

UNITED KINGDOM Retail Market Snapshot

Third Quarter | 2019



MARKET INDICATORS

Market Outlook

Prime Rents:	Limited opportunities for rental growth, with incentives moving out in many locations.	▶
Prime Yields:	Predominantly stable with outward movement in secondary locations.	▶
Supply:	Availability expected to continue rising as CVA's and store closures continue.	▶
Demand:	Demand remains selective, focusing on key locations.	▶

Prime Retail Rents – September 2019

HIGH STREET SHOPS	ZONE A £	€	US\$	GROWTH %	
	SQ.FT YR	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
London (City)	325	2,014	211	-7.1	5.4
London (West End)	2,250	16,407	1721	0.0	12.5
Manchester	285	1,766	185	1.8	2.7
Birmingham	210	1,302	137	0.0	2.6
Leeds	250	1,550	163	2.0	2.6
Cardiff	190	1,178	124	-5.0	-1.0
Edinburgh	225	1,880	197	2.3	3.4
Glasgow	315	2,632	276	-1.6	4.3

Prime Retail Yields – September 2019

HIGH STREET SHOPS (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
London (City)	4.50	4.50	4.25	6.00	4.25
London (West End)	2.50	2.50	2.50	4.00	2.25
Manchester	5.25	5.25	4.50	5.75	4.00
Birmingham	5.25	5.25	4.50	5.75	4.50
Leeds	5.50	5.25	4.50	5.50	4.50
Cardiff	5.25	5.25	5.00	5.50	4.75
Edinburgh	5.25	5.25	4.75	5.75	4.75
Glasgow	4.50	4.50	4.00	5.50	4.00
OUT OF TOWN RETAIL (RETAIL PARKS) (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Park - Bulky goods	6.00	5.75	5.25	6.65	5.25
Park - Open consent	6.00	5.75	5.25	6.50	5.25
SHOPPING CENTRES (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
National prime	7.00	7.00	5.75	7.50	5.00

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Overview

Whilst data for September was not available at the time of writing, the growth in retail sales volumes averaged 2.5% y-o-y during July and August, pointing to an overall slowdown in Q3 compared to the previous quarter (3.6% y-o-y). Online sales continued to grow at c.10% y-o-y, accounting for 19.7% of all retailing in August. Despite ongoing uncertainty, the Consumer Confidence Index has held broadly stable during 2019 to date. In part, consumer confidence has been underpinned by a robust labour market and stable inflation. CPI remains close to the government's target of 2%, with the fall in global oil prices appearing to offset currency-linked inflation in the UK.

Occupier focus

Occupational metrics are volatile, with further financial distress and administrations reported during the third quarter of the year. Retailers' profit margins are under pressure in an intensely competitive pricing environment, the effect of which is compounded by rising costs and political uncertainty. Ongoing store rationalisation programmes caused retail and leisure vacancy rates to nudge up to 13% during Q1 2019, where they have remained since (Experian GOAD). Polarisation in the sector is ongoing, as occupiers focus on prime, high-footfall locations. This concentration of demand has supported prime rents in key locations, although a downward correction in these markets is forecast. New retail concepts are emerging on the back of these tough market pressures, as occupiers and landlords are forced to innovate.

Investment focus

95 retail assets transacted during the third quarter of 2019, totalling £1.1bn – a 43% reduction on the previous quarter, and a 65% decline on Q3 2018. The largest transaction of the quarter was the sale of The Podium, Bath for £69.8m (NIY:4%). Prime high street yields were mostly stable on the previous quarter, although there has been some outward movement in the regional cities over the last twelve months. Shopping centre yields have been quicker to adjust, having moved out 125 bps over the last year.

Outlook

Structural issues will be the main driver of change in the retail sector during 2019 and in to 2020. However, Brexit uncertainty may manifest as rising costs and added friction in retailers' supply chains, following the UK's potential departure from the EU.

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