RESEARCH

UK Retail Monitor Q3 2018

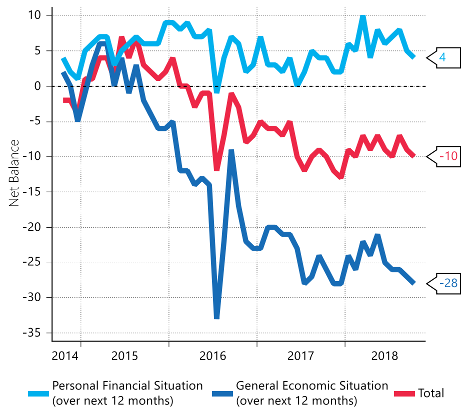
KEY HEADLINES

- More of the same in Q3. Surprisingly buoyant retail sales, but severe ongoing unrest in occupier markets. And retail property investment markets remain very depressed.
- Retail sales values in Q3 were up 4.7% and volumes (i.e. real growth, net of inflation) were ahead by 3.6%. In both cases, this marked an acceleration on Q2 (+4.6% and +2.9%). Positive growth, an improving trend, a narrowing gap between value and volume growth and inflation lower than wage growth – all very positive metrics.
- But there are, of course, variances in spend levels between retail sub-sectors. After a terrible Q1, DIY saw growth of 12.1% in Q3, with furniture sales also up by a healthy 8.1%. In contrast, growth in clothing was anaemic (+0.8%). Hot weather provided a boost over the Summer, but come Autumn is more of a burden than a benefit.
- Occupier failure was generally less severe in Q3. Fashion retailers Saltrock and Coast were both subject to pre-pack administrations, subsequently being acquired by Crew Clothing and Karen Millen respectively.

"The spectre of further CVAs / administrations still looms large over the retail sector. Even a positive outturn over the festive season is unlikely to dispel ongoing negative sentiment."

Consumer Confidence

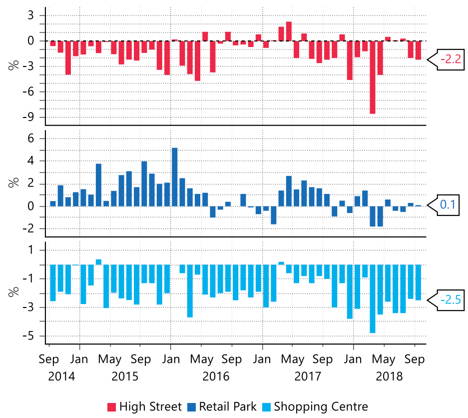
Consumers more positive as to their Personal Situation



Source: GfK

Retail Footfall

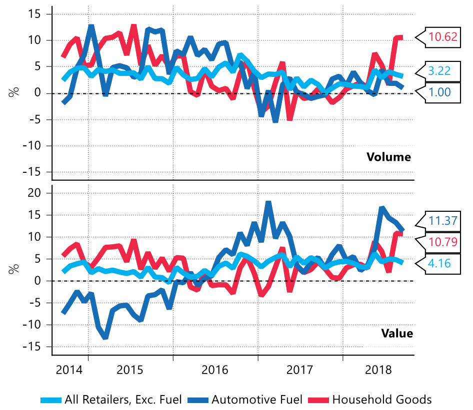
Annual % Change to Q3 2018



Source: BRC

ONS Retail Sales

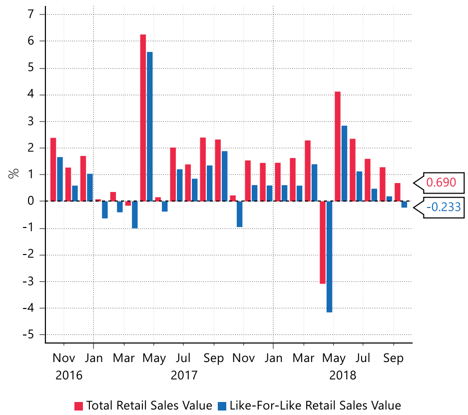
Annual % Change to Q3 2018



Source: ONS

BRC Retail Sales

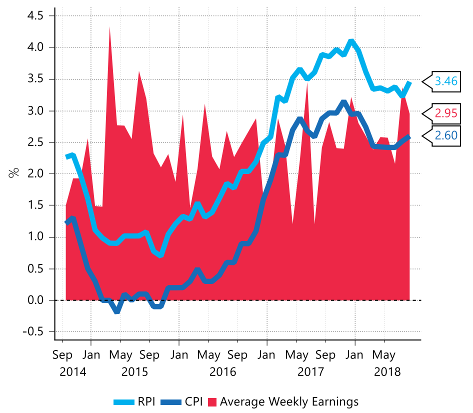
Annual % Change to Q3 2018



Source: BRC

Average Weekly Earnings Growth vs Inflation

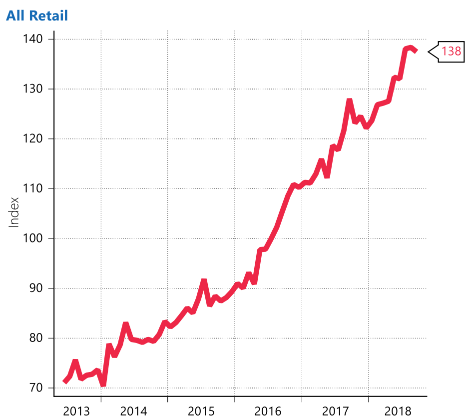
Annual % Change to Q3 2018



Source: BRC

Online Retail Spend Index

November is the largest online month by far



Source: ONS

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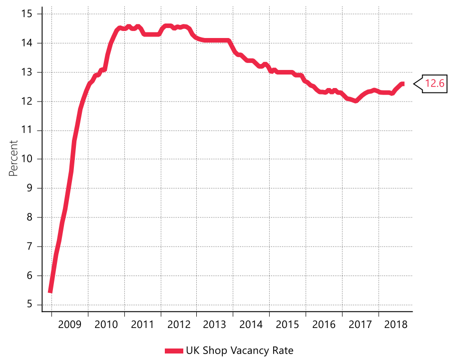
- Since the quarter end, Debenhams has provided further destabilisation to retail occupier markets. Rather than launch a CVA, the department store operator announced that it was minded to close “up to” 50 undisclosed stores, thereby instigating a major round of discussions with landlords.
- Occupier unrest and uncertainty continues to spook retail property investment markets. Most affected is the large lot size, department store-anchored shopping centre sector. There were just five deals in Q3 and all were relatively minor.
- The pressures faced by the retail market were at least acknowledged in the Chancellor’s Autumn Budget, even if the measures proposed (introduction of a Digital Service Tax, pledge of £675m to establish a Future High Street Fund and business rate relief on shops with rateable value <51k) were distinctly underwhelming.
- Q4/Christmas is clearly the busiest period in the retail calendar. We forecast that Q4 retail sales values will grow by 3.5% to 4% year-on-year and volumes by 2% to 2.5%. But even these highly respectable figures will not alleviate ongoing occupier pain.
- Black Friday will inevitably continue to dominate the narrative. The irony is that the media continue to extol its virtues, yet it is hugely damaging for the retail sector generally on three key counts. 1. it is margin-sapping 2. it merely displaces spend patterns and does not create incremental growth. 3. it undermines retailers’ brand equity.

Retail Vacancy Rate

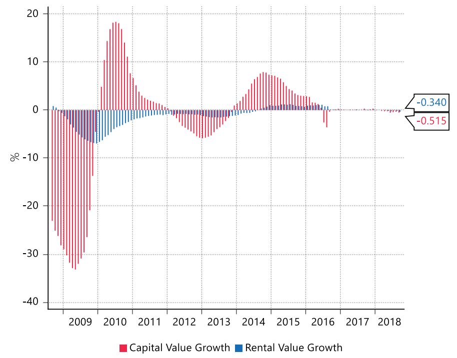
National vacancy rates are starting to trend up, albeit only slightly at this stage



Source: Local Data Company

All Retail - Rental and Capital Value Growth

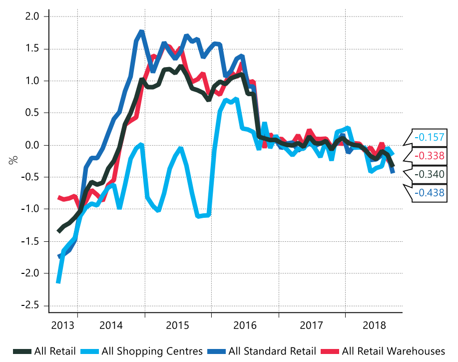
Q-on-q capital values for the retail sector as a whole were down -1.19% in Q3



Source: MSCI

Retail Rental Growth by sub-sector

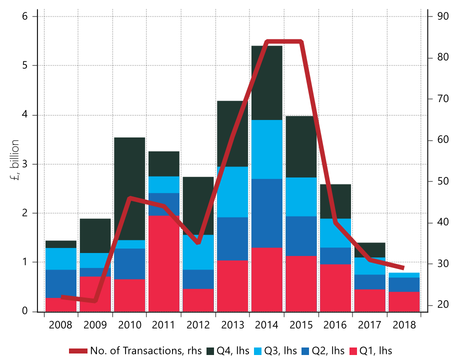
Q-on-q ERVs for All Retail were down -0.64%, with department stores worst affected (-2.65%),



Source: MSCI

Shopping Centre Transactions

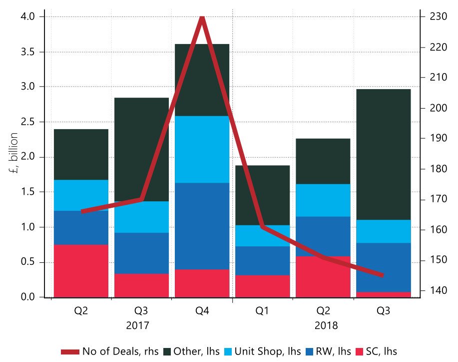
Q3 volumes reached an all-time quarterly low (ca. £75m), with valuations and buyer aspirations very miss-matched



Source: Knight Frank Research

Investment Volumes by sub-sector

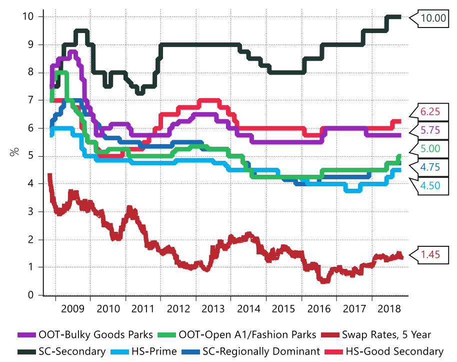
Q3 investment volumes were flattered by mixed-use transactions, but retail warehouses were also up (+24%)



Source: Property Data

Yields

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



Source: Knight Frank Research

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