

UK Retail Monitor Q2 2018



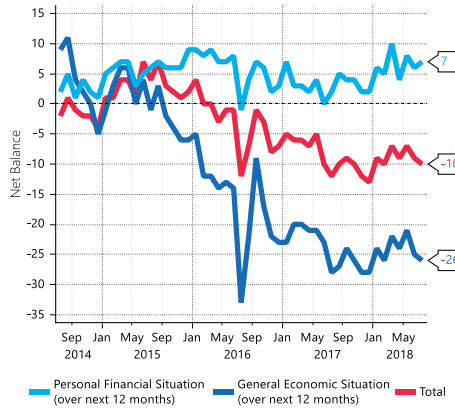
KEY HEADLINES

- The messages could scarcely be more mixed in Q2. A strong (and improving) consumer market, yet ongoing malaise and distress amongst a number of retail occupiers. Retail property investors continue to buy more into the latter narrative than the former.
- The heatwave from May onwards provided a significant fillip to retail sales (with the Royal Wedding and World Cup more a distraction than a benefit). In Q2 year-on-year retail sales values increased by 4.6%. Stripping out inflation, retail sales volumes over the same period grew by a still healthy 2.9%.
- This performance underlined once again that the significant pressures facing the UK retail market are not wholly consumer-based. Most are structural, brought about by recent cost headwinds (e.g. business rate revaluations, rising staff costs) exacerbating deeper-seated longer term industry failings (e.g. over-supply, lack of appropriate investment).
- The spectre of CVAs and possible administrations continues to hang over the retail sector. In Q2, the three highest profile casualties were House of Fraser (HoF), Poundworld and Mothercare.

“There is an ongoing disconnect between positive consumer trends and the state of occupier markets. And investor over-reaction to apparent distress in the latter.”

Consumer Confidence

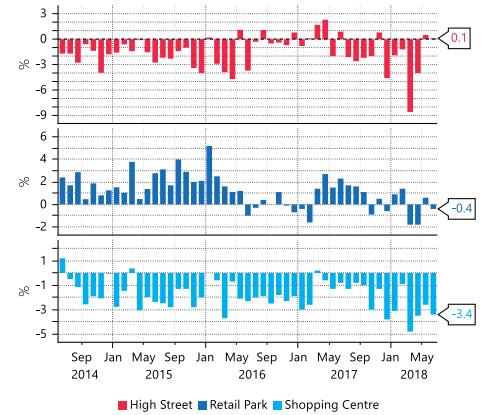
Some 'feelgood factor' on back of warm weather



Source: GfK

Retail Footfall

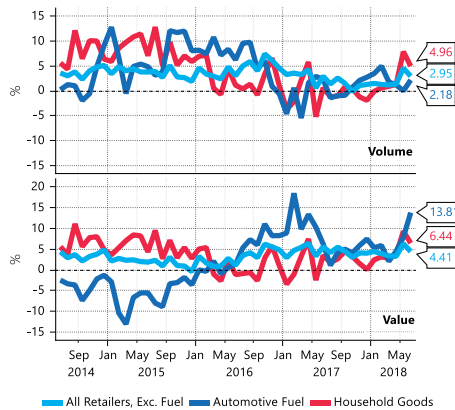
Annual % Change to Q2 2018



Source: BRC

ONS Retail Sales

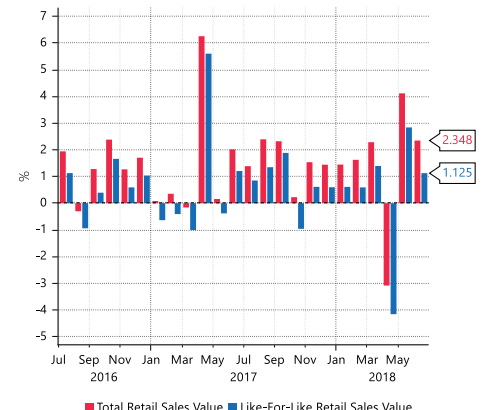
Annual % Change to Q2 2018



Source: ONS

BRC Retail Sales

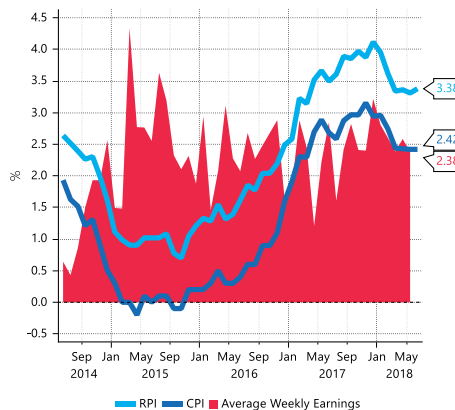
Annual % Change to Q2 2018



Source: BRC

Average Weekly Earnings Growth vs Inflation

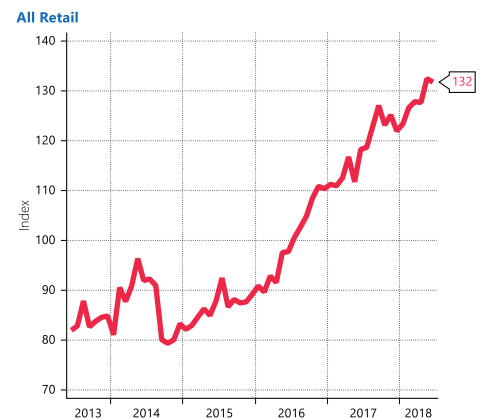
Annual % Change to Q2 2018



Source: BRC

Online Retail Spend Index

The possibility of an 'Amazon Tax' has been mooted



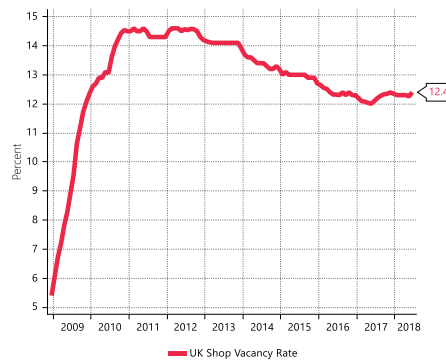
Source: ONS

KEY HEADLINES

- HoF's proposed CVA, administration and subsequent buy-out by Mike Ashley caused the most consternation. Although the deal significantly enhances HoF's chances of long-term survival, it has done little to alleviate general nervousness across the retail sector.
- While retail occupier markets are not in meltdown, they are definitely in a state of limbo. Retailers are reluctant to commit to new sites and leases until they have greater clarity as to whether others are vacating or remaining on compromised terms, and the effect that this will have on pitches, footfall and rental tones.
- Deep uncertainty in occupier markets is evidently filtering through to investment markets. While most are adopting a "wait and see" attitude, there are some that are beginning to see retail as a potential counter-cyclical play.
- Encouragingly, the challenges faced by UK retailers are slowly being recognised by the government. Chancellor Philip Hammond has recently stated the need "to make sure that taxation is fair between businesses doing business the traditional way and those doing business online."
- Widely interpreted as "an Amazon tax", creating a level playing field will in effect be very difficult to achieve. Enforcing higher taxation on Amazon and other pure-plays will only be of benefit to store-based retailers if there is also review and considerable relaxation of the current business rate system.

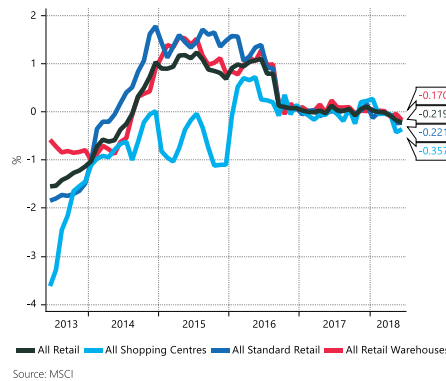
Retail Vacancy Rate

The well documented wave of retailer CVAs had yet to have a material impact on national vacancy rates



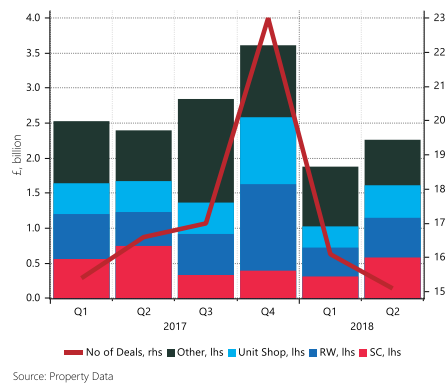
Retail Rental Growth by sub-sector

Q-on-q ERVs for All Retail were down -0.34%; only High St Retail in the South East was in growth territory (0.03%)



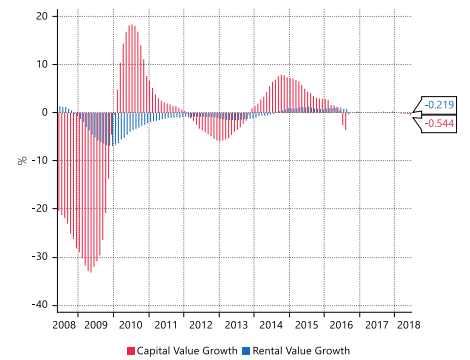
Investment Volumes by sub-sector

Q2 investment volumes were up ca. 20% on Q1 at £2.26bn, but down ca. 6% on Q2 2017



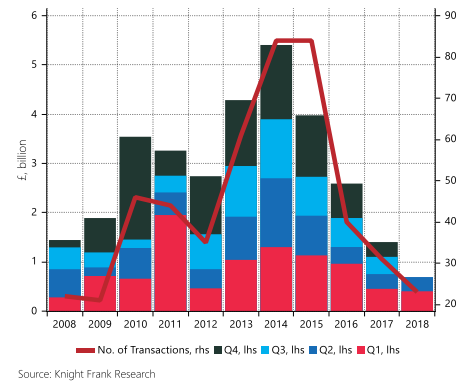
All Retail - Rental and Capital Value Growth

Q-on-q capital value growth for the retail sector as a whole was down -1.17% in Q2



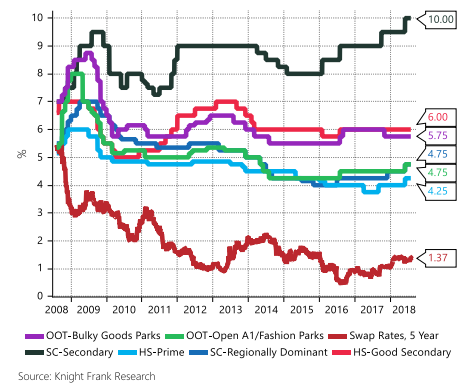
Shopping Centre Transactions

Q2 volumes were down ca. 20% on Q1 as occupier distress feeds through to investor sentiment



Yields

As negative sentiment engulfs the retail sector generally, yields are starting to soften, albeit very gradually



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