

Q1

RETAIL



The Difference

The Market in Numbers

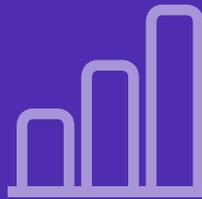
Retail Sales



6.3%

Core retail sales volumes were 6.3% higher at the end of February compared to 12 months previous

Euro Comparison



5th

Ireland's retail sales volume is 5th highest in the Eurozone

Activity



F&B

Food and Beverage sector continues to attract national and international food occupiers

Future



A.I.

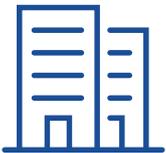
A.I. has resulted in a shift in consumer behaviour which will continue to impact on how retailers sell products



Overview

The economy continues to grow and is edging closer to full employment. Consumer confidence is generally positive having had a slight dip in February 2018. Commentators suggest further economic growth in 2018 (ESRI forecasts +4.8%) and while there has been no dramatic increase in consumer spending power, general concerns in households seem to have eased, helping consumers loosen purse strings.

Poor weather conditions in Q1 2018 have undoubtedly impacted retailers and in particular fashion retailers. In spite of this, the volume of core retail sales (i.e. excluding motor trades) were 6.3% higher at the end of February compared to 12 months previous, while in value terms they were 3.8% higher.



Activity

Prime retail pitches dominate retailer activity. In Dublin city centre, The White Company has acquired a flagship store at 72 Grafton Street at a reported rent of €750,000 per annum / Zone A rate of €7,000 psm. Fit-out works are taking place at 32 Grafton Street where Australian retailer Smiggle, paying a similar Zone A rate, will add to its existing Dublin stores. House of Ireland will be vacating its store on Nassau Street and moving to the former American Apparel unit at 114-116 Grafton Street while Rituals Cosmetics has been granted planning permission on the former H Samuel unit at 81 Grafton Street. On Exchequer Street, Designer Exchange opened its second store close to the proposed Jamie Oliver restaurant.

On the north side of the city, Selfridges Group announced plans to spend €11m refurbishing Arnotts on Henry Street. This will include the beauty hall at ground floor, the restaurant facilities and upgrades to IT systems.

The F&B market continues to attract national and international food occupiers although the level of demand has softened somewhat in recent months. A number of the UK operators are no longer active in the market. However, Boojum is now open and trading at 75 South Great Georges Street but Café Nero was refused planning permission for change of use on the corner of South Great Georges Street and Fade Street. Le Pain Quotidien was announced as the new tenant for a café on Molesworth Street close to the unit taken by The Ivy restaurant in the latter part of 2017.

The large suburban shopping centres along the M50 are also performing well. Asset management is taking place in most of the centres as landlords prepare for further retail and F&B extensions. Over Q1, tenants in some of the centres relocated to different units within the schemes. In Blanchardstown Centre, the landlord, Blackstone, is finalising plans for the new Red and Blue mall extensions. The Red Mall will provide a large MSU with 18 standard stores while the Blue Mall extension will focus on food. There is also a drive towards food and leisure offerings in Dundrum Town Centre where Fallon & Byrne is opening a 900 sqm speciality food hall at the Pembroke Square section of the centre. In Liffey Valley Shopping Centre, following a previous unsuccessful planning application, permission was granted in Q1 for two large restaurants and an MSU at the entrance to the shopping centre.



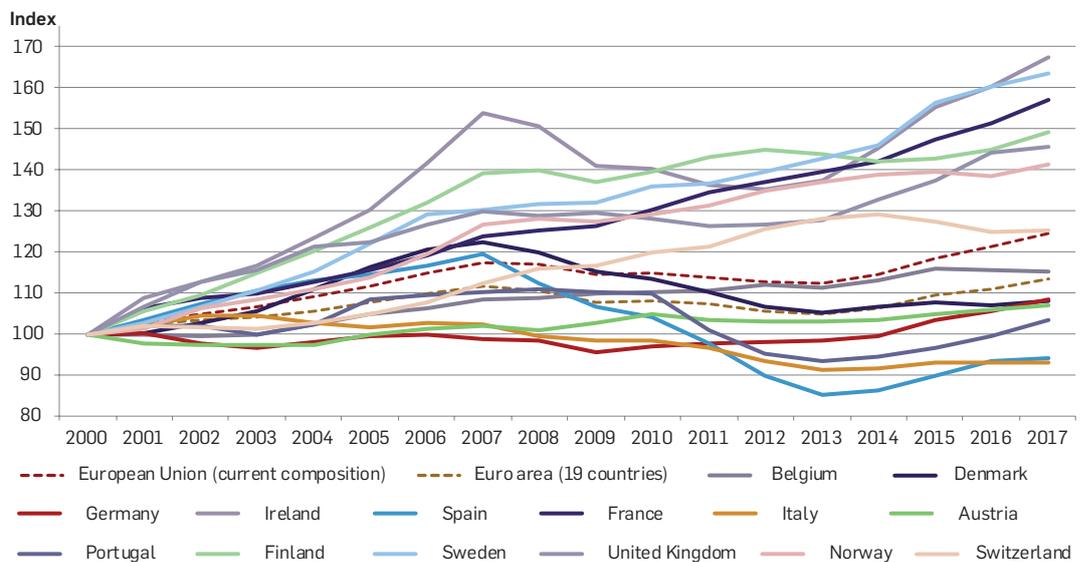
Retail Sales

It is interesting to compare Ireland's most recent annual retail sales volume data in a European context. The volume of retail sales in Ireland for 2017 (at +6.3%) compares favourably to all core EU countries, and is fifth highest among Eurozone member states. In 2017, Irish retail sales volumes were 3.2% above the average for the Eurozone, 2.1% higher than the EU average and 1.4% higher than the UK.

Looking at the volume of retail sales in individual countries since 2000, it can be seen that some have evolved far more significantly than others as set out in the chart below.

Between 2007 and 2012, countries such as Spain (-25%), Portugal (-14%), Denmark (-13%), Ireland (-12%) and Italy (-9%) experienced more significant declines compared to the likes of the EU generally (-4%), the UK (-3%) and Germany (-1%). Since the recovery began in 2012, Ireland has experienced growth in retail sales of almost 24%, while the UK grew by 15%, Germany by 11%, Portugal by 9%, Spain by 5% and the overall EU by 10%. However, the volume of retail sales in some countries remain below the level they were at over a decade ago; Denmark and Spain are notable examples.

Volume of Retail Sales (2000 - 2017)



Source: Eurostat

The shift to online is also notable. In Ireland, the volume of online retail sales is not currently tracked (but will be later this year), however it is interesting to review the significant growth figures from other countries. Between 2012 and 2017, online sales in the UK grew by

112%, Germany grew by 83% and Spain (where overall sales are still currently below that of a decade ago) experienced growth of 126%.



In Focus

Retail Uncertainty

Recent articles circulating on retail, particularly in the UK, have used interesting analogies "retailgeddon", "a digital earthquake", "a period of retail restructuring" and "a retail revolution" to describe the current period of uncertainty. The industrial revolution, which took place over an 80 year period, was a turning point in history and affected almost every aspect of daily life bringing better wages and more sustained economic growth. The changes in retail, while currently dramatic, are ultimately being driven by changes in Artificial Intelligence

(A.I.). Interestingly, the first A.I. conference took place in 1956 so this change has been gradually evolving over a period of 60 years. Unfortunately, closer to home the impact of Brexit is coinciding with this transition making for a perfect storm for many retailers and restaurateurs across the UK.

A number of retailers in the UK have recently entered into CVA (Company Voluntary Arrangement) or administration. A CVA is an insolvency and rescue procedure in the UK which allows a company or limited liability partnership to pay creditors over a fixed period

of time. If the creditors agree, the limited company can continue trading. Retailers that recently entered CVA or administration in the UK include New Look, Maplin, Toys 'R' Us UK, Select, East and restaurants Prezzo, Jamie's Italian and Byron. The US parent of Claire's (the accessories company aimed at young girls) has also applied for protection from its creditors.

A CVA often means a retailer can renegotiate rent and lease terms with landlords and then try to improve operational performance across the remaining stores. A number of landlords in the UK and Ireland will be impacted by this process. While Brexit has had an impact on consumer confidence across the UK, A.I. has resulted in a definite shift in consumer behaviour which in turn has impacted on how retailers sell products. Rolling out vast numbers of stores to reach the consumer is no longer a prerequisite for retailers and therefore a restructuring in many cases must take place if some retailers are to survive long-term. For landlords, this can be a difficult pill to swallow. While some store sales are falling, the presence of omni-channel has allowed significant increases in online sales and so there is a lack of transparency in terms of overall sales.

With A.I. firmly in place, the speed at which change is taking place is now unprecedented.

We only have to look back at reports in 2015 which suggested "bricks and mortar" and the high street was dead. A year later, Amazon, one of the largest online retailers, opened a physical store, followed by other well-known online brands which resulted in a U-turn in opinion.

While the consumer enjoys the convenience of online shopping, it is now apparent to online retailers that the consumer also wants the choice to have the personalised or experience part of shopping sometimes just for the pleasure of shopping. Online shopping provides value and convenience for consumers, but there is clearly a degree of pleasure lost. A plastic wrapped bag hidden in a bush or behind a bin by a delivery company does not always cut it. In order to improve the delivery experience, in February 2018 Amazon purchased a smart doorbell firm "Ring". A video of a delivery can be streamed to your smart phone and integrated with your personal assistant Alexa allowing the consumer to control their home security system. So although the online giants focus is on the connectivity of home appliances and the delivery of experience, it is becoming increasingly clear that the physical store is here to stay – good news for the property sector.

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