

UK Retail Monitor

Q4 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

“No recession in 2023 and consumer demand has held up better than anyone predicted. But will it continue to do so in 2024? Despite an improving macro-economic backdrop, there were some warning signs in Q4 that the coming year will not be plain sailing for the retail sector.”

Stephen Springham, Head of Retail Research

KEY HEADLINES

The improving economic backdrop in the UK made for a relatively stable quarter, marked by rising consumer sentiment, record-low occupier fallout, and a fairly steady flow of investment deals, despite debt constraints. Growing consumer confidence, strong occupier performance, and enhanced investor trust seemingly position the sector well for a promising transition into 2024.

CONSUMER MARKETS

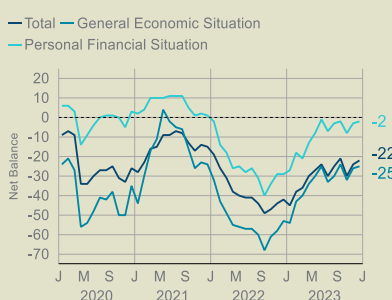
Easing inflation (CPI 4.0% vs. Dec 22: 5.2%) and a stable jobs market kept consumer markets steady in Q4 – though retail sales were weaker than expected due to the disruptive effects of Black Friday. Notably, the ONS’ release of a disappointing set of December retail sales figures lay in stark contrast to positive trading updates from retailers themselves.

Official consumer mood metrics showed improvement, culminating in a major uplift compared to the last 12 months (Dec 23: -22pts vs. Dec 22: -42 pts). Householders even came close to optimism, with personal finance outlooks up to -2pts (vs Dec 22: -29 pts). Labour market stability played a vital role: wage growth remained strong at +6.5% in the three months to November.

Q4 retail sales grew steadily (values: +3.9%), but worryingly decelerated slightly versus Q3 (+5.3%). More encouragingly, volume declines (-1.4%) improved, as inflation receded, with Shop Price inflation at 5.3% (vs. Q1: 9.4%). Monthly analysis revealed the disruption of discounting to Christmas trading: November (values: +5.8%) exceptionally stronger than December (+2.3%). Overall, annual 2023 figures grew by an impressive +5.1% (values), surpassing the 10-year average (+3.5%) – illustrating that the consumer meltdown so widely feared did not materialise.

Consumer Confidence

Confidence over the next 12 months



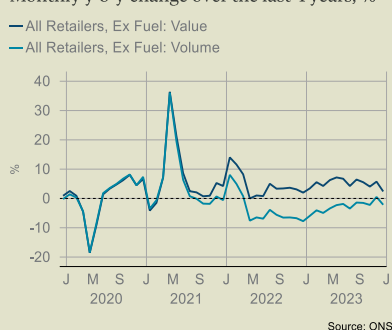
Retail Footfall

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



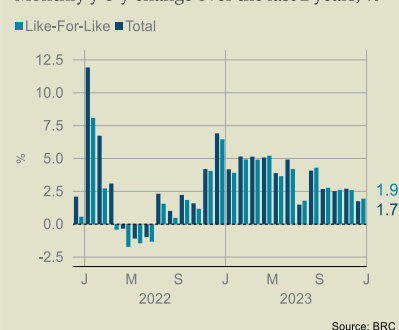
ONS Retail Sales

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



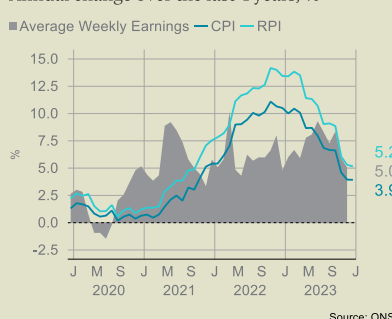
BRC Retail Sales

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



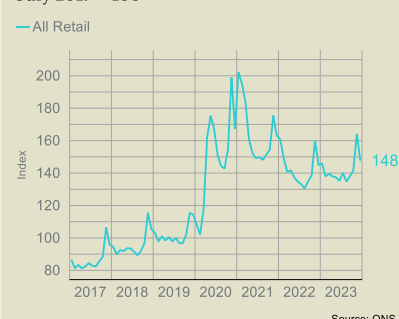
Average Weekly Earnings

Annual change over the last 4 years, %



Online Retail Sales Index

July 2019 = 100



OCCUPIER MARKETS

The strength and resilience of the occupier pool continued to both surprise and delight. Only 971 stores in 2023 were listed as affected by administration / CVA – the lowest since 2015 (and the 3rd lowest figure since 2007). The majority of retailers reported fairly robust store trading throughout Q4, with a handful increasing profit guidance expectations. Most remain cautiously optimistic for the year ahead, whilst some pursue modest expansion or 'right-sizing' opportunities.

Heightened demand for 'destination' locations started to positively impact supply, leading to some rental growth in prime locations. Vacancy rates decreased -10bps to 15.3%, with -20bps improvements witnessed in Shopping Centres (17.7%) and Retail Parks (7.6%). Gradual improvements in occupancy costs, with the rebasing of rents and rates, has accumulated into noticeably strong demand for out-of-town space, with many in-town occupiers (e.g. Lush, Mango, ProCook) opening their first retail park stores during the quarter.

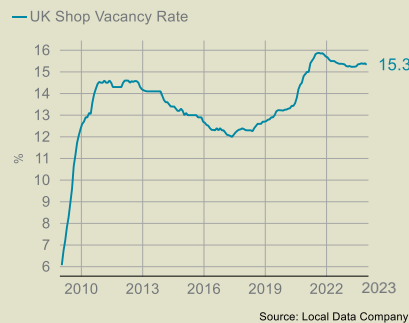
INVESTMENT MARKETS

Investment markets were largely out of synch with occupier markets, but investors' confidence in the sector grew. 2023 transaction volumes (£6.1bn) were down versus long-term averages (10-year: £7.3bn), but showed modest improvement on 2022 levels. Q4 (£1.3bn) saw a slight quarterly slowdown, but year-on-year increased by +37%. Investors are drawn to the Retail sector's high income returns (5.94%) compared to other major CRE sectors (Industrial 4.31% / Offices 3.99%).

Shopping Centres were particularly resilient (Q4: £437m) second only to Foodstores (£453m). SC yields held steady at 8.00%, while Prime HS and OOT softened by +25bps to 7.00% and 6.00% respectively. Experienced investors targeted prime, destination assets, with Churchill Square in Brighton (£143m) by far the largest deal of the quarter and the year as a whole. In total, five centres transacted with a lot size over £20m+, including Livingston Designer Outlet (£57m), Junction 32 Outlet Village, Castleford (£46m), and The Centre, Livingston (£46m).

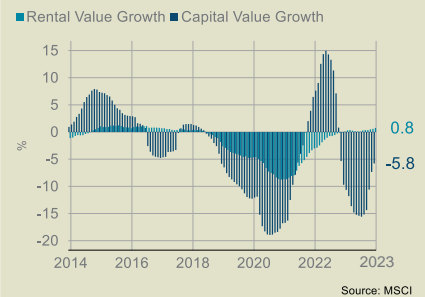
Retail Vacancy Rate

Last 10 years, %



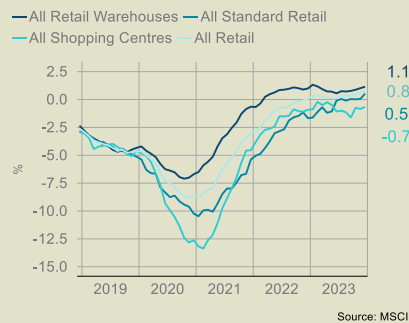
All Retail - Rental / Capital Value Growth

Rolling 12 month growth, last 10 years, %



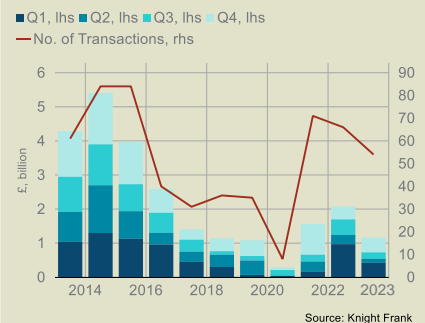
Retail Rental Growth by sector

Monthly growth, last 5 years, %



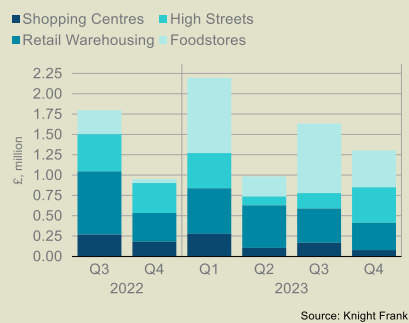
Shopping Centre Transactions

Last 10 years



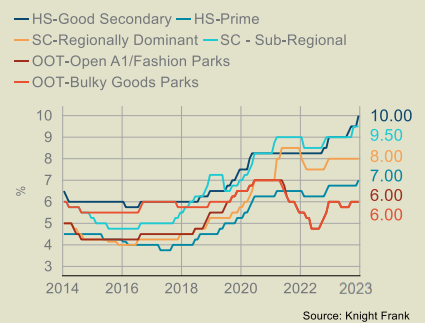
Investment Volumes by sub-sector

Last 6 quarters, £ billions



Yields

Last 10 years, %



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COMMERCIAL RESEARCH



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



Emma Barnstable
Associate, Commercial Research
+44 20 8106 1385
emma.barnstable@knightfrank.com

CAPITAL MARKETS



Charlie Barke
Partner, Head of Retail Capital Markets
+44 20 7861 1233
charlie.barke@knightfrank.com

AGENCY



Jonathan Eastwood
Partner, Head of Retail Agency
+44 20 86827769
jonathan.eastwood@knightfrank.com



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