RESEARCH

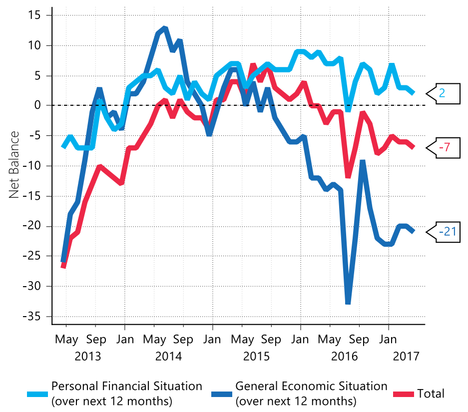
UK Retail Monitor Q1 2017

KEY HEADLINES

- Overall UK GDP growth slowed to just 0.2% in Q1. This was widely attributed to a slowdown in consumer spending, brought about by a squeeze on disposable incomes, as prices rise on the back of Sterling's depreciation in the wake of Brexit.
- This is, at best, a very lazy summation of what is actually playing out on the ground. Retail sales growth inevitably slowed down quarter-on-quarter in Q1 for two reasons – Q4 2016 was exceptional and the seasonality of retail always makes Q1 the slowest quarter of the year – all the more so if Easter falls after the end of March.
- With this huge caveat, retail sales values declined by 0.1% in Q1. However, the more telling year-on-year figures actually showed that retail sales values were up 4.1% in Q1 and volumes were up 2.9%, even without a contribution from Easter this year (and a consequent spike in April, which will be in the Q2 figure).
- The fact that values are now growing faster than volumes is an indicator that we have now moved into inflationary territory. In March, CPI and wage inflation were on a par at 2.3%, although the former has since outstripped the latter, giving rise to a supposed consumer squeeze.

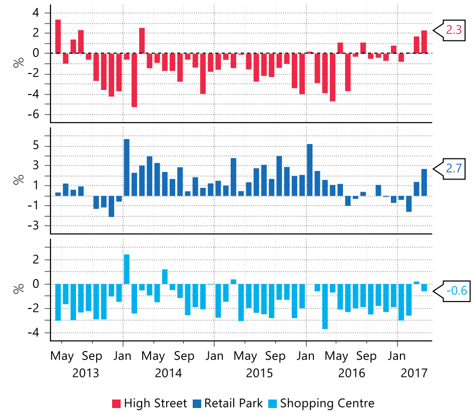
"Cracks rather than carnage. Q1 has set the tone for what will be a very challenging year for the UK retail sector. But data still does not support the Doomsday media narrative."

Consumer Confidence
Erratic and volatile – and very difficult to derive trends



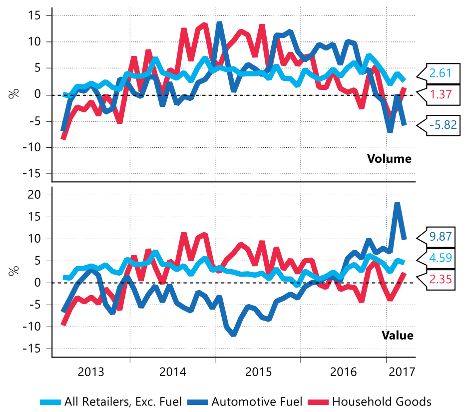
Source: GfK

Retail Footfall
Annual % Change to Q1 2017



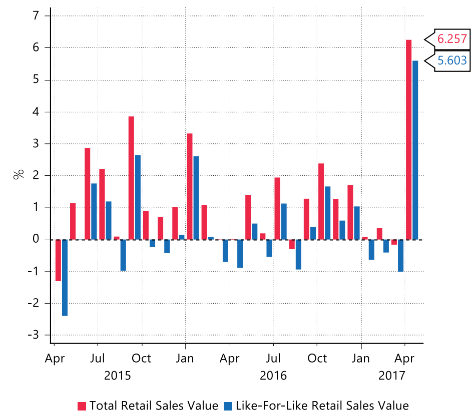
Source: BRC

ONS Retail Sales
Annual % Change to Q1 2017



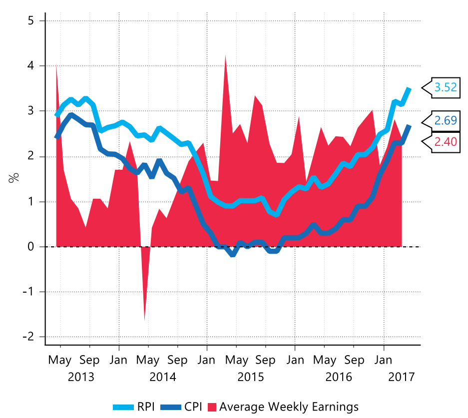
Source: ONS

BRC Retail Sales
Annual % Change to Q1 2017



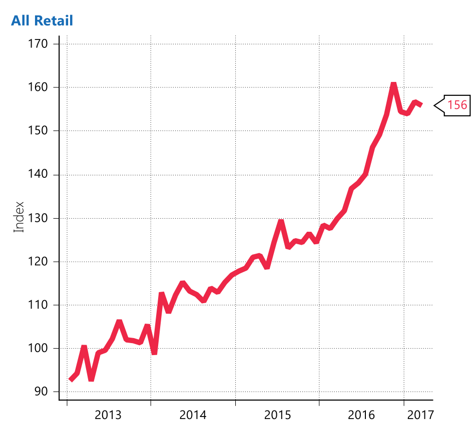
Source: BRC

Average Weekly Earnings Growth vs Inflation
Annual % Change to Q1 2017



Source: BRC

Online Retail Spend Index
Online spend typically falls back in Q1 from Q4 highs



Source: ONS

KEY HEADLINES

- Retail sales are only one half of the equation for retailers. The other is the bottom line and this is where most of the pressure points are in 2017. Even if consumer demand continues to hold up, retailers are having to contend with three major cost headwinds – rising inflation, business rates revaluations and increases to the National Living Wage.

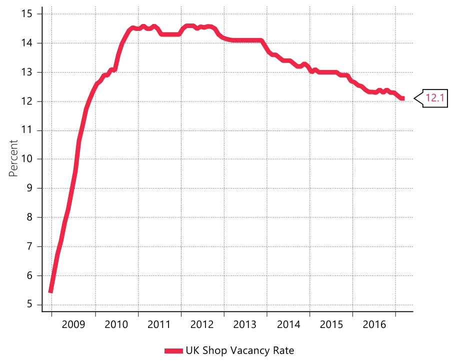
- These three cost headwinds did not fully bite in Q1. Inflation is starting to seep through as currency hedges lapse and this is likely to accelerate as the year unfolds (although will not recur in 2018). Business rates revaluations and National Living Wage increases took effect from April, after the Q1 reporting period.

- Q1 saw the first retailer casualties since the Referendum vote. Blue Inc, Jones Bootmaker, Brantano and Jaeger all fell into administration in the first quarter and have since been joined by Store Twenty One and Joy. However, in most instances, the businesses in question were rescued through CVAs and pre-pack deals and will live on in a slimmed-down form.

- There will inevitably be further retailer casualties as the year progresses. But these are likely to follow a similar pattern – struggling businesses with a chequered ownership history being weeded out – rather than a sign of universal occupier distress.

Retail Vacancy Rate

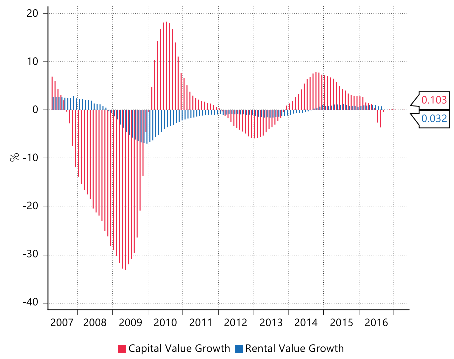
Retail vacancy rates are slowly declining and are about 50bps lower than a year ago



Source: Local Data Company

All Retail - Rental and Capital Value Growth

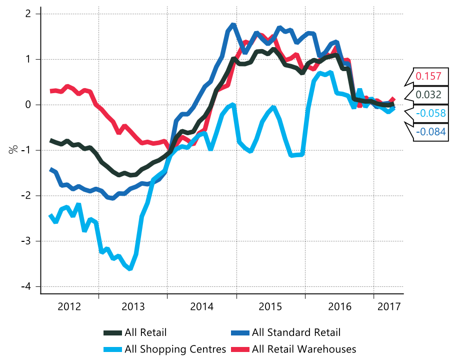
Q-on-q capital value growth for the retail sector as a whole was 0.36% in Q1, led by SE High Streets (0.86%)



Source: MSCI

Retail Rental Growth by sub-sector

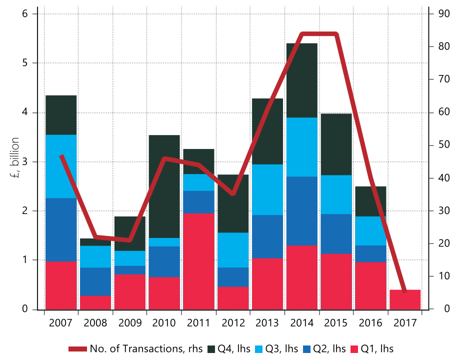
Rental growth remains pedestrian. Q-on-q ERV growth for all retail in Q1 was just 0.22%



Source: MSCI

Shopping Centre Transactions

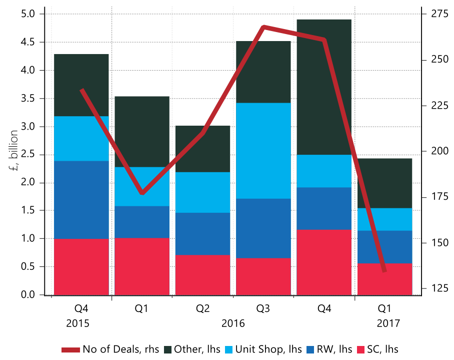
A very slow Q1 – a shortage of supply was compounded by the gap in vendors' and purchasers' aspirations



Source: Knight Frank Research

Investment Volumes by sub-sector

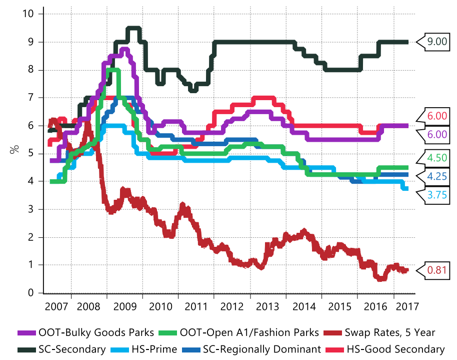
Overall retail volumes were down 31% year-on-year in Q1 to £2.4bn, with 43 fewer reported deals.



Source: Property Data

Yields

Yields are largely stable across the retail sector, with some (-25bps) compression in Prime High Street shops.



Source: Knight Frank Research

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RESEARCH

Stephen Springham
Partner, Head of Retail Research
+44 20 7861 1236
stephen.springham@knightfrank.com

RETAIL

Charlie Barke
Partner, Shopping Centre Investment
+44 20 7861 1233
charlie.barke@knightfrank.com

Andrew McGregor
Partner, Out-of-Town Investment
+44 20 7861 1531
andrew.mcgregor@knightfrank.com