Lisney

RETAIL REPORT

Q1 2021

CAFÉ/RESTAURANT OPPORTUNITY TO LET:
84 TERENURE ROAD EAST, TERENURE, DUBLIN 6

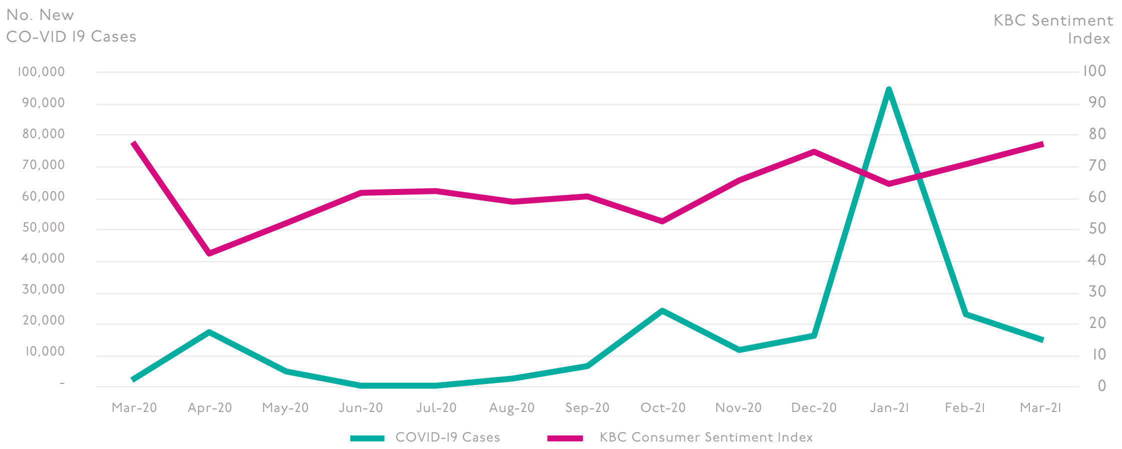
RETAIL

CONSUMER SENTIMENT

From lows in January, consumer sentiment improved in each of the following months in Q1. This was in the context of a level 5 lockdown and closed non-essential retail, but also more positively, the beginning of the COVID-19 vaccination roll-out. The March sentiment index reading from KBC Bank Ireland was 77.1, a significant improvement on the 64.9 reading in January. Notably, the March reading was at a 12-month high and was at a similar level to that of early March 2020.

Over the past year, it was evident that consumer sentiment was very much linked to reported numbers of new COVID cases. When numbers were high starting into 2021, sentiment was down, however as the number of new cases came under greater control, sentiment began to improve.

KBC CONSUMER SENTIMENT INDEX



Source: KBC Bank Ireland, HPSC

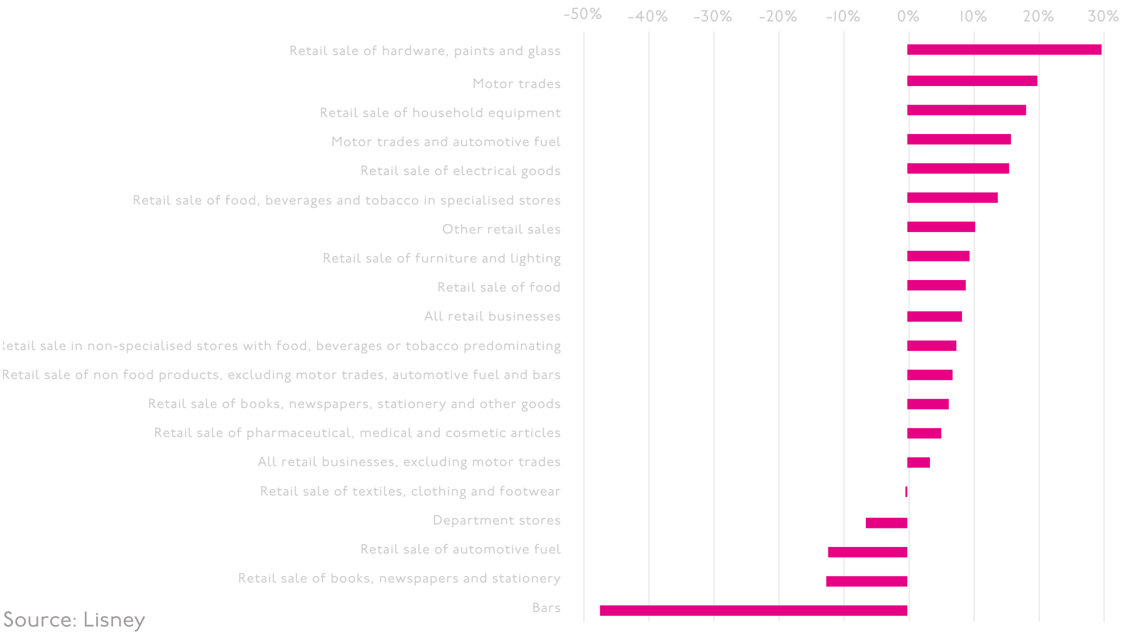
It should also be recognised that KBC Bank Ireland's sub-indices on current economic conditions and consumer expectations also improved over the quarter, at 88.8 and 69.3 respectively in March. Indeed the forward looking part of the survey found that consumers were focused on post-pandemic improvements in the economy and jobs, but also that household savings are likely to remain higher in the future. Irish households saved an additional €13bn in 2020 with outstanding mortgage debt and personal loan debt in the economy also falling (by 3.6% and 15.5% respectively) as liabilities were paid down and additional new borrowings were not taken up. This possible future trend of saving more is likely to have an impact on the extent of a re-opening rebound in consumer spending in late-Q2 and into Q3.

RETAIL SALES

Following a strong end to 2020, the CSO's indices tracking the volume and value of core retail sales (excluding motor trades) fell significantly in the month of January (by 15.9% and 14.4% respectively). While declines or lower growth can happen in any January following the Christmas period, the monthly decline this year was much more pronounced than in other years. The closure of non-essential retail from the end of December had an obvious impact. While still closed in February, retail sales did pick-up slightly in the month with the volume growing by 2.5% and the value by 2.7%. While March figures are not yet available, non-essential retail remained closed in the month, which will impact figures.

Over the pandemic period so far, overall core retail sales are down by 3.9% (volume) and 8.4% (value). However, there are major variations across sectors, some experiencing significant declines (such as bars, clothing, footwear and textiles) while DIY related sectors have grown.

RETAIL SALES INDEX – VOLUME OF SALES
CHANGE FEBRUARY 2020 – FEBRUARY 2021



Source: Lisney

Interestingly however, the pace of growth in DIY / household type sectors has slowed in more recent months. Overall for the year, the sale of 'hardware, paints & glass' and 'electrical goods' are up by 25.6% and 33.5% respectively. However, the growth rate in the first six months of the pandemic was 26% and 19%, while it was 0% and 12% in the second six month period. While seasonality might be a factor (and the availability of resin when it comes to paints), it may also indicate that many consumers have completed the DIY / improvement works required in their homes in the first lockdown and into the summer last year, and it may be the case that such strong increases will not be witnessed this year. Equally, when bars and restaurants reopen, likely in some capacity in the summer, there will be significant improvements in these sectors, which will add greatly to overall sales.

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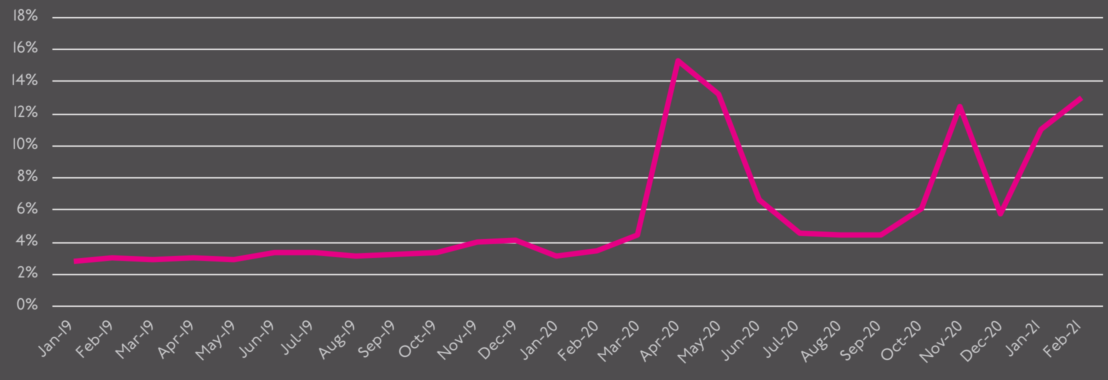
Following strong levels of online retail sales during previous lockdowns, the proportion of goods sold online grew again in Q1. Prior to the onset of the pandemic, online sales averaged 3.3%. this grew to between 7% and 15% in lockdown 1 and then up to 12.4% in lockdown 2. In January and February 2021, it was at 11% and 13% of all sales. While these figures will decline once non-essential retail reopens, the longer-term rate is likely to be higher than 3.3%, probably close to 5%.

VACANCY RATE BY REGION
Q1 2021



Source: CSO

CONSUMER SENTIMENT

- **Shopping locally** – with so many working from home there has been a substantial increase in the number of consumers shopping locally both in local supermarkets and convenience stores, but also in local independent retail stores. Villages and towns across the country are busy with people drinking coffee and using restaurants for local click-and-collect and online delivery services. This has in turn has resulted in an increase in activity from operators seeking opportunities particularly in suburban locations for new coffee shops and restaurants.
- **New ways of shopper engagement** – with physical stores closed retailers across all sectors are having to turn to the use of various social media platforms and apps in order to reach and engage with consumers. They are offering a broad range of services including one-to-one online appointments, personal shopping services, free online classes and weekly fashion shows / displays of new stock. This may assist with the transition from the standard bricks and mortar store to the beginning of the new experiential retail store when the physical stores re-open. The retailer needs to engage with the consumer in order for the consumer to buy into the brand and the bricks-and-mortar stores gives them the space to do so.
- **Dark stores** – some retailers are moving to 'dark stores'. These can be in the grocery, clothing or household sectors and comprise purposely leased stores for online orders / purchases. In the US, there is evidence of traditional retail stores that have been converted into local fulfilment centres to fill delivery or click-and-collect orders, and some of these will remain a permanent change.
- **Dark, Ghost, Virtual Kitchens** – there has been an increase in enquiries from operators seeking industrial or inferior retail space with a view to establishing what is now branded as dark or ghost kitchens. This kitchen space allows a restaurant to produce restaurant-quality food from a remote location and therefore increase the capability of delivering to a wider consumer base at reduced cost.
- **Fast v sustainable fashion** – the global apparel industry accounts for 10% of global carbon emissions, generating greenhouse gases during its production, manufacturing and transportation. Enough water to cater to the needs of five million people is used annually by the industry. Some well-known value brands have been criticised for their 'fast fashion' business model and for the use of synthetic fibres. Other brands have developed sustainable collections, particularly around cotton and denim, and also by using recycled materials. There is increasing pressure from Millennials and GenZ on retailers to provide sustainable goods with both groups stating that they are willing to pay more for it. While the online giants such as Boohoo and Asos lead the charge in online fashion sales, this underlying trend towards sustainability is quietly gaining momentum.
- **Flexible shopping and convenience** – while most high-profile brands had developed omni-channel platforms prior to the pandemic, smaller retailers, particularly indigenous businesses, have significantly upgraded their offering in the past 12 months. There is now an acceptance from retailers that the consumer demands an alignment of instore and online experiences, focusing on fast deliveries, click-and-collect options, along with easy returns. Post-COVID an inability to move across all channels will just not be accepted.

OUTLOOK

1. The prime shopping streets and shopping centres in Dublin have been severely hit by the pandemic with the closure of many high-profile brands. Historically, they offered landlords strong covenants, paid the highest rents and were excellent footfall drivers. Unfortunately, there will be no quick fix solution and in the absence of established overseas brands entering the Irish market. In the short-term unoccupied space will be taken on a short-term, pop-up basis until there is an increase in demand from retailers.
2. Turnover rents are being discussed again, mainly driven by international and UK brands. There is likely to be a greater number of them agreed over the next few years. They can be difficult to negotiate and there is no one single solution. Each store and tenant must be considered on a case-by-case basis with matters including the handling of click-and-collect, instore online purchase, online purchase, instore returns, online returns, vouchers, staff discounts, reporting mechanism etc all needing to be agreed.
3. We anticipate a further shift towards AI (Artificial Intelligence) and AR (Augmented Reality) in the medium-term as it becomes a greater part of the shopping experience. This will bridge the gap between the physical store and the online store.

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