Overview

GDP growth picked up slightly during the second quarter of the year (0.4%, ONS) following a slower than expected start to the year – GDP growth during Q1 was 0.2%. Despite ongoing Brexit-linked uncertainty, the consumer economy has held up relatively well. The Consumer Confidence Index averaged -9 during Q3 2018, marginally above the long-term average of -10. Year-on-year retail sales growth performed well during the summer months – 3.4% during the three months to August – with food and household goods stores benefiting from the warm weather. Footfall, however, remains a challenge for physical retail, with further contractions recorded in Q3. On average, footfall has been contracting by around 1% per annum over the last decade.

Occupier focus

Occupational metrics continue to display volatility, with many retailers struggling to service large amounts of debt. Vulnerabilities in the department store format have been particularly evident during Q3, with a number of operators reporting financial difficulty. Whilst retail and leisure vacancy rates have held stable at around 12%, this figure is expected to increase in coming months, as store rationalisation programmes continue. On the whole, occupier demand remains selective, with retailers targeting prime high footfall locations. Landlords are therefore becoming more inventive/flexible with lease terms, which in many locations is limiting opportunities for rental growth.

Investment focus

Retail investment volumes reached £2.9bn in Q3 of 2018 (PropertyData), consistent with both the previous quarter, and Q3 2017. Telereal Trillium and Blackstone Property Partners purchased Network Rail’s Archway Portfolio for £1.46bn, the largest retail investment transaction of the quarter, and year to date. The investment market remains subdued following the UK’s decision to leave the EU, whilst broader uncertainty in the sector is also contributing to caution. Compared to the previous quarter, yields have broadly held stable during Q3, although there has been a slight outward adjustment in some locations.

Outlook

The outlook for the UK retail sector remains shrouded in Brexit-linked uncertainty. A weaker economic outlook, rising costs and the ongoing structural change are just a few of the headwinds facing the UK retail sector, which continues to see an ongoing reduction in demand for physical space.