RETAIL REPORT

Q2 2022

KBC CONSUMER SENTIMENT INDEX

57.7

INFLATION

9.1%

THE LARGEST ANNUAL CHANGE IN 38 YEARS

RETAIL SALES

7.2%

OVERALL SALES AHEAD OF PRE-COVID

PRIME STREETS VACANCY

16 UNITS VACANT ON GRAFTON STREET

11 UNITS VACANT ON HENRY / MARY STREET

DUBLIN CITY CENTRE FOOTFALL

80%

GROWTH BETWEEN JANUARY & JUNE 2022

ONLINE SALES

PORTION OF TOTAL SALES COMPLETED ONLINE IN MAY 2022

6.1%

RETAIL

CLERY'S,
O'CONNELL STREET, DUBLIN 1

RETAIL

RETAIL SECTOR

The retail sector is a vital element of the Irish economy, employing more than 300,000 people nationwide. It generates sales of over €30bn annually, accounting for around 12% of Ireland's GDP and delivering €7bn in tax revenue to the State. As one the most effected sectors of the economy by the pandemic, the Irish retail landscape has changed significantly over the past two years. Consumer shopping habits have shifted and are currently being impacted further by price inflation and impending interest rate rises in the euro area. Retailers continue to contend with staffing shortages and rising operational costs, and while some supply chain issues have improved, others will intensify in the months ahead due to the war in Ukraine.

ECONOMY & SAVINGS

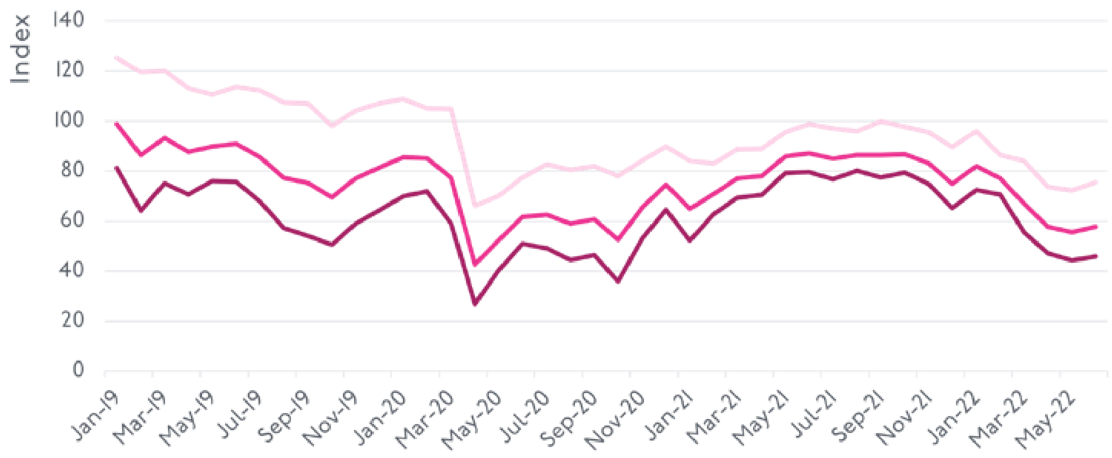
Despite the headwinds, continued economic growth in the euro area is anticipated in the second half of the year, albeit at a much slower pace than previously expected, and with differences across countries. Ireland continues to lead the way in terms of growth, even when the multinational sector is excluded and focus is on the domestic economy.

While not evenly dispersed across all parts of society, Irish households currently have record savings on deposit – about €32bn more than pre-COVID. In the years before COVID, households were saving about €350m per month, but in the last two and a half years have saved nearly three times the amount, averaging €1bn per month. Initially some of this appeared to be feeding into housing. However in more recent months, the 'experience economy' has benefited as consumers enjoyed the first restriction-free summer since 2019 and engaged more with F&B, travel and leisure activities. In spite of this, consumers have been cautious and there has not been a spending boom post-COVID as evidenced from retail sales figures, which were flat in the 12 months to the end of May 2022. Going forward, some savings may be used as a buffer against rising costs and reducing disposable incomes.

CONSUMER SENTIMENT, SPENDING & PRICES

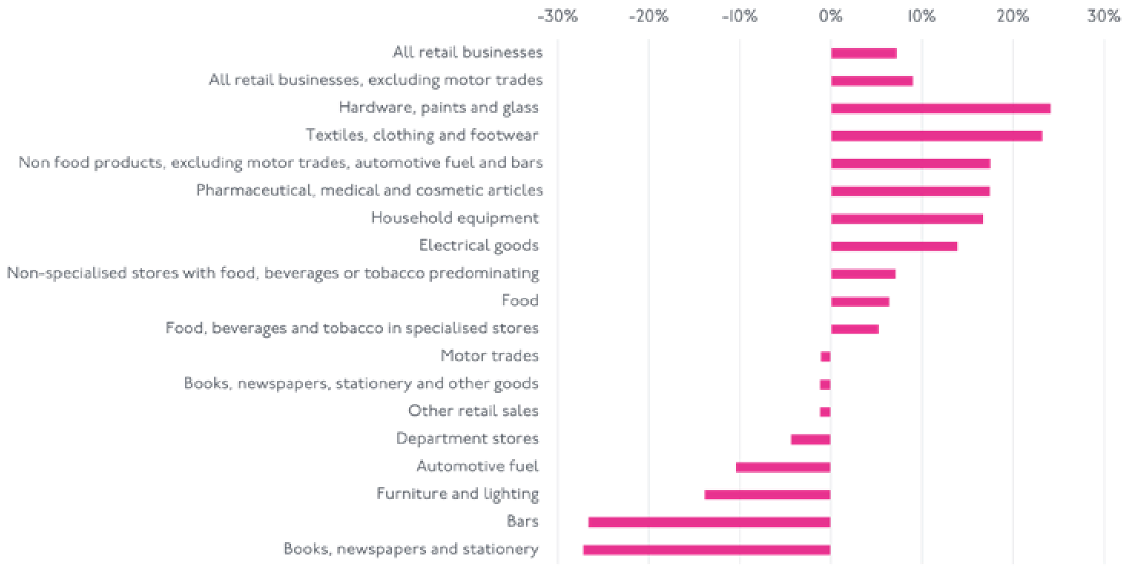
Consumer sentiment, as measured by the KBC index, continued to weaken into Q2, a trend that began in in February when the Russian invasion of Ukraine began. However, there was some recovery in confidence in June, albeit consumers remained uncertain and anxious about the economy and their personal financial circumstances given the cost-of-living increases. They are, however, likely to be waiting on Budget 2023 to see if the government put measures in place to assist with this. The survey carried out by KBC in June found that consumers are shopping around more for essentials,

KBC CONSUMER SENTIMENT INDEX (JANUARY 2019 – JUNE 2022)



Source: KBC Bank Ireland

CHANGE IN VOLUME OF RETAIL SALES - PRE AND POST COVID (FEBRUARY 2020 – MAY 2022)



Source: CSO, Lisney analysis

often switching to 'own brand' products. When it comes non-essential spending, many are cutting back with one-third of consumers starting to be making hard adjustments to their spending and in turn standard of living.

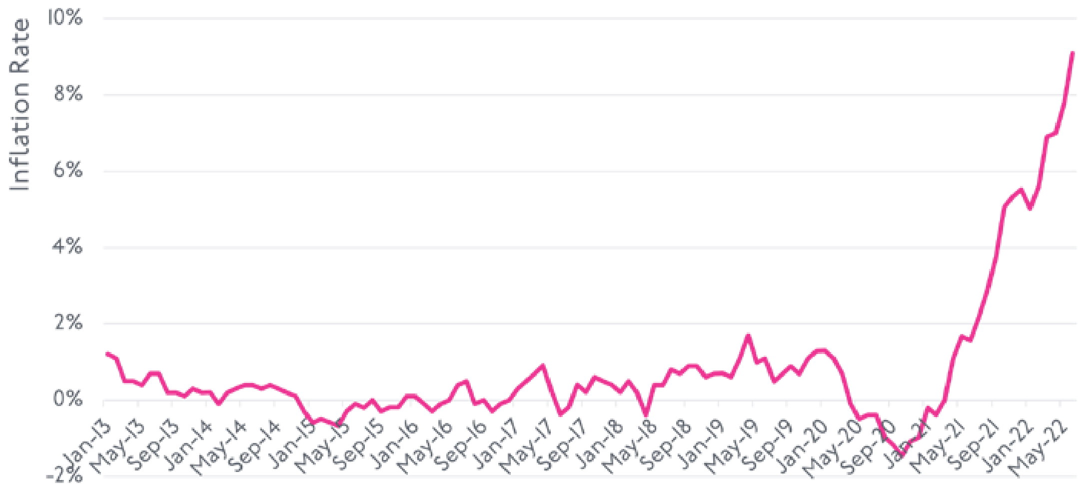
The volume of retail sales increased slightly in the opening months of the year and while there was strong growth at the start of Q2 (mainly due to increases in the motor trades and bars categories), retail sales remained steady in May. In the 12-months to the end of May, the volume of sales was generally flat, growing by just 0.3%. Notwithstanding this, overall sales are still ahead of pre-COVID, by 7.2%, but with wide variations across sectors.

Online retail sales within Irish registered companies (excluding motor trades) averaged 6.5% of all retail sales in recent months. While this level is well below levels reached at the height of the pandemic, it is double pre-pandemic times. In reality, the move to online by Irish consumers is significantly larger given that much online spend is with non-Irish registered companies. By way of comparison, approximately 30% of sales in the UK are online.

Inflation, as measured by CPI, was running at 9.1% at the end of Q2, its highest level in 38 years, and slightly higher than the euro area at 8.6%. While growth in the Irish index continues to be driven by utilities and transport (growing over 20% in the year – compared to energy growing by 42% in the euro area overall), other sectors are also becoming more prominent, perhaps driven by rising business operational costs. Examples include food and alcohol (growing between 7% and 8%), as well as restaurants and hotels (+7%).

RETAIL

ANNUALISED RATE OF INFLATION (JANUARY 2013 - JUNE 2022)



Source: CSO, Lisney analysis

GROCERY SECTOR

While retailers generally have experienced improved sales activity in recent months, supermarkets have fallen back – the CSO's data shows that non-specialised food stores which includes supermarkets, declined by 4.3% in the past year. It is likely that this is because coffee shops, restaurants and pubs have reopened fully, but also because consumers are more mindful of rising food prices. In May, food price inflation hit 6.7% with many basic items growing even more. For example, bread rose by 11.4% in the year, milk by 15.9% and butter by 14.7%. As a result, many consumers are moving away from the premium brands, choosing cheaper own brand goods instead.

Based on Kantar data, Dunnes Stores remains the largest grocery retailer in Ireland with a 22.3% market share. Interestingly, despite the cautious approach adopted by consumers, discount food retailers Lidl and Aldi have not improved their market share. It may be the case that Dunnes Stores '€10 off for every €50 spent' is impacting this. SuperValu and Tesco remain tied with Tesco pushing its club card offerings in order generate new customers and retain or reward those who have been loyal.

The growth in online grocery shopping has continued post-COVID. Before February 2020, about 1.8% of turnover generated within 'non-specialised stores with food, beverages or tobacco predominating' (supermarkets comprise a large part of this CSO category) was carried out online. This rose to about 2.5% during the first year of the pandemic but has grown more ever since, standing at 3.2% in May 2022. This ties into consumers visiting supermarkets less often, which could impact other retailers in shopping centres going forward, particularly where they are reliant on the anchor supermarket to generate regular footfall in the centre.

LULULEMON,
GRAFTON STREET, DUBLIN 2

RETAIL

RETAIL PROPERTY MARKET TRENDS

Prime City Centre High Streets

According to Dublin City Council, city centre footfall grew by 80% between January and June 2022. While the Grafton Street area remains below pre-pandemic levels, it is very positive that the Henry Street area has witnessed significant gains and had 20% more footfall in mid-June 2022 compared to the same period of 2019. On the ground, it is noticeable that there are more office workers and tourists in the city centre. Indeed, cycling numbers are back to pre-COVID levels and car traffic is at 82% of previous levels.

In spite of this positivity, retail vacancy levels on the prime shopping streets remains high; 16 unoccupied units on Grafton Street and 11 on Henry Street / Mary Street. Retailers only began to trade more normally in recent months, and as mentioned in Lisney's Q1 2022 Retail Update, it takes time for this improved trading environment to feed through to property requirements. This is now beginning to occur with demand present and activity ongoing. Notably, several UK and international brands have visited Dublin and are eagerly searching new store locations.

In the Grafton Street area, planning was granted in May for change of use and amalgamation of retail units at the new Chatham & King development on Chatham Street, which will be occupied by jeweller Paul Sheeran. Nearby, fit-out continued on the new Lego store at 41 Grafton Street, which is due to open in Q3, and luxury footwear store Russell & Bromley has taken the former Fitzpatrick's store at No. 76. Dr Martens is relocating from 24 Duke Street to 83 Grafton Street, and Canada Goose is moving from a pop-up store to a permanent home at 64 Grafton Street. Additionally, we are aware of ongoing discussions between landlords and retailers on several stores, which will hopefully result in further deals in the second half of 2022 and into 2023.

In the Henry Street area, there is also demand for stores, but despite the better improvements in footfall, this has been slower than around Grafton Street. In terms of activity, Dubray Books has taken a pop-up store in the former H&M premises in the Ilac Shopping Centre, which is a positive development.

Suburban Dublin & Regional Towns

Outside of Dublin city centre in suburban and in regional towns, supply is very limited. This is particularly the case on the better trading high street locations and convenience-led shopping centres. Employees are continuing to choose the hybrid working model and being at home two to three days a week is assisting retailers in these areas.

OUTLOOK

1 The divide between the retail property market on high street and in suburban areas will continue but will lessen with growing city centre footfall. While property deals agreed will be softer than prior to the pandemic, we anticipate demand and activity for stores in the second half of 2022. Many brands may seek pop-up stores initially to test consumer sentiment.

2 Some expected a significant increase in the number of vacant store post pandemic and after the cessation of the Government supports (such as commercial rates waiver and EWSS). These supports have now finished and to date this has not come to fruition. While many retailers and restaurants are trading well with improved footfall, those who were struggling before COVID-19 are likely to continue struggle now that government assistance has ended.

3 The evolution of the Irish retail sector will continue in the months and years ahead, particularly in terms of technology and onmi-channel offerings. Brands that have focused solely on bricks and mortar in the past are and will continue to develop online options. This includes big names such as Penneys / Primark. For them, the current move has not been to an ecommerce platform but more so to connecting a customer's journey between searching availability online and shopping instore. Click-and-collect is being trialled in the UK and is likely to come to Ireland eventually.

3 Nationwide, high street retail banks continue to close branches and amend the services offered. Ulster Bank and KBC are leaving the Irish market entirely later this year, and others such as AIB are becoming cashless. With many ATMs disappearing and banks no longer offering notes, coins, cheques and bank drafts, this will have further impacts on both consumers and retailers, particularly in smaller towns throughout the country.

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Lisney