

UK Retail Monitor Q4 2017

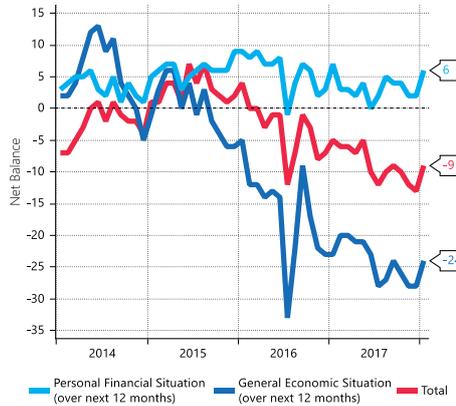
KEY HEADLINES

- The media were quick to label Christmas 2017 a disaster for UK retailers. However, this was unsubstantiated in any of the official retail sales data from the ONS.
- Retail sales values (exc fuel) were up 4.1% in December and volumes (exc fuel) were up 1.3%. On the back of a soft October, the figures for Q4 as a whole were marginally lower (values +3.9%, volumes 1.0%).
- Given the tough comparable the previous year, these 'headline' figures prove unequivocally that the UK consumer is still spending. However, the 'headline' numbers do not necessarily tell the full story and therefore Christmas was no more a triumph than it was a disaster.
- The performance of the retail market is highly polarised. The grocery retailers accounted for substantial proportion of retail sales growth – the going is proving much tougher for non-food operators.
- The fact that November was a stronger month than December also sets a few alarm bells ringing as to the negative influence of Black Friday – disruption to consumer demand patterns and undermining of industry margins.

"A hint of retailer distress and the media are already calling Armageddon. 2018 will undoubtedly be a tough year for UK retail, but a sense of perspective needs to prevail."

Consumer Confidence

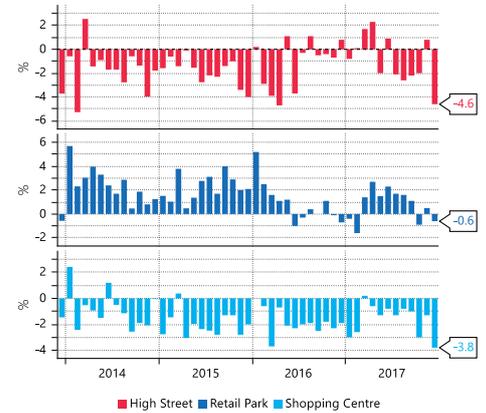
Stronger for personal finances than the macro economy



Source: GfK

Retail Footfall

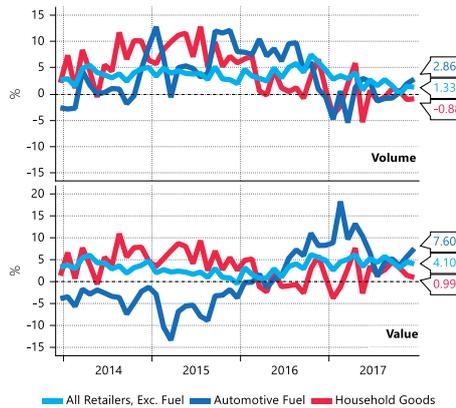
Annual % Change to Q4 2017



Source: BRC

ONS Retail Sales

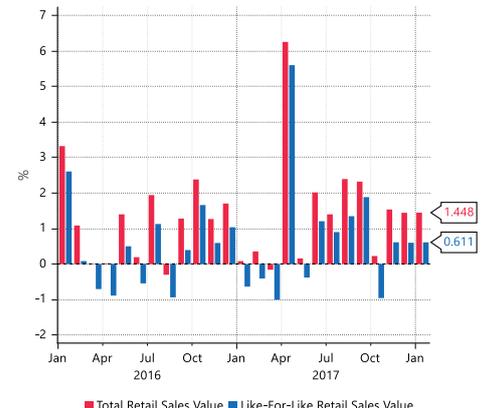
Annual % Change to Q4 2017



Source: ONS

BRC Retail Sales

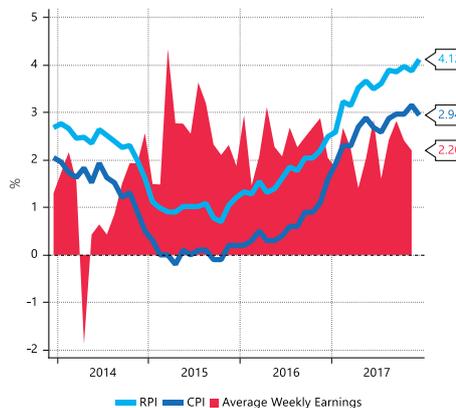
Annual % Change to Q4 2017



Source: BRC

Average Weekly Earnings Growth vs Inflation

Annual % Change to Q4 2017



Source: BRC

Online Retail Spend Index

November was again the peak month for online spend



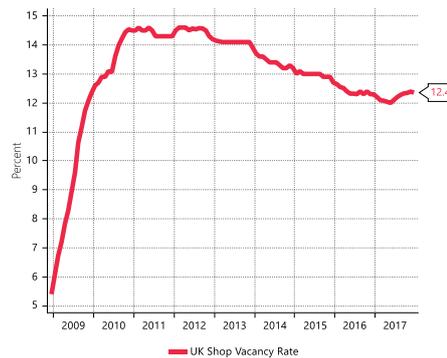
Source: ONS

KEY HEADLINES

- Against this backdrop, there were some signs of distress amongst certain retail operators. Debenhams, Carpetright and Moss Bros all issued profit warnings on the back of difficult trading, while other high street stalwarts such as Marks & Spencer and Mothercare also under-performed.
- More seriously still, House of Fraser wrote to its landlords asking for rent reductions, Arcadia sought to renegotiate terms with suppliers, Maplin saw its credit insurance cut and New Look drew up plans to offload around 60 stores, possibly as part of a CVA.
- There have also been some retailer casualties, albeit small in scale. Multiyork and Feather & Black succumbed to administration before Christmas, while fellow furniture retailer Warren Evans followed suit in February. Fashion retailer East likewise collapsed (for the third time in four years).
- This distress is still fairly isolated, as opposed to being universal. Many other retailers continue to trade strongly. Of the major fashion brands, Primark, Next, JD and Superdry all out-performed the market over Christmas, as did a number of the more niche and lifestyle operators, such as Joules, Ted Baker, Jigsaw and Fat Face.
- 2018 will definitely be tougher for UK retail than 2017. Retail sales growth will decelerate, cost pressures will intensify and there will inevitably be further fall-out. But no Armageddon.

Retail Vacancy Rate

Retail vacancy rates have nudged up slightly over the last six months (+30bps)



Source: Local Data Company

All Retail - Rental and Capital Value Growth

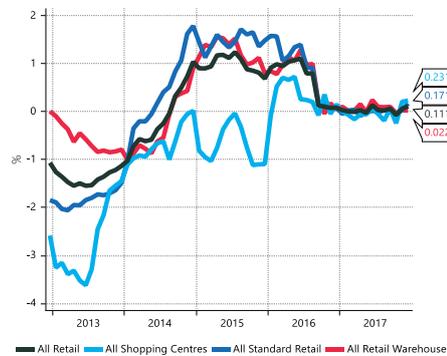
Q-on-q capital value growth for the retail sector as a whole was 0.45% in Q4



Source: MSCI

Retail Rental Growth by sub-sector

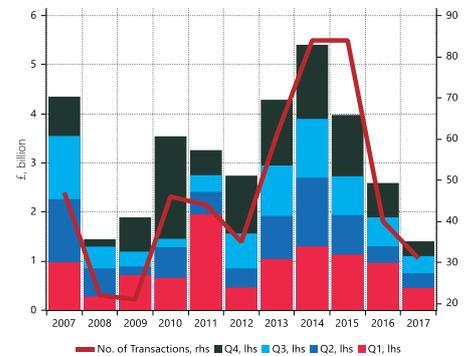
Q-on-q ERV growth for all retail in Q4 was just 0.29%, led by High Streets in the South East (0.79%)



Source: MSCI

Shopping Centre Transactions

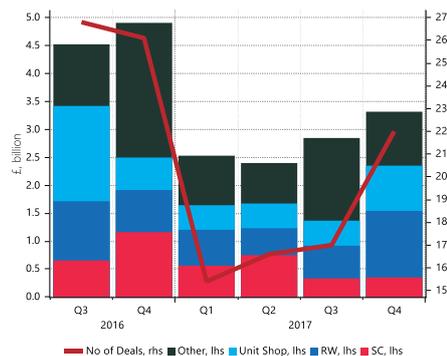
2017 volumes were down 40% compared with 2016 and were around half the 10 year average



Source: Knight Frank Research

Investment Volumes by sub-sector

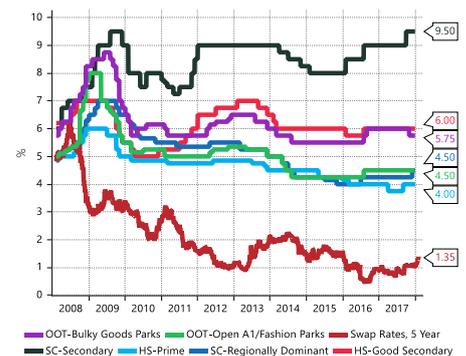
Overall Q4 retail volumes were up 17% on Q3, but down 32% on the same quarter in 2016



Source: Property Data

Yields

Yields are stable across the retail sector, but sentiment remains most negative around Shopping Centres



Source: Knight Frank Research



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