

# UK Retail Monitor

## Q2 2016

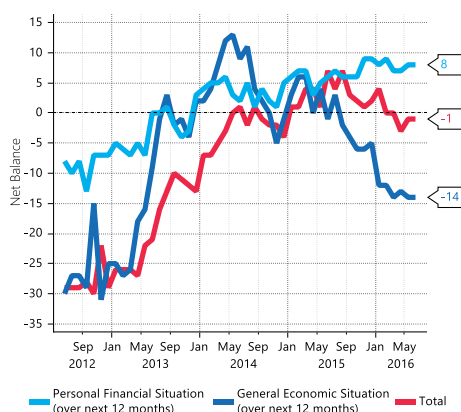
### KEY HEADLINES

- Q2 is largely a reflection of a pre-Brexit world, the Referendum itself taking place a single week before the quarter end (23 June).
- Much of the uncertainty was already reflected in these indicators, but has since intensified significantly.
- Consumer confidence is perhaps the most fragile indicator. A slump is nigh-on inevitable, although this will not necessarily feed directly into a plummet in retail sales.
- As the last recession showed, retail occupier markets are surprisingly resilient. Consumers are used to austerity and are able to re-align spending patterns accordingly, rather than cut back completely.
- Retail sales are unlikely to collapse, even if the worse-case scenario of recession is realised. However, the gap between retail sales volumes and values (and the implied level of deflation) remains a concern.

“The lull before the storm? It’s too early to assess the impact of the Brexit vote, but there is already a clear disconnect between capital and occupier markets.”

### Consumer Confidence

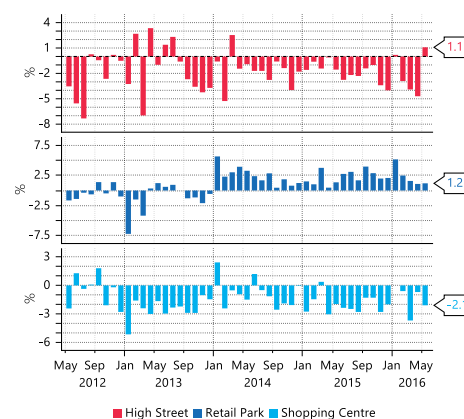
Plummet in confidence expected post-Brexit vote



Source: GfK

### Retail Footfall

Annual % Change to Q2 2016

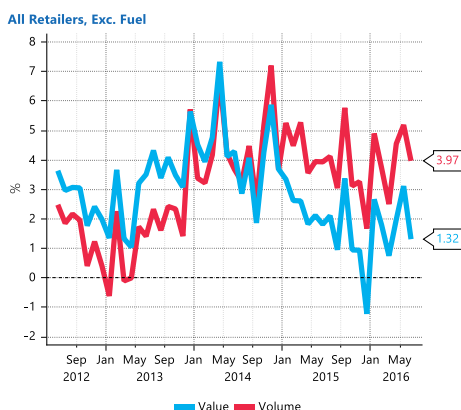


Source: BRC

### ONS Retail Sales

Annual % Change to Q2 2016

Volume growth continues to outstrip value growth

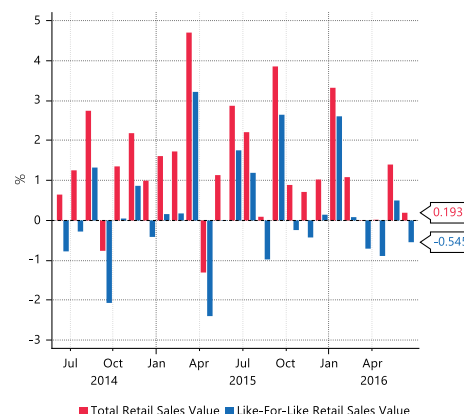


Source: ONS

### BRC Retail Sales

Annual % Change to Q2 2016

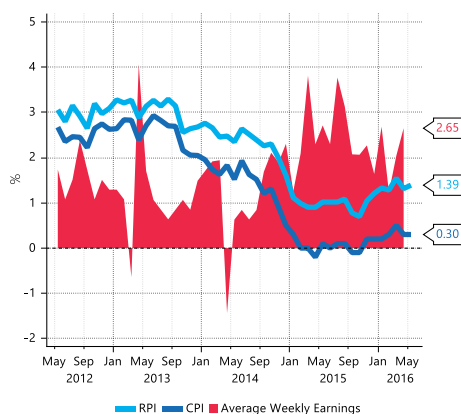
Like-for-like sales growth remains fragile



Source: BRC

### Average Weekly Earnings Growth vs Inflation

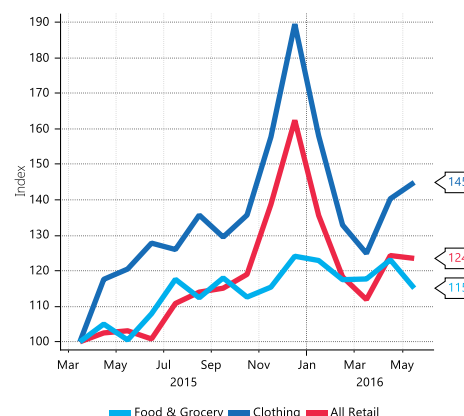
Annual % Change to Q2 2016



Source: BRC

### Online Retail Spend Index

May saw an 80bps dip in Verdict's online spend index



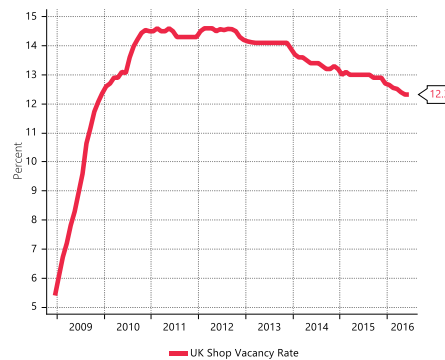
Source: Verdict

## KEY HEADLINES

- Some retail indicators remain positive. Vacancy rates continue to decline - year-on-year to June, shopping centres improved by 160bps to 13.2%, retail parks by 90bps to 5.7% and town centres by 50bps to 10.7%.
- Brexit-based uncertainty has been most manifest in capital markets. Even before the 'Leave' vote was confirmed, investment volumes and the number of transactions were both markedly down across all retail sub-sectors.
- A period of extended uncertainty will undoubtedly follow the Brexit vote. The immediate aftermath prompted more of a political crisis than an economic one, but even this has been resolved fairly swiftly.
- The Q3 indicators will provide a more telling picture of the state of UK Retail post-Brexit. Whatever the doom-mongers may say, the UK retail market tends to out-perform the wider economy in times of difficulty and is underpinned by strong fundamentals. Capital markets remain more fickle and prone to sensitivity.

### Retail Vacancy Rate

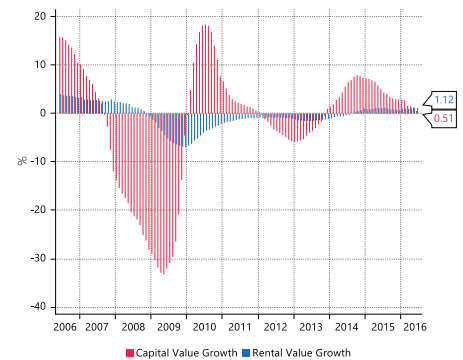
In June, overall shop vacancy rates fell to their lowest level since November 2009



Source: Local Data Company

### All Retail - Rental and Capital Value Growth

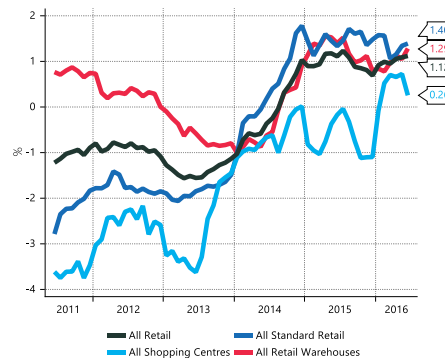
Annualised capital value growth is decelerating rapidly, while rental value growth is slowly accelerating



Source: MSCI

### Retail Rental Growth by sub-sector

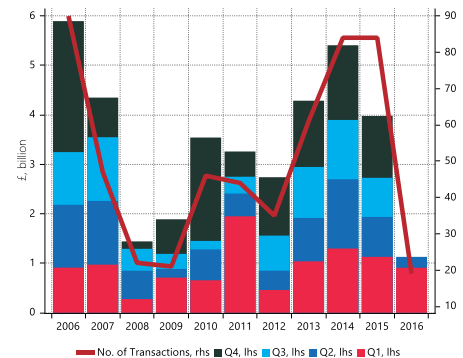
High street shops are experiencing the highest rate of rental growth, albeit with huge regional variations



Source: MSCI

### Shopping Centre Transactions

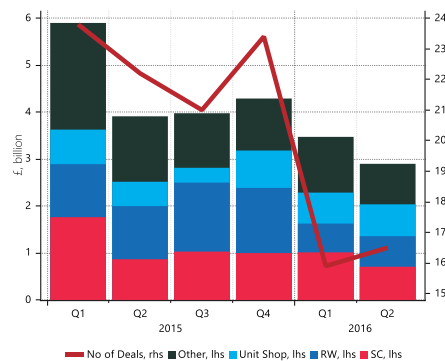
Q2 is traditionally an active investment period but Q2 2016 saw just eight transactions



Source: Knight Frank Research

### Investment Volumes by sub-sector

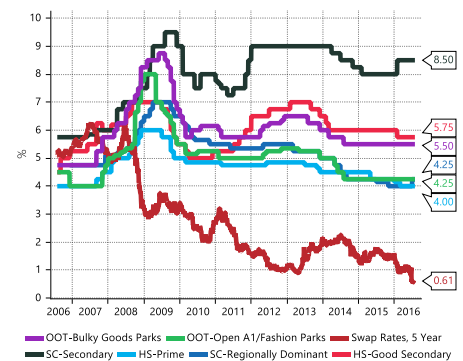
Pre-Brexit uncertainty was already manifest across all retail property sub-sectors



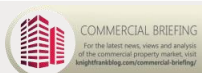
Source: Property Data

### Yields

Pricing will undoubtedly come under greater pressure in the wake of the Brexit vote



Source: Knight Frank Research



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