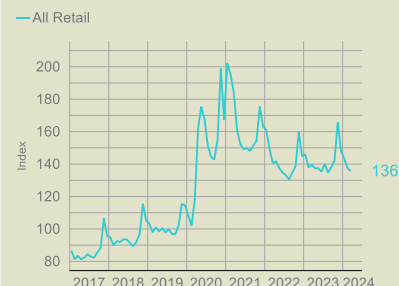
Annual change over the last 4 years, %



Source: ONS

Online Retail Sales Index

July 2019 = 100



Source: ONS

OCCUPIER MARKETS

A spate of distress amongst high-profile players (e.g. Lloyds Pharmacy, Ted Baker) triggered a rise in stores affected by administration/CVA in Q1 (308) following a record-low year of fallout in 2023 (971 stores). Distress will inevitably be higher in 2024, aligning more closely with historical averages and primarily affecting those operators with internal or structural issues (i.e. non-retail ownership - The Body Shop / historic over-expansion - Superdry).

Despite this, most retailers maintained steady trading performance. This stability supported modest and targeted expansion, with retailers taking advantage of newly available vacant units and rebased rents. Retail & Leisure vacancy was stable at 14.0%, with Shopping Centres witnessing a -30bps improvement to 17.4%. Retail Parks improved -10bps to 7.5% and are now 80bps below the pre-pandemic rate (8.3%).

Rental growth expectations are now improving for well-positioned locations. Hammerson revised its ERV for its core portfolio by +1.7%, the first time in six years. Similarly, British Land reported its retail parks delivered a higher gain in ERV than any other asset type, at +4.0%. Forecasts now expect rental growth to average +0.7% for all Retail in 2024.

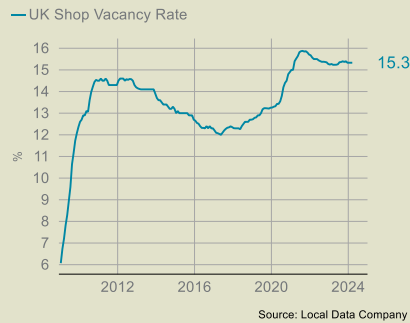
INVESTMENT MARKETS

The restrictive interest rate backdrop continued to challenge capital markets. Ca. £1.1bn worth of retail assets transacted in Q1, marking a deceleration on Q4 2023 levels (£1.3bn) and below both the 5-yr (£1.5bn) and 10-yr averages (£1.8bn). Retail Warehousing was the only sub-sector to see an uptick in QoQ volumes (+12%), with the sector running hot amongst institutional investors (especially US Realty), attracted to the sector's fundamentals of affordability, adaptability and accessibility.

Yield stability was the overarching theme, with a notable exception being Regionally Dominant Shopping Centres, which experienced a slight increase of +25bps, pushing yields up to 8.25%. Overall, market sentiment is showing signs of improvement. RICS' latest survey revealing a significant 35% of respondents now believe that markets have bottomed out, marking a potential key turning point.

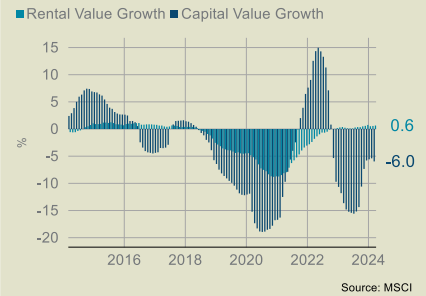
Retail Vacancy Rate

Last 12 years, %



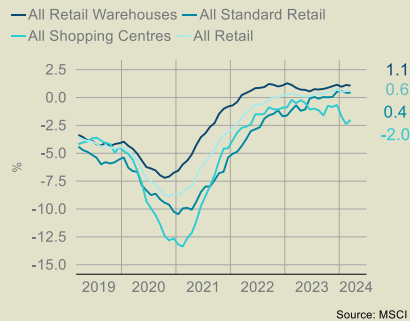
All Retail - Rental / Capital Value Growth

Rolling 12 month growth, last 10 years, %



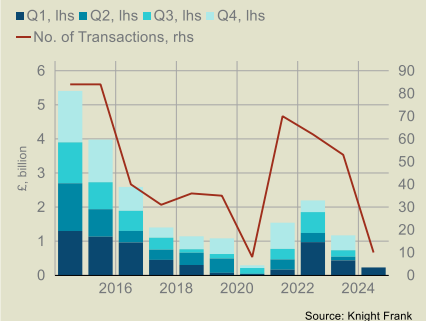
Retail Rental Growth by sector

Monthly growth, last 5 years, %



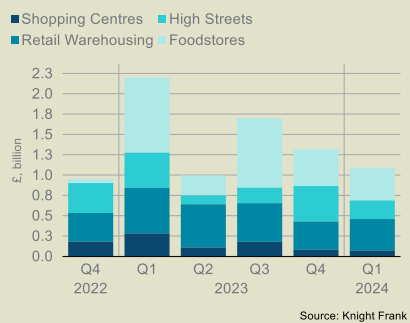
Shopping Centre Transactions

Last 10 years



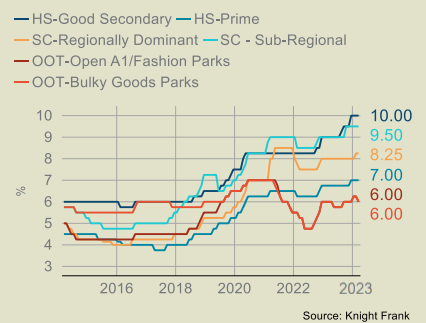
Investment Volumes by sub-sector

Last 6 quarters, £ billions



Yields

Last 10 years, %



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