

UK Retail Monitor Q2 2019



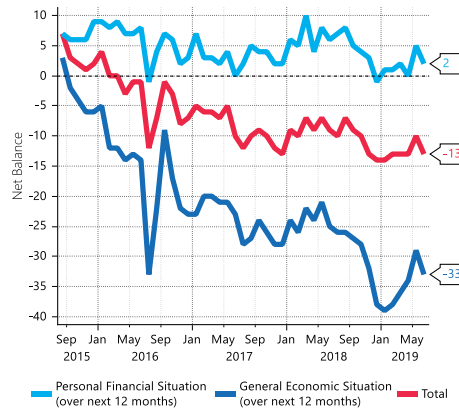
KEY HEADLINES

- The long-anticipated CVAs of Debenhams and Arcadia finally materialised in Q2, intensifying pressure on both retail occupier and investment markets.
- Both CVAs were approved, but neither retailer's future is assured. Arcadia's involved 23 store closures, plus rent reductions at a further 194 stores in the 566-strong UK estate. A break-up of the group seems the most likely long-term outcome.
- As the largest non-food space occupier on the UK high street, the ramifications of Debenhams' CVA run deeper. The first 22 (of ca. 50) store closures have been announced, whilst 105 of the residual 127-strong estate will see rents reduced by 25%-50%.
- This has prompted a fresh wave of 'contagion' amongst other retailers. Primark and River Island have subsequently demanded respective rent cuts of up 30% and 40% across portions of their estates.
- Other retailers, such as Ann Summers, Shuh and Jack Wills have similarly gone 'cap in hand' to landlords seeking rent reductions.

"The song remains the same. CVAs and the wider repercussions dominate the occupier narrative and investment markets remain hamstrung by the ongoing Brexit farce."

Consumer Confidence

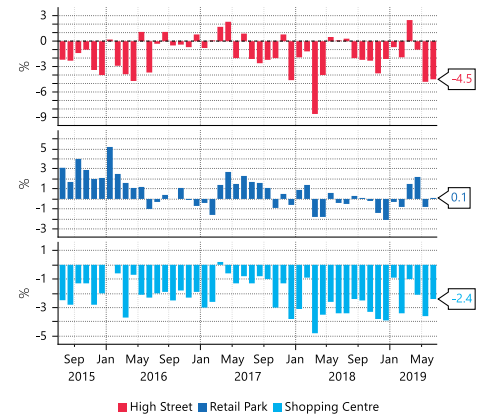
Confidence has dipped slightly since May



Source: GfK

Retail Footfall

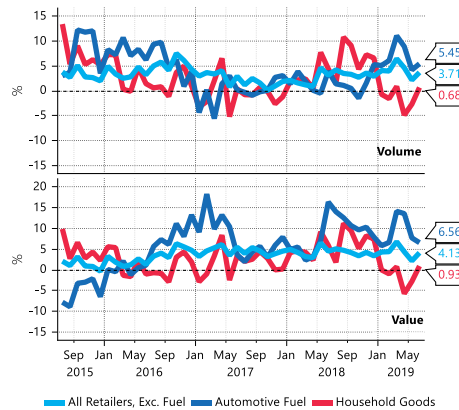
Annual % Change to Q2 2019



Source: BRC

ONS Retail Sales

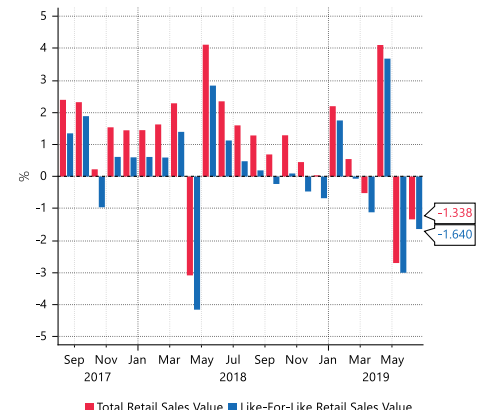
Annual % Change to Q2 2019



Source: ONS

BRC Retail Sales

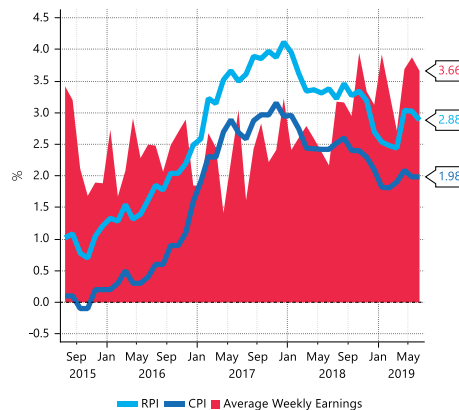
Annual % Change to Q2 2019



Source: BRC

Average Weekly Earnings Growth vs Inflation

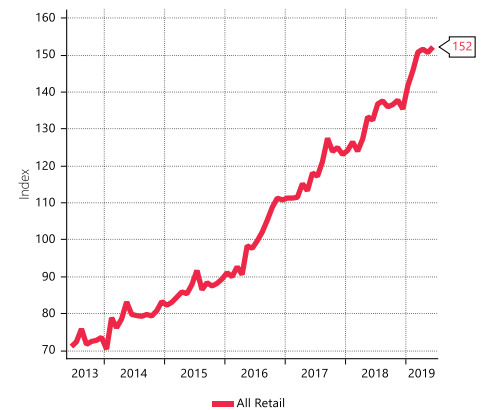
Annual % Change to Q2 2019



Source: BRC

Online Retail Spend Index

Q2 tends to be a more subdued period for online growth



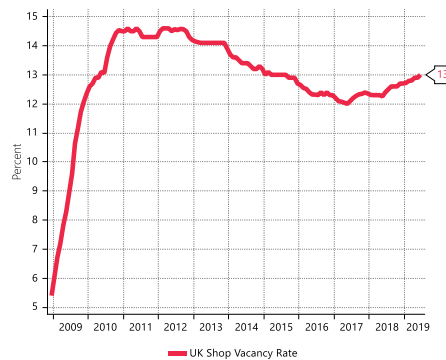
Source: ONS

KEY HEADLINES

- The actual retail trading environment is largely subordinate to corporate activity. A key development in Q2 was another stepped increase in the Minimum Wage to £8.21, which came into effect in early April.
- This is another example of a retail cost rising faster than retail sales, putting further pressure on retailers' bottom lines. The latest annual increase of 38p represented an increase of 4.9% and took the cumulative rise between 2012 and 2019 to around 33%.
- Despite the political and macro-economic backdrop, actual retail spending continues to hold up well. Retail sales values grew year-on-year by 3.6% in Q2, with volumes (i.e. real growth, net of inflation) up by 3.4%.
- Year-on-year comps will become increasingly tough, depressing growth in Q3 and beyond. Boosted by last year's exceptional summer weather, retail sales values were up by 4.7% in Q3 2018 and volumes by 3.6%.
- Retail investment markets remain stuck between the rock of very challenged occupier base and the hard place of the uncertainty and negative sentiment surrounding Brexit. The fact that many shopping centres are anchored by a Debenhams store has put even further pressure on that sector.
- With the Brexit deadline of 31 October looming, a greater sense of clarity should, in theory, emerge in Q3. Repeat, in theory...

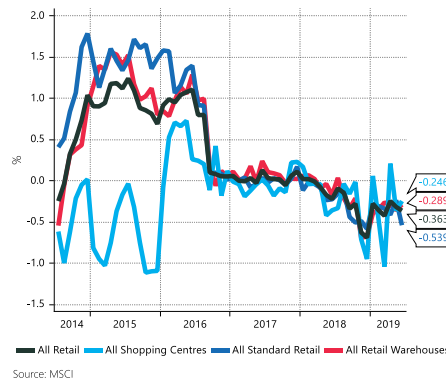
Retail Vacancy Rate

In June, retail vacancy rates hit 13% for the first time since August 2015



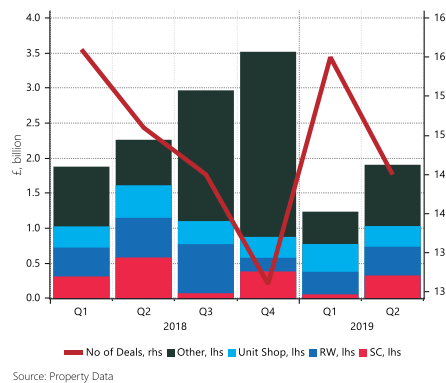
Retail Rental Growth by sub-sector

Q-on-q ERVs for All Retail were down -0.34%, with department stores worst affected (-1.87%)



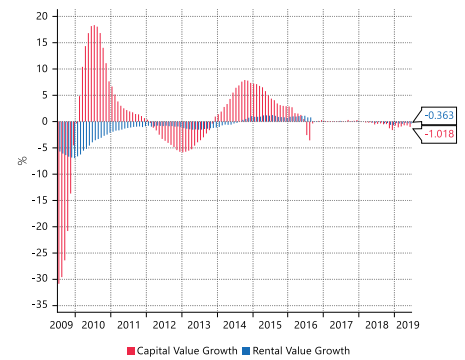
Investment Volumes by sub-sector

Q2 investment volumes for retail as a whole were up 54% on Q1, but down -16% on Q2 last year



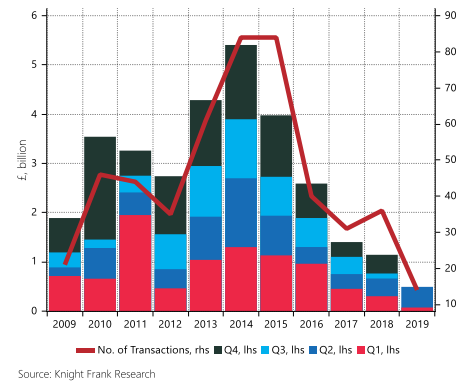
All Retail - Rental and Capital Value Growth

Q-on-q capital values for the retail sector as a whole were down -1.17% in Q2



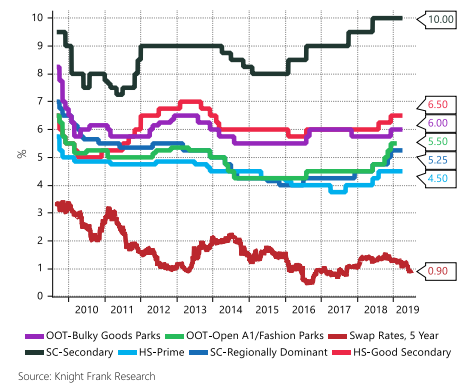
Shopping Centre Transactions

Q2 volumes were £418m in Q2, well below long-term averages and flattered by two big ticket deals



Yields

Retail yields are slowly moving out, but there is still gap between valuations and buyer expectations



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