

# UK Retail Monitor

Q3 2023

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

[knightfrank.com/research](https://knightfrank.com/research)

“An ongoing disconnect between consumer / occupier markets and investment markets. The consumer continues to pay scant regard to supposed economic logic, occupier markets are fairly stable, but property investment markets remain far more at the mercy of macro-economics generally and debt markets specifically.”

Stephen Springham, Head of Retail Research

## KEY HEADLINES

Another quarter of improvement for the retail sector, albeit full recovery is not anticipated until 2024. Consumer markets were relatively stable, supported by robust retail sales and a growing sense of confidence. Despite experiencing a first major casualty in the shape of Wilko, occupier markets generally held their ground. Capital markets saw minor improvement, but still face significant challenges under the macro-economic backdrop.

## CONSUMER MARKETS

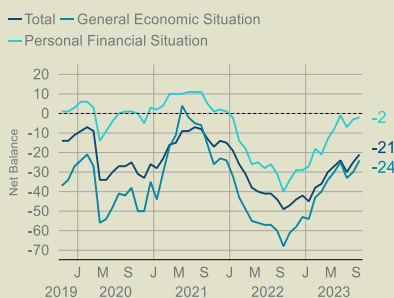
No discernible slowdown or dramatic change of course amongst consumer markets. Q3 retail sales (values) grew +0.3% versus the previous quarter and accelerated +5.6% year-on-year. Volumes were impacted by inflation (down -2.0% YoY), but to a lesser extent than previous quarters (Q1: -5.0% / Q2: -2.5%). Category performance was generally mixed, but select discretionary items and bulky goods witnessed both value and volume growth (Q3 Footwear +20.9% / +15.3%; Cosmetics +11.2% / +3.2%; Furniture +7.2% / +2.5%).

The consumer mood gradually rebuilt during the quarter (July -30 pts vs. Sept -21pts) and became substantially less pessimistic than a year ago (Sept 2022 -49 pts). Crucially, shoppers were more bullish about their own financial situations (-2pts) than the wider economy (-24pts).

Sentiment was still negative overall, but is clearly tracking on a positive upward trajectory. Improvements are being supported by a) easing inflation rates, which are gradually trickling through to lower prices (Sept CPI of +6.6% marking the lowest rate since Feb 2022); b) strong wage growth (+7.8% growth to Aug - one of the highest annual rates since 2001); and c) historically low (albeit slowly rising) unemployment (4.3%).

### Consumer Confidence

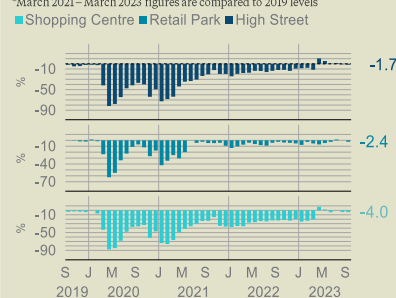
Confidence over the next 12 months



Source: GfK

### Retail Footfall

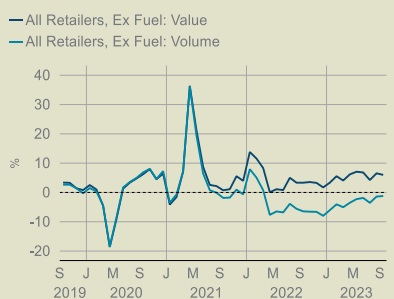
Monthly y-o-y change over the last 4 years, %



Source: BRC, Springboard

### ONS Retail Sales

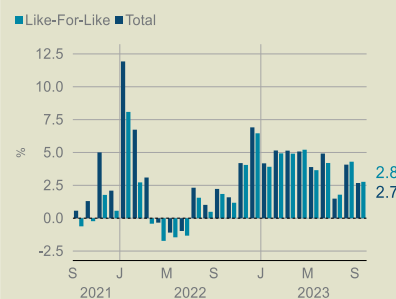
Monthly y-o-y change over the last 4 years, %



Source: ONS

### BRC Retail Sales

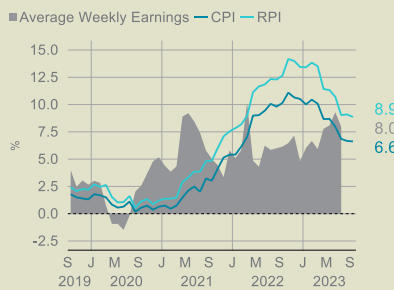
Monthly y-o-y change over the last 2 years, %



Source: BRC

### Average Weekly Earnings

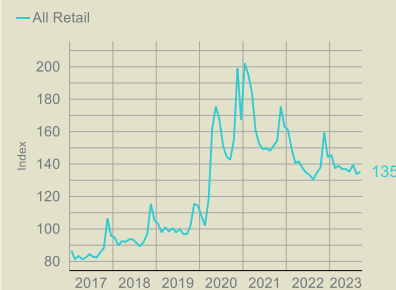
Annual change over the last 4 years, %



Source: ONS

### Online Retail Sales Index

July 2019 = 100



Source: ONS

## OCCUPIER MARKETS

The demise of Wilko prompted fresh speculation over the state of retail markets - marking the first major high street casualty of 2023. Wider distress has not been (and is not expected to be) triggered, with year-to-date figures showing just 970 stores impacted by retail failures vs. 2,318 stores in 2022. The fact substantially fewer bricks and mortar locations have been affected indicates distress has been much more concentrated amongst online retailers.

Several operators took Wilko's demise as an opportunity to selectively acquire prime, high footfall locations in major towns, cities and retail parks across the UK. Portions of its physical estate have now been absorbed by the likes of B&M and Poundland, but Wilko announced it will now itself return to High Streets by December. Quick reoccupation of space helped stabilise overall vacancy rates at 15.4% (vs. peak 15.9%), which are still substantially above pre-pandemic rates (Jan 2020: 13.3%).

## INVESTMENT MARKETS

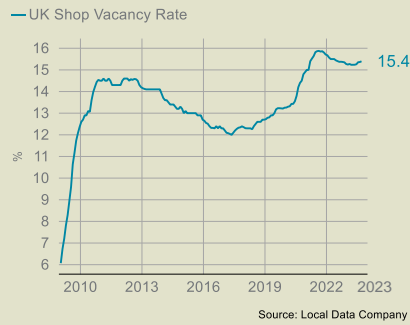
Retail proved itself to be one of the more resilient CRE sectors, registering the 'least worst' total return in the 12 months to Q3 at -8.0%. This was better than All Property (-11.9%), Offices (-16.7%), and Industrial (-14.9%). Largely driven by robust income (5.8%) - Retail also lays claim to the highest income return of all the major sectors during the period.

In terms of sub-sectors, Shopping Centres proved to be the most stable following years of substantial capital value and rental rebasing. SC total return (-4.3%) outperformed Retail Warehousing (-7.3%) and wider Retail (-8.0%), with the best income return performance (6.9%) versus RWH (6.2%) and All Property (4.7%).

Transaction volumes totalled £1.7bn in Q3, marking an encouraging improvement on a particularly lacklustre Q2 (£0.9bn). Overall deal volumes were still largely depressed, however, due to elevated debt costs restricting transactions to largely cash buyers. Retail volumes registered -6% lower than the corresponding quarter in 2022 overall. An uplift in Shopping Centre volumes (£278m vs. £47m Q2) was one of the main drivers, alongside a resurgence in Foodstores (£850m vs. £247m Q2).

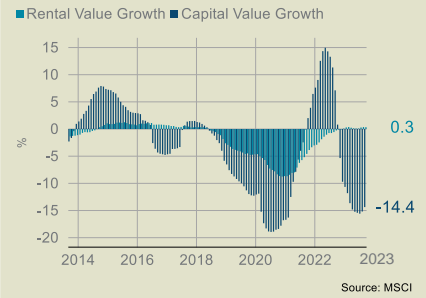
### Retail Vacancy Rate

Last 10 years, %



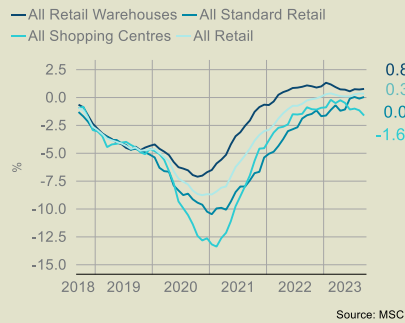
### All Retail - Rental / Capital Value Growth

Rolling 12 month growth, last 10 years, %



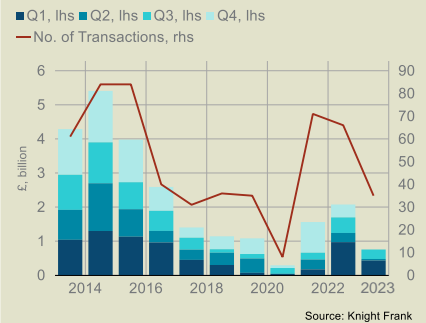
### Retail Rental Growth by sector

Monthly growth, last 5 years, %



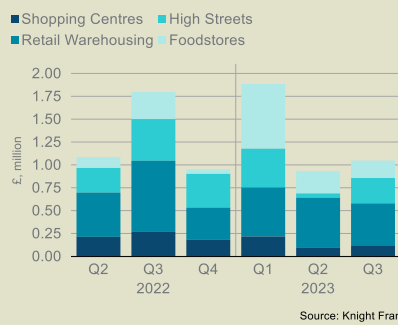
### Shopping Centre Transactions

Last 10 years



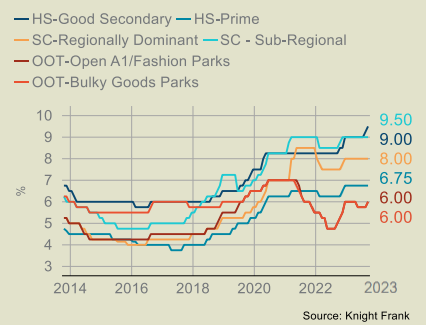
### Investment Volumes by sub-sector

Last 6 quarters, £ billions



### Yields

Last 10 years, %



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